



STERLING BANK PLC

ANNUAL REPORT, CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

31 DECEMBER 2020

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REPORT OF THE DIRECTORS

The Directors have pleasure in presenting to the members of Sterling Bank Plc ("the Bank") their report together with the audited consolidated and separate financial statements for the year ended 31 December 2020.

CORPORATE STRUCTURE AND BUSINESS

Principal activity and business review

Sterling Bank Plc (formerly known as NAL Bank Plc) was the pioneer merchant bank in Nigeria, established on 25 November 1960 as a private limited liability company, and was converted to a public limited liability company in April 1992.

Sterling Bank Plc ("the Bank") is engaged in commercial banking with emphasis on retail and consumer banking, trade services, corporate, investment and non-interest banking activities. It also provides wholesale banking services including the granting of loans and advances, letter of credit transactions, money market operations, electronic and mobile banking products and other banking activities.

Legal form

Following the consolidation reforms introduced and driven by the Central Bank of Nigeria (CBN) in 2004, the Bank emerged from the consolidation of NAL Bank Plc, Indo-Nigerian Bank Limited, Magnum Trust Bank Plc, NBM Bank Limited and Trust Bank of Africa Limited. NAL Bank Plc as the surviving bank adopted a new name for the enlarged entity, 'Sterling Bank Plc'. The enlarged Bank commenced post-merger business operations on 3 January 2006 and the Bank's shares are currently quoted on the Nigerian Stock Exchange (NSE).

In October 2011, the Bank had a business combination with Equitorial Trust Bank Limited to re-position itself to better compete in the market space.

In compliance with the CBN guidelines on the review of the Universal Banking model, the Bank divested its interest from its four (4) subsidiaries and one associate company on 30 December 2011.

In 2016, Sterling Bank Plc registered Sterling Investment Management Plc ("the SPV") with the Corporate Affairs Commission as a public limited liability company limited by shares. The main objective of setting up the SPV was to raise or borrow money by the issuance of bonds or other debt instruments. The SPV is a subsidiary and is consolidated in the financial statements of the Bank. The Bank and its subsidiary is collectively referred to as "the Group".

The Bank has 157 branches and cash centres as at 31 December 2020.

REPORT OF THE DIRECTORS - Continued

OPERATING RESULTS

Highlights of the Group and the Bank's operating results for the year ended 31 December 2020 are as follows:

<i>In millions of Naira</i>	Group 2020	Group 2019	Bank 2020	Bank 2019
Gross earnings	138,897	150,195	136,475	147,439
Profit before income tax	12,372	10,672	12,240	10,233
Income tax expense	(1,130)	(70)	(1,130)	(70)
Profit after income tax	11,242	10,602	11,110	10,163
Profit attributable to equity holders	11,242	10,602	11,110	10,163
Total non-performing loans as % of gross loans	1.9%	2.2%	1.9%	2.2%
Earnings per share (kobo) – Basic	39k	37k	39k	35k
Earnings per share (kobo) – Diluted	39k	37k	39k	35k
Dividend per share proposed	5k	3k	5k	3k

REPORT OF THE DIRECTORS - Continued

Directors who served during the year

The following Directors served during the year and as at the date of this report:

Name	Designation	Date appointed/retired	Interest represented
Mr. Asue Ighodalo	Chairman		Moehi Nigeria Limited
Dr. (Mrs.) Omolara Akanji	Independent Director		
Mr. Michael Ajukwu	Independent Director		
Mr. Olaitan Kajero	Non-Executive Director		STB Building Society Limited Eltees Properties Rebounds Integrated Services Limited
Mrs. Tairat Tijani	Non-Executive Director		Ess-ay Investment Limited
Mr. Michael Jituboh	Non-Executive Director		Dr. Mike Adenuga
Mr. Ramesh Rajapur (Indian)	Non-Executive Director	Retired 21/11/2020	State Bank of India
Mrs. Folasade Kilaso	Non-Executive Director		Alfanoma Nigeria Limited Plural Limited Reduvita Limited Quakers Integrated Services Limited Concept Features Limited
Mr. Abubakar Suleiman	Managing Director/CEO		
Mr. Grama Narasimhan (Indian)	Executive Director	Retired 21/11/2020	
Mr. Yemi Odubiyi	Executive Director		
Mr. Emmanuel Emefienim	Executive Director		
Mr. Tunde Adeola	Executive Director		
Mr. Raheem Owodeyi	Executive Director		

REPORT OF THE DIRECTORS - Continued**Going concern**

The Directors assess the Group and the Bank's future performance and financial position on an ongoing basis and have no reason to believe that the Group will not be a going concern in the next twelve months from the date of this report. For this reason, these consolidated and separate financial statements are prepared on a going-concern basis.

Director's interests in shares

Interest of directors in the issued share capital of the Bank as recorded in the Register of members and/or as notified by them for the purpose of Section 301 of the Companies and Allied Matters Act of Nigeria were as follows:

		31-Dec-20	31-Dec-20	31-Dec-19	31-Dec-19
	Names	Direct	Indirect	Direct	Indirect
1	Mr. Asue Ighodalo	-	62,645,242	-	62,645,242
2	Mr. Ramesh Rajapur (Indian)**	-	2,549,505,026	-	2,549,505,026
3	Mr Michael Jituboh	-	1,620,376,969	-	1,620,376,969
4	Dr. (Mrs) Omolara Akanji	-	-	-	-
5	Mr. Michael Ajukwu	-	-	-	-
6	Mr. Olaitan Kajero	-	1,547,951,251	-	1,549,668,967
7	Mrs. Tairat Tijani	-	1,444,046,801	-	1,144,046,801
8	Mrs. Folasade Kilaso	-	1,440,337,670	-	1,440,337,670
9	Mr. Abubakar Suleiman	47,325,727	-	28,108,227	-
10	Mr. Tunde Adeola	26,653,041	-	21,851,200	-
11	Mr. Yemi Odubiyi	26,471,708	-	19,342,826	-
12	Mr. Emmanuel Emefienim	20,527,369	-	12,158,681	-
13	Mr. Grama Narasimhan (Indian)**	-	-	-	-
14	Mr. Raheem Owodeyi	15,005,219	-	12,883,961	-

** Retired on 21/11/2020

Director's interests in contracts

For the purpose of Section 303 of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, none of the current Directors had direct or indirect interest in contracts or proposed contracts with the Group during the year.

Director's Remuneration

The Bank ensures that remuneration paid to its Directors comply with the provisions of the codes of corporate governance issued by its regulators.

In compliance with Section 34 (5) of the Code of Corporate Governance for Public Companies issued by the Securities and Exchange Commission, the Bank hereby disclose the remuneration paid to its Directors as follows:

	Type of Package Fixed	Description	Timing
1	Basic Salary	Part of gross salary package for Executive Directors only, reflects the banking industry competitive salary package and the extent to which the Bank's objectives have been met for the financial year	Paid monthly during the financial year
2	Other Allowances	Part of gross salary package for Executive Directors only, reflects the banking industry competitive salary package and the extent to which the Bank's objectives have been met for the financial year	Paid periodically during the financial year
3	Productivity Bonus	Paid to Executive Directors only and tied to performance of their line reports. It is also a function of the extent to which the Bank's objectives have been met for the financial year	Paid annually in arrears
4	Director Fees	Paid annually in July to Non-Executive Directors only	Paid annually in July
5	Sitting Allowances	Allowances paid to Non-Executive Directors only for attending Board and Board Committee meetings	Paid after each meeting

Beneficial ownership

The Bank is owned by Nigerian citizens, corporate bodies and foreign investors.

REPORT OF THE DIRECTORS - Continued**Analysis of shareholding**

The range analysis of the distribution of the shares of the Bank as at 31 December 2020 is as follows:

Range of shares	Number of holders	%	Number of units	%
1 - 1,000	32,223	36.65%	14,494,566	0.05%
1001 - 5,000	26,052	29.63%	58,836,109	0.20%
5,000 - 10,000	8,890	10.11%	60,042,773	0.21%
10,001 - 20,000	6,989	7.95%	94,420,401	0.33%
20,001 - 50,000	5,043	5.74%	157,585,603	0.55%
50,001 - 100,000	3,026	3.44%	211,024,027	0.73%
100,001 - 200,000	2,237	2.54%	318,255,526	1.11%
200,001 - 500,000	1,919	2.18%	612,198,096	2.14%
500,001 - 10,000,000	1,435	1.63%	2,101,643,108	7.30%
Above 10,000,001	110	0.13%	14,526,521,510	50.46%
Foreign shareholding	5	0.01%	10,635,396,407	36.94%
	87,929	100.00%	28,790,418,126	100.00%

The following shareholders have shareholding of 5% and above as at 31 December 2020:

	31-Dec-20	31-Dec-20	31-Dec-19	31-Dec-19
	Unit holding	% holding	Unit holding	% holding
Silverlake Investments Limited	7,197,604,531	25.00	7,197,604,531	25.00
State Bank of India	2,549,505,026	8.86	2,549,505,026	8.86
Dr. Mike Adenuga	1,620,376,969	5.63	1,620,376,969	5.63
Ess-ay Investments Limited	1,444,046,801	5.02	1,144,046,801	3.97

Donations and Charitable Gifts

The Bank donated a total sum of N435million during the year ended 31 December 2020 (2019: N216million) to various charitable organizations in Nigeria, details of which are shown below. No donation was made to any political organization.

Details of Donation	Purpose	Amount (N'm)
Coalition against COVID-19 Donation	Corporate Social Responsibility	250.0
Renovation and Equipping of Isolation Centers	Corporate Social Responsibility	50.0
Ake Festival	Sponsorship	29.3
Health Workers Fund	Corporate Social Responsibility	25.0
Donation of 5,000 uniforms to LAWMA	Corporate Social Responsibility	25.0
Free Tele-Medical Consultation and Diagnosis	Corporate Social Responsibility	15.0
FSI Pay As You Know Hackathon for Young Developers	Corporate Social Responsibility	12.5
Support for COVID-19 Drive-through Testing	Corporate Social Responsibility	10.0
Accident Emergency Victims Support	Corporate Social Responsibility	6.0
Biodegradable Bags for Waste Management	Corporate Social Responsibility	4.9
Lagos State Water Waste Management Workshop	Sponsorship	1.5
Aremu The Play	Sponsorship	1.0
Legends of Nollywood Awards	Sponsorship	1.0
WISCAR Annual Conference	Sponsorship	1.0
Scholarships to Less Privileged Children: Fregz-ducation	Corporate Social Responsibility	1.0
WIMBIZ Covid-19 Food Relief Project	Corporate Social Responsibility	0.8
Support for Internally Displaced Persons	Corporate Social Responsibility	0.7
Clean Up Lagos Environmental Cleaning Initiative	Corporate Social Responsibility	0.4
		435.1

REPORT OF THE DIRECTORS - Continued**Gender Analysis of Staff**

Analysis of staff employed by the Bank during the year ended 31 December 2020

DESCRIPTION	% TO TOTAL	
	NUMBER	STAFF
Female new hire	88	44%
Male new hire	116	56%
Total new hire	204	100%
Female as at 31 December 2020	930	42%
Male as at 31 December 2020	1,437	58%
Total staff	2,367	100%

Analysis of top management positions by gender as at 31 December 2020:

GRADE	FEMALE	MALE	TOTAL
Senior Management (AGM – GM)	9	33	42
Middle Management (DM – SM)	68	138	206
TOTAL	77	171	248

Analysis of Executive and Non-Executive positions by gender as at 31 December 2020:

GRADE	FEMALE	MALE	TOTAL
Executive Director	-	4	4
Managing Director	-	1	1
Non-Executive Director	3	4	7
TOTAL	3	9	12

Acquisition of own shares

The Bank did not acquire any of its shares during the year ended 31 December 2020 (2019: Nil).

Property, plant and equipment

Information relating to changes in property, plant and equipment is given in Note 23 to the consolidated and separate financial statements.

REPORT OF THE DIRECTORS - Continued**Employment and employees****Employment of disabled persons:**

The Group has a non-discriminatory policy on recruitment. Applications would always be welcomed from suitably qualified disabled persons and are reviewed strictly on qualification. The Group's policy is that the highest qualified and most experienced persons are recruited for appropriate job levels irrespective of an applicant's state of origin, ethnicity, religion or physical condition.

Health, safety and welfare of employees:

Health and safety regulations are in force within the Bank's premises and employees are aware of existing regulations. The Bank provides subsidies to all levels of employees for medical expenses, transportation, housing, lunch, etc.

Employee training and development

The Group is committed to keeping employees fully informed as much as possible regarding the Group's performance and progress and seeking their opinion where practicable on matters which particularly affect them as employees.

Training is carried out at various levels through both in-house and external courses. Incentive schemes designed to encourage the involvement of employees in the Group's performance are implemented whenever appropriate.

Events after the reporting date

Note 35 to the consolidated and separate financial statements disclose no events after the reporting date, that could have a material effect on the consolidated and separate financial position of the Group and the Bank as at 31 December 2020 or their profit for the year then ended.

Auditors

Messrs. Deloitte & Touche were appointed auditors to the Bank at the last Annual General Meeting for the first time, and having indicated their willingness to continue in office, will do so in accordance with Section 401(2) of Companies and Allied Matters Act, 2020.

BY ORDER OF THE BOARD:**Temitayo Adegoke***Company Secretary*

FRC/2018/NBA/00000018142

20 Marina, Lagos, Nigeria

23 February 2021

**SHAREHOLDING STRUCTURE/ FREE FLOAT STATUS
FOR THE YEAR ENDED 31 DECEMBER 2020**

Description	31-December-2020		31-December-2019	
	Unit	Percentage	Unit	Percentage
Issued Share Capital	28,790,418,126	100%	28,790,418,124	100%
Substantial Shareholdings (5% and above)				
Silverlake Investment Limited	7,197,604,531	25.00%	7,197,604,531	25.00%
State Bank of India	2,549,505,026	8.86%	2,549,505,026	8.86%
Mike Adenuga	1,620,376,969	5.63%	1,620,376,969	5.63%
Ess-ay Investments Ltd	1,444,046,801	5.02%	1,144,046,801	3.97%
Total Substantial Shareholdings	12,811,533,327	44.51%	12,511,533,327	43.46%
Director's Shareholdings (Direct, and Indirect), excluding directors with substantial interests				
Mr Asue Ighodalo (Indirect)	62,645,242	0.22%	62,645,242	0.22%
Mrs Folasade Kilaso (Indirect)	-	0.00%	-	0.00%
Mr. Ramesh Rajapur (Indirect)	-	0.00%	-	0.00%
Mrs Tairat Tijani (Indirect)	-	0.00%	-	0.00%
Mr. Olaitan Kajero (Indirect)	-	0.00%	-	0.00%
Mr Tunde Adeola (Direct)	26,653,041	0.09%	21,851,200	0.08%
Mr Abubakar Suleiman (Direct)	47,325,727	0.16%	28,108,227	0.10%
Mr Michael Jituboh (Indirect)	-	0.00%	-	0.00%
Dr. (Mrs) Omolara Akanji	-	0.00%	-	0.00%
Mr. Grama Narasimhan	-	0.00%	-	0.00%
Mr Yemi Odubiyi (Direct)	26,471,708	0.09%	19,342,826	0.07%
Mr. Emefienim Emmanuel Efe (Direct)	20,527,369	0.07%	12,158,681	0.04%
Mr Michael Ajukwu	-	0.00%	-	0.00%
Mr Raheem Owodeyi (Direct)	15,005,219	0.05%	12,883,961	0.04%
Total Directors Shareholdings	198,628,306	0.68%	156,990,137	0.55%
Other Influential Shareholdings				
Hak Air Limited	968,205,643	3.36%	968,205,643	3.36%
Pacific Credit Limited	554,273,018	1.93%	554,273,018	1.93%
Festus Alani Fadeyi	480,449,895	1.67%	480,449,895	1.67%
Rankinton Investments Inc.	477,367,650	1.66%	477,367,650	1.66%
Adeola Tajudeen Afolabi	446,824,745	1.55%	446,824,745	1.55%
Skyview Capital Limited	428,301,886	1.49%	428,301,886	1.49%
Glomobile Limited,	354,458,383	1.23%	354,458,383	1.23%
Kogi United Co. Nig. Ltd	346,835,811	1.20%	346,835,811	1.20%
AX SCML Nominees	339,181,010	1.18%	316,388,117	1.10%
Sterling Bank Co-operative Multipurpose Society Limited	873,330,969	3.03%	879,703,214	3.06%
Total other Influential Shareholdings	5,269,229,010	18.30%	5,252,808,362	18.25%
Free Float in Units and Percentage	10,511,027,483	36.51%	10,569,086,300	36.71%
Free Float in Value	N21,442,496,065.32		N21,032,481,737	

Declaration:

(A) Sterling Bank Plc with a free float percentage of 36.51% as at 31 December 2020, is compliant with the Exchange' free float requirements for companies listed on the Main Board.

(B) Sterling Bank Plc with a free float value of N21,032,481,737 as at December 2019, is compliant with the Exchange's free float requirements for companies listed on the Main Board.

CORPORATE GOVERNANCE REPORT

The Bank complies with the relevant provisions of the Nigerian Securities & Exchange Commission (SEC), the Financial Reporting Council of Nigeria (FRCN) and the Central Bank of Nigeria (CBN) Codes of Corporate Governance.

Board of Directors

The Board of Directors (the “Board”) is made up of the Non-Executive Chairman, Non-Executive Directors and Executive Directors who oversee the corporate governance of the Bank.

Attendance at Board meetings for the year ended 31 December 2020 are as follows:

Director		Attendance	No. of Meetings
1 Mr. Asue Ighodalo	Chairman	5	5
2 Dr. (Mrs.) Omolara Akanji	Independent Director	5	5
3 Mr. Olaitan Kajero	Non-Executive Director	5	5
4 Mrs. Tairat Tijani	Non-Executive Director	5	5
5 Mr. Michael Jituboh	Non-Executive Director	5	5
6 Mr. Ramesh Rajapur (Indian)**	Non-Executive Director	4	4
7 Mrs. Folasade Kilaso	Non-Executive Director	5	5
8 Mr. Michael Ajukwu	Independent Director	5	5
9 Mr. Abubakar Suleiman	Managing Director / CEO	5	5
10 Mr. Grama Narasimhan (Indian)**	Executive Director	4	4
11 Mr. Yemi Odubiyi	Executive Director	5	5
12 Mr. Emmanuel Emefienim	Executive Director	5	5
13 Mr. Tunde Adeola	Executive Director	5	5
14 Mr. Raheem Owodeyi	Executive Director	5	5

** Retired on 21/11/2020

Board Committees

The Board carries out its oversight functions through its various committees each of which has a clearly defined terms of reference and a charter which has been approved by the Central Bank of Nigeria. The Board has five (5) standing committees, namely: Board Credit Committee, Board Finance & General Purpose Committee, Board Risk Management Committee, Board Audit Committee, and Board Governance & Remuneration Committee. In line with best practice, the Chairman of the Board is not a member of any of the Committees. The composition and responsibilities of the committees are set out below:

Board Credit Committee

The Committee acts on behalf of the Board of Directors on credit matters, and reports to the Board for approval/ratification.

Terms of reference

- Consider credit proposals for approval on the recommendation of the Management Credit Committee (MCC).
- Recommend to the Board assignment of credit approval authority limits on the recommendation of the MCC.
- Review the Credit Policy Guidelines of the Bank as and when required by the dictates of the market and/or the corporate strategic intent on the recommendation of the MCC.

CORPORATE GOVERNANCE REPORT - Continued**Board Credit Committee**

- Approve credit facility requests above the limits set for Management, within limits defined by the Bank's credit policy and within the statutory requirements set by the regulatory/supervisory authorities.
- Review periodic credit portfolio reports and assess portfolio performance.
- Ensure compliance with the Bank's Credit Policies and statutory requirements prescribed by the regulatory/supervisory
- Recommend credit facility requests above the Committee's limit to the Board.
- Review and recommend to the Board for approval/ratification Management proposals on full and final settlements on non performing loans.
- Review and approve the restructure of credit facilities in line with the Credit Policy Guidelines.
- Review and approve credit proposals in line with the Bank's Risk Policy Guidelines.
- Review and recommend to the Board for approval proposals on write-offs.
- Periodic review of the recovery process to ensure compliance with the Bank's recovery policies, applicable laws and statutory requirements.
- Perform any other duties assigned by the Board from time to time.

The members and respective attendance in committee meetings are as follows:

		Attendance	No. of Meetings
1	Dr. (Mrs.) Omolara Akanji	4	4
2	Mr. Olaitan Kajero	4	4
3	Mr. Michael Ajukwu	4	4
4	Mr. Abubakar Suleiman	4	4
5	Mr. Grama Narasimhan (Indian)	4	4
6	Mr. Yemi Odubiyi	4	4
7	Mr. Emmanuel Emefienim	4	4
8	Mr.Tunde Adeola	4	4

Board Finance and General Purpose Committee

The Committee acts on behalf of the Board of Directors on all matters relating to financial management, and reports to the Board for approval/ratification.

Terms of reference

- Establish the Bank's financial policies in relation to the operational plan, capital budgets, and the reporting of results.
- Monitor the progress and achievement of the Bank's financial targets.
- Review significant corporate financing and liquidity programs and tax plans.

CORPORATE GOVERNANCE REPORT - Continued

Board Finance and General Purpose Committee - continued

- Recommend major expenditure approvals to the Board.
- Review and consider the financial statements and make appropriate recommendation to the Board.
- Review annually the Bank's financial projections, as well as capital and operating budgets, and review on a quarterly basis with management, the progress of key initiatives including actual financial results against targets and projections.
- Review and recommend for Board approval, the Bank's capital structure, including but not limited to, allotment of new capital, debt limits and any changes to the existing capital structure.
- Recommend for Board approval, the Bank's dividend policy, including amount, nature and timing.
- Review and make recommendations to the Board regarding the Bank's investment strategy, policy and guidelines, its implementation and compliance with those policies and guidelines and the performance of the Bank's investment portfolio.
- Approve a comprehensive framework for delegation of authority on financial matters and enforce compliance with financial manual of authorities.
- Ensure cost management strategies are developed and implemented to monitor and control costs.
- Review major expense lines periodically and approve expenditure within the limit of the Committee as documented in the financial manual of authorities.
- Review contract awards for significant expenditure above EXCO limit.
- Review significant transactions and new business initiatives for the Board's approval.
- To perform any other duties assigned by the Board from time to time.

The members and respective attendance in committee meetings are as follows:

		Attendance	No. of Meetings
1	Mrs. Tairat Tijani	4	4
2	Mrs. Folasade Kilaso	4	4
3	Mr. Michael Jituboh	3	4
4	Mr. Abubakar Suleiman	4	4
5	Mr. Yemi Odubiyi	4	4
6	Mr Raheem Owodeyi	4	4

CORPORATE GOVERNANCE REPORT - Continued**Board Risk Management Committee**

The Committee is responsible for evaluating and handling issues relating to risk management in the Bank.

Terms of reference

- Review and recommend to the Board the risk management policy including risk appetite, risk limits, tolerance and risk strategy.
- Review and recommend to the Board for approval the Bank's Enterprise-wide Risk Management Policy and other specific risk policies.
- Monitor the Bank's plan and progress in meeting regulatory risk based supervision requirements.
- Monitor implementation and migration to Basel II, III, and IV and other local and international risk management bodies as approved by the regulators.
- Review the organization's risk-reward profiles including credit, market and operational risk-reward profiles and where necessary, recommend strategies for improvement.
- Evaluate the risk profile and risk management plans drafted for major projects, acquisitions, new products and new ventures or services to determine the impact on the risk reward profile.
- Oversight of management's process for the identification of significant risks and the adequacy of prevention, detection and reporting mechanisms.
- Receive reports on, and review the adequacy and effectiveness of the Bank's risk and control processes to support its strategy and objectives.
- Endorse definition of risk and return preferences and target risk portfolio.
- Periodic review of changes in the economic and business environment, including emerging trends and other factors relevant to the Bank's risk profile.
- Ensure compliance with the Bank's credit policies, applicable laws and statutory requirements prescribed by the regulatory/supervisory authorities.
- Review the effectiveness of the risk management system on an annual basis.
- To perform any other duties assigned by the Board from time to time.

The members and respective attendance in committee meetings are as follows:

		Attendance	No. of Meetings
1	Mr. Olaitan Kajero	5	5
2	Dr. (Mrs.) Omolara Akanji	5	5
3	Mrs. Tairat Tijani	5	5
4	Mr. Michael Ajukwu	5	5
5	Mr. Abubakar Suleiman	4	5
6	Mr. Yemi Odubiyi	5	5
7	Mr. Emmanuel Emefienim	4	5
8	Mr. Grama Narasimhan	5	5
9	Mr Raheem Owodeyi	5	5

CORPORATE GOVERNANCE REPORT - Continued

Board Audit Committee

The Committee acts on behalf of the Board of Directors on all audit matters. Decisions and actions of the Committee are presented to the Board for approval/ratification.

Terms of reference

- Review the appropriateness of accounting policies.
- Review the appropriateness of assumptions made by Management in preparing the financial statements.
- Review the significant accounting and reporting issues, and understand their impact on the financial statements;
- Review the quarterly and annual financial statements and consider whether they are complete, consistent with prescribed accounting and reporting standards.
- Obtain assurance from Management with respect to the accuracy of the financial statements.
- Review with management and the external auditors the results of external audit, including any significant issues identified.
- Review the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- Review the adequacy of the internal control system, including information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- Review the relevant policies and procedures in place and ensure they are up to date, and are complied with.
- Review and ensure the financial internal controls are operating efficiently and effectively.
- Review the Bank's compliance with the performance management and reporting systems;
- Review and ensure the performance reporting and information uses appropriate targets and benchmarks.
- Review the Internal Audit operations manual, budget, activities, staffing, skills and organizational structure of the Internal Audit;
- Review and approve the Internal Audit plan, its scope and any major changes to it, ensuring that it covers the key risks and that there is appropriate co-ordination with the Bank's External Auditors;
- Review and concur in the appointment, replacement, or dismissal of the Chief Internal Auditor;
- Resolve any difficulties or unjustified restrictions or limitations on the scope of Internal Audit work;
- Resolve any significant disagreements between Auditors and Management;
- Review the significant findings and recommendations by Internal Audit and Management responses thereof;
- Review the implementation of Internal Audit recommendations by Management;
- Review the performance of the Chief Internal Auditor;
- Review the effectiveness of the Internal Audit function, including compliance with acceptable International Standards for the Professional Practice of Internal Auditing.
- Review the external auditors' proposed audit scope, approach and audit fees for the year;
- Review the findings and recommendations by External Auditors and Management responses thereof;
- Review the implementation of External Auditors' recommendations by Management;

CORPORATE GOVERNANCE REPORT - Continued**Board Audit Committee - continued**

- Review the performance of External Auditors;
- Ensure that there is proper coordination of audit efforts between Internal and External Auditors;
- Review the effectiveness of the system for monitoring compliance with laws and regulations;
- Review the findings of any examinations by regulatory agencies, and audit observations;
- Regularly report to the Board of Directors on Committee activities;
- Perform other duties as may be assigned by the Board of Directors;

The members and respective attendance in committee meetings are as follows:

		Attendance	No. of Meetings	
1	Mr. Michael Ajukwu	Chairman	5	5
2	Dr. (Mrs.) Omolara Akanji	Member	5	5
3	Mrs. Tairat Tijani	Member	5	5
4	Mr. Michael Jituboh	Member	4	5
5	Mrs. Folasade Kilaso	Member	5	5
6	Mr. Ramesh Rajapur	Member	3	5

Board Governance & Remuneration Committee

The Committee acts on behalf of the Board of Directors on all matters relating to the workforce.

Terms of reference

- Monitoring, reviewing and approving employee relations' issues such as compensation matters/bonus programs and profit sharing schemes;
- Advise the Board on recruitment, promotions and disciplinary issues affecting top management of the Bank from Assistant General Manager grade and above;
- Appraise the Managing Director & Chief Executive and Executive Directors annually for appropriate recommendation to the Board;
- Approve training programmes for Non-Executive Directors;
- The Committee shall review the need for appointments and note the specific experience and abilities needed for each Board Committee, consider candidates for appointment as either Executive or Non-Executive Directors and recommend such appointments to the Board.
- The Committee shall review the tenor of both Executive and Non-Executive Directors on the Board and Board Committees.
- The Committee shall recommend any proposed change(s) to the Board.

CORPORATE GOVERNANCE REPORT - Continued**Board Governance & Remuneration Committee - continued**

- Recommend to the Board renewal of appointment of Executive and Non-Executive Directors based on the outcome of review of Directors performance.
 - To make recommendations on experience required by Board Committee Members, Committee Appointments and Removal, Reporting and other Committee Operational matters.
 - To ensure that the Board evaluation is carried out on an annual basis.
 - To review and make recommendations to the Board for approval of the Bank's Organisational structure and any proposed amendments.
 - Review and make recommendations on the Bank's succession plan for Directors and other senior management staff from Assistant General Manager grade and above.
 - Regular monitoring of compliance with Bank's Code of Ethics and Business Conduct for Directors and Staff.
 - The Committee shall determine the incentive arrangements and benefits of the Executive and Non-Executive Directors of the Bank for recommendation to the Board.
 - Review and submit to the full Board, recommendations concerning Executive Directors Compensation plans, salaries and perquisites ensuring that the compensation packages are competitive.
 - Review and submit to the full Board, recommendations concerning Non-Executive Directors remuneration.
- Review and recommend for Board approval stock-based compensation, share option, incentive bonus, severance benefits and perquisites for Executive Directors and employees.
- Ensure that the level of remuneration is sufficient to attract, retain and motivate Executive Directors and all employees of the Bank while ensuring that the Bank is not paying excessive remuneration.
- Recommend to the Board compensation payable to Executive Directors and Senior Management employees for any loss of office or termination of appointment.
- Develop, review and recommend the remuneration policy to the Board for approval.
- The Committee may engage a remuneration consultant at the expense of the Bank for the purpose of carrying out its responsibilities. Where such a consultant is engaged by the Committee, the consultant must be independent.
- To perform any other duties assigned by the Board from time to time.

The members and respective attendance in committee meetings are as follows:

		Attendance	No. of Meetings
1	Mrs. Folasade Kilaso	6	6
2	Dr. (Mrs.) Omolara Akanji	5	6
3	Mr. Olaitan Kajero	6	6
4	Mrs. Tairat Tijani	6	6
5	Mr. Michael Ajukwu	6	6

CORPORATE GOVERNANCE REPORT - Continued**Statutory Audit Committee**

The Committee is established in line with Section 359(6) of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004. The Committee's membership consists of three (3) representatives of the shareholders elected at the Annual General Meeting (AGM) and three (3) Non-Executive Directors. The Committee meets every quarter, but could also meet at any other time, as the need arise.

All members of the Committee are financially literate.

The membership of the Committee is as follows:

Shareholders' Representative

- 1 Alhaji Mustapha Jinadu, F.IoD
- 2 Mr. Idongesit Udoh
- 3 Ms. Christie Vincent

Non-Executive Directors

- 4 Mr. Olaitan Kajero
- 5 Mr. Michael Jituboh
- 6 Mrs. Folasade Kilaso

Terms of reference

- To make recommendations to the Board to be put to the Shareholders for approval at the AGM regarding the appointment, removal and remuneration of the external auditors of the Bank;
- To authorise the internal auditor to carry out investigations into any activities of the Bank which may be of interest or concern to the Committee;
- To review and approve the annual audit plan and ensure that it is consistent with the scope of audit engagement, having regard to the seniority, expertise and experience of the audit team;
- To review representation letter(s) requested by the external auditors before they are signed by Management;
- To review the Management Letter and Management's Response to the auditor's findings and recommendations;
- To assist in the oversight of the integrity of the Bank's financial statements, compliance with legal and other regulatory requirements, assessment of qualifications and independence of external auditor, and performance of the Bank's internal audit function as well as that of external auditors;
- To establish an internal audit function and ensure there are other means of obtaining sufficient assurance of regular review or appraisal of the system of internal controls in the Bank;
- To ensure the development of a comprehensive internal control framework for the Bank, obtain assurance and report annually in the financial report, on the operating effectiveness of the Bank's internal control framework;

CORPORATE GOVERNANCE REPORT - Continued**Statutory Audit Committee - continued**

- To review such other matters in connection with overseeing the financial reporting process and the maintenance of internal controls as the Committee shall deem appropriate;
- To oversee management's process for the identification of significant fraud risks across the Bank and ensure that adequate prevention, detection and reporting mechanisms are in place;
- At least on an annual basis, obtain and review a report by the internal auditor describing the strength and quality of internal controls including any issues or recommendations for improvement, raised by the most recent internal control review of the Bank;
- Discuss the annual audited financial statements and half yearly unaudited financial statements with Management and external auditors;
- Discuss policies and strategies with respect to risk assessment and management;
- Meet separately and periodically with Management, internal auditors and external auditors;
- To review and ensure that adequate whistle-blowing procedures are in place;
- To review, with the external auditors, any audit scope limitations or problems encountered and management's responses to same;
- To review the independence of the external auditors and ensure that where non-audit services are provided by the external auditors, there is no conflict of interest;
- To consider any related party transactions that may arise within the Bank or Group;
- Invoke its authority to investigate any matter within its terms of reference for which purpose the Bank must make available the resources to the internal auditors with which to carry out this function, including access to external advice where necessary;
- Prepare the Committee's report for inclusion in the Bank's Annual Report; and
- Report to the Board regularly at such times as the Committee shall determine necessary.

The members and respective attendance in committee meetings are as follows:

		Attendance	No. of Meetings
1	Alhaji Mustapha Jinadu, F.IoD	4	4
2	Mr. Olaitan Kajero	4	4
3	Mr. Idongesit Udoh	4	4
4	Ms. Christie Vincent	4	4
5	Mr. Michael Jituboh	3	4
6	Mrs. Folasade Kilaso	4	4

CORPORATE GOVERNANCE REPORT - Continued

Dates for Board and Board Committee meetings held in 2020 financial year:

Meetings	Dates					
Board	25-Feb-20	20-May-20	09/06/2020	20-Aug-20	21-Nov-20	
Board Credit Committee	11-Feb-20	07-Apr-20	05/08/2020	20-Oct-20		
Board Finance & General Purpose Committee	06-Feb-20	22-Apr-20	23-Jul-20	19-Oct-20		
Board Audit Committee	21-Feb-20	27-Apr-20	13-Jul-20	21-Oct-20	17-Nov-20	
Board Risk Management Committee	10-Feb-20	07-Apr-20	04/06/2020	04-Aug-20	21-Oct-20	
Board Governance & Remuneration Committee	05-Feb-20	27-Apr-20	05/08/2020	09-Sep-20	20-Oct-20	17-Nov-20
Statutory Audit Committee	21-Feb-20	28-Apr-20	13-Jul-20	22-Oct-20		

The Company Secretary

The Directors have separate and independent access to the Company Secretary. The Company Secretary is responsible for, among other things, ensuring that Board procedures are observed and that the Company's Memorandum and Articles of Association together with other relevant rules and regulations are complied with. She also assists the Chairman and the Board in implementing and strengthening corporate governance practices and processes, with a view to enhancing long-term shareholder value.

The Company Secretary assists the Chairman in ensuring good information flow within the Board and its committees and between Management and Non-Executive Directors. The Company Secretary also facilitates orientation of new Directors and coordinates the professional development of Directors.

The Company Secretary is responsible for designing and implementing a framework for the Bank's compliance with the listing rules of the Nigeria Stock Exchange, including advising Management on prompt disclosure of material information.

The Company Secretary attends and prepares the minutes for all Board meetings. As Secretary for all Board Committees, she assists in ensuring coordination and liaison between the Board, the Board Committees and Management. The Company Secretary also assists in the development of the agendas for the various Board and Board Committee meetings.

The appointment and removal of the Company Secretary are subject to the Board's approval.

Management Committees**1 Executive Committee (EXCO)**

The Committee provides leadership to the management team and ensures the implementation of strategies approved by the Board. It deliberates and takes decisions on the effective and efficient management of the Bank.

2 Asset and Liability Committee (ALCO)

The Committee ensures adequate liquidity and the management of interest rate risk within acceptable parameters. It also reviews the economic outlook and its impact on the Bank's strategies.

CORPORATE GOVERNANCE REPORT - Continued**Management Committees - continued****3 Management Credit Committee (MCC)**

The Committee approves new credit products and initiatives, minimum/prime lending rate and reviews the credit policy manual. It approves exposures up to its maximum limit and the risk asset acceptance criteria.

4 Management Performance Review Committee (MPR)

The Committee reviews the Bank's monthly performance on set targets and monitors budget achievement. It also assesses the efficiency of resource deployment in the Bank and re-appraises cost management initiatives.

5 Criticised Assets Committee (CAC)

The Committee reviews the Bank's credit portfolio and collateral documentation. It reviews the non-performing loans and recovery strategies for bad loans.

6 Technology Steering Committee (TSC)

The Committee establishes the overall technology priorities by identifying projects that support the Bank's business plan. It provides guidance in effectively utilizing technology resources to meet business and operational needs of the Bank.

7 Management Risk Committee (MRC)

The Committee is responsible for planning, management and control of the Bank's overall risks. It includes setting the Bank's risk philosophy, risk appetite, risk limits and risk policies.

Succession Planning

Sterling Bank Plc has a Succession Planning Policy which is aligned to the Bank's overall organisational development strategy. In line with the policy, Human Capital Management Group is saddled with the responsibility to coordinate the implementation of the Bank's Succession Policy.

Successors are nominated based on experience, skills and competencies through an automated process by current role holders in conjunction with the Human Capital Management Group. Development initiatives have also been put in place to accelerate successors' readiness.

Code of Ethics

Sterling Bank has a Code of Ethics that specifies acceptable behaviour of its staff, in the staff handbook. It is a requirement that all staff should sign a confirmation that they have read and understood the document upon employment.

The Bank also has a Sanctions Manual which provides sample offences/violation and prescribes measures to be adopted in various cases. The Chief Human Resource Officer (CHRO) is responsible for the implementation and compliance to the "Code of Ethics".

CORPORATE GOVERNANCE REPORT - Continued**Whistle Blowing Process**

The Bank is committed to the highest standards of openness, probity and accountability, hence the need for an effective and efficient whistle blowing process as a key element of good corporate governance and risk management.

Whistle blowing process is a mechanism by which suspected breaches of the Bank's internal policies, processes, procedures and unethical activities by any stakeholder (staff, customers, suppliers and applicants) are reported for necessary actions.

It ensures a sound, clean and high degree of integrity and transparency in order to achieve efficiency and effectiveness in our operations.

The reputation of the Bank is of utmost importance and every staff of the Bank has a responsibility to protect the Bank from any persons or act that might jeopardize its reputation. Staff are encouraged to speak up when faced with information that would help protect the Bank's reputation.

An essential attribute of the process is the guarantee of confidentiality and protection of the whistle blower's identity and rights. It should be noted that the ultimate aim of this policy is to ensure efficient service to the customer, good corporate image and business continuity in an atmosphere compliant with best industry practice.

The Bank has dedicated whistle blowing channels which are accessible via the website, dedicated telephone hotlines and e-mail addresses in compliance with the guidelines for whistle blowing for Banks and Other Financial Institutions issued by the Central Bank of Nigeria (CBN).

The Bank's Chief Compliance Officer is responsible for monitoring and reporting on whistle blowing.

Further disclosures are stated in Note 43 to the consolidated and separate financial statements.

Securities Trading Policy

In compliance with Rule 17.15 (Disclosure of Dealings in Issuers' Shares), Rulebook of the Exchange 2015 (Issuers Rule), the Bank maintains a Security Trading Policy which guides Directors, Audit Committee members, employees and all individuals categorized as insiders as to their dealing in the Bank's shares. The Policy undergoes periodic reviews by the Board and is updated accordingly. The Bank has made specific inquiries of all its Directors and other insiders and is not aware of any infringement of the Policy during the period.

Complaint Management Policy

The Bank has put in place a Complaint Management Policy guiding the resolution of disputes with stakeholders on the issue relating to the Investment and Securities Act.

Process of Board Appointments

The Board Governance & Remuneration Committee has the responsibility for leading the process for Board appointments as either Executive or Non-Executive Directors.

The Committee, in performance of its duties under the Board Charter, shall review the need for appointments and recommend such appointments to the Board for approval. The Committee shall note the specific experience and abilities needed and shall identify, review and recommend to the Board candidates for potential appointment as Directors. In identifying suitable candidates, the Committee considers candidates on merit against objective criteria and with due regard for the benefit of diversity on the Board, including gender mix as well as the balance of appropriate skills and experience.

The appointment of Directors by the Board is subject to the approval of the Central Bank of Nigeria and Shareholders at the Annual General Meeting.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO
THE PREPARATION OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

The Directors of Sterling Bank Plc accept responsibility for the preparation of the consolidated and separate financial statements that give a true and fair view of the financial position of the Bank as at 31 December 2020, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies and Allied Matters Act of Nigeria, Banks and Other Financial Institutions Act and the Financial Reporting Council of Nigeria Act, 2011. In preparing the financial statements, the Directors are responsible for:

- (a) properly selecting and applying accounting policies;
- (b) presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- (c) providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, plain events and conditions on the Group's financial position and financial performance

Going Concern:

The Directors have made an assessment of the Group and Bank's ability to continue as a going concern and have no reason to believe the Group and Bank will not remain a going concern in the year ahead.

The financial statements of the Group for the year ended 31 December 2020 were approved by the directors on 23 February 2020.

Certification of financial statements:

(a) in accordance with section 405 of the Companies and Allied Act of Nigeria, the Chief Executive Officer and the Chief Financial Officer certify that the financial statements have been reviewed and based on our knowledge, the

(i) 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, in the light of the circumstances under which such statement was made, and

(ii) 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 company as of and for, the periods covered by the audited financial statements;

(b) We state that management and directors:

(i) are responsible for establishing and maintaining internal controls and has designed such internal controls to ensure that material information relating to the Group is made known to the officer by other officers of the group and bank, particularly during the period in which the audited financial statement report is being prepared

(ii) has evaluated the effectiveness of the group's internal controls within 90 days prior to the date of its audited financial statements, and

(iii) certifies that the group's internal controls are effective as of that date.

(c) We have disclosed-

(i) all significant deficiencies in the design or operation of internal controls which could adversely affect the group and bank's ability to record, process, summarize and report financial data, and has identified for the group and bank's auditors any material weaknesses in internal controls, and

(ii) whether or not, there is any fraud that involves management or other employees who have a significant role in the group and bank's internal control; and

(iii) as indicated in the report, whether or not, there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses

The financial statements of the Group and the Bank for the year ended 31 December 2020 were approved by the directors on 23 February, 2021.

Signed on behalf of the Directors by



Abdulhakeem Salami
Managing Director/CEO
FRN/2013/CIBN/0000001275



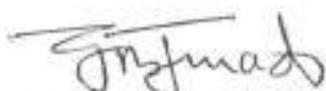
Asue Igbofote
Chairman
FRN/2015/NBA/0000010680

**REPORT OF THE STATUTORY AUDIT COMMITTEE
FOR THE YEAR ENDED 31 DECEMBER 2020
TO THE MEMBERS OF STERLING BANK PLC:**

In accordance with the provision of Section 404 (4) of the Companies and Allied Matters Act 2020, the members of the Statutory Audit Committee of Sterling Bank Plc and its subsidiary hereby report as follows:

- We are of the opinion that the accounting and reporting policies of the Group are in accordance with International Financial Reporting Standards and legal requirements and agreed ethical practices.
- We believe that the scope and planning of both the external and internal audits for the year ended 31 December 2020 were satisfactory and reinforce the Group's internal control systems.
- We have deliberated with the External Auditors, who have confirmed that necessary co-operation was received from Management in the course of their audit and we are satisfied with Management's response to the External Auditor's recommendations on accounting and internal control matters.
- The internal Control and Internal Audit functions were operating effectively.
- We have exercised our statutory functions under Section 404 (4) of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, and acknowledge the co-operation of Management and staff in the conduct of these responsibilities.

We are satisfied that the Bank has complied with the provision of the Central Bank of Nigeria Circular BSD/1/2004 dated 18 February 2004 on "Disclosure of Directors' related credits in the consolidated and separate financial statements of banks". We have reviewed insider-related credits of the Bank and found them to be as analysed in the consolidated and separate financial statements. The status of performance of these facilities is disclosed in Note 34(b) to the consolidated and separate financial statements.



Alhaji Mustapha Jinadu, F.IoD
Chairman, Statutory Audit Committee
FRC/2013/IODN/00000001516

18 February 2021

Members of the Statutory Audit Committee are:

- | | |
|----------------------------------|----------|
| 1. Alhaji Mustapha Jinadu, F.IoD | Chairman |
| 2. Mr. Olaitan Kajero | Member |
| 3. Ms. Christie Vincent | Member |
| 4. Mr. Idongesit Udoh | Member |
| 5. Mr. Michael Jituboh | Member |
| 6. Mrs Folasade Kilaso | Member |

In attendance:
Temitayo Adegoke

Company Secretary

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF STERLING BANK PLC
REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

Opinion

We have audited the consolidated and separate financial statements of Sterling Bank Plc ("the Bank"), and its subsidiary (together, "the Group") set out on pages 27 to 194, which comprise the consolidated and separate statements of financial position as at 31 December 2020, the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity, consolidated and separate statements of cash flow for the year then ended and the notes to the consolidated and separate financial statements including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Group and the Bank as at 31 December 2020 and its consolidated and separate financial performance and consolidated and separate statement of cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Companies and Allied Matters Act 2020, Banks and Other Financial Institutions Act 2020, the Financial Reporting Council of Nigeria Act 2011 and the Central Bank of Nigeria circulars.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and Bank in accordance with the requirements of the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA code) and other independence requirements applicable to performing audits of financial statements in Nigeria. We have fulfilled our other ethical responsibilities in accordance with the IESBA code and other ethical requirements that are relevant to our audit of consolidated financial statements in Nigeria. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated and separate financial statements of the current year. This matter was addressed in the context of our audit of the consolidated and separate financial statements for the year ended 31 December 2020 as a whole and in forming our opinion thereon and we do not provide a separate opinion on this matter.

Key Audit Matter

Identification and measurement of impairment of financial assets	How the matter was addressed in the audit
<p>As disclosed in note 2.2.2 (vii) to the consolidated and separate financial statements, in line with the provisions of FRS 9, The Bank identifies and measures loss allowances based on Expected Credit Loss (ECL) model on the following financial instruments that are not measured at Fair Value Through Profit or Loss (FVTPL):</p> <ul style="list-style-type: none"> • Financial assets that are debt instruments; • Financial guarantee contracts issued; and • Loan commitments issued. 	<p>Our audit approach considered the assessment of those charged with governance as well as test of controls and substantive procedures.</p> <p>We evaluated the appropriateness of the Directors' assessment of whether credit risk has increased significantly since initial recognition of loans and advances and adequacy of the related disclosures made.</p>
<p>The Bank applies a three-stage approach to measuring ECL on loans commitment issued which migrate through three stages based on changes in credit quality since initial recognition.</p>	<p>We evaluated the design and tested the implementation and operating effectiveness of the key controls over the computation of impairment loss.</p>

At each reporting date, the Directors assess whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life of the financial asset at initial recognition and risk of default at the reporting date. And in determining whether credit risk has increased significantly since initial recognition, the Directors uses internal credit risk grading system, external risk ratings and forecast macroeconomics information like unemployment rate, interest rate, gross domestic product, inflation and commercial property prices.

Identification and measurement of impairment of financial instruments is of significance to the audit of the financial statements due to the amount of judgement required by the Directors in determining whether the credit risk has increased significantly since initial recognition of financial assets that includes the consideration of current and future macroeconomics information.

Accordingly, for the purposes of our audit, we have identified identification and measurement of impairment of loans and advances as a key audit matter.

Our audit procedures also included challenging the Directors on the reasonableness of the loans and advances staging categorization based on changes in credit quality and risk of default.

We involved our Credit Specialist on the engagement to review and challenge the reasonableness of ECL model logic as well as inputs and assumptions (internal credit risk grading system, external risk ratings and forecast macroeconomics information like unemployment rate, interest rate, gross domestic product, inflation and commercial property prices) used by comparing these with industry trends and Banks's historical performance.

We assessed the assumptions and inputs in determining the currency conversion factor for off-balance sheet exposures by reviewing historical trends.

We assessed the adequacy of the disclosures in the financial statements relating to loans and advances.

The impact of the various stimulus packages offered by the bank and Central Bank of Nigeria as well as the economic impact of the Covid-19 on customers' accounts have also been assessed based on the Directors' judgement.

Based on the work performed, we found the Directors key judgements and assumptions to be reasonable. We are satisfied that the related disclosures in the financial statement are appropriate.

Other Matter

The consolidated and separate financial statements of the Group and Bank for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 11 March 2020.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, Statement of Directors responsibilities, Corporate Governance Report, Audit Committee's Report, Company Secretary's Report, Value Added Statement and Five-year Financial summary which we obtained prior to the date of this auditor's report and Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 2020, Banks and Other Financial Institutions Act 2020, Financial Reporting Council Act, 2011, Central Bank of Nigeria Circulars 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 and the Bank'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 and the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Consolidated and Separate Financial Statements

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

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

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

We communicate with the audit committees and the directors 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.

We also provide the audit committees and directors with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable actions taken to eliminate threats or safeguards applied.

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

Report on Other Legal and Regulatory Requirements

In accordance with the 11th Schedule of Companies and Allied Matters Act 2020 we expressly state that:

- i) We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purpose of our audit.
- ii) The Group and the Bank kept proper books of accounts, so far as it appears from our examination of those books.
- iii) The Group and Bank's consolidated and separate statements of financial position and its consolidated and separate statements of profit or loss and other comprehensive income are in agreement with the books of account and returns.
- iv) In our opinion, the consolidated and separate financial statements have been prepared in accordance with the provisions of the relevant requirements of Companies and Allied Matters Act 2020 so as to give a true and fair view of the state of affairs and financial performance of the Group and the Bank.
- v) The Group and the Bank have complied with the requirements of The Banks and Other Financial Institutions Act 2000 and the relevant circulars issued by Central Bank of Nigeria, except for the contraventions of certain sections of CBN circulars/guidelines as disclosed in Note 40 to the financial statements.
- vi) In accordance with circular BSD/1/2004 issued by the Central Bank of Nigeria, details of insider-related credits are as disclosed in note 34b.



For Deloitte & Touche
Chartered Accountants
Lagos, Nigeria
17 March, 2021



Engagement partner: Michael Daudu
FRG/2013/ICAN/00000000845

CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

<i>In millions of Naira</i>	Note(s)	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
Interest income using effective interest rate	6	111,452	127,291	109,030	124,535
Interest expense using effective interest rate	7	(49,305)	(62,592)	(47,013)	(60,284)
Net interest income		62,147	64,699	62,017	64,251
Net fees and commission income	8	13,087	14,613	13,087	14,613
Net trading income	9	11,716	5,058	11,716	5,058
Other operating income	10	2,642	3,233	2,642	3,233
Operating income		89,592	87,603	89,462	87,155
Credit loss expense	11	(7,906)	(5,838)	(7,913)	(5,842)
Net operating income after credit loss expense		81,686	81,765	81,549	81,313
Personnel expenses	12	(14,841)	(14,912)	(14,841)	(14,912)
Other operating expenses	13.1	(21,001)	(18,075)	(20,997)	(18,075)
General and administrative expenses	13.2	(19,914)	(22,898)	(19,913)	(22,885)
Depreciation and amortisation	23.1, 23.2, 23.3 & 24	(6,050)	(7,901)	(6,050)	(7,901)
Other property, plant and equipment costs	13.4	(7,508)	(7,307)	(7,508)	(7,307)
Total expenses		(69,314)	(71,093)	(69,309)	(71,080)
Profit before income tax expense		12,372	10,672	12,240	10,233
Income tax expense	14(a)	(1,130)	(70)	(1,130)	(70)
Profit after income tax		11,242	10,602	11,110	10,163
Other comprehensive income:					
Items that will not be reclassified to profit or loss in subsequent period:					
Revaluation gains on equity instruments at fair value through other comprehensive income*		3,468	403	3,468	403
Total items that will not be reclassified to profit or loss in subsequent period		3,468	403	3,468	403
Items that will be reclassified to profit or loss in subsequent period:					
Debt instruments at fair value through other comprehensive income*:					
- Net change in fair value during the year		2,420	10,685	2,420	10,685
- Changes in allowance for expected credit losses		(72)	68	(72)	68
Net gains/(losses) on debt instruments at fair value through other comprehensive income		2,348	10,753	2,348	10,753
Total items that will be reclassified to profit or loss in subsequent period		2,348	10,753	2,348	10,753
Other comprehensive income/(loss) for the year, net of tax		5,816	11,156	5,816	11,156
Total comprehensive income for the year, net of tax		17,058	21,758	16,926	21,319
Profit attributable to:					
Equity holders of the Bank		11,242	10,602	11,110	10,163
Total comprehensive income attributable to:					
Equity holders of the Bank		17,058	21,758	16,926	21,319
Earnings per share - basic (in kobo)	15	39k	37k	39k	35k
Earnings per share - diluted (in kobo)	15	39k	37k	39k	35k

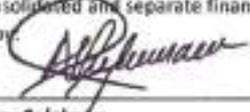
*Income from these instruments is exempted from tax.

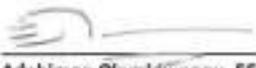
The accompanying notes 1 to 45 form part of the consolidated and separate financial statements.

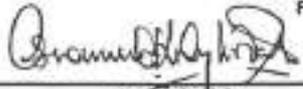
CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

In millions of Naira	Note(s)	Group	Group	Bank	Bank
		31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
ASSETS					
Cash and balances with Central Bank of Nigeria	16	303,314	156,059	303,314	156,059
Due from banks	17	21,084	69,361	21,079	69,361
Pledged assets	18	34,860	11,831	34,860	11,831
Loans and advances to customers	19	596,827	618,732	596,827	618,732
<i>Investments in securities:</i>					
- Financial assets at fair value through profit or loss	20(a)	1,454	8,317	1,454	8,317
- Debt instruments at fair value through other comprehensive income	20(c)	135,780	141,272	135,780	141,272
- Equity instruments at fair value through other comprehensive income	20(b)	10,745	5,470	10,745	5,470
- Debt instruments at amortised cost	20(d)	110,229	101,944	93,234	84,767
Investment in subsidiary	21	-	-	1	1
Other assets	22	43,950	28,581	43,704	28,581
Property, plant and equipment	23.1	15,956	18,476	15,956	18,476
Right-of-use asset	23.2	8,319	8,896	8,319	8,896
Investment property	23.3	8,004	4,141	8,004	4,141
Intangible assets	24	1,582	1,933	1,582	1,933
Deferred tax assets	14(h)	6,971	6,971	6,971	6,971
		1,299,075	1,181,984	1,281,830	1,164,808
Non-current assets held for sale	25	-	701	-	701
TOTAL ASSETS		1,299,075	1,182,685	1,281,830	1,165,509
LIABILITIES					
Deposits from Banks	26 (a)	21,289	-	21,289	-
Deposits from customers	26 (b)	950,835	892,660	950,835	892,660
Derivative financial liabilities					
Current income tax payable	14(b)	551	201	551	201
Other borrowed funds	27	86,367	82,702	86,367	82,702
Debt securities issued	28	42,274	42,655	25,323	25,709
Other liabilities	29	61,552	44,742	61,621	44,742
Provisions	29.3	454	167	454	167
TOTAL LIABILITIES		1,163,322	1,063,127	1,146,440	1,046,181
EQUITY					
Share capital	30(b)	14,395	14,395	14,395	14,395
Share premium		42,759	42,759	42,759	42,759
Retained earnings/(accumulated losses)		25,278	6,187	24,913	5,954
Other components of equity	32.1	53,321	56,217	53,323	56,220
Total equity		135,753	119,558	135,390	119,328
TOTAL LIABILITIES AND EQUITY		1,299,075	1,182,685	1,281,830	1,165,509

The consolidated and separate financial statements were approved by the Board of Directors on 23 February 2021 and signed on its behalf by


Abubakar Suleiman
Managing Director/ Chief Executive Officer
FRC/2013/CIBN/00000001275


Adebimpe Olamifunnu, FCA
Group Head, Finance & Performance Management
FRC/2013/ICAN/00000001253


Asde Ighodalo
Chairman
FRC/2015/NBA/00000010680

The accompanying notes 1 to 45 form part of the consolidated and separate financial statements.

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

<i>In millions of Naira</i>	Share capital	Share premium	EQUITY RESERVES							Retained earnings	Total
			Fair value reserve	Share capital reserve	Regulatory risk reserve	SMEEIS reserve	AGSMEIS reserve	Statutory reserve	Total other components of equity		
GROUP											
At 1 January 2020	14,395	42,759	6,559	5,276	21,371	235	1,155	21,622	56,218	6,187	119,558
Comprehensive income for the year:											
Profit for the year	-	-	-	-	-	-	-	-	-	11,242	11,242
Other comprehensive income for the year, net of tax:											
Net change in fair value of debt instruments at FVOCI	-	-	2,420	-	-	-	-	-	2,420	-	2,420
Net change in fair value of equity instruments at FVOCI	-	-	3,468	-	-	-	-	-	3,468	-	3,468
Changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	(72)	-	-	-	-	-	(72)	-	(72)
Total comprehensive income	-	-	5,816	-	-	-	-	-	5,816	11,242	17,058
Transactions with equity holders, recorded directly in equity:											
Dividends to equity holders (note 32)	-	-	-	-	-	-	-	-	-	(864)	(864)
Transfer from regulatory risk reserve (Note 32.1d)	-	-	-	-	(10,936)	-	-	-	(10,936)	10,936	-
Transfer to statutory risk and AGSMEIS reserves (Notes 32.1a & 32.c)	-	-	-	-	-	-	556	1,667	2,223	(2,223)	-
As at 31 December 2020	14,395	42,759	12,375	5,276	10,435	235	1,711	23,289	53,321	25,278	135,753

The accompanying notes 1 to 45 form part of the consolidated and separate financial statements.

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY - Continued
FOR THE YEAR ENDED 31 DECEMBER 2019

<i>In millions of Naira</i>	Share capital	Share premium	EQUITY RESERVES							Retained earnings	Total
			Fair value reserve	Share capital reserve	Regulatory risk reserve	SMEEIS reserve	AGSMEIS reserve	Statutory reserve	Total other components of equity		
GROUP											
At 1 January 2019	14,395	42,759	(4,597)	5,276	22,260	235	682	20,098	43,953	(3,307)	97,800
Comprehensive income for the year:											
Profit for the year	-	-	-	-	-	-	-	-	-	10,602	10,602
Other comprehensive income for the year, net of tax:	-	-	-	-	-	-	-	-	-	-	-
Net change in fair value of debt instruments at FVOCI	-	-	10,685	-	-	-	-	-	10,685	-	10,685
Net change in fair value of equity instruments at FVOCI	-	-	403	-	-	-	-	-	403	-	403
Changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	68	-	-	-	-	-	68	-	68
Total comprehensive income	-	-	11,156	-	-	-	-	-	11,156	10,602	21,758
Transactions with equity holders, recorded directly in equity:											
Dividends to equity holders (note 31)	-	-	-	-	-	-	-	-	-	-	-
Transfer to regulatory risk reserve (Note 32.1d)	-	-	-	-	(889)	-	-	-	(889)	889	-
Transfer to statutory risk and AGSMEIS reserves (Notes 32.1a & 32.c)	-	-	-	-	-	-	473	1,524	1,997	(1,997)	-
As at 31 December 2019	14,395	42,759	6,559	5,276	21,371	235	1,155	21,622	56,217	6,187	119,558

The accompanying notes 1 to 45 form part of the consolidated and separate financial statements.

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY - Continued
FOR THE YEAR ENDED 31 DECEMBER 2020

<i>In millions of Naira</i>	Share capital	Share premium	EQUITY RESERVES							Retained earnings	Total
			Fair value reserve	Share capital reserve	Regulatory risk reserve	SMEEIS reserve	AGSMEIS reserve	Statutory reserve	Total equity reserves		
BANK											
Balance at 1 January 2020	14,395	42,759	6,559	5,276	21,371	235	1,155	21,624	56,220	5,954	119,328
Comprehensive income for the year:											
Profit for the year	-	-	-	-	-	-	-	-	-	11,110	11,110
Comprehensive income for the year:											
Net change in fair value of debt instrument at FVOCI	-	-	2,420	-	-	-	-	-	2,420	-	2,420
Net change in fair value of equity instrument at FVOCI	-	-	3,468	-	-	-	-	-	3,468	-	3,468
Changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	(72)	-	-	-	-	-	(72)	-	(72)
Total comprehensive income	-	-	5,816	-	-	-	-	-	5,816	11,110	16,926
Transactions with equity holders, recorded directly in equity:											
Dividends to equity holders (note 32)	-	-	-	-	-	-	-	-	-	(864)	(864)
Transfer from regulatory risk reserve (Note 32.1d)	-	-	-	-	(10,936)	-	-	-	(10,936)	10,936	-
Transfer to statutory risk and AGSMEIS reserves (Notes 32.1a & 32.c)	-	-	-	-	-	-	556	1,667	2,223	(2,223)	-
Balance at 31 December 2020	14,395	42,759	12,375	5,276	10,435	235	1,711	23,291	53,323	24,913	135,390

The accompanying notes 1 to 45 form part of the consolidated and separate financial statements.

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY - Continued
FOR THE YEAR ENDED 31 DECEMBER 2019

<i>In millions of Naira</i>	Share capital	Share premium	EQUITY RESERVES							Retained earnings	Total
			Fair value reserve	Share capital reserve	Regulatory risk reserve	SMEEIS reserve	AGSMEIS reserve	Statutory reserve	Total equity reserves		
Balance at 1 January 2019	14,395	42,759	(4,597)	5,276	22,260	235	682	20,100	43,956	(3,101)	98,009
Comprehensive income for the year:											
Profit for the year	-	-	-	-	-	-	-	-	-	10,163	10,163
Comprehensive income for the year:											-
Net change in fair value of debt instrument at FVOCI			10,685						10,685		10,685
Net change in fair value of equity instrument at FVOCI			403						403		403
Changes in allowance for expected credit losses of debt instruments at FVOCI			68						68		68
Total comprehensive income	-	-	11,156	-	-	-	-	-	11,156	10,163	21,319
Transactions with equity holders, recorded directly in equity:											
Dividends to equity holders (note 31)	-	-	-	-	-	-	-	-	-		-
Transfer to regulatory risk reserve (Note 32.1d)					(889)				(889)	889	-
Transfer to statutory risk & AGSMEIS reserve (Notes 32.1a & 32.c)	-	-	-	-	-	-	473	1,524	1,997	(1,997)	-
Balance at 31 December 2019	14,395	42,759	6,559	5,276	21,371	235	1,155	21,624	56,220	5,954	119,328

The accompanying notes 1 to 45 form part of the consolidated and separate financial statements.

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

<i>In millions of Naira</i>	Note(s)	GROUP	GROUP	BANK	BANK
		2020	2019	2020	2019
Profit after income tax		11,242	10,602	11,110	10,163
Adjustments for non cash items:					
Credit loss expense	11	7,910	5,838	7,910	5,842
Depreciation and amortisation	23.1,23.2,23.3 & 24	6,050	7,901	6,050	7,901
Dividend income	10	(258)	(239)	(258)	(239)
Gain on disposal of property, plant and equipment	10	(64)	(29)	(64)	(29)
Decrease in provision		9	(128)	9	(128)
Write off of non current assets held for sale	13.1	-	304	-	304
Net interest income		(62,012)	(64,699)	(62,017)	(64,251)
Net foreign exchange loss/(gain)		(951)	(4,491)	(951)	(4,491)
Income tax adjustment		1,130	70	1,130	70
		(36,944)	(44,871)	(37,081)	(44,858)
Changes in operating assets:					
Deposits with the Central Bank of Nigeria		(106,665)	(28,673)	(106,665)	(28,673)
Investment securities at FVTPL		6,863	(4,207)	6,863	(4,207)
Pledged assets		(23,026)	(430)	(23,026)	(430)
Loans and advances to customers		15,404	(7,948)	15,404	(7,948)
Non-current assets held for sale		701	764	701	764
Other assets		(19,675)	(4,981)	(19,429)	(4,982)
		(163,342)	(90,346)	(163,233)	(90,334)
Changes in operating liabilities:					
Deposits from banks		21,289	-	21,289	-
Deposits from customers		58,175	132,052	58,175	132,052
Other liabilities		16,687	7,578	16,756	7,578
Cash generated from operations		(67,191)	49,284	(67,013)	49,296
Interest received		109,030	127,291	109,030	124,535
Interest paid on deposits from banks and customers		(36,954)	(45,190)	(36,954)	(45,190)
VAT paid		-	(681)	-	(681)
Income tax paid	14(b)	(657)	(172)	(657)	(172)
Net cash flows from operating activities		4,228	130,533	4,406	127,788
Investing activities					
Purchase of property, plant and equipment	23.1	(2,020)	(7,852)	(2,020)	(7,852)
Purchase of intangible assets	24	(400)	(371)	(400)	(371)
Investment property	23.3	(3,957)	-	(3,957)	-
Right-of-use-asset	23.2	(263)	(520)	(263)	(520)
Proceeds from sale of property, plant and equipment		238	55	238	55
Purchase of debt instruments at FVOCI		(60,178)	(47,657)	(60,178)	(47,657)
Proceeds from sale of debt instruments at FVOCI		69,066	34,690	69,066	34,690
Purchase of debt instruments at amortised cost		(8,885)	-	(9,068)	-
Redemption of debt instruments at amortised cost		712	21,073	712	21,308
Purchase of equity instrument at FVOCI		(2,855)	(1,056)	(2,855)	(1,056)
Dividends received	10	258	239	258	239
Net cash flows used in investing activities		(8,284)	(1,399)	(8,467)	(1,164)
Financing activities:					
Proceeds from other borrowed funds	27	11,526	7,086	11,526	7,086
Repayments of other borrowed funds	27	(8,118)	(39,268)	(8,118)	(39,268)
Repayment of debt & securities issued	28	-	(45,200)	-	(45,200)
Interest paid on other borrowed funds & debt issued		(10,339)	(15,991)	(10,339)	(13,374)
Dividends paid	31	(864)	-	(864)	-
Net cash flows used in financing activities		(7,795)	(93,372)	(7,795)	(90,756)

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS - continued

<i>In millions of Naira</i>	GROUP 2020	GROUP 2019	BANK 2020	BANK 2019
Net increase/(decrease) in cash and cash equivalents	(11,851)	35,761	(11,856)	35,868
Effect of exchange rate changes on cash and cash equivalents	4,164	(241)	4,164	(241)
Cash and cash equivalents at 1 January	103,294	67,774	103,294	67,667
Cash and cash equivalents at 31 December	95,607	103,294	95,602	103,294

The accompanying notes 1 to 45 form part of the consolidated and separate financial statements.

STATEMENT OF PRUDENTIAL ADJUSTMENTS

The regulators, Central Bank of Nigeria and Nigeria Deposit Insurance Corporation, stipulate that impairment allowance for financial assets shall be determined based on the requirements of IFRS. The IFRS allowance should then be compared with the impairment determined under the prudential guidelines as prescribed by CBN and the difference should be treated as follows:

(i) Prudential provision is greater than IFRS provision - transfer the difference from the Retained Earnings to a non-distributable Regulatory Risk Reserve.

(ii) Prudential provision is less than IFRS provision - the excess should be transferred from the Regulatory Risk Reserve to the Retained Earnings to the extent of the non-distributable reserve previously recognized.

<i>In millions of Naira</i>	Note(s)	As at 31 Dec 2020	As at 31 Dec 2019
<i>Transfer to Regulatory Risk Reserve</i>			
Prudential provision		29,396	35,863
Total Prudential provision		29,396	35,863
IFRS provision			
Impairment allowance on loans to corporate entities	19.1.1	14,111	11,119
Impairment allowance on loans to individuals	19.1.2	2,421	1,847
Allowances for impairment for other assets	22	1,801	1,010
Impairment allowance on debt instruments at amortised cost	20(d)	10	117
Impairment allowance on pledged assets at amortised cost	18.2	1	4
Impairment allowance on pledged assets at FVOCI	18.3.1	4	-
Impairment allowance on debt instruments at FVOCI	20(e)	159	229
Provisions for litigation, letters of credits and guarantees	29.3	454	167
		18,961	14,492
Difference in impairment provision balances		10,435	21,371
Movement in the Regulatory Risk Reserve:			
Balance at the beginning of the year		21,371	22,260
Transfer (from) / to Regulatory Risk Reserve		(10,936)	(889)
		10,435	21,371

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

1. Corporate information

Sterling Bank Plc, (formerly known as NAL Bank Plc) was the pioneer merchant bank in Nigeria, established on 25 November 1960 as a private limited liability company, and was converted to a public limited liability company in April 1992.

Sterling Investment Management Plc (SPV) was established in 2016 to raise money by the issue of bonds and other debt instruments. The SPV is a subsidiary and is consolidated in the financial statements of the Bank.

Sterling Bank Plc (the "Bank") together with its subsidiary (collectively the "Group") is engaged in commercial banking with emphasis on retail and consumer banking, trade services, corporate, investment and non-interest banking activities. It also provides wholesale banking services including the granting of loans and advances, letter of credit transactions, money market operations, electronic and mobile banking products and other banking activities.

The consolidated and separate financial statements of Sterling Bank Plc and its subsidiary for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 23 February 2021.

2. Accounting Policies

2.1 Basis of preparation and statement of compliance

The consolidated and separate financial statements of the Bank and its subsidiary have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Companies and Allied Matters Act of Nigeria, The Financial Reporting Council of Nigeria Act No 6, 2011, the Banks and Other Financial Institutions Act of Nigeria, and relevant Central Bank of Nigeria circulars.

The consolidated and separate financial statements have been prepared on a historical cost basis, except for financial assets measured at fair value.

(a) Functional and Presentation currency

The consolidated and separate financial statements are presented in Nigerian Naira, the Group's functional currency and all values are rounded to the nearest million (₦'million) except when otherwise indicated.

(b) Presentation of financial statements

The Group presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 37 to the consolidated and separate financial statements.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated and separate statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any IFRS accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.1 Basis of preparation and statement of compliance - continued

(c) Basis of Consolidation

The consolidated and separate financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2020. Sterling Bank consolidates a subsidiary when it controls the entity. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that 51% or more of voting rights results in control. However, under individual circumstances, the Bank may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Bank considers all relevant facts and circumstances, including:

- The purpose and design of the investee;
- The relevant activities and how decisions about those activities are made and whether the Bank can direct those activities;
- Contractual arrangements such as call rights, put rights and liquidation rights;
- Whether the Bank is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.2 Summary of significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its financial statements:

2.2.1 Taxes

Tax expense comprises current and deferred tax. Current tax and deferred taxes are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable on taxable profit or loss for the period determined in accordance with the Companies Income Tax Act (CITA), using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Tax assessments are recognized when assessed and agreed to by the Group with the Tax Authorities, or when appealed, upon receipt of the results of the appeal.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2 Summary of significant accounting policies****(ii) Deferred tax**

Deferred tax is recognised on 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; and
- the initial recognition of assets or liabilities in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

2.2.1 Taxes

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.

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. Unrecognised deferred tax assets are reviewed at each reporting date and are recognised to the extent that it is probable that sufficient future taxable profits or sufficient future taxable temporary differences will be available against which can be used.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

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

2.2.2 Financial instruments**(i) Recognition and initial measurement**

Regular purchases and sales of financial assets and liabilities are recognised on the trade date. A financial asset or financial liability is measured initially at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, direct and incremental transaction costs that are directly attributable to its acquisition or issue. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss at initial recognition. Financial assets that are transferred to third parties but do not qualify for derecognition are presented in the statement of financial position as “pledged asset”, if the transferee has the right to sell or re-pledge them.

(ii) Classification of financial instruments

The Group classified its financial assets under IFRS 9, into the following measurement categories:

- Those to be measured at fair value through other comprehensive income (FVOCI) (either with or without recycling). Included in this classification are debt instruments at FVOCI and equity instruments at FVOCI;
- Those to be measured at fair value through profit or loss (FVTPL); and
- Those to be measured at amortised cost. Included in this classification are debt instruments at amortised cost, loans and advances e.t.c

The classification depends on the Group’s business model for managing financial assets and the contractual cashflow characteristics of the financial asset (i.e solely payments of principal and interest- SPPI test). Directors determine the classification of the financial instruments at initial recognition.

The Group classifies its financial liabilities as liabilities at fair value through profit or loss and liabilities at amortised cost.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies

2.2.2 Financial instruments - continued

(iii) Subsequent measurement

Financial assets -

(i) Debt instruments

The subsequent measurement of financial assets depend on its initial classification:

Amortised cost: A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is determined using the effective interest method and reported in profit or loss as 'Interest income'.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The Group's financial assets at amortised cost include cash and balances with Central Bank of Nigeria, due from banks, loans and advances to customers, and other debt instruments at amortised cost

Fair value through other comprehensive income (FVOCI): Investment in debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The debt instrument is subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income (OCI) and accumulated in a separate component of equity. Impairment gains or losses, interest revenue and foreign exchange gains and losses are recognised in profit and loss. Upon disposal or derecognition, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other operating income. Interest income from these financial assets is determined using the effective interest method and recognised in profit or loss as 'Interest income'.

The measurement of credit impairment is based on the three-stage expected credit loss model as applied to financial assets at amortised cost.

The Group's financial assets at fair value through other comprehensive income include equity instruments at FVOCI, treasury bills, promissory notes, government bonds and corporate bonds.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued**2.2.2 Financial instruments - continued****(iii) Subsequent measurement - continued**

Fair value through profit or loss (FVTPL): Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. The gain or loss arising from changes in fair value of a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is included directly in the profit or loss and reported as 'Net trading income' in the period in which it arises. Interest income from these financial assets is recognised in profit or loss as 'Interest income'.

The Group's financial assets at fair value through profit or loss include treasury bills.

(ii) Equity instruments

The Group subsequently measures all equity investments at fair value. For equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss.

Dividends from such investments continue to be recognised in profit or loss as other operating income when the Group's right to receive payments is established unless the dividend clearly represents a recovery of part of the cost of the investment. All equity financial assets are classified as measured at FVOCI. Where the Group has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss.

(iv) Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- 1) The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- 2) How the performance of the portfolio is evaluated and reported to the Group's management;
- 3) The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- 4) How managers of the business are compensated e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- 5) The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued**2.2.2 Financial instruments - continued****(iv) Business model assessment - continued****Assessment of whether contractual cash flows are solely payments of principal and interest on principal**

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Group holds a portfolio of long-term fixed rate loans for which the Group has the option to revise the interest rate at future dates. These reset rights are limited to the market rate at the time of revision. The right to reset the rates of the loans based on the revision in market rates are part of the contractually agreed terms on inception of the loan agreement, therefore the borrowers are obligated to comply with the reset rates without any option of repayment of the loans at par at any reset date. The Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies with the interest rate in a way that is considered a consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial liabilities -

The Group classifies financial liabilities into financial liabilities at amortised cost and fair value through profit or loss. Financial liabilities are derecognised when extinguished, ie when the obligation specified in the contract is discharged or cancelled or expires.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by the Group.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2 Summary of significant accounting policies****2.2.2 Financial instruments - continued****Financial liabilities - continued**

Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the profit or loss and are reported as 'Net trading income on financial instruments classified as held for trading'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'.

The group does not have any financial liabilities at fair value through profit or loss.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

(ii) Financial liabilities at amortised cost

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

(v) Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets that are debt instruments. A change in the objective of the Group's business occurs only when the Group either begins or ceases to perform an activity that is significant to its operations (e.g., via acquisition or disposal of a business line).

The following are not considered to be changes in the business model:

- A change in intention related to particular financial assets (even in circumstances of significant changes in market conditions)
- A temporary disappearance of a particular market for financial assets
- A transfer of financial assets between parts of the entity with different business models

When reclassification occurs, the Group reclassifies all affected financial assets in accordance with the new business model. Reclassification is applied prospectively from the 'reclassification date'. Reclassification date is 'the first day of the first reporting period following the change in business model. Gains, losses or interest previously recognised are not restated when reclassification occurs.

The Group may only sell insignificant portion of debt instruments measured at amortised cost frequently without triggering a change in business model. If the Group sells significant portions, this will not be more than twice a year subject to cases of unlikely to reoccur events such as:

- Run on the Bank/stressed liquidity scenarios
- Credit risk event i.e. perceived issuer default
- In the event of merger and takeover, the Bank may sell portion of the portfolio if the security holdings violates set limits
- Other one-off events

Significance is defined to mean 5% of the portfolio value and subject to the policy on frequency above.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2 Summary of significant accounting policies****2.2.2 Financial instruments - continued****Financial liabilities - continued**

The Group may sell debt instruments measured at amortised cost without triggering a change in business model if the sale is due to deterioration in the credit quality of the financial assets or close to maturity. A financial asset is said to be close to maturity if the outstanding tenor of the financial asset from the time of issue is 25% or less of the original tenor.

Sales close to maturity are acceptable if the proceeds from the sales approximate the collection of the remaining contractual cash flows. At the point of sale an assessment will be conducted to determine whether there is more than 10% different from the remaining cash flows.

(vi) Modifications of financial assets and financial liabilities**(i) Financial assets**

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

Any difference between the amortised cost and the present value of the estimated future cash flows of the modified asset or consideration received on derecognition is recorded in profit or loss as 'gains and losses arising from the derecognition of financial assets measured at amortised cost'. If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss as part of interest income for the year.

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

Qualitative criteria

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

- Conversion of a bullet repayment financial asset to amortising financial asset or vice versa
- Extension of financial asset's tenor
- Reduction in repayment of principal and interest
- Capitalisations of overdue repayments into a new principal amount
- Change in frequency of repayments i.e. change of monthly repayments to quarterly or yearly repayments
- Reduction of financial asset's tenor

On the occurrence of any of the above factors, the Group will perform a 10% test (see below) to determine whether or not the modification is substantial.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies

2.2.2 Financial instruments - continued

(vi) Modifications of financial assets and financial liabilities - continued

Scenarios where modification will not lead to derecognition of existing financial assets are:

- Change in interest rate arising from a change in MPR which is a benchmark rate that drives borrowing rates in Nigeria
- Bulk repayment of financial asset

Quantitative criteria**A modification would lead to derecognition of existing financial asset and recognition of a new financial asset, i.e. substantial modification, if:**

- The discounted present value of the cash flows under the new terms, including any fees received net of any fees paid and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

A modification would not lead to derecognition of existing financial asset 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 less than 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

- If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see below) and Expected credit losses (ECL) are measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset

- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flows from existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from existing financial asset that are discounted from expected date of derecognition to the reporting date using original effective interest rate of the existing financial asset.

(ii) Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. This occurs when the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment (i.e the modified liability is not substantially different), any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2 Summary of significant accounting policies****2.2.2 Financial instruments - continued****(vii) Impairment of financial assets**

See also Note 37.1 on Credit risk disclosure

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments. The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Risk free and gilt edged debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a risk free and gilt edged debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

1. Measurement of Expected Credit loss (ECL)

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- a. Financial assets that are not credit-impaired at the reporting date: ECL is the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the entity expects to receive);
- b. Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit impaired financial assets) : ECL represents the difference between the gross carrying amount and the present value of estimated future cash flows;
- c. Undrawn loan commitments: ECL is the present value of the difference between the contractual cash flows that are due to Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- d. Financial guarantee contracts: This is the expected payments to reimburse the holder less any amounts that the Group expects to recover.

2. Credit-impaired financial assets

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2 Summary of significant accounting policies****2.2.2 Financial instruments - continued****(vii) Impairment of financial assets- continued**

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

1. Project financing: >180 days past due backstop
2. Object financing (producing real estate and commercial real estate financing): > 180 days past due backstop;
3. Commodity finance:> 180 days past due backstop
4. Income producing real estate: >180 days past due backstop

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

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

3. Presentation of allowance for ECL in the statement of financial position

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

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

4. Write-off

After a full evaluation of a non-performing exposure, in the event that either one or all of the following conditions apply, such exposure is recommended for write-off (either partially or in full):

- continued contact with the customer is impossible;
- recovery cost is expected to be higher than the outstanding debt;
- amount obtained from realisation of credit collateral security leaves a balance of the debt; or
- it is reasonably determined that no further recovery on the facility is possible.

All credit facility write-offs require endorsement at the board level, as defined by the Group. Credit write-off approval is documented in writing and properly initialed by the Credit collection and recoveries.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies**2.2.2 Financial instruments - continued****(vii) Impairment of financial assets- continued**

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

(viii) Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument. Where a hybrid contains a host that is a financial asset in the scope of IFRS 9, the entire hybrid contract, including the embedded features, is assessed for classification under IFRS 9. The embedded derivative in such host contracts that are financial assets are not separated for accounting purposes.

(ix) Offsetting financial instruments -

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

(x) Derivative financial instruments:

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset where there is a legal right of offset of the recognised amounts and the parties intend to settle the cash flows on a net basis, or realise the asset and settle the liability simultaneously.

(xi) De-recognition of financial instruments -

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

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2 Summary of significant accounting policies****2.2.2 Financial instruments - continued****(xii) Financial guarantees and loan commitments**

The date that the entity becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of applying the impairment requirements. Financial guarantees issued are initially measured at fair value and the fair value is amortised over the life of the guarantee. Subsequently, the financial guarantees are measured at the higher of this amortised amount and the amount of expected loss allowance (See Note 33(b)). The Group also recognises loss allowance for its loan commitments (See Note 33(b)). The expected loss allowance for the Loan commitment is calculated as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

The Group has issued no loan commitment that is measured at FVTPL.

2.2.3 Revenue recognition**Interest income and expense**

Interest income and expenses are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes 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 financial liability.

a. Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

b. Calculation of interest income and expenses

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that are credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2 Summary of significant accounting policies****2.2.3 Revenue recognition- continued****c. Presentation**

Interest income and expense presented in the profit or loss includes:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in Net trading income on financial instruments classified as held for trading.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in interest income or interest expense.

d. Non-interest income and non -interest expense**Sharia compliant income**

Included in interest income and expense are sharia compliant income and expense. The Group's income as a fund manager (mudharib) consists of income and expense from Mudaraba and Hajj transactions, income from profit sharing of Sukuk and Mudaraba financing and other operating income.

Mudaraba income by deferred payment or by installment is recognised during the period of the contract based on effective method (annuity).

Profit sharing income from Mudaraba is recognised in the period when the rights arise in accordance with agreed sharing ratio, and the recognition based on projection of income is not allowed.

e. Fees and commission income and expense

Fees and Commission that are integral to the effective interest rate on a financial asset are included in the measurement of the effective interest rate. Fees, such as processing and management fees charged for assessing the financial position of the borrower, evaluating and reviewing guarantee, collateral and other security, negotiation of instruments' terms, preparing and processing documentation and finalising the transaction are an integral part of the effective interest rate on a financial asset or liability and are included in the measurement of the effective interest rate of financial assets or liabilities.

Other fees and commissions which relates mainly to transaction and service fees, including loan account structuring and service fees are recognised as the related services are performed.

f. Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest income on financial assets at fair value through profit or loss, dividends and foreign exchange differences.

g. Dividend income

Dividend income is recognised when the right to receive income is established. Dividends on trading equities are reflected as a component of net trading income. Dividend income on equity instruments classified and measured at fair value through OCI (FVOCI) are recognised as a component of other operating income.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2 Summary of significant accounting policies****2.2.4 Cash and cash equivalents**

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with central banks, operating accounts with other banks, amount due from other banks and highly liquid financial assets with original maturities of three months or less from the acquisition date, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost.

For the purposes of the statement of cash flows, cash and cash equivalents include cash and non-restricted balances with central bank, balances held with local banks, balances with foreign banks and money market placements.

2.2.5 Property, plant and equipment**(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and is recognised in other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property or 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 carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis to write down the cost of each asset, to their residual values over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets under finance lease 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 -Noncurrent Assets Held for Sale and Discontinued Operations. A non-current asset or disposal group is not depreciated while it is classified as held for sale.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2 Summary of significant accounting policies****2.2.5 Property, plant and equipment - continued**

The estimated useful lives for property, plant and equipment are as follows:

Leasehold buildings	50 years
Leasehold improvements	10 years
Furniture, fittings & equipment	5 years
Computer equipment	5 years
Motor vehicles	4 years

Capital work in progress consists of items of property, plant and equipment that are not yet available for use. Capital work in progress is not depreciated, it is transferred to the relevant asset category upon completion.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if applicable.

(iv) De-recognition

An item of property, plant 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 period the asset is derecognised.

2.2.6 Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification. The group classifies repossessed assets as non-current assets held for sale as it intends to recover these assets primarily through sales transactions.

A non-current asset ceases to be classified as a held for sale if the criteria mentioned above are no longer met. A non-current asset that ceases to be classified as held for sale is measured at the lower of:

- (i) its carrying amount before the asset (or disposal group) was classified as held for sale or for distribution, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been so classified; and
- (ii) its recoverable amount at the date of the subsequent decision not to sell or distribute.

2.2.7 Intangible assets**Software**

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2 Summary of significant accounting policies****2.2.7 Intangible assets - continued**

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 of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is five years. Amortisation method, useful lives, and residual values are reviewed at each financial year-end and accounted for prospectively.

2.2.8 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Leases are accounted for in accordance with IFRS 16.

(i) Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented in Note 23.2 and are subject to impairment in line with the Group's policy as described in Note 2.2.9 Impairment of non-financial assets.

(b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments and in substance fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. 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.

(ii) Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2 Summary of significant accounting policies****2.2.9 Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

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 impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. 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. 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 respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.2.10 Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequently, investment properties are carried at historical cost less accumulated depreciation and impairment. The fair value and valuation inputs of the investment property are also disclosed in note 23.2 in accordance with IAS 40.

The investment properties consist of buildings which are depreciated on a straight-line basis over their useful life of 50 years.

Investment properties are measured initially at cost, including transaction costs. Subsequently, investment properties are carried at historical cost less accumulated depreciation and impairment. The fair value and valuation inputs of the investment property are also disclosed in note 23.3 in accordance with IAS 40.

Investment properties are derecognized either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying amount at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2 Summary of significant accounting policies****2.2.11 Employee benefits****(i) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than 12 months after the end of the period in which the employees render the service are discounted to their present value at the reporting date.

The Group operates a funded defined contribution retirement benefit scheme for its employees under the provisions of the Pension Reform Act 2014. The employer and the employee contributions are 10% and 8%, respectively of the qualifying employee's monthly basic, housing and transport allowance. Obligations in respect of the Group's contributions to the scheme are recognised as an expense in the profit or loss account on an annual basis.

The Group operates a funded defined contribution retirement benefit scheme for its employees under the provisions of the Pension Reform Act 2014. The employer and the employee contributions are 10% and 8%, respectively of the qualifying employee's monthly basic, housing and transport allowance. Obligations in respect of the Group's contributions to the scheme are recognised as an expense in the profit or loss account on an annual basis.

(ii) 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.

(iii) Short-term benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans 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.

2.2.12 Contingencies**(i) Contingent asset**

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent asset is disclosed when an inflow of economic benefit is probable. When the realisation of income is virtually certain, then the related asset is not contingent and its recognition is appropriate. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

(ii) Contingent liability

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2 Summary of significant accounting policies****2.2.12 Contingencies -continued**

Contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefit is remote. A provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable is recognised, except in the extremely rare circumstances where no reliable estimate can be made.

Contingent liabilities are assessed continually to determine whether an outflow of economic benefit has become probable.

2.2.13 Share capital**(i) Share issue costs**

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

(ii) Share premium

Any excess of the fair value of the consideration received over the par value of shares issued is recognised as share premium.

(iii) Dividend on ordinary shares

Dividends on the Group's ordinary shares are recognised in equity in the period in which they are approved and declared by the Group's shareholders.

2.2.14 Equity reserves**(i) Fair value reserve**

The fair value reserve includes the net cumulative change in the fair value of financial instruments at fair value through other comprehensive income until the investment is derecognized or impaired.

(ii) Share capital reserve

The share capital reserve represents the surplus nominal value of the shares of the Group which were reconstructed in June 2006 after the merger.

(iii) Regulatory risk reserve

The regulatory risk reserve warehouses the difference between the impairment on loans and advances computed based on the Central Bank of Nigeria Prudential Guidelines compared with the expected loss model used in calculating the impairment under IFRS.

(iv) SMEEIS reserve

The SMEEIS reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside 5 percent of the profit after tax in a fund to be used to finance equity investment in qualifying small and medium scale enterprises.

(v) Statutory reserve

This represents regulatory appropriation to statutory reserves of 30% of profit after tax if the statutory reserve is less than paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid up share capital.

(vi) AGSMEIS reserve

The Banker's committee at its 331st meeting held on 9 February 2017 approved the Agric-Business, Small and Medium Investment Scheme (AGSMEIS) to support Federal Government efforts at promoting Agricultural businesses/Small and Medium Enterprises (SMEs). All deposit money banks are required to set aside 5% of Profit After Tax (PAT) annually after their financial statements have been audited by external auditors and approved by Central Bank of Nigeria (CBN) for publication and remit to CBN within 10 working days after the Annual General Meeting.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2.15 Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data 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 year.

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.

2.2.16 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it can 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 Group's Management Committee (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. The Group segment reporting is based on the following operating segments: Retail banking, Commercial banking, Institutional banking, Corporate & Investment banking, Non-Interest Banking and Special Purpose Vehicle (SPV).

2.2.17 Foreign currency translation

The Group's functional and presentation currency is Nigerian Naira ("N"). Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of exchange at the reporting date. Differences arising from translation of monetary items are recognised in other operating income in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in Other Comprehensive Income (OCI) or profit or loss are also recognised in OCI or profit or loss, respectively).

2.2.18 Pledged financial assets

Financial assets pledged as collateral are classified separately from other assets when the counterparty has the right to sell or re-pledge the collateral (by custom or contract) and so debt instruments at FVOCI, and debt instruments at amortised cost are shown separately in the statement of financial position if they can be sold or pledged by the transferee.

Financial investments available for sale pledged as collateral are measured at fair value while financial investments held to maturity are measured at amortised cost.

2.2.19 Fair value definition and measurement

The Group measures financial instruments at fair value at each statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in the following notes:

Disclosures for valuation methods, significant estimates and assumptions are in Note 3.

Quantitative disclosures of fair value measurement hierarchy are in Note 39

Financial instruments (including those carried at amortised cost) are in Note 39

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.2 Summary of significant accounting policies - continued****2.2.19 Fair value definition and measurement - continued**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: In the principal market for the asset or liability and in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.2.20 Non interest banking

Brief explanation for each type of sharia financing is as follows:

Mudaraba financing is a co-operation for certain project between first party (Malik, Shahibul or mal) as owner of fund and second party (Amil, Mudharib or debtors) as fund manager whereas the profit will be shared in accordance with percentage as stated in the agreement, meanwhile losses will be borne by the Bank except if the second party acts in negligence, error or violates the agreement. Mudaraba financing is reported at the outstanding financing balance less allowance for incurred losses.

Ijarah receivables are the financing on the availability of fund in relation to transferring the right to use and benefit of a good and service based on rental transaction which was not followed by transfer of the goods ownership to the lessee. Ijarah muntahiyah bittamlik is an agreement on the availability of fund in relation to transferring the use right and benefit of a good or service based on rental transaction with an option to transfer the ownership title of goods to the lessee. Ijarah receivables are recognised at due date at the amount of lease income not yet received and presented at its net realisable value, which is the outstanding balance of the receivables.

Mudaraba and Ijarah receivables are classified as debt instruments at amortised cost. Refer to Note 2.2.2 for the accounting policy on debt instruments at amortised cost.

Deposit Liabilities

Deposits liabilities on non-interest banking are classified as financial liabilities at amortised cost. Incremental costs directly attributable to acquisition of deposits on non-interest banking are included in the amount of deposits and amortised over the expected life of the deposits. Refer to Note 2.2.2(ii) for the accounting policy for financial liabilities at amortised cost above.

Included in the deposits liabilities are non interest banking deposits in form of *haji deposits*, *trust* deposits, and Certificates Mudharabah Investment Bank (SIMA). SIMA is an investment certificate issued by the bank which adopts profit sharing practice and in form of placement. SIMA financing period ranges from over one year.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**2.3 Changes in accounting policies and disclosures**

The following amendments and interpretations became effective in the annual period starting from 1 January, 2020. The new reporting requirements as a result of the amendments and interpretations have been considered and their impact or otherwise are presented below:

(i) Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material had no significant impact on the Group's consolidated financial statements.

(ii) Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants can replace any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

These amendments had no impact on the Group's consolidated financial statements.

(iii) Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

(iv) The Conceptual Framework for Financial Reporting

In 2018, the revised Conceptual Framework for Financial Reporting (the Conceptual Framework) was issued setting out fundamental concepts for financial reporting that guides the Board in developing IFRS standards. The framework will also help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework sets out the following - the objective of general purpose financial reporting, the qualitative characteristics of useful financial information; a description of the reporting entity ; element of financial statements, recognition & derecognition, measurement, presentation and disclosure, concept of capital and capital maintenance.

The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. The Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

(iv) **Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16**

In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- c) There is no substantive change to other terms and conditions of the lease.

In the current financial year, the Group has applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

Impact on accounting for changes in lease payments applying the exemption

The Group has applied the practical expedient retrospectively to all rent concessions that meet the conditions in IFRS 16:46B, and has not restated prior period figures. There were no rent concessions enjoyed.

Impact of the initial application of other new and amended IFRS Standards that are effective for the current year

IAS 8:28 In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated and separate financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the accompanying disclosure, as well as the disclosure of contingent liability about these assumptions and estimates that could result in outcome that require a material adjustment to the carrying amount of assets and liabilities affected in future periods.

Management discusses with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

3.1 Estimates and Assumptions

The key assumption 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 within the next financial period, are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumption about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(i) Depreciation and carrying value of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated useful lives of items of property, plant and equipment will have an impact on the carrying value of these items.

During the year, the Group reviewed the useful life of its property, plant and equipment in line with IAS 16. para 76. This lead to change in estimated useful life of leasehold land and computer equipment.

The Group estimated that the useful life of its leasehold land as unlimited on the basis that it is reasonably certain that the lessors (State Governments) will renew the lease upon expiration and that the substance of the lease is that the Group has ownership of the land, not a right to use the land for a predefined period. Consequently, the Group has discontinued depreciation of the leasehold land.

Also, upon review of the current trend and use of computer equipment, it became necessary that the current estimates be revised due to the active useful life of the item. The Bank acquire quality assets either directly from the Original Equipment Manufacturers (OEMs) or their accredited representatives with a warranty period of not less than 5 years. Over time, it has been observed that an average computer equipment usage spans over 5 years before major repairs, hence, the change in useful life to 5 years.

The combined effect of both reviews in the year is a reduction in depreciation charge by N1.8 billion in the current period. The rebasements will result in the following change in the original trend of depreciation.

See Note 23 for further disclosure on property, plant and equipment.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3. Significant accounting judgements, estimates and assumptions - continued

3.1 Estimates and Assumptions- continued

(ii) Amortisation and carrying value of intangible assets

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated useful lives of items of intangible assets will have an impact on the carrying value of these items. See Note 24 for further information disclosure on intangible assets.

(iii) Determination of impairment of property, plant and equipment, and intangible assets

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. The Group applies the impairment assessment to its separate cash generating units. This requires management to make significant judgements and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realisable values. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

(iv) Determination of collateral value

Management monitors market value of collateral on a regular basis. Management uses its experienced judgement or independent opinion to adjust the fair value to reflect the current circumstances. The amount and collateral required depend on the assessment of credit risk of the counterparty. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Group's quarterly reporting schedule, however some collateral, for example, cash or securities relating to margin requirements, is valued daily. To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources. See Note 37 for further disclosure on collateral value.

(v) Business model assessment

For financial assets that are held for the purpose of collecting contractual cash flows, the Group has assessed whether the contractual terms of these assets are solely payments of principal and interest on the principal amount outstanding.

Allowances for credit losses

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and advances. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

A collective assessment of impairment takes into account data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), and concentrations of risk and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3. Significant accounting judgements, estimates and assumptions

3.1 Estimates and Assumptions- continued

Impairment of financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Life time Expected credit losses (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

(vi) Fair value of financial instruments

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 Note 2.2.19. 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.

(vii) Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that the future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. Tax losses can be used indefinitely. See Note 14 for further information on judgment and estimates relating to deferred tax assets.

(viii) Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates for similar transactions) and is required to make certain entity-specific adjustments or to reflect the terms and conditions of the lease.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3. Significant accounting judgements, estimates and assumptions

3.2 Judgments

Judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. In the process of applying the Group's accounting policies, management has made the following judgements, which have significant effect on the amount recognised in the financial statements:

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in the business for the next 12 months from issuance of this report. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated and separate financial statements continue to be prepared on the going concern basis.

(i) Going Concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in the business for the next 12 months from issuance of this report. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated and separate financial statements continue to be prepared on the going concern basis.

(ii) Deferred tax asset

Management uses its experienced judgement in not recognizing additional deferred tax assets. The amount of those items that give rise to the unrecognized deferred tax asset are disclosed in Note 14 of the financial statements.

(iii) Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain if to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**4 New standards and interpretations****4.1 New standards and interpretation issued but not yet effective****IFRS 17 Insurance Contracts**

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

IFRS 17 will have no impact on the Group, as it does not issue insurance contract.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted.

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

Amendments to IAS 1 - Classification of Liabilities as Current or Non-current

In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 on classification of Liabilities as Current or Non-current. It provides a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the balance sheet date.

The amendment only affect the presentation of liabilities in the statement of financial position and not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. The amendment clarifies that:

- classification of liabilities as current or non-current should be based on rights that are in existence at the end of the balance sheet date,
- classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and are to be applied retrospectively. Earlier application is permitted.

The Group does not anticipate early adopting the standard and is currently evaluating its impact.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**4 New standards and interpretations****4.1 New standards and interpretation issued but not yet effective****Amendments to IFRS 3 - Reference to the Conceptual Framework**

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments will currently have no impact on the Group's consolidated financial statements, and it's effective annual reporting periods beginning on or after 1 January 2022.

Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is not expected to have significant impact on the consolidated financial statements of the Group, and it is effective annual reporting periods beginning on or after 1 January 2022.

Amendments to IAS 37 - Onerous Contracts – Costs of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g. depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments will currently have no impact on the consolidated financial statements of the Group, and it's effective annual reporting periods beginning on or after 1 January 2022.

Annual Improvements to IFRS Standards 2018–2020

The Annual Improvements include amendments to four Standards.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**IFRS 9 Financial Instruments**

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements.

As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

IAS 41 Agriculture

The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13

Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pretax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**5 Segment Information**

Segment information is presented in respect of the Group's strategic business units which represents the segment reporting format and is based on the Group's management and reporting structure.

- (a) All non-current assets are located in the country of domicile and revenues earned are within same country.
- (b) *Reportable segment*

The Group has six reportable segments; Retail Banking, Commercial banking, Institutional Banking, Corporate & Investment Banking, Non-interest Banking (NIB), Special Purpose Vehicle (SPV) which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Executive Management Committee reviews internal management reports on a monthly basis.

The following summary describes the operations in each of the Group's reportable segments:

- o Corporate banking provides banking solutions to multinational companies and other financial institutions;
- o Retail and Commercial banking provides banking solutions to individuals, small businesses, partnerships and commercial entities among others.
- o Non-Interest banking provides solutions that are consistent with Islamic laws and guided by Islamic economics; and
- o The Special Purpose Vehicle was used to borrow funds through the issue of debt securities.

All transactions between business segments are conducted on an arm's length basis, internal charges and transfer pricing adjustments are reflected in the performance of each business.

The Executive Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5 Segment Information - continued

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2020 (2019: none). The activity of the segments are centrally financed, thus the cash flow for the Bank is presented in the Statement of cash flows.

31 December 2020 <i>In millions of Naira</i>	Retail Banking	Commercial Banking	Institutional Banking	Corporate & Investment Banking	Non-interest Banking	SPV	Total
Interest and non - interest banking income	9,897	17,530	32,448	45,419	3,736	2,422	111,452
Interest and non - interest banking expense	(5,998)	(7,678)	(7,384)	(24,492)	(1,461)	(2,292)	(49,305)
Net interest and Non - interest margin	3,899	9,852	25,064	20,927	2,275	130	62,147
Net fees and commission income	5,477	1,285	3,513	2,790	22	-	13,087
Credit loss expense	1,688	(1,350)	(5,040)	(2,835)	(376)	7	(7,906)
Depreciation and Amortization	(4,054)	(368)	(335)	(859)	(434)	-	(6,050)
Operating Expenses	(11,428)	(7,435)	(17,572)	(25,753)	(1,071)	(5)	(63,264)
Segment profit/(loss)	1,104	2,593	6,673	(792)	2,661	133	12,372
Assets as at 31 December 2020							
Capital expenditure: Additions during the year							
Property, plant and equipment & Intangible assets	1,176	192	217	413	22	-	2,020
Other intangible assets	400	-	-	-	-	-	400
Total Assets	143,549	98,779	245,014	734,406	60,077	17,250	1,299,075
Total Liabilities	350,214	235,096	243,185	272,301	45,538	16,988	1,163,322

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5 Segment Information - continued

31 December 2019 <i>In millions of Naira</i>	Retail Banking	Commercial Banking	Institutional Banking	Corporate & Investment Banking	Non-interest Banking	SPV	Total
Interest and non - interest banking income	16,358	18,215	26,620	59,557	4,111	2,430	127,291
Interest and non - interest banking expense	(3,566)	(10,898)	(9,048)	(35,238)	(1,856)	(1,986)	(62,592)
Net interest and Non - interest margin	12,792	7,317	17,572	24,319	2,255	444	64,699
Net fees and commission income	4,003	1,634	7,671	773	532	-	14,613
Credit loss expense	(1,635)	(3,128)	(349)	(551)	(175)	-	(5,838)
Depreciation and Amortization	(6,637)	(318)	(335)	(541)	(70)	-	(7,901)
Operating Expenses	(6,947)	(6,136)	(16,703)	(32,076)	(1,325)	(5)	(63,192)
Segment profit/(loss)	4,320	(631)	7,856	(2,634)	1,323	439	10,672
Assets as at 31 December 2019							
Capital expenditure: Additions during the year							
Property, plant and equipment & Intangible assets	3,490	993	1,122	2,010	237	-	7,852
Other intangible assets	371	-	-	-	-	-	371
Total Assets	93,451	102,496	200,757	726,152	42,651	17,178	1,182,685
Total Liabilities	201,566	214,676	259,987	336,500	33,454	16,944	1,063,127

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

<i>In millions of Naira</i>	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
6 Interest income using effective interest rate				
Loans and advances to customers	82,877	97,885	82,877	97,885
Investment securities	28,211	28,497	25,789	25,741
Cash and cash equivalents	364	909	364	909
	111,452	127,291	109,030	124,535
<i>Modification loss of N843 million for Group and Bank has been included in the interest income on Loans and advances. This adjustment represents the changes in gross carrying amounts of the financial assets from immediately before, to immediately after modification.</i>				
Interest from investment securities were derived from:				
Debt instruments at amortised cost	13,610	15,357	11,188	12,601
Debt instruments at fair value through other comprehensive income	14,601	13,140	14,601	13,140
	28,211	28,497	25,789	25,741
7 Interest expense using effective interest rate				
Deposits from customers	35,165	44,570	35,165	44,570
Debt securities issued	7,257	10,161	4,965	7,853
Other borrowed funds	5,094	7,233	5,094	7,233
Deposits from banks	1,776	620	1,776	620
Interest on lease liability	13	8	13	8
	49,305	62,592	47,013	60,284

Included in other borrowed funds and debt securities issued is an accrued interest of N2.03billion for the group and N1.46billion for the bank.

8 Net fees and commission income

Fee and commission income is disaggregated below and includes total fees in scope of IFRS 15, Revenues from Contracts with Customers:

<i>In millions of Naira</i>	2020						2019
	Retail banking	Commercial banking	Institutional banking	Corporate & investment banking	Non- interest banking	Total	Total
E-business commission and fees	4,720	16	205	31	3	4,975	6,785
Other fees and commissions (Note 8.1)	1,685	244	1,282	802	17	4,030	6,458
Account maintenance fees	1,210	261	260	194	-	1,925	1,721
Commissions and similar income	1,440	480	719	1,157	-	3,796	1,618
Facility management fees	135	25	1,015	731	-	1,906	1,437
Total revenue from contracts with customers	9,190	1,026	3,481	2,915	20	16,632	18,019
Other non-contract fee income:							
Commission on letter of credit transactions	171	381	121	370	2	1,045	1,205
Total fees and commission income	9,361	1,407	3,602	3,285	22	17,677	19,224
Total fees and commission expense							
E-business expenses	(3,885)	(121)	(89)	(495)	-	(4,590)	(4,611)
Net fees and commission income	5,476	1,286	3,513	2,790	22	13,087	14,613

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

8.1 Other fees and commission includes mostly advisory fees of N2.9 billion (2019: N5.9 billion).

Fees and commissions above excludes amounts included in determining the effective interest rate on financial assets that are not at fair value through profit or loss.

<i>In millions of Naira</i>	Group 2020	Group 2019	Bank 2020	Bank 2019
9 Net trading income				
Bonds	5,073	2,530	5,073	2,530
Treasury bills	3,641	2,113	3,641	2,113
Foreign exchange trading	3,002	415	3,002	415
	11,716	5,058	11,716	5,058

Foreign exchange trading income includes gains and losses from spot and forward contracts and other currency derivatives. Other foreign exchange differences arising on non-trading activities are taken to other operating income/expense in the profit or loss.

<i>In millions of Naira</i>	Group 2020	Group 2019	Bank 2020	Bank 2019
10 Other operating income				
Cash recoveries on previously written off accounts	917	1,187	917	1,187
Dividend income from FVOCI equity investments	258	239	258	239
Rental income	361	192	361	192
Gains on disposal of property, plant and equipment	64	29	64	29
Other sundry income (note 10.1)	1,042	1,586	1,042	1,586
	2,642	3,233	2,642	3,233

10.1 Other sundry income includes income from cashless policy and other sources. Cashless policy was introduced by the Central Bank of Nigeria in 2015. The policy stipulates 3 per cent charge would be administered by banks for daily individual cumulative or single cash withdrawals in excess of N500,000, and 5 per cent charge on daily cumulative or single cash withdrawals by company in excess of N3 million. This policy has been restricted to six (6) states and FCT for the year ended 2020.

11 Credit loss expense

The table below shows the ECL charges on financial instruments for the year ended 31 December 2020 recorded in profit or loss:

	Group 2020	Group 2019	Bank 2020	Bank 2019
11 Credit loss expense (see note 11 b. below for breakdown)				
(i) Loans and advances impairment:				
Impairment on loans to corporate entities	12,164	9,488	12,164	9,488
Impairment on loans to individuals	1,965	1,525	1,965	1,525
Write-offs	465	116	465	116
Reversal of allowances no longer required	(8,093)	(5,773)	(8,093)	(5,773)
	6,501	5,356	6,501	5,356
(i) Impairment charge/(reversal) on other assets (note 22.1)	1,245	392	1,245	392
(ii) Impairment charge/(reversal) on investment securities (notes 18.3.1, 18.3.2, 20e and 20f)	(118)	68	(111)	72
(iii) Impairment charge/(reversal) on letters of credit and guarantees (note 29.3)	278	22	278	22
	1,405	482	1,412	486
	7,906	5,838	7,913	5,842

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

11 b. Credit loss expense

The table below shows the ECL charges on financial instruments for the year 31 December 2020 recorded in profit or loss :

2020				
Group				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers	655	(1,624)	7,470	6,501
Debt instruments measured at FVOCI	(5)	-	-	(5)
Debt instruments measured at amortised cost	(113)	-	-	(113)
Other assets	1,245	-	-	1,245
Financial guarantees	253	-	-	253
Letters of credit	25	-	-	25
Total credit loss expense	2,060	(1,624)	7,470	7,906
2019				
Group				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers	(586)	(3,730)	9,672	5,356
Debt instruments measured at FVOCI	41	-	-	41
Debt instruments measured at amortised cost	27	-	-	27
Other assets	392	-	-	392
Financial guarantees	18	-	-	18
Letters of credit	4	-	-	4
Total credit loss expense	(104)	(3,730)	9,672	5,838
2020				
Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers	655	(1,624)	7,470	6,501
Debt instruments measured at FVOCI	(5)	-	-	(5)
Debt instruments measured at amortised cost	(106)	-	-	(106)
Other assets	1,245	-	-	1,245
Financial guarantees	253	-	-	253
Letters of credit	25	-	-	25
Total credit loss expense	2,067	(1,624)	7,470	7,913
2019				
Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers	(586)	(3,730)	9,672	5,356
Debt instruments measured at FVOCI	41	-	-	41
Debt instruments measured at amortised cost	31	-	-	31
Other assets	392	-	-	392
Financial guarantees	18	-	-	18
Letters of credit	4	-	-	4
Total credit loss expense	(100)	(3,730)	9,672	5,842

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
12 Personnel expenses				
Wages and salaries	13,508	13,582	13,508	13,582
Defined contribution plan	1,333	1,330	1,333	1,330
	14,841	14,912	14,841	14,912
13.1 Other operating expenses				
Contract services	6,510	6,363	6,510	6,363
AMCON surcharge (See (a) below)	6,623	6,073	6,623	6,073
Insurance	4,288	4,007	4,288	4,007
Net foreign exchange revaluation loss	3,062	241	3,062	241
Write off of non-current assets held for sale	-	304	-	304
Other professional fees (See (b) below)	518	1,087	514	1,087
	21,001	18,075	20,997	18,075

(a) AMCON sinking fund contribution

This represents the Bank's contribution to a fund established by the Asset Management Corporation of Nigeria (AMCON) Act. Effective 1 January 2013, the Bank is required to contribute an equivalent of 0.5% of its total assets plus 0.5% of all contingent assets as at the preceding year end to AMCON's sinking fund in line with existing guidelines. This contribution is for a period of 10 years from the effective date of 1 January 2013. It is non-refundable and does not represent any ownership interest.

(b) Other professional fees include legal charges and filing fees.

<i>In millions of Naira</i>	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
13.2 General and administrative expenses				
Administrative expenses	7,100	6,026	7,100	6,026
Office expenses	3,799	4,065	3,799	4,065
Communication cost	1,769	1,876	1,769	1,876
Rents and rates	521	588	521	588
Advertising and business promotion	2,608	3,650	2,608	3,650
Other general expenses (Note 13.3)	519	1,483	518	1,471
Branding expenses	223	420	223	420
Seminar and conferences	384	1,016	384	1,016
Security	400	483	400	483
Cash handling and cash processing expenses	1,113	1,240	1,113	1,240
Transport, travel, accomodation	375	690	375	690
Directors other expenses	147	357	147	357
Annual general meeting expenses	90	240	90	240
Stationery and printing	115	233	115	233
Audit fees	250	214	250	213
Membership and subscription	387	236	387	236
Directors fee	75	75	75	75
Fines and penalties	38	4	38	4
Newspapers and periodicals	1	2	1	2
	19,914	22,898	19,913	22,885

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

- 13.3** Included in other general expenses are loan recovery expenses, custodial services, debt capital expenses, miscellaneous office expenses, etc.

<i>In millions of Naira</i>	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
13.4 Other property, plant and equipment (PPE) costs				
Repairs and maintenance of PPE	7,508	7,307	7,508	7,307
	<u>7,508</u>	<u>7,307</u>	<u>7,508</u>	<u>7,307</u>
14 Income tax				
(a) Current income tax expense:				
Income tax (note 14d(i))	352	-	352	-
Education tax (note 14d(ii))	-	-	-	-
	<u>352</u>	<u>-</u>	<u>352</u>	<u>-</u>
Information Technology levy (note 14e)	122	102	122	102
Nigeria Police Trust Fund levy (note 14g)	1	-	1	-
	<u>475</u>	<u>102</u>	<u>475</u>	<u>102</u>
Deferred tax expense:				
Origination of temporary differences (note 14h)	-	-	-	-
Prior period over/(excess) provision	655	(32)	655	(32)
Total income tax expense	<u>1,130</u>	<u>70</u>	<u>1,130</u>	<u>70</u>
(b) Current income tax payable				
The movement on this account during the year was as follows:				
Balance, beginning of the year	201	405	201	405
Estimated charge for the year (see (14a) above)	352	-	352	-
Reversal of excess provision	655	(32)	655	(32)
Payments during the year	(657)	(172)	(657)	(172)
Balance, end of the year	<u>551</u>	<u>201</u>	<u>551</u>	<u>201</u>

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

<i>In millions of Naira</i>	Group 31 Dec 2020		Group 31 Dec 2019		Bank 31 Dec 2020		Bank 31 Dec 2019	
14 Income tax - continued								
(c) Reconciliation of total tax charge								
	%		%		%		%	
Profit before income tax expense	100%	12,372	100%	10,672	100%	12,240	100%	10,233
Income payable @ statutory tax rate of 30%	30%	3,712	30%	3,202	30%	3,672	30%	3,070
Tax effect of:								
Non-deductible expenses	41%	5,119	147%	15,730	42%	5,119	154%	15,730
Tax- exempt Income	(102%)	(12,574)	(310%)	(33,142)	(102%)	(12,534)	(324%)	(33,010)
Education tax	0%	-	-	-	0%	-	-	-
Nigeria Police Trust Fund	0%	1	-	-	0%	1	-	-
Information Technology Levy (NITDA)	1%	122	1%	102	1%	122	1%	102
Prior period under/(excess) provision	5%	655	-	(32)	5%	655	-	(32)
Unrecognised tax loss	30%	3,743	133%	14,210	31%	3,743	139%	14,210
Minimum tax	3%	352	-	-	3%	352	-	-
Effective tax rate/ Income tax expense	9%	1,130	1%	70	9%	1,130	1%	70

d(i) The 2020 financial year income tax is based on minimum tax computation. The Bank prepared its tax computations based on the provisions of Finance Act 2020, which amended S.33(2) CITA by reducing minimum tax rate from 0.5% to 0.25% for tax returns prepared and filed for any year of assessment falling due on any date between 1 January 2020 and 31 December 2021.

d(ii) The basis of the Education Tax is 2% of assessable profit which is nil (2019: Nil). An Education Tax of 2% of assessable profits is imposed on all companies incorporated in Nigeria. This tax is viewed as a social obligation placed on all companies in ensuring that they contribute their own quota in developing educational facilities in the country. There was no Education tax for the year because the Bank had an assessable loss.

(e) The National Information Technology Agency Act (NITDA) 2007 stipulates that specified companies contribute 1% of their profit before tax to the National Information Development Agency. In line with the Act, the Bank has provided for Information technology levy at the specified rate.

(f) The provisions of the Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order, 2011 grants exemption to income from bonds and treasury bills from tax for a period of 10 years.

(g) Section 4 of the Nigeria Police Trust Fund (Establishment) Act 2019 stipulates that companies operating in Nigeria shall contribute 0.005% of their profit before tax to the Nigeria Police Trust Fund. The Act establishing the Fund will be in force for 6 years from the year of establishment. In line with the Act, the Bank has provided for Police Trust Fund levy at the specified rate.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

14 Income tax

(h) Deferred tax assets and liabilities

31 December 2020	Balance at 31 December 2019	Recognised in profit or loss	Balance at 31 December 2020
<i>In millions of Naira</i>			
Property, plant and equipment and software	725	(347)	378
Unutilised tax credit (capital allowance)	(3,684)	497	(3,187)
Tax loss	(3,987)	(165)	(4,152)
Provisions	(25)	15	(10)
	<u>(6,971)</u>	<u>-</u>	<u>(6,971)</u>
31 December 2019	Balance at 31 December 2018	Recognised in profit or loss	Balance at 31 December 2019
<i>In millions of Naira</i>			
Property, Plant and Equipment and software	742	(17)	725
Unutilised tax credit (capital allowance)	(3,408)	(276)	(3,684)
Tax loss	(4,300)	313	(3,987)
Provisions	(5)	(20)	(25)
	<u>(6,971)</u>	<u>-</u>	<u>(6,971)</u>

The Bank has unutilized capital allowance of N52,899,438,824 (2019: N52,541,487,888), unused tax losses carried forward available of N68,911,793,390 (2019: N53,783,456,987) and deductible temporary differences of N115,695,002,606 (2019: N94,454,081,674) to be offset against future taxable profits. However no deferred tax asset has been recognised in respect of these items due to uncertainties regarding the timing and amount of future taxable profits. There is no expiry date for the utilization of these items.

The Bank has been incurring taxable losses primarily because of the tax exemption on income on government securities. The provisions of the Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order, 2011 grants exemption to income from bonds and treasury bills from tax for a period of 10 years. The expiry date of the circular would be in year 2021 and this trend would continue until the expiration of the tax holiday. Thus, the Bank has applied caution by not recognizing additional deferred tax assets which is not considered capable of recovery. The management's judgment is that the deferred tax recognized in the book is recoverable after the expiration of exemption granted on Government securities. The Bank will have taxable profit upon this expiration.

15 Earnings per share (basic and diluted)

The calculation of basic earnings per share as at 31 December 2020 was based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding calculated as follows:

	Group 2020	Group 31 Dec 2019	Bank 2020	Bank 31 Dec 2019
	Unit ('millions)	Unit ('millions)	Unit ('millions)	Unit ('millions)
a Issued ordinary shares as at 31 December	28,790	28,790	28,790	28,790
Weighted average number of ordinary shares	28,790	28,790	28,790	28,790
b Profit for the year attributable to equity holders of the				
Bank (in million Naira)	11,242	10,602	11,110	10,163
Basic earnings per share (in kobo)	39k	37k	39k	35k
Diluted earnings per share (in kobo)	39k	37k	39k	35k

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

<i>In millions of Naira</i>	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
16 Cash and balances with Central Bank of Nigeria				
Cash and foreign monies	35,530	23,572	35,530	23,572
Unrestricted balances with Central Bank of Nigeria	38,993	10,361	38,993	10,361
Deposits with the Central Bank of Nigeria	228,791	122,126	228,791	122,126
	303,314	156,059	303,314	156,059

Deposits with the Central Bank of Nigeria represent mandatory reserve deposits and are not available for use in the Bank's day-to-day operations. It does not form part of cash and cash equivalents in the statement of cash flows.

<i>In millions of Naira</i>	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
17 Due from banks				
Balances held with banks outside Nigeria	18,868	55,953	18,868	55,953
Money market placements	2,211	6,001	2,211	6,001
Balances held with local banks	5	7,407	-	7,407
	21,084	69,361	21,079	69,361

Included in balances with banks outside Nigeria is the Naira equivalent of foreign currency balances held on behalf of customers in respect of letters of credit. The corresponding liabilities are included in other liabilities (see Note 29).

Money market placements are placement for varying periods between one day to three months, depending on the immediate cash requirements of the Bank and earn interest at the prevailing market rate.

<i>In millions of Naira</i>	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
18 Pledged assets				
18.1 Debt instruments at Fair value through other comprehensive income (FVOCI)				
Treasury bills FVOCI (see note (a) below)	30,513	7,484	30,513	7,484
Total debt instruments measured at FVOCI	30,513	7,484	30,513	7,484
18.2 Pledged assets Debt instruments at amortised cost				
Government bonds at amortised cost (see note (b) below)	4,228	4,242	4,228	4,242
Other pledged assets (see note (c) below)	120	109	120	109
Sub-total	4,348	4,351	4,348	4,351
ECL on Pledged asset at amortised cost	(1)	(4)	(1)	(4)
Total debt instruments measured at amortised cost	4,347	4,347	4,347	4,347
Total pledged assets	34,860	11,831	34,860	11,831

The Bank pledges assets that are on its statement of financial position in various day-to-day transactions that are conducted under the usual terms and conditions applying to such agreements.

- Pledged for clearing activities, as collection bank for government taxes and Interswitch electronic card transactions.
- Pledged as security for loan facility from Bank of Industry.
- Included in other pledged assets are cash collateral for visa card transactions. The deposits are not part of the fund used by the Bank for day to day activities.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

18.3 Pledged assets measured at FVOCI

18.3.1 Impairment losses on pledged assets subject to impairment assessment

The table below shows the fair value of the Bank's pledged assets instruments measured at FVOCI by credit risk, based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 37 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 2.2.2:

2020				
Group and Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	30,513	-	-	30,513
Total	30,513	-	-	30,513

An analysis of changes in the fair value and the corresponding ECLs is, as follows:

Group and Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Fair value as at 1 January 2020				
New assets originated or purchased	7,484	-	-	7,484
Assets derecognised or matured (excluding write-offs)	30,618	-	-	30,618
Change in fair value	(7,589)	-	-	(7,589)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not derecognised	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	30,513	-	-	30,513

Group and Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	6	-	-	6
New assets originated or purchased	4	-	-	4
Assets derecognised or matured (excluding write offs)	(6)	-	-	(6)
At 31 December 2020	4	-	-	4

Group and Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	7,484	-	-	7,484
Total	7,484	-	-	7,484

An analysis of changes in the fair value and the corresponding ECLs is, as follows:

Group and Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Fair value as at 1 January 2019	7,063	-	-	7,063
New assets originated or purchased	-	-	-	-
Assets derecognised or matured (excluding write-offs)	-	-	-	-
Change in fair value	421	-	-	421
At 31 December 2019	7,484	-	-	7,484

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

18.3.1 Impairment losses on pledged assets subject to impairment assessment

Group and Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	6	-	-	6
New assets originated or purchased	-	-	-	-
Assets derecognised or matured (excluding write offs)	-	-	-	-
Unwind of discount (recognised in interest income)	-	-	-	-
At 31 December 2019	6	-	-	6

18.3.2 Pledged assets instruments measured at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 37:

Group and Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	4,348	-	-	4,348
Total	4,348	-	-	4,348

Group and Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	4,351	-	-	4,351
New assets originated or purchased	11	-	-	11
Assets derecognised or matured (excluding write-offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not derecognised	(14)	-	-	(14)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	4,348	-	-	4,348

Group and Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	4	-	-	4
New assets purchased	-	-	-	-
Assets derecognised or matured (excluding write offs)	(3)	-	-	(3)
At 31 December 2020	1	-	-	1

Group and Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	4,351	-	-	4,351
Total	4,351	-	-	4,351

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

18.3.2 Pledged assets instruments measured at amortised cost - continued

<i>Group and Bank</i>	2019			
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	4,363	-	-	4,363
New assets originated or purchased	-	-	-	-
Assets derecognised or matured (excluding write-offs)	(12)	-	-	(12)
At 31 December 2019	4,351	-	-	4,351

<i>Group and Bank</i>	2019			
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	3	-	-	3
New assets purchased	-	-	-	-
Assets derecognised or matured (excluding write offs)	-	-	-	-
Unwind of discount (recognised in interest income)	1	-	-	1
At 31 December 2019	4	-	-	4

<i>In millions of Naira</i>	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
19 Loans and advances to customers				
Loans to corporate entities and other organizations	570,881	582,940	570,881	582,940
Loans to individuals	42,478	48,758	42,478	48,758
	613,359	631,698	613,359	631,698
Less:				
Impairment allowance on loans to corporate entities	(14,111)	(11,119)	(14,111)	(11,119)
Impairment allowance on loans to individuals	(2,421)	(1,847)	(2,421)	(1,847)
	596,827	618,732	596,827	618,732

19.1.1 Loans and advances to corporate customers

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 37 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 2.2.2

<i>Group and Bank</i>	31 December 2020			
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
External rating grade				
RR1-RR2	67,698	-	-	67,698
RR3-RR4	306,999	-	-	306,999
RR5-RR6	60,107	127,316	-	187,423
RR7	-	-	152	152
RR8	-	-	1,384	1,384
RR9	-	-	7,225	7,225
Total	434,804	127,316	8,761	570,881

<i>Group and Bank</i>	31 December 2019			
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
External rating grade				
RR1-RR2	96,651	-	-	96,651
RR3-RR4	350,276	-	-	350,276
RR5-RR6	53,997	71,237	-	125,235
RR7	-	-	2,157	2,157
RR8	-	-	6,892	6,892
RR9	-	-	1,729	1,729
Total	500,924	71,237	10,779	582,940

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

19.1.1 Loans and advances to corporate customers - continued

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Corporate lending is, as follows:

Group and Bank	31 December 2020			
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	500,924	71,237	10,779	582,940
New assets originated or purchased	55,913	4,291	6,159	66,363
Assets derecognised or repaid (excluding write offs)	(63,811)	(18,471)	(2,439)	(84,721)
Transfers to Stage 1	9,397	(9,138)	(259)	-
Transfers to Stage 2	(75,143)	75,144	(1)	-
Transfers to Stage 3	(462)	(17)	479	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	2,407	2,407
Amounts written off	-	-	(8,364)	(8,364)
Foreign exchange adjustments	7,986	4,270	-	12,256
At 31 December	434,804	127,316	8,761	570,881

Group and Bank	31 December 2019			
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	529,338	55,313	36,606	621,257
New assets originated or purchased	126,500	-	-	126,500
Assets derecognised or repaid (excluding write offs)	(137,820)	(21,026)	(1,080)	(159,926)
Transfers to Stage 1	12,456	(12,388)	(68)	-
Transfers to Stage 2	(24,145)	49,845	(25,700)	-
Transfers to Stage 3	(7,358)	(609)	7,967	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	3,847	3,847
Amounts written off	-	-	(11,075)	(11,075)
Foreign exchange adjustments	1,953	102	282	2,337
At 31 December	500,924	71,237	10,779	582,940

Group and Bank	31 December 2020			
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	539	6,536	4,044	11,119
New assets originated or purchased	277	71	6,157	6,505
Assets derecognised or repaid (excluding write offs)	(38)	(6,439)	(797)	(7,274)
Transfers to Stage 1	167	(23)	(144)	-
Transfers to Stage 2	(78)	79	(1)	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the period	366	4,208	6,980	11,554
Unwind of discount	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Amounts written off	-	-	(8,364)	(8,364)
Foreign exchange adjustments	40	531	-	571
At 31 December 2020	1,273	4,963	7,875	14,111

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

19.1.1 Loans and advances to corporate customers - continued

Group and Bank <i>In millions of Naira</i>	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	1,027	390	16,575	17,992
New assets originated or purchased	4,157			4,157
Assets derecognised or repaid (excluding write offs)	(4,434)	(379)	(592)	(5,405)
Transfers to Stage 1	9	(9)	-	-
Transfers to Stage 2	(18)	6,474	(6,456)	-
Transfers to Stage 3	(210)	-	210	-
Impact on year end ECL of exposures transferred between stages during the period	7	60	2,232	2,299
Unwind of discount	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	3,032	3,032
Changes to models and inputs used for ECL calculations	-	-	-	-
Amounts written off	-	-	(11,075)	(11,075)
Foreign exchange adjustments	1	-	118	119
At 31 December 2019	539	6,536	4,044	11,119

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity was N4.9 billion at 31 December (2019: N10 billion).

19.1.2 Loans to Individuals

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 37 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 2.2.2

Group and Bank <i>In millions of Naira</i>	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	5,589	-	-	5,589
RR3-RR4	31,580	-	-	31,580
RR5-RR6	2,361	292	-	2,653
RR7	-	-	312	312
RR8	-	-	1,311	1,311
RR9	-	-	1,033	1,033
Total	39,530	292	2,656	42,478

Group and Bank <i>In millions of Naira</i>	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	4,925	-	-	4,925
RR3-RR4	39,707	-	-	39,707
RR5-RR6	811	191	-	1,002
RR7	-	-	1,574	1,574
RR8	-	-	1,336	1,336
RR9	-	-	214	214
Total	45,443	191	3,124	48,758

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

19.1.2 Loans to Individuals - continued

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to individual lending is, as follows:

Group and Bank <i>In millions of Naira</i>	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at				
1 January 2020	45,443	191	3,124	48,758
New assets originated or purchased	14,354	204	121	14,679
Assets derecognised or repaid (excluding write offs)	(18,313)	(107)	(1,799)	(20,219)
Transfers to Stage 1	147	(97)	(50)	-
Transfers to Stage 2	(105)	108	(3)	-
Transfers to Stage 3	(1,997)	(9)	2,006	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	(743)	(743)
Foreign exchange adjustments	1	2	-	3
At 31 December	39,530	292	2,656	42,478

Group and Bank <i>In millions of Naira</i>	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at				
1 January 2019	16,141	547	2,733	19,421
New assets originated or purchased	36,176			36,176
Assets derecognised or repaid (excluding write offs)	(5,418)	(110)	(336)	(5,865)
Transfers to Stage 1	51	(51)		-
Transfers to Stage 2	(7)	7		-
Transfers to Stage 3	(1,501)	(201)	1,702	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-		-
Amounts written off			(981)	(981)
Foreign exchange adjustments	-		6	6
At 31 December	45,443	191	3,124	48,758

Group and Bank <i>In millions of Naira</i>	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	17	-	1,830	1,847
New assets originated or purchased	24	-	2,110	2,134
Assets derecognised or repaid (excluding write offs)	(12)	(3)	(804)	(819)
Transfers to Stage 1	50	-	(50)	-
Transfers to Stage 2	-	3	(3)	-
Transfers to Stage 3	(1)	1	-	-
Impact on year end ECL of exposures transferred between stages during the period	-	-	2	2
Unwind of discount	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Amounts written off	-	-	(743)	(743)
Foreign exchange adjustments	-	-	-	-
At 31 December	78	1	2,342	2,421

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

19.1.2 Loans to Individuals - continued

Group and Bank <i>In millions of Naira</i>	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	53	78	1,539	1,670
New assets originated or purchased	241	-	-	241
Assets derecognised or repaid (excluding write offs)	(249)	(8)	(112)	(369)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(0)	0	-	-
Transfers to Stage 3	(780)	(165)	945	-
Impact on year end ECL of exposures transferred between stages during the period	752	95	437	1,284
Unwind of discount	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Amounts written off	-	-	(982)	(982)
Foreign exchange adjustments	-	-	3	3
At 31 December	17	0	1,830	1,847

Loans and advances are granted at different interest rates across the various products.

<i>In millions of Naira</i>	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
19.1.3 Classification of loans and advances by rating				
Rating				
RR1-RR2	73,288	101,576	73,288	101,576
RR3-RR4	338,578	389,982	338,578	389,982
RR5-RR6	190,075	126,237	190,075	126,237
RR7	465	3,731	465	3,731
RR8	2,695	8,229	2,695	8,229
RR9	8,258	1,943	8,258	1,943
	613,359	631,698	613,359	631,698
19.1.4 Classification of loans and advances by security				
Cash	112,243	61,122	112,243	61,122
Real estate	99,676	152,555	99,676	152,555
Stocks/shares	25,868	3,978	25,868	3,978
Debentures	110,938	107,939	110,938	107,939
Other securities	263,425	295,705	263,425	295,705
Unsecured	1,209	10,399	1,209	10,399
	613,359	631,698	613,359	631,698

Other securities includes domiciliation of proceeds, personal guarantees, negative pledge, etc.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

19.1 Loans and advances to customers - continued

<i>In millions of Naira</i>	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
19.1.5 Classification of loans and advances by sector				
Agriculture	55,471	39,643	55,471	39,643
Communication	16,493	15,505	16,493	15,505
Consumer	36,692	42,932	36,692	42,932
Education	1,551	783	1,551	783
Finance and insurance	26,724	28,922	26,724	28,922
Government	84,277	78,912	84,277	78,912
Manufacturing	7,166	5,754	7,166	5,754
Mining & quarrying	1	3	1	3
Mortgage	3,526	4,407	3,526	4,407
Oil and gas	200,774	215,414	200,774	215,414
Others	29,431	42,349	29,431	42,349
Power	26,386	23,876	26,386	23,876
Real estate & construction	81,596	70,383	81,596	70,383
Transportation	20,419	37,777	20,419	37,777
Non-interest banking	22,852	25,038	22,852	25,038
	613,359	631,698	613,359	631,698
20 Investment in securities:				
(a) Financial instruments held at fair value through profit or loss (FVTPL)				
Treasury bills	1,412	8,313	1,412	8,313
Bonds	42	4	42	4
Total financial assets measured at FVTPL	1,454	8,317	1,454	8,317
(b) Equity instruments at fair value through other				
Lotus Capital Halal	245	255	245	255
SCM Capital Halal	619	-	619	-
Zola Elect Nig Ltd.	480	-	480	-
Africa Export/Import Bank	742	189	742	189
Nigeria Interbank Settlement System plc	3,750	1,004	3,750	1,004
Africa Finance Corporation	2,220	1,835	2,220	1,835
Unified Payment System	297	130	297	130
Investment in AGSMEIS	1,663	1,155	1,663	1,155
Nigeria Mortgage Refinancing Corporation	393	341	393	341
Binkabi Ltd	180	180	180	180
E-Purse System Ltd	76	300	76	300
Tremendoc Ltd	80	80	80	80
Total equity instruments at FVOCI	10,745	5,470	10,745	5,470
(c) Debt instruments at fair value through other comprehensive income				
Treasury bills	33,669	80,684	33,669	80,684
Government bonds	89,116	48,139	89,116	48,139
Euro bonds	4,468	6,904	4,468	6,904
Corporate bonds	8,527	5,545	8,527	5,545
Total debt instruments measured at FVOCI	135,780	141,272	135,780	141,272
(d) Debt instruments at amortised cost				
Government bonds	110,241	101,486	93,244	84,533
Corporate bonds	-	351	-	351
Treasury Bills	-	238	-	-
	110,241	102,075	93,244	84,884
Less: Allowance for Impairment losses	(12)	(131)	(10)	(117)
Total debt instruments measured at amortised cost	110,229	101,944	93,234	84,767

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

(e) Debt instruments measured at FVOCI

The table below shows the fair value of the Bank's debt instruments measured at FVOCI by credit risk, based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 37 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 2.2.2:

Group and Bank					2020
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total	
Internal rating grade					
RR1-RR2	123,963	-	-	123,963	
RR3-RR4	3,289	-	-	3,289	
RR5-RR6	8,528	-	-	8,528	
Total	135,780	-	-	135,780	

Group and Bank					2019
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total	
Internal rating grade					
RR1-RR2	134,343	-	-	134,343	
RR3-RR4	1,384	-	-	1,384	
RR5-RR6	5,545	-	-	5,545	
Total	141,272	-	-	141,272	

An analysis of changes in the fair value and the corresponding ECLs is, as follows:

Group and Bank				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Fair value as at 1 January 2020	141,272	-	-	141,272
New assets originated or purchased	63,574	-	-	63,574
Assets derecognised or matured (excluding write-offs)	(73,871)	-	-	(73,871)
Change in fair value	4,805	-	-	4,805
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not derecognised	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	135,780	-	-	135,780

Group and Bank				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Fair value as at 1 January 2019	117,620	-	-	117,620
New assets originated or purchased	47,657	-	-	47,657
Assets derecognised or matured (excluding write-offs)	(34,690)	-	-	(34,690)
Change in fair value	10,685	-	-	10,685
At 31 December 2019	141,272	-	-	141,272

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

(e) Debt instruments measured at FVOCI - continued

An analysis of changes in the fair value and the corresponding ECLs is, as follows:

Group and Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	229	-	-	229
New assets purchased	16	-	-	16
Assets derecognised or matured (excluding write offs)	(64)	-	-	(64)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	(22)	-	-	(22)
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	159	-	-	159

Group and Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	161	-	-	161
New assets purchased	62	-	-	62
Unwind of discount (recognised in interest income)	6	-	-	6
At 31 December 2019	229	-	-	229

(f) Debt instruments measured at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 37 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 2.2.2:

Group				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	110,077	-	-	110,077
RR3-RR4	164	-	-	164
RR5-RR6	-	-	-	-
RR7	-	-	-	-
RR8	-	-	-	-
RR9	-	-	-	-
Total	110,241	-	-	110,241

Group				
31 December 2019				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	100,960	-	-	100,960
RR3-RR4	872	-	-	872
RR5-RR6	-	243	-	243
RR7	-	-	-	-
RR8	-	-	-	-
RR9	-	-	-	-
Total	101,832	243	-	102,075

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

(f) Debt instruments measured at amortised cost - continued

Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	93,080	-	-	93,080
RR3-RR4	164	-	-	164
RR5-RR6	-	-	-	-
RR7	-	-	-	-
RR8	-	-	-	-
RR9	-	-	-	-
Total	93,244	-	-	93,244

Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	83,769	-	-	83,769
RR3-RR4	871	-	-	871
RR5-RR6	-	244	-	244
RR7	-	-	-	-
RR8	-	-	-	-
RR9	-	-	-	-
Total	84,640	244	-	84,884

				2020
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	101,832	243	-	102,076
New assets originated or purchased	9,112	-	-	9,112
Assets derecognised or matured (excluding write-offs)	(703)	(243)	-	(946)
At 31 December 2020	110,241	-	-	110,241

				2019
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	122,860	352	-	123,212
New assets originated or purchased	2,246	-	-	2,246
Assets derecognised or matured (excluding write-offs)	(23,274)	(109)	-	(23,383)
At 31 December 2019	101,832	243	-	102,076

Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	84,640	244	-	84,884
New assets originated or purchased	9,068	-	-	9,068
Assets derecognised or matured (excluding write-offs)	(465)	(243)	-	(708)
At 31 December 2020	93,243	1	-	93,244

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

(f) Debt instruments measured at amortised cost - continued

Bank				2019
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	105,907	352	-	106,259
New assets originated or purchased	2,246	-	-	2,246
Assets derecognised or matured (excluding write-offs)	(23,513)	(108)	-	(23,621)
At 31 December 2019	84,640	244	-	84,884

Group				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	102	29	-	131
New assets purchased	5	-	-	5
Assets derecognised or matured (excluding write offs)	-	(29)	-	(29)
Unwind of discount (recognised in interest income)	-	-	-	-
Changes to models and inputs used for ECL calculations	(95)	-	-	(95)
At 31 December 2020	12	-	-	12

Group				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	94	32	-	126
New assets purchased	15	-	-	15
Assets derecognised or matured (excluding write offs)	(7)	(3)	-	(10)
Unwind of discount (recognised in interest income)	-	-	-	-
At 31 December 2019	102	29	-	131

Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	88	29	-	117
New assets purchased	5	-	-	5
Assets derecognised or matured (excluding write offs)	-	(29)	-	(29)
Changes to models and inputs used for ECL calculations	(83)	-	-	(83)
At 31 December 2020	10	-	-	10

Bank				
In millions of Naira	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	80	32	-	112
New assets purchased	15	-	-	15
Assets derecognised or matured (excluding write offs)	(7)	(3)	-	(10)
Unwind of discount (recognised in interest income)	-	-	-	-
At 31 December 2019	88	29	-	117

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

21 Investment in Subsidiary

In 2016, Sterling Bank Plc registered Sterling Investment Management Plc (the SPV) with the Corporate Affairs Commission as a public limited liability company limited by shares with authorised capital of N2,000,000 @ N1.00 per share. Total number of issued share capital is 500,000, with 499,999 shares held by Sterling Bank Plc and 1 share held by the managing director, Mr. Abubakar Suleiman. The main objective of setting up the SPV is to raise or borrow money by the issue of bonds or other debt instruments.

Name of company	Ownership/Percentage interest			
Sterling Investment Management Plc	99.9 percent		<u>1</u>	<u>1</u>

Condensed Statement of profit or loss for the Year ended 31 December 2020	Group	Elimination		Sterling SPV
		Entries	Bank	
In millions of Naira				
Operating Income	89,592	(4,413)	89,462	6,835
Operating expenses	(69,314)	4,413	(69,309)	(6,709)
Credit loss expense	(7,906)	-	(7,913)	7
Profit for the year before tax	12,372	-	12,240	133
Income tax expense	(1,130)	-	(1,130)	-
	<u>11,242</u>	<u>-</u>	<u>11,110</u>	<u>133</u>
Condensed statement of financial position As at 31 December 2020				
Assets:				
Cash and balances with Central Bank of Nigeria	303,314	-	303,314	-
Due from banks	21,084	-	21,079	5
Pledged assets	34,860	-	34,860	-
Loans and advances to customers	596,827	(25,715)	596,827	25,715
Investments in securities:				
- Financial assets at fair value through profit or loss	1,454	-	1,454	-
- Debt instruments at fair value through other comprehensive income	135,780	-	135,780	-
- Equity instruments at fair value through other comprehensive income	10,745	-	10,745	-
- Debt instruments at amortised cost	110,229	-	93,234	16,967
Investment in subsidiary	-	(1)	1	-
Other assets	43,950	(75)	43,704	321
Property, plant and equipment	15,956	-	15,956	-
Right of use asset	8,319	-	8,319	-
Investment property	8,004	-	8,004	-
Intangible assets	1,582	-	1,582	-
Deferred tax assets	6,971	-	6,971	-
	<u>1,299,075</u>	<u>(25,791)</u>	<u>1,281,830</u>	<u>43,008</u>
Non-current assets held for sale	-	-	-	-
TOTAL ASSETS	<u>1,299,075</u>	<u>(25,791)</u>	<u>1,281,830</u>	<u>43,008</u>
LIABILITIES & EQUITY				
Deposits from banks	21,289	-	21,289	-
Deposits from customers	950,835	-	950,835	-
Current income tax payable	551	-	551	-
Other borrowed funds	86,367	-	86,367	-
Debt securities issued	42,274	(25,715)	25,323	42,666
Other liabilities	61,552	(75)	61,621	4
Provisions	454	-	454	-
Share capital	14,395	(1)	14,395	1
Share premium	42,759	-	42,759	-
Retained earnings	25,278	-	24,913	337
Other components of equity	53,321	-	53,323	-
TOTAL LIABILITIES AND EQUITY	<u>1,299,075</u>	<u>(25,791)</u>	<u>1,281,830</u>	<u>43,008</u>

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

21 Investment in Subsidiary - Continued

Condensed statement of cash flows Year ended 31 December 2020	Elimination			
	Group	Entries	Bank	Sterling SPV
<i>In millions of Naira</i>				
Net cash flows from/(used in)operating activities	4,228	112	4,406	(290)
Net cash flows (used in)/from in investing activities	(8,284)	(6,772)	(8,467)	6,955
Net cash flows used in financing activities	(7,795)	6,660	(7,795)	(6,660)
Net increase in cash and cash equivalents	(11,851)	-	(11,856)	5
Exchange rate movements on cash and cash equivalents	4,164	-	4,164	-
Cash and cash equivalents, beginning of the year	103,294	-	103,294	-
Cash and cash equivalents, end of the year	95,607	-	95,602	5
Condensed Statement of profit or loss for the Year ended 31 December 2019				
<i>In millions of Naira</i>				
Operating Income	87,603	(4,358)	87,155	7,114
Operating expenses	(71,093)	4,358	(71,080)	(6,676)
Credit loss expense	(5,838)	-	(5,842)	(14)
Profit/(loss) for the year before tax	10,672	-	10,233	424
Income tax expense	(70)	-	(70)	-
Profit/(loss) for the year after tax	10,602	-	10,163	424
Assets:				
Cash and balances with Central Bank of Nigeria	156,059	-	156,059	-
Due from banks	69,361	-	69,361	-
Pledged assets	11,831	-	11,831	-
Loans and advances to customers	618,732	(25,709)	618,732	25,709
Investments in securities:				
- Financial assets at fair value through profit or loss	8,317	-	8,317	-
- Debt instruments at fair value through other comprehensive income	141,272	-	141,272	-
- Equity instruments at fair value through other comprehensive income	5,470	-	5,470	-
- Debt instruments at amortised cost	101,944	-	84,767	17,177
Investment in subsidiary	-	(1)	1	-
Other assets	28,581	-	28,581	-
Property, plant and equipment	18,476	-	18,476	-
Right of use asset	8,896	-	8,896	-
Investment property	4,141	-	4,141	-
Intangible assets	1,933	-	1,933	-
Deferred tax assets	6,971	-	6,971	-
	1,181,984	(25,710)	1,164,808	42,886
Non-current assets held for sale	701	-	701	-
TOTAL ASSETS	1,182,685	(25,710)	1,165,509	42,886
LIABILITIES & EQUITY				
Deposits from customers	892,660	-	892,660	-
Current income tax payable	201	-	201	-
Other borrowed funds	82,702	-	82,702	-
Debt securities issued	42,655	(25,709)	25,709	42,652
Other liabilities	44,742	-	44,742	-
Provisions	167	-	167	-
Share capital	14,395	(1)	14,395	1
Share premium	42,759	-	42,759	-
Retained earnings	6,187	-	5,954	233
Other components of equity	56,217	-	56,220	-
TOTAL LIABILITIES AND EQUITY	1,182,685	(25,710)	1,165,509	42,886

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

21 Investment in Subsidiary - Continued

Condensed statement of cash flows Year ended 31 December 2019	Group	Elimination Entries	Bank	Sterling SPV
Net cash flows from/(used in) operating activities	130,533	-	127,788	(239)
Net cash flows (used in)/from investing activities	(1,399)	-	(1,164)	346
Net cash flows used in financing activities	(93,372)	6,983	(90,756)	-
Net (decrease)/increase in cash and cash equivalents	35,761	6,983	35,868	107
Exchange rate movements on cash and cash equivalents	(241)	-	(241)	-
Cash and cash equivalents, beginning of the year	67,774	-	67,667	-
Cash and cash equivalents, end of the year	103,294	6,983	103,294	107

<i>In millions of Naira</i>	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
22 Other assets				
Financial assets				
Accounts receivable (see note (i))	39,327	18,623	39,081	18,623
Non-financial assets				
Prepayments and other debit balances	4,498	9,102	4,498	9,102
Prepaid staff cost	1,518	1,282	1,518	1,282
Stock of cheque books and administrative stationeries	408	584	408	584
Gross other assets	45,751	29,591	45,505	29,591
Allowance for impairment on other assets (note 22.1)	(1,801)	(1,010)	(1,801)	(1,010)
	43,950	28,581	43,704	28,581

- i. Included in accounts receivable are:
N19.5 billion receivable from Cambridge Springs Investment Limited in respect of loan sold to the company in the course of the year.
- a. year.
- b. Forex deliverables due from CBN for the Bank's customers.

<i>In millions of Naira</i>	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
22.1 Movement of allowance for impairment on other assets				
Balance, beginning of year	1,010	834	1,010	834
Charge/(reversal) on other assets (note 11)	1,245	392	1,245	392
Write offs	(454)	(216)	(454)	(216)
Balance, end of year	1,801	1,010	1,801	1,010

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

23.1 Property, plant and equipment

Group and Bank

The movement during the year was as follows:

31 December 2020	Leasehold Land	Leasehold Building	Leasehold Improvement	Furniture, fittings and equipment	Computer equipment	Motor vehicles	Capital work-in-progress	Total
<i>In millions of Naira</i>								
(a) Cost								
As at 1 January 2020	2,131	4,138	3,913	11,551	15,842	5,312	763	43,650
Additions	-	-	143	723	139	511	504	2,020
Reclassifications	3	(3)	35	78	62	157	(332)	-
Disposals	(141)	-	-	(32)	(5)	(258)	-	(436)
Adjustments	-	(9)	(3)	9	(4)	-	-	(7)
Written off	-	-	(277)	(1,011)	(1,136)	(23)	-	(2,447)
As at 31 December 2020	1,993	4,126	3,811	11,318	14,898	5,699	935	42,780
(b) Accumulated depreciation and impairment								
As at 1 January 2020	238	507	2,476	8,899	10,430	2,624	-	25,174
Charge for the year	11	83	267	1,037	1,875	1,093	-	4,366
Adjustments	-	-	-	-	-	-	-	-
Written off	-	-	(277)	(1,010)	(1,136)	(24)	-	(2,447)
Disposals	(7)	-	-	(30)	(5)	(227)	-	(269)
As at 31 December 2020	242	590	2,466	8,896	11,164	3,466	-	26,824
Net book value								
As at 31 December 2020	1,751	3,536	1,345	2,422	3,734	2,233	935	15,956
As at 31 December 2019	1,893	3,631	1,437	2,652	5,412	2,688	763	18,476

- i) The gross carrying amount of fully depreciated property, plant and equipment that is still in use is N13.8 billion (2019: N12.3 billion).
ii) No item of property, plant and equipment was pledged as security.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

23.1 Property, plant and equipment

Group and Bank

The movement on these accounts during the year was as follows:

31 December 2019								
	Leasehold Land	Leasehold Building	Leasehold improvement	Furniture, fittings and equipment	Computer equipment	Motor vehicles	Capital work-in- progress	Total
<i>In millions of Naira</i>								
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
(a) Cost								
As at 1 January 2019	2,128	3,904	3,541	10,505	11,403	4,234	812	36,527
Additions		157	360	821	4,359	1,570	585	7,852
Reclassifications	3	77	12	356	90	97	(634)	-
Disposals				(131)	(10)	(589)		(730)
As at 31 December 2019	<u>2,131</u>	<u>4,138</u>	<u>3,913</u>	<u>11,551</u>	<u>15,842</u>	<u>5,312</u>	<u>763</u>	<u>43,649</u>
(b) Accumulated depreciation and impairment								
As at 1 January 2019	195	426	2,218	7,587	6,932	2,228		19,586
Charge for the year	43	81	258	1,441	3,508	961		6,292
Disposals	-	-	-	(129)	(10)	(565)		(704)
As at 31 December 2019	<u>238</u>	<u>507</u>	<u>2,476</u>	<u>8,899</u>	<u>10,430</u>	<u>2,624</u>	<u>-</u>	<u>25,173</u>
Net book value								
As at 31 December 2019	<u>1,893</u>	<u>3,631</u>	<u>1,437</u>	<u>2,652</u>	<u>5,412</u>	<u>2,688</u>	<u>763</u>	<u>18,476</u>
As at 31 December 2018	<u>1,933</u>	<u>3,478</u>	<u>1,323</u>	<u>2,918</u>	<u>4,471</u>	<u>2,006</u>	<u>812</u>	<u>16,941</u>

i) The gross carrying amount of fully depreciated property, plant and equipment that is still in use is N12.3 billion.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

<i>In millions of Naira</i>		Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
23.2	Right-of-use asset				
	Building		-	Building	-
(a)	At 1 January	9,698	9,121	9,698	9,121
	Additions	263	577	263	577
	As at 31 December	9,961	9,698	9,961	9,698
(b)	Accumulated depreciation				
	At 1 January	802		802	
	Depreciation	840	802	840	802
	As at 31 December	1,642	802	1,642	802
	Net book value				
	As at 31 December	8,319	8,896	8,319	8,896
<i>In millions of Naira</i>		Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
23.3	Investment property				
(a)	Cost				
	At 1 January	4,176	-	4,176	-
	Additions	3,957	-	3,957	-
	Reclassification	-	4,176	-	4,176
	As at 31 December	8,133	4,176	8,133	4,176
(b)	Accumulated depreciation and impairment				
	At 1 January	35		35	-
	Depreciation	94	35	94	35
	Balance end of year	129	35	129	35
	Balance as at 31 December	8,004	4,141	8,004	4,141
	Fair value of investment property		Level 1	Level 2	Level 3
			-	-	8,178

The fair value of the Group's investment property at 31 December 2020 was determined by independent, appropriately qualified external valuers, A.C Otegbulu & Partners (FRC/2013/NIESV/OOOOOO01582). The valuations conform to the Estate surveyors and valuers registration board of Nigeria Standards. Fees paid to valuers are based on fixed price contracts.

The method of valuation adopted is the sales comparison and investment method.

The investment property is driven by the Non-interest banking window of the group in line with the provisions of IAS 40 and the Central Bank of Nigeria guidelines.

	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
Rental income from investment property	185	224	185	224
Direct operating expenses	(94)	(35)	(94)	(35)
	91	189	91	189

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
24 Intangible assets				
(a) Cost				
At 1 January	4,979	4,124	4,979	4,124
Reclassification (see note below)	-	484	-	484
Additions	400	371	400	371
Written off	(83)	-	(83)	-
Balance end of year	<u>5,296</u>	<u>4,979</u>	<u>5,296</u>	<u>4,979</u>
(b) Accumulated amortisation and impairment				
Beginning of year	3,046	2,274	3,046	2,274
Amortisation for the year	750	772	750	772
Write off	(82)	-	(82)	-
Balance end of year	<u>3,714</u>	<u>3,046</u>	<u>3,714</u>	<u>3,046</u>
Net book value				
Balance as at 31 December	<u>1,582</u>	<u>1,933</u>	<u>1,582</u>	<u>1,933</u>

Items reclassified were from other assets. Capital expenditures that did not meet the recognition criteria of intangible assets were recorded in other assets until the recognition criteria are met.

	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
25 Non-current assets held for sale				
At 1 January	701	5,218	701	5,218
Additions	-	701	-	701
Reclassification	-	(4,150)	-	(4,150)
Disposal	(701)	(764)	(701)	(764)
Write-off	-	(304)	-	(304)
At 31 December	<u>-</u>	<u>701</u>	<u>-</u>	<u>701</u>

Non-financial assets acquired in exchange for loans as part of an orderly realization are recorded as assets held for sale, as the carrying amounts of the assets are recovered principally through sale; the assets are available for sale in their present condition; and their sale is highly probable. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is charged in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognized in profit or loss, in 'Other operating expenses'. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognized in 'Other operating income', together with any realized gains or losses on disposal. Assets that no longer meet the definition of non-current assets held for sale are reclassified to other assets.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
<i>In millions of Naira</i>				
26 (a) Deposits from banks				
Money Market	17,993	-	17,993	-
Due to local banks	3,296	-	3,296	-
	<u>21,289</u>	<u>-</u>	<u>21,289</u>	<u>-</u>
26 (b) Deposits from customers				
Current accounts	556,092	417,121	556,092	417,121
Savings accounts	194,504	120,968	194,504	120,968
Term deposits	155,249	284,141	155,249	284,141
Pledged deposits	44,990	70,430	44,990	70,430
	<u>950,835</u>	<u>892,660</u>	<u>950,835</u>	<u>892,660</u>

Pledged deposits represent contracted cash deposits with the Bank that are held as security for loans granted to customers by the Bank.

	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
<i>In millions of Naira</i>				
27 Other borrowed funds				
Due to CBN-Agric-Fund (see (27(i)))	45,211	43,608	45,211	43,608
Due to Africa Agric and Trade Investment Fund (see (27(ii)))	3,289	4,256	3,289	4,256
Due to CBN-State ECA secured loans (see (27 (iii)))	13,756	13,733	13,756	13,733
Due to Islamic Corporation (see (27(iv)))	1,666	4,167	1,666	4,167
Due To Nigeria Mortgage Refinance Company (see (27(v)))	2,158	2,323	2,158	2,323
Due to CBN - ABP (see (27(vi)))	2,804	432	2,804	432
Due to Master Card Foundation (MCF) (see (27(vii)))	6,223	-	6,223	-
Due to CBN - RSSF Fund (see (27 (viii)))	5,418	7,353	5,418	7,353
Due to CBN - NESF Fund (see(27 (ix)))	3,265	4,000	3,265	4,000
Due to BOI (see (27 (x)))	2,577	2,830	2,577	2,830
	<u>86,367</u>	<u>82,702</u>	<u>86,367</u>	<u>82,702</u>
Movement on other borrowed funds:				
Beginning of year	82,702	119,526	82,702	119,526
Additions during the year	11,526	7,086	11,526	7,086
Repayments during the year	(8,118)	(39,268)	(8,118)	(39,268)
Accrued interest	5,094	7,233	5,094	7,233
Interest paid	(4,988)	(7,075)	(4,988)	(7,075)
Foreign exchange difference	151	(4,800)	151	(4,800)
	<u>86,367</u>	<u>82,702</u>	<u>86,367</u>	<u>82,702</u>

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

27 **Other borrowed funds - continued**27(i) **Due to CBN-Agric Fund**

Central Bank of Nigeria (CBN) in collaboration with the Federal Government of Nigeria (FGN) represented by the Federal Ministry of Agriculture and Water Resources (FMA & WR) established a Commercial Agricultural Credit Scheme, (CACS) to promote commercial agricultural enterprise in Nigeria. The Bank obtained the loan on behalf of the customers at two (2) percent for on lending to customers at a rate of 9% per annum. Repayment proceeds from CACS projects are repatriated to CBN on quarterly basis. Loans under the agriculture scheme are expected to terminate on 30 September 2025.

CBN in response to COVID-19 outbreak and spillovers, issued a circular on 16 March 2020 with reference No. FPR/DIR/GEN/CIR/07/049 reducing interest rates on all CBN intervention facilities from 9 to 5 percent per annum for 1 year effective March 1, 2020.

27(ii) **Africa Agriculture Trade Investment Fund**

This represents the outstanding balance on the \$15million credit facility granted to the Bank by Africa Agriculture and Trade Investment Fund payable over 4 years in 9 instalments commencing June 2019. Interest is payable quarterly at LIBOR plus a margin. The facility will mature in March 2023 . The effective interest rate of the loan is 6.84% per annum.

27(iii) **Due to CBN-State ECA secured loans**

This is a facility granted as a result of the decision made during the June 2015 National Economic Council (NEC) meeting for deposit money banks to extend concessionary loans to state governments using the balance in the Excess Crude Account (ECA) as collateral. Osun and Kwara State Governments indicated their willingness to work with Sterling Bank Plc on the transaction. The Osun State Government applied for N10 billion while Kwara State Government applied for N5 billion. The facility was approved at the June 2015 National Economic Council meeting. The purpose of the loan is for developmental and infrastructure projects in the States. CBN is granting the loan to the the States at 9% annually for 20 years.

CBN in response to COVID-19 outbreak and spillovers, issued a circular on 16 March 2020 with reference No. FPR/DIR/GEN/CIR/07/049 reducing interest rates on all CBN intervention facilities from 9 to 5 percent per annum for 1 year effective March 1, 2020.

27(iv) **Due to Islamic Corporation**

This represents the outstanding balance on the \$11.25 million amortizing Murabaha financing facilities granted by the Islamic Corporation for the development of the private sector for a period of five years effective January 2016. The facility attracts a margin of 6.25%.

27(v) **Due to Nigeria Mortgage Refinance Company Plc.**

This represents a loan agreement between the Bank and Nigeria Mortgage Refinance Company PLC (NMRC) for NMRC to refinance from time to time Mortgage Loans originated by the Bank with full recourse to the Bank on the terms and conditions stated in the agreement. The facility was obtained in 2016 at an interest rate of 15.5% per annum to mature 7 September 2031.

27(vi) **Due to Central Bank of Nigeria - Anchor Borrower's Fund (ABP)**

Anchor Borrowers Programme (ABP) is an initiative of the Central Bank of Nigeria and was launched by President Muhammadu Buhari in November 2015 in Kebbi State. CBN earmarked N40billion out of N220billion Micro, Small and Medium Enterprises Development Fund (MSMEDF) to be given to farmers in cooperative at a single rate of 9%, and the amount is dependent on the economics of production of each commodity. It is aimed at creating an ecosystem to link small holder farmers (borrowers) and processors (anchor) in the agricultural value chain to achieve job creation, increase domestic production of agricultural commodities/raw materials, improve farmers income and reduce import duty.

CBN in response to COVID-19 outbreak and spillovers, issued a circular on 16 March 2020 with reference No. FPR/DIR/GEN/CIR/07/049 reducing interest rates on all CBN intervention facilities from 9 to 5 percent per annum for 1 year effective March 1, 2020.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

27 Other borrowed funds - continued

27(vii) Due to Master Card Foundation (MCF)

This represents Naira equivalent of \$15.5 million from Master Card Foundation (MCF). It is a blended lending programme (MCF 65%, Sterling 35%) to MSMEs to help them withstand and respond to short term impacts of the COVID-19 pandemic, while strengthening resilience in the Agricultural sector. The agreed period for the scheme is 24 months in the first instance but with renewal option/fund utilization for charitable projects by MCF. The facility attracts a margin of 9%.

27(viii) Due to CBN - Real Sector Support Facility (RSSF) Fund

The Central Bank of Nigeria, as part of the efforts to unlock the potential of the real sector to engender output growth, value added productivity and job creation has established a N300 billion Real Sector Support Facility (RSSF). The Facility will be used to support large enterprises for start-ups and expansion financing needs of N500 million up to a maximum of N10.0 billion. The loan tenor is 10 years with moratorium and at all in rate of 9% per annum.

CBN in response to COVID-19 outbreak and spillovers, issued a circular on 16 March 2020 with reference No. FPR/DIR/GEN/CIR/07/049 reducing interest rates on all CBN intervention facilities from 9 to 5 percent per annum for 1 year effective March 1, 2020.

27(ix) Due to CBN - Non-Oil Support Export Stimulation Facility (NESF) Fund

Non-Oil Support Export Stimulation Facility (NESF) is designed to redress the declining export credit and reposition the sector to increase its contribution to revenue generation and economic development. It is designed to be accessed by exporters at a single digit of 9% and maximum obligor limit of N5billion. It aims at improving export financing and additional opportunities for exporters to upscale and expand their businesses in improving their competitiveness.

CBN in response to COVID-19 outbreak and spillovers, issued a circular on 16 March 2020 with reference No. FPR/DIR/GEN/CIR/07/049 reducing interest rates on all CBN intervention facilities from 9 to 5 percent per annum for 1 year effective March 1, 2020.

27(x) Due to Bank of Industry (BOI).

The amount of N2.529b (December 2019: 2.830b) represents the outstanding balance on the funding granted by BOI under the Small and Medium Enterprise Refinancing and Restructuring Fund (SMERRF) . The SMERRF is administered at an all-in interest rate of 10% per annum payable on a monthly basis, one-off fee 2% and monitoring fee of 0.125% payable on quarterly basis. The tenor of the facilities range between 5 years to 7 years.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

<i>In millions of Naira</i>	Group	Group	Bank	Bank
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
28 Debt securities issued				
16.5% Debt securities carried at amortised cost (See (iv) below)	8,503	8,187	-	-
16.25% Debt securities carried at amortised cost (See (v) below)	33,771	34,468	-	-
18.86% Debt securities carried at amortised cost (See (i) below)	-	-	5,220	5,606
17.55% Debt securities carried at amortised cost (See (ii) below)	-	-	20,103	20,103
	42,274	42,655	25,323	25,709
Movements in debt securities issued				
At 1 January	42,655	86,609	25,709	69,355
Repayment	-	(45,200)	-	(45,200)
Accrued interest	7,257	10,161	4,965	7,853
Interest paid	(7,638)	(8,915)	(5,351)	(6,299)
	42,274	42,655	25,323	25,709

- i This represents N4.7 billion 7-year 18.86% fixed rate subordinated notes issued by the Bank and approved on 25 August 2016 and 3 August 2016 by the Central Bank of Nigeria and the Securities & Exchange Commission, respectively. Interest is payable to the Joint Trustees semi-annually while principal is payable at maturity. The note issued was purchased by Sterling Investment Management SPV Plc.
- ii This represents N19.739 billion 7-year 17.55% fixed rate subordinated notes issued by the Bank and approved on 27 November 2018 and 5 October 2018 by the Central Bank of Nigeria and the Securities & Exchange Commission, respectively. Interest is payable to the Joint Trustees semi-annually while principal is payable at maturity. The note issued was purchased by Sterling Investment Management SPV Plc.
- iii This represents tranche 6 of N14.4 billion 177-day and tranche 7 of N32.5 billion 268-day Commercial Papers issued on 7 August 2018 with implied yields of 13.63% and 13.96%, respectively. The Commercial papers are quoted and traded on the FMDQ OTC Exchange. This was fully repaid in 2019.
- iv This represents a N7.9 billion 7-year 16.50% subordinated unsecured non-convertible debenture stock issued by the SPV, and approved on 25 August 2016 and 3 August 2016 by the Central Bank of Nigeria and the Securities & Exchange Commission, respectively. Interest is payable semi-annually on the non-convertible debenture stock due in 2023. The effective interest rate is 17.16% per annum, and until the entire stock has been redeemed, the Issuer (Sterling Investment Management SPV Plc) is obliged to pay interest to the Trustees on behalf of the bond holders.
- v This represents a N32.899 billion 7-year 16.25% subordinated unsecured non-convertible debenture stock issued by the SPV, and approved on 27 November 2018 and 5 October 2018 by the Central Bank of Nigeria and the Securities & Exchange Commission, respectively. Interest is payable semi-annually on the non-convertible debenture stock due in 2025. The effective interest rate is 16.887% per annum, and until the entire stock has been redeemed, the Issuer (Sterling Investment Management SPV Plc) is obliged to pay interest to the Trustees on behalf of the bond holders.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

	Group	Group	Bank	Bank
<i>In millions of Naira</i>	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
29 Other liabilities				
Financial liabilities				
Other credit balances (note 29.1)	12,162	12,940	12,162	12,940
Customers' deposits for foreign trade	25,636	14,820	25,636	14,820
Lease liability (29.2)	114	65	114	65
Certified cheques	4,505	3,698	4,505	3,698
Creditors and accruals	19,012	13,117	19,081	13,117
	61,429	44,640	61,498	44,640
Non financial liabilities				
Information technology levy	122	102	122	102
Police trust fund levy	1	-	1	-
Total Other Liabilities	61,552	44,742	61,621	44,742

29.1 Other credit balances includes mostly Bond proceed Collection of N2.3 billion, e-business settlement N2.0 billion and long outstanding draft N1.3 billion. It also includes upfront fees on financial guarantee contract such as Advance Payment Guarantee and Bid bond, etc. The upfront fees are amortised using the maturity date of the contracts.

	Group	Group	Bank	Bank
<i>In millions of Naira</i>	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
29.2 Lease liability				
As at 1 January	65	-	65	-
Additions	36	57	36	57
Interest on lease liability	13	8	13	8
As at 31 December	114	65	114	65

Interest on lease liability is included in interest expense using effective interest rate (note 7).

Maturity analysis of lease liability	Less than	6-12 months	1 - 5 years	Total
<i>In millions of Naira</i>	3 months			
	-	-	114	114

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

<i>In millions of Naira</i>	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
29.3 Provisions				
Provisions for litigations and claims	145	145	145	145
Provision for guarantees and letters of credit	309	22	309	22
	<u>454</u>	<u>167</u>	<u>454</u>	<u>167</u>
At 1 January 2019	167	295	167	295
Additions	287	-	287	-
Reversal of provision	-	(128)	-	(128)
<i>At 31 December 2020</i>	<u>454</u>	<u>167</u>	<u>454</u>	<u>167</u>

Provision for litigations: This is provision for litigations and claims against the Bank as at 31 December 2020. These claims arose in the normal course of business and are being contested by the Bank. The Directors, having sought advice of professional counsels, are of the opinion that this provision is adequate for liability that have crystalized from these claims. There is no expected reimbursement in respect of this provision. The amount reversed relate to cases resolved outside court that were initially provided for and have been recognized in other sundry income in the statement of profit or loss.

<i>In millions of Naira</i>	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
30 Share capital and equity reserves				
<i>Share capital</i>				
(a) Authorised:				
32,000,000,000 Ordinary shares of 50k each	<u>16,000</u>	<u>16,000</u>	<u>16,000</u>	<u>16,000</u>
(b) Issued and fully-paid:				
28.79 billion (2019: 28.79 billion) Ordinary shares of 50k each	<u>14,395</u>	<u>14,395</u>	<u>14,395</u>	<u>14,395</u>

(i) Ordinary shareholding:

The holders of ordinary shares are entitled to receive dividend as declared from time to time and are entitled to vote at meeting of the Bank. All ordinary shares rank pari-passu with the same rights and benefits at meetings of the Bank.

(ii) Movement in issued and fully paid share capital is as follows:

<i>In millions of units</i>	Group 31 Dec 2020	Group 31 Dec 2019	Bank 31 Dec 2020	Bank 31 Dec 2019
28.79 billion (2018: 28.79 billion) Ordinary shares of 50k each	14,395	14,395	14,395	14,395
	<u>14,395</u>	<u>14,395</u>	<u>14,395</u>	<u>14,395</u>
Movement in nominal share capital in units				
At 31 December	28,790	28,790	28,790	28,790
	<u>28,790</u>	<u>28,790</u>	<u>28,790</u>	<u>28,790</u>

31 Dividends

In respect of 2020, the Directors proposed that a dividend of 5 kobo for every 50 kobo share will be paid to shareholders. This dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in this financial statements until approved and declared by the shareholders. The proposed dividend is subject to withholding tax at the appropriate rate and is payable to shareholders whose names appear in In 2020, the Directors declared and paid dividends of N864 million (3k per share) in respect of 2019 results.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

32.1 Other components of equity

<i>In millions of Naira</i>	Fair value reserve	Share capital reserve	Regulatory risk reserve	SMEEIS reserve	AGSMEIS reserve	Statutory reserve	Total other components of equity
(a) GROUP							
Balance at 1 January 2020	6,559	5,276	21,371	235	1,155	21,622	56,218
Comprehensive income for the year:							
Other comprehensive income net of tax							
Net change in fair value of debt instrument at FVOCI	2,420	-	-	-	-	-	2,420
Net change in fair value of equity instrument at FVOCI	3,468	-	-	-	-	-	3,468
Changes in allowance for expected credit losses	(72)	-	-	-	-	-	(72)
Transfer from regulatory risk reserve (Note 32.1d)	-	-	(10,936)	-	-	-	(10,936)
Transfer to statutory risk and AGSMEIS reserves (Notes 32.1a & 32.c)	-	-	-	-	556	1,667	2,223
Balance at 31 December 2020	12,375	5,276	10,435	235	1,711	23,289	53,322
Balance at 1 January 2019	(4,597)	5,276	22,260	235	682	20,098	43,953
Comprehensive income for the year:							
Other comprehensive income net of tax							
Net change in fair value of debt instrument at FVOCI	10,685	-	-	-	-	-	10,685
Net change in fair value of equity instrument at FVOCI	403	-	-	-	-	-	403
Changes in allowance for expected credit losses	68	-	-	-	-	-	68
Transfer from regulatory risk reserve (Note 32.1d)	-	-	(889)	-	-	-	(889)
Transfer to statutory risk and AGSMEIS reserves (Notes 32.1a & 32.c)	-	-	-	-	473	1,524	1,997
Balance at 31 December 2019	6,559	5,276	21,371	235	1,155	21,622	56,217

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

32.1 Other components of equity - continued

<i>In millions of Naira</i>	Fair value reserve	Share capital reserve	Regulatory risk reserve	SMEEIS reserve	AGSMEIS reserve	Statutory reserve	Total other components of equity
BANK							
At 1 January 2020	6,559	5,276	21,371	235	1,155	21,624	56,220
Comprehensive income for the year:							-
Other comprehensive income net of tax							-
Net change in fair value of debt instrument at FVOCI	2,420	-	-	-	-	-	2,420
Net change in fair value of equity instrument at FVOCI	3,468	-	-	-	-	-	3,468
Changes in allowance for expected credit losses	(72)	-	-	-	-	-	(72)
Transfer from regulatory risk reserve (Note 32.1d)	-	-	(10,936)	-	-	-	(10,936)
Transfer to statutory risk and AGSMEIS reserves (Notes 32.1a & 32.c)	-	-	-	-	556	1,667	2,223
31 December 2020	12,375	5,276	10,435	235	1,711	23,291	53,323
Balance at 1 January 2019	(4,597)	5,276	22,260	235	682	20,100	43,956
Comprehensive income for the year:							
Net change in fair value of debt instrument at FVOCI	10,685	-	-	-	-	-	10,685
Net change in fair value of equity instrument at FVOCI	403	-	-	-	-	-	403
Changes in allowance for expected credit losses	68	-	-	-	-	-	68
Transactions with equity holders, recorded directly in equity:							
Transfer from regulatory risk reserve (Note 32.1d)	-	-	(889)	-	-	-	(889)
Transfer to statutory risk and AGSMEIS reserves (Notes 32.1a & 32.c)	-	-	-	-	473	1,524	1,997
31 December 2019	6,559	5,276	21,371	235	1,155	21,624	56,220

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**32.1 Other components of equity - continued****a. Statutory reserve**

Nigerian banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by Section 16(1) of the Banks and Other Financial Institution Act of Nigeria, an appropriation of 30% of profit after tax is made if the statutory reserve is less than paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid up share capital. Amount transferred to statutory reserve for the year ended 31 December 2020 was (15% of N11.1 billion) N1.667billion (2019: N1.524 billion).

b. Share capital reserve

The share capital reserve represents the surplus nominal value of the shares of the Bank which were reconstructed in June 2006.

c. AGSMEIS reserve

The Bankers' committee at its 331st meeting held on 9 February 2017 approved the Agric-Business, Small and Medium Investment Scheme (AGSMEIS) to support Federal Government efforts at promoting Agricultural businesses/Small and Medium Enterprises (SMEs). All deposit money banks are required to set aside 5% of Profit After Tax (PAT) annually after their financial statements have been audited by external auditors and approved by Central Bank of Nigeria (CBN) for publication and remit to CBN within 10 working days after the Annual General Meeting.

d. Regulatory risk reserve

The Central Bank of Nigeria stipulates that impairment allowance of financial assets and off balance sheet accounts shall be determined based on the requirements of International Financial Reporting Standards ("IFRS"). The IFRS impairment allowance should be compared with provisions determined under Prudential Guidelines and the difference in Retained Earnings should be treated as follows:

- Where Prudential impairment provision is greater than IFRS impairment provision; transfer the difference from the Retained Earnings to a non-distributable Regulatory Risk Reserve.
- Where Prudential impairment provision is less than IFRS impairment provision; the excess charges resulting should be transferred from the Regulatory Risk Reserve account to the Retained Earnings to the extent of the non-distributable reserve previously recognized.

e. SMEEIS reserve

The SMEEIS reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside a portion of the profit after tax in a fund to be used to finance equity investment in qualifying small and medium scale enterprises. Under the terms of the guideline (amended by CBN letter dated 11 July 2006), the contributions will be 10% of profit after tax and shall continue after the first 5 years but banks' contributions shall thereafter reduce to 5% of profit after tax. However, this is no longer mandatory. The Group has suspended further appropriation to SMEEIS (now known as Microcredit Fund) reserve account in line with the decision reached at the Banker's Committee meeting and approved by CBN.

33 Commitments and Contingencies**a. Litigations and claims**

There are litigations and claims against the Bank as at 31 December 2020. These claims arose in the normal course of business and are being contested by the Group. The Directors, having sought advice of professional counsels and are of the opinion that no significant liability will crystallise from these claims. Provisions of N454 million at 31 December 2020 (2019: N167 million) have been made in these financial statements on crystallised claims, refer to note 29.3.

The Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. Contingent liabilities and commitments comprise performance bonds, acceptances, guarantees and letters of credit.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

33 (b) Contingent liabilities and commitments - continued

Nature of instruments:

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. These consist of financial guarantees and letters of credits. These obligations are not recognised on the statement of financial position because the risk has not crystallised and we have not identified any factor to suggest the probability that the risk will crystallise.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

The following tables summarise the nominal principal amount of contingent liabilities and commitments with off-financial position risk:

<i>In millions of Naira</i>	Group	Group	Bank	Bank
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Bonds, guarantees and indemnities	124,165	118,639	124,165	118,639
Letters of credit	36,129	27,705	36,129	27,705
Performance bonds	14,993	12,677	14,993	12,677
	<u>175,287</u>	<u>159,021</u>	<u>175,287</u>	<u>159,021</u>

Above balances represent contingent liabilities for which the customers have not defaulted. As stated in note 2.2.12, any portion that is due for which the Group has become liable are recognised in Other Liabilities (Note 29).

c. **Impairment losses on guarantees and other commitments**

An analysis of changes in the gross carrying amount and the corresponding allowance for impairment losses in relation to guarantees and other commitments is, as follows:

(i) **Financial guarantees**

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification.

31 December 2020 (Group and Bank)

<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	124,165	-	-	124,165
RR3-RR4	-	-	-	-
RR5-RR6	-	-	-	-
RR7	-	-	-	-
RR8	-	-	-	-
RR9	-	-	-	-
Total	<u>124,165</u>	<u>-</u>	<u>-</u>	<u>124,165</u>

31 December 2019 (Group and Bank)

<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	118,639	-	-	118,639
RR3-RR4	-	-	-	-
Total	<u>118,639</u>	<u>-</u>	<u>-</u>	<u>118,639</u>

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

33 (b) Contingent liabilities and commitments - continued

(i) Financial guarantees - continued

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows:

<i>In millions of Naira (Group and Bank)</i>	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure as at 1 January 2020	118,639	-	-	118,639
New exposures	75,261	-	-	75,261
Exposure derecognised or matured/lapsed (excluding write offs)	(69,735)	-	-	(69,735)
Foreign exchange adjustments	-	-	-	-
At 31 December 2020	124,165	-	-	124,165

<i>In millions of Naira (Group and Bank)</i>	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure as at 1 January 2019	84,510	-	-	84,510
New exposures	91,581	-	-	91,581
Exposure derecognised or matured/lapsed (excluding write offs)	(57,452)	-	-	(57,452)
At 31 December 2019	118,639	-	-	118,639

<i>In millions of Naira (Group and Bank)</i>	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	18	-	-	18
New exposures	267	-	-	267
Exposure derecognised or matured (excluding write offs)	(6)	-	-	(6)
At 31 December 2020	279	-	-	279

<i>In millions of Naira (Group and Bank)</i>	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	18	-	-	18
New exposures	-	-	-	-
Exposure derecognised or matured (excluding write offs)	-	-	-	-
At 31 December 2019	18	-	-	18

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

33 (b) Contingent liabilities and commitments - continued

(ii) Letters of credit

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification.

<i>In millions of Naira (Group and Bank)</i>	2020			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	36,129	-	-	36,129
Total	36,129	-	-	36,129

<i>In millions of Naira (Group and Bank)</i>	2019			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	27,705	-	-	27,705
Total	27,705	-	-	27,705

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows:

<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure as at 1 January 2020	27,705			27,705
New exposures	27,694			27,694
Exposure derecognised or matured/lapsed (excluding write offs)	(19,270)			(19,270)
At 31 December 2020	36,129	-	-	36,129

<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure as at 1 January 2019	32,951	-	-	32,951
New exposures	16,176	-	-	16,176
Exposure derecognised or matured/lapsed (excluding write offs)	(21,422)	-	-	(21,422)
At 31 December 2019	27,705	-	-	27,705

<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	4	-	-	4
New exposures	28	-	-	28
Exposure derecognised or matured (excluding write offs)	(3)	-	-	(3)
At 31 December 2020	29	-	-	29

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

(ii) Letters of credit - continued

<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	-	-	-	-
New exposures	4	-	-	4
Exposure derecognised or matured (excluding write offs)	-	-	-	-
At 31 December 2019	4	-	-	4

34 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise influence over the other party in making financial and operational decisions, or one other party controls both. The definition includes directors and key management personnel among others.

<i>In millions of Naira</i>	Group 2020	Group 2019	Bank 2020	Bank 2019
(i) Transactions with the related parties				
Loans and advances			-	
a. Secured loans and advances	6,013	10,121	6,013	10,121
b. Contingent liabilities	4,121	2,852	4,121	2,852
c. Transactions and balances with the Bank's subsidiary Sterling Investment Management Plc				
Debt instruments issued by the Bank	-	-	25,715	25,709
Other liabilities	-	-	75	-
Interest expense	-	-	4,391	4,358

(ii) Transactions with key management personnel

Key management personnel has been defined as the executive directors and non-executive directors of the Group. Key management personnel and their close family members engaged in the following transactions with the Group during the year:

<i>In millions of Naira</i>	Group 2020	Group 2019	Bank 2020	Bank 2019
Secured loans and advances	374	343	374	343
Deposit liabilities (related parties and key management personnel)	13,467	14,488	13,467	14,488

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

34 Related party transactions - continued**(iii) Compensation of key management personnel:**

The amounts disclosed in the table below are the amounts recognised as an expense during the year related to key executive directors.

<i>In millions of Naira</i>	Group 2020	Group 2019	Bank 2020	Bank 2019
Executive compensation	156	136	156	136
Pension contributions	14	11	14	11
	170	147	170	147

- (iv) Directors' remuneration below relates to payment made to non-executive directors and charged as expense during the year. The non-executive directors do not receive pension entitlements from the Bank.

<i>In millions of Naira</i>	Group 2020	Group 2019	Bank 2020	Bank 2019
Directors' remuneration				
Fees as directors	75	75	75	75
Other emoluments**	53	33	53	33
	128	108	128	108

**2019 other emoluments figure previously stated at N210m has been represented to exclude directors expenses captured as remuneration.

(v) Terms and conditions of transactions with related parties

The above-mentioned outstanding balances arose from the ordinary course of business. The interest rates charged to and by related parties are at normal commercial rates. Outstanding balances at the year-end are secured. For the year ended 31 December 2020, the related parties facilities are performing and the Group has not made any provision for impairment on the facilities. (2019: Nil).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

34b Insider Related Credits

Insider Related Credits are disclosed below in accordance to Central Bank of Nigeria Circular BSD/1/2004

The Group granted various credit facilities meeting the definition of insider related credits at rates and terms comparable to other facilities in the Group's portfolio. An aggregate of N6.0billion (2019: N10.0billion) relating to the Directors and some employees were outstanding on these facilities at the end of the period/year.

31 December 2020

NAME OF BORROWERS	RELATIONSHIP TO REPORTING INSTITUTION	NAME OF THE RELATED INTEREST	DATE GRANTED	EXPIRY DATE	FACILITY LIMIT (N'million)	OUTSTANDING CREDIT (N'million)	STATUS	PERFECTED SECURITY/NATURE	FACILITY TYPE
Conoil Plc	Shareholder	Mike Adenuga	05-Nov-19	26-Feb-21	12,187	4,337	Performing	Negative Pledge	Overdraft
Olufunmilola Osunsade	Related to a Shareholder	Mike Adenuga	01-Jul-20	31-Jul-23	2	1	Performing	Personal Guarantee	Overdraft
Do II Designs Limited	Related to a Director	Asue Ighodalo	14-Aug-20	15-Feb-21	50	7	Performing	Cash	Overdraft
Globalmix Capital Ltd.	Related to a Director	Asue Ighadalo	10-Aug-18	10-Aug-21	500	356	Performing	Legal Mortgage	Term Loan
Commercial Staff Loan	Employees	Employees	NA	NA	1,904	1,312	Performing	Lien on entitlements/ indemnity	Other Loans
TOTAL					14,643	6,013			

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

34b Insider Related Credits - continued

Letter of credit and bond guarantees.

31 December 2020

NAME OF BORROWERS	RELATIONSHIP TO REPORTING INSTITUTION	NAME OF THE RELATED INTEREST	DATE GRANTED	EXPIRY DATE	FACILITY LIMIT (N'million)	OUTSTANDING CREDIT (N'million)	STATUS	PERFECTED SECURITY/NATURE	FACILITY TYPE
Blue Camel Energy Limited	Related to a Director	Abubakar Suleiman	14-Sep-20	13-Mar-21	70	70	Performing	Lien on APG Proceeds	Bank Guarantee
Lenox And Blair Estate Ltd	Related to a Director	Tunde Adeola	29-Feb-16	24-Feb-21	9	9	Performing	Equitable Mortgage	Bank Guarantee
Blue Camel Energy Limited	Related to a Director	Abubakar Suleiman	14-Sep-20	13-Mar-21	46	46	Performing	Lien on APG Proceeds	Bank Guarantee
Audeo Clothing Company Ltd	Related to a Director	Tunde Adeola	07-Jan-15	23-Dec-24	14	14	Performing	Legal Mortgage and Debenture	Bank Guarantee
Blue Camel Energy Limited	Related to a Director	Abubakar Suleiman	07-Aug-20	31-Mar-21	884	884	Performing	Cash / Personal Guarantee	Letter Of Credit
Rite Foods Limited	Related to a Director	Tairat Tijani	23-Mar-20	23-Mar-21	2,598	2,598	Performing	Legal Mortgage and Debenture	Letter Of Credit
Lotus Capital	Related to a Director	Tunde Adeola	19-Oct-16	18-Oct-21	500	500	Performing	Lien on Cash Deposit	Bank Guarantee
TOTAL - CONTINGENT (Letters of credit and bond guarantees)					4,121	4,121			

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

34b Insider Related Credits - Continued

31 December 2019

NAME OF BORROWERS	RELATIONSHIP TO REPORTING INSTITUTION	NAME OF THE RELATED INTEREST	DATE GRANTED	EXPIRY DATE	FACILITY LIMIT (N'million)	OUTSTANDING CREDIT (N'million)	STATUS	PERFECTED SECURITY/NATURE	FACILITY TYPE
CONOIL PLC	Related to a Director	Michael Jituboh	22-Feb-18	28-Feb-20	12,187	8,183	PERFORMING	Negative Pledge	OVERDRAFT
RITE FOODS LIMITED	Related to a Director	Tairat Tijani	31-Jul-14	30-Jun-21	1,000	372	PERFORMING	Legal Mortgage and Debenture	OTHER LOANS
OSUNSADE OLUFUNMILOLA	Related to a Director	Michael Jituboh	19-Jul-17	31-Jul-20	2	2	PERFORMING	Personal Guarantee	OVERDRAFT
COMMERCIAL STAFF LOAN	Employees	Employees	NA	NA	2,469	1,564	PERFORMING	Lien on entitlements/ indemnity	OTHER LOANS
TOTAL					15,658	10,121			

Letter of credit and guarantees

31 December 2019

NAME OF BORROWERS	RELATIONSHIP TO REPORTING INSTITUTION	NAME OF THE RELATED INTEREST	DATE GRANTED	EXPIRY DATE	FACILITY LIMIT (N'million)	OUTSTANDING CREDIT (N'million)	STATUS	PERFECTED SECURITY/NATURE	FACILITY TYPE
BLUE CAMEL ENERGY LIMITED	Related to a Director	Abubakar Suleiman	27-Nov-19	27-Mar-20	216	216	Performing	Lien on Proceeds of APG and Personal Guarantee	BANK GUARANTEE
RITE FOODS LIMITED+B58	Related to a Director	Tairat Tijani	08-Dec-14	02-Mar-21	1,244	1,244	Performing	Legal Mortgage and Debenture	BANK GUARANTEE
RITE FOODS LIMITED	Related to a Director	Tairat Tijani	08-Dec-14	02-Mar-21	122	122	Performing	Legal Mortgage and Debenture	LETTER OF CREDIT
AUDEO CLOTHING COMPANY LTD	Related to a Management Staff	Tunde Adeola	07-Jan-15	23-Dec-24	21	21	Performing	Legal Mortgage	BANK GUARANTEE
LOTUS CAPITAL	Related to a Management Staff	Tunde Adeola	19-Oct-16	18-Oct-21	500	500	Performing	Lien on Cash Deposit	BANK GUARANTEE
DO II DESIGNS LIMITED	Related to a Director	Asue Ighodalo	11-Dec-19	09-Feb-20	4	4	Performing	Cash	BANK GUARANTEE
CONOIL PLC	Shareholder	Mike Adenuga	08-Oct-19	03-Apr-20	732	732	Performing	Negative Pledge	LETTER OF CREDIT
LENOX AND BLAIR ESTATE LTD	Related to a Management Staff	Tunde Adeola	29-Feb-16	24-Feb-21	9	9	Performing	Equitable Mortgage	BANK GUARANTEE
STATE BANK OF INDIA	Related to a Director	Grama Narasimhan	01-Feb-18	30-Jul-20	4	4	Performing	Corporate Guarantee	BANK GUARANTEE
TOTAL - CONTINGENT (Letters of credit and bond guarantees)					2,852	2,852			

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

35 Events after reporting date

There were no events after the reporting date which could have a material effect on the financial position of the Group and the Bank as at 31 December 2020 and profit and other comprehensive income attributable to equity holders on that date which have not been adequately adjusted for or disclosed.

<i>In millions of Naira</i>	Group 2020	Group 2019	Bank 2020	Bank 2019
36 Cash and cash equivalents				
Cash and foreign monies (Note 16)	35,530	23,572	35,530	23,572
Unrestricted balances with Central Bank of Nigeria (Note 16)	38,993	10,361	38,993	10,361
Balances held with local banks (Note 17)	5	7,407	-	7,407
Balances held with banks outside Nigeria (Note 17)	18,868	55,953	18,868	55,953
Money market placements (Note 17)	2,211	6,001	2,211	6,001
	<u>95,607</u>	<u>103,294</u>	<u>95,602</u>	<u>103,294</u>

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management

(a) Introduction and overview

Risks are inherent in the lending, trading and all other intermediation activities of the Group. In managing these risks, the Group has adopted an Enterprise Risk Management philosophy of building a sound, safe and stable financial institution through the efficient management of risks. In achieving this, the Group has adopted a standard template and common methodology for risk identification, measurement, management and control.

The Group is exposed to various risks including Credit Risk, Liquidity Risk, Market Risk and Operational Risk in the trading book and banking book. The Group has put in place approved policies, procedures and guidelines for identifying, measuring, managing and controlling these risks.

Risk management framework

To achieve its risk management objectives, the Group has a risk management framework that comprises the following elements:

- Risk management objectives and philosophy
- Governance structure
- Roles and responsibilities for managing risks
- Risk management process

Three Lines of Defense

The philosophy of three lines defense have been adopted in the Group for proactive and efficient identification and management of risks inherent in the Group's activities, processes, system, products and external events as follows:

First line of defence – Strategic Business Functions

This consists of business units and line functions with primary responsibilities for risk management. The first line of defense includes business owners who execute transactions in the Group with the following risk management responsibilities;

- Identify emerging risks at the transaction/business unit level and conduct material risk assessments, at least annually;
- Imbibe risk culture in order to align risk management with business objectives; and
- Implement controls to reduce the likelihood and impact of risks.

Second line of defense – Independent Risk and Control Oversight

This consists of functions responsible for providing independent oversight over key risks like credit, market, liquidity and operational risk and facilitating the implementation of risk controls to ensure that the business and process owners operate within the defined risk appetite and align with approved policies and procedures. They formulate risk management policies, processes and controls, provide guidance and coordination of activities of all other monitoring functions within the Group and identify enterprise trends, synergies and opportunities for change.

Third line of defense – Independent Assurance

This consists of all functions with primary responsibilities for evaluating and providing independent assurance on the adequacy, appropriateness and effectiveness of the risk management process and policy. This function is performed by internal and external audit.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**37 Financial risk management - continued****(b) Risk Management Structure**

The responsibility for management of risk exposure of the Group rests with the Board, this responsibility is delegated to various committees of the Board.

The Board Risk Management Committee (BRMC) is designated with the responsibility of managing the overall risk exposure of the Group. The Committee reviews and recommends risk management policies and procedures for Board approval.

The Board Credit Committee (BCC) acts on behalf of the Board of Directors on all credit matters. It considers and approves lending exposures, treasury investments exposures, as well as other credit exposures that exceed the mandated approval limit of the Management.

The Management Risk Committee (MRC) is responsible for planning and management of the Group's overall risk profile; including the determination of the Group's risk philosophy, appetite, limits and policies.

The Management Credit Committee (MCC) is vested with the responsibility of credit policy articulation and credit approval that falls within the mandated approval limit. It reviews and recommends credit policy direction to the BCC.

The Assets and Liability Committee ensures that the Group has adequate liquidity to meet the funding need of the Group, and also manages the interest rate and foreign exchange risk of the Group. The Committee also reviews the economic outlook and its likely impact on the Group's current and future performance.

The Criticised Assets Committee (CAC) reviews the non-performing loans and recommends strategies for recovery of bad loans. The Committee also reviews the Group's loan portfolio and validates collateral documentation.

The Enterprise Risk Management Group is saddled with the responsibility of implementing and supervising all risk management policies, guidelines and procedures.

The Conduct and Compliance Department monitors compliance with risk principles, policies and limits across the Group. Exceptions are reported on a daily basis to the management and appropriate action are taken to address the threats.

The Internal Audit Department as part of its annual audit programme, examines the adequacy and level of compliance with the procedures. Result of assessments, findings and recommendations are discussed with the relevant departments, and reported to the Board Audit Committee.

(c) Risk measurement and reporting systems

Quantitative and qualitative assessment of credit risks is carried out through a rigorous internal ratings system. The Group also carries out scenario analysis as stated in the Group's credit policy guide and stress testing to identify potential exposure under stressed market situations.

Monitoring and controlling of risk is done by ensuring that limits established are strictly complied with and that such limit reflects both the quantitative and qualitative risk appetite of the Group. Particular emphasis is placed on the Risk Acceptance Criteria (RAC). Furthermore, the Group's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Risk Information compiled from all business activities of the Group is analyzed and processed on a timely basis for informed management decision. The Management Risk Committee (MRC) and the Board Risk Management Committee (BRMC) which constitute the supervisory body are updated on the risk profile of the Group through regular risk reports.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

(d) Risk Mitigation

The Group has in place a set of management actions to prevent or mitigate the impact of business risks on earnings. Business risk monitoring, through regular reports and oversight, results in corrective actions to plans and ensure reductions in exposures where necessary. Credit control and mitigation policies are also in place. Collateral policies are designed to ensure that the Group's exposure is secured, and to minimize the risk of credit losses to the Group in the event of decline in quality or delinquency of assets.

Guidelines for accepting credit collateral are documented and articulated in the Credit Policy Guidelines (CPG). These include;

- a. Acceptable collateral for each credit product;
- b. Required documentation/perfection of collaterals;
- c. Conditions for waiver of collateral requirement and approval of collateral waiver; and
- d. Acceptance of cash and other forms of collateral denominated in foreign currency.

Finally, master netting arrangements for credit facilities collateralised partly with deposits are settled by set-off based on underlying set-off agreement.

(e) Risk Appetite

The Group's risk appetite is an expression of the maximum level of risk the Group is willing and able to accept in pursuit of its strategic and financial objectives expressed in the strategic plan.

The risk appetite statement expresses the degree of risk acceptable to the group in achieving its strategic plan. The group shall consider the following in defining the Risk Appetite Statement:

- Strategic Objectives
- Management perspective
- Economic conditions
- Stakeholders expectations
- Target benchmarking
- Regulatory threshold

The methodology described below is used in updating the Group's risk appetite framework.



NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

(f) Concentration Risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid concentration risk, credit concentration limits are set and monitored along industries and sectors, geography, collaterals and products. The ultimate objective of managing credit portfolio concentration risk is to ensure proper diversification of the risk assets portfolio. Concentration limits are also in place to manage Investment Portfolio and customer deposit concentration in the management of liquidity risk.

(g) Credit Risk Management

The Group's credit risk management activities are based on certain fundamental principles.

The effectiveness of risk management process throughout the Group is based on a formal governance structure with systemic reporting processes within a well-defined control environment.

The Group's risk policy allows its personnel take initiatives and responsibility towards proactive identification of risks in products and services delivered to the market.

The Group's risk assets are managed to help provide the liquidity to meet deposit withdrawals, cover all expenses, and still make sufficient profit.

Credit risks are examined for all credit-related transactions including investments and trading transactions. Credit risks are examined and managed for unfunded loan commitments in addition to funded loans and leases.

(h) Risk Management Architecture

Risks are managed such that the risk profile and the Group's reputation are aligned with the Group's objective of conservative risk appetite, balanced against a desire for reasonable returns.

(i) Organization Structure

Sterling Bank is a national bank having divested its subsidiaries and affiliates following receipt of its new national commercial banking license in 2011 financial year. Sterling Bank has restructured its business activities along business lines with primary focus on the following market segments:

- Corporate and Investment Banking
- Commercial Banking
- Institutional Banking
- Retail and Consumer Banking
- Non Interest Banking
- Sterling Investment Management Plc

Corporate and Investment Banking – The Corporate and Investment Banking Group provides services to corporate entities with annual turnover greater than N5 billion. The target market covers the following sectors: oil and gas, public sector, manufacturing, power and utilities, telecommunications and financial institutions.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

(i) Organization Structure - continued

Commercial and Institutional Banking –. The Commercial and Institutional Banking Group provides services to businesses with turnover above N600 million and below N5 Billion and public sector entities.

The Retail Banking –Retail Banking Group serves individuals consisting of mass market, affluent, youths and high net worth. The Retail Banking Group customer segmentation consist of:

- High net-worth individuals who earn N30 million (thirty million naira) and above annually or have net investable assets of \$150,000 (one hundred and fifty thousand US dollars) and above
- Mass affluent professionals who earn between N6 million (six million naira) and N30million (thirty million naira) annually
- Mass market professionals who earn less than N6 million (six million naira) annually
- Youth below 25 years of age

The Bank's product include: savings accounts, current accounts, fixed deposit accounts, e-banking, local and international funds transfer, trade finance, project finance, mortgage finance, bankers' acceptances and commercial paper.

In addition to the business segments, the Bank is also supported by the activities of the following Strategic Resource Functions:

- Enterprise Risk Management
- Internal Audit
- Strategy and Communication
- Finance and Performance Management
- General Internal Services
- Human Capital Management
- Channel Operations
- Trade Services
- Information Technology
- ☑ Customer Experience Management
- Legal and Company Secretariat
- Conduct & Compliance
- Centralised Processing
- Health, Safety and Environment
- Enterprise Quality Assurance

(j) Methodology for Risk Rating

The Group has a credit rating and scoring system developed for rating exposures. They were developed in line with international best practice. Exposures are created by Corporate, Commercial and Retail business segments. The credit risk rating system assigns scores using various risk parameters based on the information provided by the borrower.

The rating is derived by adding the scores from all the risk parameters and the outcome of the rating is important for approval / rejection of the loan request.

Retail Loans:

Retail loans are governed by standard credit product programs and categorized as Consumer & MSME loans. Consumer loans are availed to individuals while MSME loans are granted to unstructured businesses. Unstructured businesses are small and medium scale businesses that rarely keep proper accounting records. Retail and SME scorecards are used for assessing Consumer and MSME loans respectively.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

(j) Methodology for risk rating - continued

Commercial and Corporate Loans:

Commercial and Corporate Customers are rated using risk rating models. Depending on the underlying business transaction, Specialized Lending Models are also used for assessing specialized loans to Corporate and Commercial Customers. The rating methodology is based on both quantitative and qualitative factors. Quantitative factors are mainly the financial ratios, account conduct among others. Qualitative factors are based on the following risk categories: a. Business Risk b. Industry Risk c. Management Risk

Credit Scoring System:

The risk rating methodology is based on the following fundamental analyses (financial analysis and non- financial analysis):

Structured Businesses

The factors to be considered are:

Quantitative factors are basically the financial ratios which include:

- a. Leverage ratios
- b. Liquidity ratios
- c. Profitability ratios
- d. Interest Coverage ratios
- e. Activity ratio

Qualitative factors. These include:

- a. Industry
 - i. Size of the business
 - ii. Industry growth
 - iii. Market Competition
 - iv. Entry/Exit barriers
- b. Management:
 - i. Experience of the management team
 - ii. Succession Planning
 - iii. Organizational structure
- c. Security:
 - i. Collateral type
 - ii. Collateral coverage
 - iii. Guarantee i.e. the worth of Personal Guarantee/Corporate Guarantee pledged as support.
- d. Relationship with the Bank:
 - i. Account turnover (efficiency ratio)
 - ii. Account conduct
 - iii. Compliance with covenants/conditions
 - iv. Personal deposits with the bank.

Unstructured Businesses:

These are customers that rarely keep proper accounting records, hence the maximum limit that can be availed to them is restricted to N20m.

The factors to be considered are:

Quantitative factors. These include:

Relationship:

- i) Contract related transactions
- a) Net Profit Margin
- b) Counterparty – Nature/Financial capacity of the Principals

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

(j) Methodology for Risk Rating - continued

- ii) Other Facilities
- a) Account turnover
- b) Repayment history

Qualitative factors. These include:

Management:

- i. Experience/Technical competence with evidence
- ii. Succession Planning

- i. Industry
- ii. Industry growth
- iii. Share of the market
- iv. Regulations: Whether the industry is regulated or not
- v. Entry/Exit

In general, the following are considered in assessing facility request

(i) Character

Fundamental to every credit decision is the honesty and integrity of the individuals to whom the Group lends directly or who manage the enterprises to which the Group lends. Character is the single most important factor in the credit decision.

(ii) Capacity

The acceptance of a credit depends upon an objective evaluation of the customer's ability to repay the borrowed funds. To establish this, profitability and liquidity ratios are used as part of the assessment.

(iii) Capital

The borrower must provide capital for anticipated adversity. The index to determine capital should be leverage for overdraft, lease and term loan facilities.

(iv) Cash Collateralised Facilities

Cash collateralised facilities are not to be subjected to this scoring method, unless the character of the customer is questionable, in which case, the application is rejected. For cash collateralised facilities, the key issue is safety margin. Local cash deposits shall provide 110% coverage for the Bank's exposure. Foreign currency deposits pledged shall provide minimum 120% coverage for the Bank's exposure.

(v) Pricing

The pricing of facilities is done to reflect the inherent risks for accepting the exposure by the Group. The average score computed often determines the minimum level of interest chargeable. This interest rate determined would be a guide. For the purposes of clarity, a prime rate is determined by Asset and Liability Management Department and other rates are either above or below it. The average score computed often determine the minimum level of interest chargeable. This interest rate determined would be a guide.

(vi) Collateral/Security

Collateral, often referred to as credit risk mitigant, gives additional assurance to recovering loans granted to customers. The pledged collateral is documented and continuously reviewed as to its value and marketability.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Collaterals/securities are reviewed and scored based on the following parameters:

- Whether secured or not secured
- If secured, what type of security
- Perfectible legal mortgage
- Equitable mortgage
- Chattel mortgages
- Location of security/collateral
- Loan to value ratio of collateral offered
- Marketability of security/collateral
- Whether collateral is a specialised asset or general purpose - type asset.
- Depreciating or appreciating value over time.

Enterprise risk review

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Risks are an inevitable consequence of being in business.

The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by Enterprise Risk Management Group (ERM) within the policies approved by the Board of Directors. The ERM group identifies, evaluates and manages respective aspects of financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as liquidity risk, foreign exchange risk, interest rate risk, credit risk, market risk and operational risk. In addition, the Audit Division is responsible for the independent review of risk management and the control environment. The most important types of risk are Credit risk, Liquidity risk, Market risk and Operational risk. Market risk includes currency risk, interest rate and other price risk.

37.1 Credit risk

Credit exposures arise principally in lending activities carried out through loans and advances, debt securities and other instruments in the Group's risk asset portfolio. Credit risk is also inherent in off-balance sheet financial instruments.

The Group manages credit risks, which has been defined as the potential for a counterparty to default on financial obligations leading to financial losses. Credit risk is the principal source of risk to the Group arising from loans and advances extended to customers under the corporate, commercial, and retail business lines.

There is also credit risk in off-balance sheet financial instruments. Credit risk is managed by the Enterprise Risk Management Group (ERM). They report to the MD/Chief Executive Officer who in turn reports to the Board of Directors.

Main Characteristics and Elements of Credit Risk Management;

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

(a) Credit Portfolio Planning

In line with the Group's planning cycle, credit portfolio plans are developed and approved at the overall Group and individual business unit level.

Credit portfolio planning entails definition and agreement of target risk asset threshold for different sectors, definition of target markets and criteria for risk acceptance at the corporate level and across each credit creating business unit in the Group.

(b) Exposure Development and Creation

Exposure Development and creation incorporates the procedures for preliminary screening of facility requests, detailed credit risk analysis and risk rating, risk triggered review and approval of facilities, and controlled credit avilment of approved facilities, processes and guidelines for developing credit opportunities and creating quality risk assets in line with the Group's risk management policies.

(c) Exposure Management

To minimize the risk and occurrence of loss as a result of decline in quality and non-performance of risk assets, clear guidelines for management of the risk asset portfolio and individual risk exposures are defined. Exposure management entails collateral management, facility performance monitoring, quality reviews, risk asset classification and reporting.

(d) Delinquency Management/Loan Workout

In the undesired event of decline in risk asset quality, prompt identification and management of delinquent loans significantly reduces credit risk losses in the Group. The delinquency management/loan workout module of the integrated risk management framework outlines the approach for identification and management of declining credit quality. This also covers loan workout where all activities are geared towards resuscitating non-performing loans, and the first stage in the process of recognizing possible credit loss.

(e) Credit Recovery

Deliberate actions are taken proactively to minimize the Group's loss on non-performing loans. Directions are provided in the Credit Policy guide for winding down the Group's exposure, waivers, write-offs, etc. In the event of recovery, process for recognizing income and previously written-off amounts is also defined.

The Group's Risk Management Objectives and Policies

The Group's risk management objectives and policies for credit risk include the following:

1. To ensure optimal earnings through high quality risk portfolio.
2. Clear articulation of criteria for decision making.
3. Description of specific activities and tasks with respect to the creation and management of risk assets.
4. Description of specific activities and tasks in respect of the creation and management of risk assets.
4. Definition of non-performing loans as those with interest and principal repayment outstanding for 90 days or more.
5. Other criteria are also defined for determining impaired loans. These include:
 - Borrower's business recording consistent losses which might impair the cash flow, and loan repayment.
 - Borrower's networth being grossly eroded due to some macroeconomic events.
 - Lack of commuication from the borrower.
 - Security offered has deteriorated in value and full payment cannot be guaranteed from normal operating sources.
 - Where the Group consents to loan restructuring, resulting in diminished financial obligation.
 - Demonstrated material forgiveness of debt or postponement of scheduled payment.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Categorization of collaterals to determine the acceptable security for the mitigation of impairment impact on the Income Statement.

(f) Risk Management Architecture

Risks are managed such that the risk profile and the Bank's reputation are aligned with the Group's objective of conservative risk appetite, balanced against a desire for reasonable returns.

(ii) Credit risk measurement

Before a sound and prudent credit decision can be made, the credit risk of the borrower or counterparty must be accurately assessed. Each application is analyzed and assigned one of 9 (nine) grades using a credit rating system developed by the Group for all exposures to credit risk. Each grade corresponds to a borrower's or counterparty's probability of default.

The Group's credit risk management activities are based on certain fundamental principles.

The effectiveness of risk management process throughout the Group is based on a simple formal governance structure with regular reporting processes within a well-defined control environment.

The Group's risk policy allows its personnel take initiatives and responsibility to proactively identify risks in delivering products and services to the market in a value-added manner.

The Group's risk assets are managed to help provide the liquidity to meet deposit withdrawals, cover all expenses, and still earn sufficient profit to make returns which are competitive with other investments.

Credit risks are examined for all credit-related transactions including investments and trading transactions, in addition to loans and leases. Credit risks are examined and managed for unfunded loan commitments in addition to funded loans and leases.

(iii) Credit granting process

Credit granting decisions are based on the results of the risk assessment. In addition, to the client's solvency, credit granting decisions are also influenced by factors such as available collateral, transaction compliance with policies and standards, procedures and the Group's overall risk-adjusted returns objective. Each credit granting decision is made by authorities within the risk management teams and management who are independent of the business units and are at a reporting level commensurate with the size of the proposed credit transaction and the associated risk.

(a) Loans and advances

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Group reflects the following components:

- (i) the character and capacity of the client or counterparty to pay down on its contractual obligations;
- (ii) current exposures to the counterparty and its likely future development;
- (iii) credit history of the counterparty; and
- (iv) the likely recovery ratio in case of default obligations -using value of collateral and other ways out.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

The Group's rating scale, which is shown below, reflects the range of scores defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their credit risk changes.

The risk rating scale and the external rating equivalent is detailed below:

Risk Rating	External Rating	Score	Remarks
	Equivalent	Range	
RR -1	AAA TO AA-	90-100	Superior
RR -2	A+ TO A-	80-89.99	Strong
RR -3	BBB+ TO BB-	70-79.99	Good
RR -4	BB+ TO BB-	50-69.99	Satisfactory
RR -5	B+ TO B-	40-49.99	High risk
RR -6	CCC+ TO CCC	30-39.99	Watch list
RR -7	CC+ TO C	20-29.99	Substandard
RR -8	D	10-19.99	Doubtful
RR -9	D	<10	Lost

(b) Debt Securities and Other Bills

For debt securities and other bills, external rating such as Augusto rating or their equivalents are used by Treasury Department primarily to manage their liquidity risk exposures.

(iv) Credit Risk Control & Mitigation policy

The Group manages concentration risks to counterparties, groups, sectors and countries. The level of credit risk undertaken is controlled by setting limits on exposures to individuals, groups, geographical and sectoral segments and facilitate continuous monitoring of adherence to set limits. The limits set are reviewed periodically and approved by the Board of Directors.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or groups of borrowers (single obligor limits), and to geographical and sectoral segments. Such risks are monitored on a revolving basis. Limits on the level of credit risk by industry sector and by geography are reviewed and approved quarterly by the Board of Directors.

The exposure to any borrower including banks and brokers is further restricted by sub-limits covering on- and off balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued**Enterprise risk review - continued****(iv) Credit Risk Control & Mitigation policy**

The Group also sets internal credit approval limits for various levels in the credit process and is shown in the table

Authority level	Approval limit (Naira)
Full Board	Above 1,500,000,000
Board, Credit Committee	1,500,000,000
Management Credit Committee	750,000,000
Managing Director	500,000,000
Executive Director	150,000,000

Approval limits are set by the Board of Directors and reviewed from time to time as the circumstances demand. Some other specific control and mitigation measures are outlined below:

(a) Collateral Acceptability

The guiding principles behind collateral acceptability are adequacy and marketability. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- i. Mortgages over residential properties;
- ii. Charges over business assets such as premises, inventory and accounts receivable;
- iii. Charges over financial instruments such as debt securities and equities.

Long-term finance and lending to corporate entities as well as individuals are generally secured. However, in order to minimize losses, the Group will seek additional collateral from the counterparty when there are indicators of devaluation in existing collateral value.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The following table shows the maximum exposure to credit risk by class of financial asset. It also shows the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

(b) Master Netting Arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if default occurs, all amounts with the counterparty are settled on net basis.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

<i>In millions of Naira</i>	2020	2019
Financial assets:		
Loans and advances	112,243	117,994
Financial liabilities:		
Collateralised deposits	103,876	113,019

These amounts are currently not presented net on the statement of financial position due to the performing status of the facilities; If the items were to be netted, the following net asset will be presented on the statement of financial position:

<i>In millions of Naira</i>	2020	2019
Net financial assets/ liabilities:		
Loans and advances	8,366	7,860

(c) Credit-related Commitments

The primary purpose of these instruments is to create other avenues for lending. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore, carry less risk than a direct loan.

(d) Credit Concentration

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

Breakdown of Exposures by Geographic Areas

31 December 2020

S/N	Region	2020	2019
	<i>In millions of Naira</i>		
1	Abuja	12,285	10,651
2	Lagos	391,644	444,639
3	North Central	23,102	22,480
4	North East	4,018	3,479
5	North West	6,120	4,879
6	South East	3,861	4,032
7	South South	114,140	90,344
8	South West	58,189	51,195
	Grand Total	613,359	631,698

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Enterprise risk review - continued

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

The Bank's maximum exposure to credit risk as at 31 December 2020 and 31 December 2019 is represented by the net carrying amounts of the financial assets set out below:

Group

Type of collateral or credit enhancement

31 December 2020

In millions of Naira

Financial assets

Cash and balances with Central Bank of Nigeria

Due from banks

Pledged assets

Loans and advances to customers

- Corporate loans

- Individual/retail loans

Debt instruments at amortised cost

Total financial assets at amortised cost

Derivative financial assets

- Financial assets at fair value through profit or loss

- Debt instruments at fair value through other comprehensive income

Total debt instruments at fair value through other comprehensive income

Financial guarantees

Letters of credit for customers

Maximum exposure to credit risk	Fair value of collateral and credit enhancements held						Total collateral value	Net exposure	Associated ECLs
	Cash	Secured against Real Estate	Stocks/shares	Debenture	Others				
Cash and balances with Central Bank of Nigeria	303,314	-	-	-	-	-	-	303,314	-
Due from banks	21,084	-	-	-	-	-	-	21,084	-
Pledged assets	34,861	-	-	-	-	-	-	34,861	(1)
Loans and advances to customers									
- Corporate loans	570,881	103,680	133,040	37,323	844,985	-	1,119,028	-	(14,111)
- Individual/retail loans	42,478	196	9,140	-	58	-	9,394	33,084	(2,421)
Debt instruments at amortised cost	110,241	-	-	-	-	-	-	110,241	(12)
Total financial assets at amortised cost	1,082,859	103,876	142,180	37,323	845,043	-	1,128,422	502,584	(16,545)
Derivative financial assets									
- Financial assets at fair value through profit or loss	1,454	-	-	-	-	-	-	1,454	-
	1,454	-	-	-	-	-	-	1,454	-
- Debt instruments at fair value through other comprehensive income	135,780	-	-	-	-	-	-	135,780	-
Total debt instruments at fair value through other comprehensive income	135,780	-	-	-	-	-	-	135,780	-
Financial guarantees	124,165	80,510	452	-	21,591	3,304	105,857	18,308	(279)
Letters of credit for customers	36,129	17,696	-	-	-	177	17,873	18,256	(29)
	1,380,387	202,082	142,632	37,323	866,634	3,481	1,252,152	676,382	(16,853)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Enterprise risk review - continued

Bank

Type of collateral or credit enhancement

31 December 2020

In millions of Naira

Financial assets

Cash and balances with Central Bank of Nigeria

Due from banks

Pledged assets

Loans and advances to customers

- Corporate loans

- Individual/retail loans

Debt instruments at amortised cost

Total financial assets at amortised cost

Derivative financial assets

- Financial assets at fair value through profit or loss

Total financial instruments at fair**value through profit or loss**- Debt instruments at fair value through other
comprehensive income**Total debt instruments at fair value**
through other comprehensive income

Financial guarantees

Letters of credit for customers

Maximum exposure to credit risk	Fair value of collateral and credit enhancements held						Total collaterals	Net exposure	Associated ECLs
	Cash	Secured against Real Estate	Stocks/shares	Debenture	Others				
Cash and balances with Central Bank of Nigeria	303,314	-	-	-	-	-	-	303,314	-
Due from banks	21,079	-	-	-	-	-	-	21,079	-
Pledged assets	34,861	-	-	-	-	-	-	34,861	(1)
Loans and advances to customers									
- Corporate loans	570,881	103,680	133,040	37,323	844,985	-	1,119,028	-	(14,111)
- Individual/retail loans	42,478	196	9,140	-	58	-	9,394	33,084	(2,421)
Debt instruments at amortised cost	93,244	-	-	-	-	-	-	93,244	(10)
Total financial assets at amortised cost	1,065,857	103,876	142,180	37,323	845,043	-	1,128,422	485,582	(16,543)
Derivative financial assets	-								
- Financial assets at fair value through profit or loss	1,454	-	-	-	-	-	-	1,454	-
Total financial instruments at fair value through profit or loss	1,454	-	-	-	-	-	-	1,454	-
- Debt instruments at fair value through other comprehensive income	135,780	-	-	-	-	-	-	135,780	-
Total debt instruments at fair value through other comprehensive income	135,780	-	-	-	-	-	-	135,780	-
Financial guarantees	124,165	80,510	452	-	21,591	3,304	105,857	18,308	(279)
Letters of credit for customers	36,129	17,696	-	-	-	177	17,873	18,256	(29)
	1,363,385	202,082	142,632	37,323	866,634	3,481	1,252,152	659,380	(16,851)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Enterprise risk review - continued

Group

Type of collateral or credit enhancement

31 December 2019

	Fair value of collateral and credit enhancements held								
	Maximum exposure to credit risk	Cash	Secured against Real Estate	Stocks/shares	Debenture	Others	Total collaterals	Net exposure	Associated ECLs
In millions of Naira									
Financial assets									
Cash and balances with Central Bank of Nigeria	156,059	-	-	-	-	-	-	156,059	-
Due from banks	69,361	-	-	-	-	7,200	7,200	62,161	-
Pledged assets	11,831	-	-	-	-	-	-	11,831	(4)
Loans and advances to customers	-	-	-	-	-	-	-	-	-
- Corporate loans	582,940	119,230	249,130	3,733	1,016,346	-	1,388,438	-	(11,119)
- Individual/retail loans	48,758	264	11,923	-	-	-	12,187	36,571	(1,847)
Debt instruments at amortised cost	102,075	-	-	-	-	-	-	102,075	(131)
Total financial assets at amortised cost	971,024	119,494	261,053	3,733	1,016,346	7,200	1,407,825	368,697	(13,100)
- Debt instruments at fair value through profit or loss	8,317	-	-	-	-	-	-	8,317	-
Total financial instruments at fair value through OCI	8,317	-	-	-	-	-	-	8,317	-
- Debt instruments at fair value through profit or loss	141,272	-	-	-	-	-	-	141,272	-
Total debt instruments at fair value through other comprehensive income	141,272	-	-	-	-	-	-	141,272	-
Financial guarantees	118,639	53,665	4,707	-	13,053	20,579	92,003	26,636	(18)
Letters of credit for customers	27,705	4,846	15,117	-	14,326	-	34,290	-	(4)
Other commitments	-	-	-	-	-	-	-	-	-
	1,266,957	178,005	280,877	3,733	1,043,725	27,779	1,534,118	544,922	(13,122)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Enterprise risk review - continued

Bank**Type of collateral or credit enhancement**

31 December 2019

	Fair value of collateral and credit enhancements held								
	Maximum exposure to credit risk	Cash	Secured against Real Estate	Stocks/shares	Debenture	Others	Total collaterals	Net exposure	Associated ECLs
In millions of Naira									
Financial assets									
Cash and balances with Central Bank of Nigeria	156,059	-	-	-	-	-	-	156,059	-
Due from banks	69,361	-	-	-	-	7,200	7,200	62,161	-
Pledged assets	11,831	-	-	-	-	-	-	11,831	(4)
Loans and advances to customers	-	-	-	-	-	-	-	-	-
- Corporate loans	582,940	119,230	249,130	3,733	1,016,346	-	1,388,438	-	(11,119)
- Individual/retail loans	48,758	264	11,923	-	-	-	12,187	36,571	(1,847)
Debt instruments at amortised cost	84,884	-	-	-	-	-	-	84,884	(117)
Total financial assets at amortised cost	953,833	119,494	261,053	3,733	1,016,346	7,200	1,407,825	351,506	(13,086)
Derivative financial assets									
- Debt instruments at fair value through profit or loss	8,317	-	-	-	-	-	-	8,317	0
Total financial instruments at fair value through OCI	8,317	-	-	-	-	-	-	8,317	-
- Debt instruments at fair value through profit or loss	141,272	-	-	-	-	-	-	4,110	-
Total debt instruments at fair value through other comprehensive income	141,272	-	-	-	-	-	-	141,272	-
Financial guarantees	118,639	53,665	4,707	-	13,053	20,579	92,003	26,636	-
Letters of credit for customers	27,705	4,846	15,117	-	14,326	-	34,290	-	(18)
Other commitments	-	-	-	-	-	-	-	-	(4)
	1,249,766	178,005	280,877	3,733	1,043,725	27,779	1,534,118	527,731	(13,108)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Enterprise risk review - continued

Credit concentrations

The Group monitors concentrations of credit risk by sector and by geographical location. An analysis of concentrations of credit risk at 31 December 2020, is set out below:

Group	Cash and bank balances	Due from banks	Pledged assets	Loans and advances	Debt instruments at fair value through profit or loss	Debt instruments at amortised cost	Debt instruments at fair value through OCI	Financial guarantees	Letters of credit for customers	Total
31 December 2020										
In millions of Naira										
<i>Concentration by sector:</i>										
Corporate	-	-	120	-	-	0	8,528	-	-	8,648
Agriculture	-	-	-	55,099	-	-	-	2	2	55,103
Capital Market	-	-	-	-	-	-	-	-	-	-
Communication	-	-	-	16,401	-	-	-	203	108	16,712
Consumer	-	-	-	34,733	-	-	-	-	-	34,733
Education	-	-	-	1,542	-	-	-	-	-	1,542
Finance and Insurance	35,530	21,084	-	26,380	-	-	-	1,330	-	84,324
Government	267,784	-	34,740	84,006	1,454	110,229	127,252	15,837	7,097	648,399
Manufacturing	-	-	-	7,154	-	-	-	2,265	14,042	23,461
Mining & Quarrying	-	-	-	1	-	-	-	-	-	1
Mortgage	-	-	-	3,093	-	-	-	-	-	3,093
Oil & Gas	-	-	-	197,229	-	-	-	14,611	10,026	221,866
Other Public Utilities	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	28,781	-	-	-	7,671	1,746	38,198
Power	-	-	-	23,499	-	-	-	192	3,067	26,758
Real Estate & Construction	-	-	-	77,242	-	-	-	60,400	-	137,642
Transportation	-	-	-	19,511	-	-	-	21,375	12	40,898
Non-Interest Banking	-	-	-	22,156	-	-	-	-	-	22,156
	303,314	21,084	34,860	596,827	1,454	110,229	135,780	123,886	36,100	1,363,534
<i>Concentration by location:</i>										
Nigeria	303,314	2,215	34,860	596,827	1,454	110,229	135,780	123,886	36,100	1,344,665
America	-	9,016	-	-	-	-	-	-	-	9,016
Europe	-	9,823	-	-	-	-	-	-	-	9,823
Africa	-	28	-	-	-	-	-	-	-	28
Asia	-	2	-	-	-	-	-	-	-	2
	303,314	21,084	34,860	596,827	1,454	110,229	135,780	123,886	36,100	1,363,534

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Enterprise risk review - continued

Bank	Cash and bank balances	Due from banks	Pledged assets	Loans and advances	Debt instruments at fair value through profit or loss	Debt instruments at amortised cost	Debt instruments at fair value through OCI	Financial guarantees	Letters of credit for customers	Total
31 December 2020										
In millions of Naira										
<i>Concentration by sector:</i>										
Corporate	-	-	120	-	-	-	8,528	-	-	8,648
Agriculture	-	-	-	55,099	-	-	-	2	2	55,103
Capital Market	-	-	-	-	-	-	-	-	-	-
Communication	-	-	-	16,401	-	-	-	203	108	16,712
Consumer	-	-	-	34,733	-	-	-	-	-	34,733
Education	-	-	-	1,542	-	-	-	-	-	1,542
Finance and Insurance	35,530	21,079	-	26,380	-	-	-	1,330	-	84,319
Government	267,784	-	34,740	84,006	1,454	93,234	127,252	15,837	7,097	631,404
Manufacturing	-	-	-	7,154	-	-	-	2,265	14,042	23,461
Mining & Quarrying	-	-	-	1	-	-	-	-	-	1
Mortgage	-	-	-	3,093	-	-	-	-	-	3,093
Oil & Gas	-	-	-	197,229	-	-	-	14,611	10,026	221,866
Other Public Utilities	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	28,781	-	-	-	7,671	1,746	38,198
Power	-	-	-	23,499	-	-	-	192	3,067	26,758
Real Estate & Construction	-	-	-	77,242	-	-	-	60,400	-	137,642
Transportation	-	-	-	19,511	-	-	-	21,375	12	40,898
Non-Interest Banking	-	-	-	22,156	-	-	-	-	-	22,156
	303,314	21,079	34,860	596,827	1,454	93,234	135,780	123,886	36,100	1,346,534
<i>Concentration by location:</i>										
Nigeria	303,314	2,210	34,860	596,827	1,454	93,234	135,780	123,886	36,100	1,327,665
America	-	9,016	-	-	-	-	-	-	-	9,016
Europe	-	9,823	-	-	-	-	-	-	-	9,823
Africa	-	28	-	-	-	-	-	-	-	28
Asia	-	2	-	-	-	-	-	-	-	2
	303,314	21,079	34,860	596,827	1,454	93,234	135,780	123,886	36,100	1,346,534

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Enterprise risk review - continued

Credit concentrations

The Group monitors concentrations of credit risk by sector and by geographical location. An analysis of concentrations of credit risk at 31 December 2019, is set out below:

Group	Cash and bank balances	Due from banks	Pledged assets	Loans and advances	Debt instruments at fair value through profit or loss	Debt instruments at amortised cost	Debt instruments at fair value through OCI	Financial guarantees	Letters of credit for customers	Total
31 December 2019										
In millions of Naira										
<i>Concentration by sector:</i>										
Corporate	-	-	-	-	-	317	5,545	-	-	5,862
Agriculture	-	-	-	39,278	-	-	-	142	348	39,768
Capital Market	-	-	-	-	-	-	-	-	-	-
Communication	-	-	-	15,486	-	-	-	1,574	208	17,268
Consumer	-	-	-	41,988	-	-	-	-	-	41,988
Education	-	-	-	781	-	-	-	-	-	781
Finance and Insurance	-	69,361	-	28,760	-	-	-	948	-	99,069
Government	132,487	-	11,831	78,816	8,317	101,627	135,727	14,474	10,617	493,896
Manufacturing	-	-	-	5,742	-	-	-	4,285	6,774	16,801
Mining & Quarrying	-	-	-	3	-	-	-	-	-	3
Mortgage	-	-	-	3,466	-	-	-	-	-	3,466
Oil & Gas	-	-	-	214,743	-	-	-	8,420	5,686	228,849
Other Public Utilities	-	-	-	-	-	-	-	-	-	-
Others	23,572	-	-	42,025	-	-	-	6,951	2,900	75,448
Power	-	-	-	23,814	-	-	-	216	136	24,166
Real Estate & Construction	-	-	-	69,177	-	-	-	42,568	-	111,745
Transportation	-	-	-	30,107	-	-	-	39,061	1,035	70,203
Non-Interest Banking	-	-	-	24,547	-	-	-	-	-	24,547
	156,059	69,361	11,831	618,732	8,317	101,944	141,272	118,639	27,705	1,253,860
<i>Concentration by location:</i>										
Nigeria	156,059	13,562	11,831	618,732	8,317	101,944	141,272	118,639	27,705	1,198,061
America	-	24,380	-	-	-	-	-	-	-	24,380
Europe	-	13,152	-	-	-	-	-	-	-	13,152
Africa	-	18,267	-	-	-	-	-	-	-	18,267
Asia	-	-	-	-	-	-	-	-	-	-
	156,059	69,362	11,831	618,732	8,317	101,944	141,272	118,639	27,705	1,253,860

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Enterprise risk review - continued

Bank					Debt instruments at fair value through profit or loss	Debt instruments at amortised cost	Debt instruments at fair value through OCI	Financial guarantees	Letters of credit for customers	Total
31 December 2019	Cash and bank balances	Due from banks	Pledged assets	Loans and advances						
In millions of Naira										
<i>Concentration by sector:</i>										
Corporate	-	-	-	-	-	317	5,545	-	-	5,862
Agriculture	-	-	-	39,278	-	-	-	142	348	39,768
Capital Market	-	-	-	-	-	-	-	-	-	-
Communication	-	-	-	15,486	-	-	-	1,574	208	17,268
Consumer	-	-	-	41,988	-	-	-	-	-	41,988
Education	-	-	-	781	-	-	-	-	-	781
Finance and Insurance	-	69,361	-	28,760	-	-	-	948	-	99,069
Government	132,487	-	11,831	78,816	8,317	84,450	135,727	14,474	10,617	476,719
Manufacturing	-	-	-	5,742	-	-	-	4,285	6,774	16,801
Mining & Quarrying	-	-	-	3	-	-	-	-	-	3
Mortgage	-	-	-	3,466	-	-	-	-	-	3,466
Oil & Gas	-	-	-	214,743	-	-	-	8,420	5,686	228,849
Other Public Utilities	-	-	-	-	-	-	-	-	-	-
Others	23,572	-	-	42,025	-	-	-	6,951	2,900	75,448
Power	-	-	-	23,814	-	-	-	216	136	24,166
Real Estate & Construction	-	-	-	69,177	-	-	-	42,568	-	111,745
Transportation	-	-	-	30,107	-	-	-	39,061	1,035	70,203
Non-Interest Banking	-	-	-	24,547	-	-	-	-	-	24,547
	156,059	69,361	11,831	618,732	8,317	84,767	141,272	118,639	27,705	1,236,683
<i>Concentration by location:</i>										
Nigeria	156,059	13,562	11,831	618,732	8,317	84,767	141,272	118,639	27,705	1,180,884
America	-	24,380	-	-	-	-	-	-	-	24,380
Europe	-	13,152	-	-	-	-	-	-	-	13,152
Africa	-	18,267	-	-	-	-	-	-	-	18,267
Asia	-	-	-	-	-	-	-	-	-	-
	156,059	69,361	11,831	618,732	8,317	84,767	141,272	118,639	27,705	1,236,683

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Enterprise risk review - continued

Exposure to credit risk - continued

Commitments and Guarantees

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are, therefore, part of the overall risk of the Group.

The table below shows the Group's maximum credit risk exposure for commitments and guarantees. The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Group could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the statement of financial position.

GROUP & BANK	2020	2019
<i>In millions of Naira</i>		
Bonds, guarantees and indemnities	124,165	118,639
Letters of credit	36,129	27,705
	<u>160,294</u>	<u>146,344</u>

Maturity profile of contingents and commitments

As at 31 December 2020	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
<i>In millions of Naira</i>						
Bonds, guarantees and indemnities	-	6,295	68,157	27,161	22,551	124,165
Letters of credit	-	29,017	7,097	15	-	36,129
Total undiscounted financial assets (A)	-	<u>35,313</u>	<u>75,254</u>	<u>27,176</u>	<u>22,551</u>	<u>160,294</u>

As at 31 December 2019	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
	N'000	N'000	N'000	N'000	N'000	N'000
Bonds, guarantees and indemnities	-	5,307	43,409	37,854	32,068	118,639
Letters of credit	-	27,705	-	-	-	27,705
Total undiscounted financial assets (A)	-	<u>33,012</u>	<u>43,409</u>	<u>37,854</u>	<u>32,068</u>	<u>146,344</u>

37 Financial Risk Management - continued

Annual Report, Consolidated and Separate Financial Statements
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Enterprise Risk Review - continued

Exposure to Credit Risk - continued

CREDIT QUALITY OF FINANCIAL ASSETS - continued

The Standardized Approach has been used in assessing the Bank's capital requirement and all corporate exposures were classified as unrated in line with regulatory guidelines. Credit assessments applied to items in the Group's book and trading book are assigned in accordance with the regulatory guidelines

31 December 2020						
Assets	carrying values of:				Total	Net values
	Defaulted exposures	Non defaulted exposures	Allowances/ impairments			
<i>In millions of Naira</i>						
Loans and advances to customers	11,417	601,942	(16,532)		596,827	
Debt securities	-	25,323	-		25,323	
Off balance sheet exposures	-	160,294	-		160,294	
Total	11,417	787,559	(16,532)		782,444	

<i>In millions of Naira</i>	RR1 - RR2	RR3 - RR4	RR5 - RR6	RR7 - RR9	Total	Carrying Amount
Balances with Central Bank of Nigeria	303,314	-	-	-	303,314	303,314
Due from banks	21,084	-	-	-	21,084	21,084
Pledged assets	34,860	-	-	-	34,860	34,860
Loans and advances to customers	73,288	338,578	190,075	11,418	613,359	596,827
Financial assets at fair value through profit or loss	1,454	-	-	-	1,454	1,454
Investments securities - FVOCI	123,963	3,289	8,528	-	135,780	135,780
Investments securities - amortised cost	110,077	164	-	-	110,241	110,229
Other assets	-	39,327	-	-	39,327	39,327
Total	668,040	381,358	198,603	11,418	1,259,419	1,242,875

37 Financial risk management - continued

Annual Report, Consolidated and Separate Financial Statements
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Enterprise risk review - continued

Exposure to credit risk - continued

CREDIT QUALITY OF FINANCIAL ASSETS - continued

The Standardized Approach has been used in assessing the Group's capital requirement and all corporate exposures were classified as unrated in line with regulatory guidelines.

31 December 2019

Assets

<i>In millions of Naira</i>	carrying values of:		Allowances/ impairments	Net values
	Defaulted exposures	Non defaulted exposures		
Loans	13,902	617,796	(12,966)	618,732
Debt Securities	-	25,709	-	25,709
Off Balance sheet exposures	-	146,344	-	146,344
Total	13,902	789,849	(12,966)	790,785

In millions of Naira

	RR1 - RR2	RR3 - RR4	RR5 - RR6	RR7 - RR9	Total	Carrying Amount
Balances with Central Bank of Nigeria	156,059	-	-	-	156,059	156,059
Due from banks	69,361	-	-	-	69,361	69,361
Pledged assets	11,825	-	-	-	11,825	11,831
Loans and advances	101,576	389,982	126,237	13,902	631,698	618,732
Financial assets at fair value through profit or loss	8,317	-	-	-	8,317	8,317
Investments securities - FVOCI	134,343	1,384	5,545	-	141,272	141,272
Investments securities - amortised cost	100,961	872	243	-	102,075	101,944
Other assets	-	18,622	-	-	18,622	18,622
Total	582,442	410,860	132,025	13,902	1,139,230	1,126,138

37 Financial risk management - continued

Annual Report, Consolidated and Separate Financial Statements
For the year ended 31 December 2020

Enterprise risk review - continued

Exposure to credit risk - continued

Credit Mitigation Techniques

The Group has in place a set of management actions to prevent or mitigate the impact on earnings of business risks. Business risk monitoring, through regular reports and oversight, results in corrective actions to plan and ensure reductions in exposures where necessary. Credit control and mitigation policies are also in place. Collateral policies are designed to ensure that the Group's exposure is secured, and to minimize the risk of credit losses to the Group in the event of decline in quality or delinquency of assets.

Guidelines for accepting credit collateral are documented and articulated in the Credit Policy Guidelines (CPG). These include;

- Acceptable collateral for each credit product.
- Required documentation/perfection of collaterals
- Conditions for waiver of collateral requirement and approval of collateral waiver.
- Acceptance of cash and other forms of collateral denominated in foreign currency.

31 December 2020

Assets			Exposure unsecured	Exposures secured by collateral	Exposures secured by collateral of which: Secured	Exposures secured by financial guarantees	Exposures secured by financial guarantees of which: secured
<i>In millions of Naira</i>							
Loans and advances to customers			1,209	612,150	348,725	-	-
Debt Securities			25,323	-	-	-	-
Total			26,532	612,150	348,725	-	-
of which defaulted			336	11,081	-	-	-

37 Financial risk management - continued

Annual Report, Consolidated and Separate Financial Statements
For the year ended 31 December 2020

Enterprise risk review - continued

Exposure to credit risk - continued

Credit Risk Exposure and Credit Risk Mitigation (CRM)

Asset Classes	Exposures pre Credit Conversion Factor and Credit Risk Mitigation		Exposures post Credit Conversion Factor and Credit Risk Mitigation		
	on balance sheet	off- balance sheet	on balance sheet	off- balance sheet	Risk Weighted Assets (RWA)
<i>In millions of Naira</i>					
Sovereigns and their central banks	511,700	-	511,700	-	-
Non-central government public sector entities	126,531	22,983	67,810	9,010	71,171
Supervised institutions	19,283	200	19,280	-	4,024
Corporates	312,595	127,598	269,024	-	269,024
Regulatory retail portfolios	37,153	-	36,962	-	27,722
Secured by residential property	49,636	-	49,321	-	48,380
Secured by commercial real estate	92,921	-	91,473	-	91,473
Past due loans	1,199	-	1,199	-	1,030
Higher –risk categories	10,747	-	10,747	-	16,120
Other assets	111,515	24,506	111,515	9,808	85,792
Total	1,273,279	175,287	1,169,030	18,818	614,736

31 December 2019

Annual Report, Consolidated and Separate Financial Statements
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Assets	Exposure unsecured	Exposures secured by collateral	Exposures secured by collateral of which: Secured	Exposures secured by financial guarantees	Exposures secured by financial guarantees of which: secured
<i>In millions of Naira</i>					
Loans and advances to customers	10,399	621,299		-	-
Debt Securities	25,710	-		-	-
Total	36,109	621,299		-	-
of which defaulted	73	13,829		-	-

37 Financial risk management - continued**Enterprise risk review - continued**

Exposure to credit risk - continued

Credit Risk Exposure and Credit Risk Mitigation (CRM)

Asset Classes	Exposures pre CCF and CRM		Exposures post CCF and CRM		
	on balance sheet	off- balance sheet	on balance sheet	off- balance sheet	Risk Weighted Assets (RWA)
<i>In millions of Naira</i>					
Sovereigns and their central banks	375,771	-	375,771	-	-
Non-central government public sector entities	131,961	25,094	75,089	9,012	83,462
Supervised institutions	56,715	102	56,712	-	26,124
Corporates	315,916	111,000	249,959	861	260,957
Regulatory retail portfolios	40,633	21	40,454	-	30,340
Secured by residential property	44,235	-	44,089	-	41,290
Secured by commercial real estate	86,641	-	86,641	-	86,641
Past due loans	8,033	-	18,170	-	7,829
Higher –risk categories	5,470	-	5,470	-	8,205
Other assets	91,239	23,520	91,239	10,543	72,711
Total	1,156,615	159,738	1,043,596	20,416	617,560

37 Financial risk management - continued

Annual Report, Consolidated and Separate Financial Statements
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Enterprise risk review - continued

Exposure to credit risk - continued

EXPOSURE BY ASSET CLASSES AND RISK WEIGHTS

31 December 2020							
In millions of Naira							
Risk weight	0%	20%	50%	75%	100%	150%	Exposure Amount (Post CCF and Post CRM)
Sovereigns	511,700	-	-	-	-	-	511,700
Non-central government public sector entities (PSEs)	-	1,718	18,412	-	56,690	-	76,820
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Supervised Institutions	-	19,071	-	-	209	-	19,280
Corporates	-	-	-	-	269,024	-	269,024
Regulatory Retail Portfolios	-	-	-	36,962	-	-	36,962
Secured by Mortgages on Residential Properties	-	-	-	3,760	45,560	-	49,321
Exposures Secured by Mortgages on Commercial Real Estates	-	-	-	-	91,473	-	91,473
Past due loans	-	-	363	-	811	24	1,199
Higher –risk categories	-	-	-	-	-	10,747	10,747
Other assets	-	35,530	9,808	-	75,984	-	121,323
Total	511,700	56,319	28,583	40,723	539,752	10,771	1,187,849

COUNTERPARTY CREDIT RISK EXPOSURES BY REGULATORY PORTFOLIO AND RISK WEIGHTS

31 December 2020							
In millions of Naira							
Risk weight	0%	20%	50%	75%	100%	150%	Total credit exposure amount (Pre CCF and CRM)
Sovereigns	511,700	-	-	-	-	-	511,700
Non-central government public sector entities (PSEs)	-	7,402	26,700	-	115,411	-	149,514
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Supervised institutions	-	19,071	200	-	212	-	19,483
Corporates	-	24,691	102,907	-	312,595	-	440,193
Regulatory retail portfolios	-	-	-	37,153	-	-	37,153
Secured by Mortgages on Residential Properties	-	-	-	4,076	45,560	-	49,636
Exposures Secured by Mortgages on Commercial Real Estates	-	-	-	-	92,921	-	92,921
Past due loans	-	-	363	-	811	24	1,199
Higher –risk categories	-	-	-	-	-	10,747	10,747
Other assets	35,530	4,333	20,174	-	75,984	-	136,021
Total	547,231	55,497	150,345	41,229	643,495	10,771	1,448,566

37 Financial risk management - continued

Enterprise risk review - continued

Exposure to credit risk - continued

EXPOSURE BY ASSET CLASSES AND RISK WEIGHTS

31 December 2019							
In millions of Naira							
Risk weight	0%	20%	50%	75%	100%	150%	Exposure Amount (Post CCF and Post CRM)
Sovereigns	375,771	-	-	-	-	-	375,771
Non-central government public sector entities (PSEs)	-	2,475	7,604	-	74,023	-	84,101
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Supervised Institutions	-	38,209	41	-	18,462	-	56,712
Corporates	-	861	-	-	260,096	-	260,957
Regulatory Retail Portfolios	-	-	-	40,454	-	-	40,454
Secured by Mortgages on Residential Properties	-	-	-	11,198	32,891	-	44,089
Exposures Secured by Mortgages on Commercial Real Estates	-	-	-	-	86,641	-	86,641
Past due loans	-	-	2,305.35	-	3,832	1,896	8,033
Higher –risk categories	-	-	-	-	-	5,470	5,470
Other assets	23,572	6,873.34	10,542.88	-	60,793	-	101,782
Total	399,344	48,418	20,493	51,652	536,738	7,366	1,064,012

COUNTERPARTY CREDIT RISK EXPOSURES BY REGULATORY PORTFOLIO AND RISK WEIGHTS

31 December 2019							
In millions of Naira							
Risk weight	0%	20%	50%	75%	100%	150%	Total credit exposure amount (Pre CCF and CRM)
Sovereigns	375,771	-	-	-	-	-	375,771
Non-central government public sector entities (PSEs)	-	10,969	15,192	-	130,894	-	157,055
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Supervised institutions	-	38,209	143	-	18,465	-	56,817
Corporates	-	16,965	94,035	-	315,916	-	426,916
Regulatory retail portfolios	-	-	21	40,633	-	-	40,654
Secured by Mortgages on Residential Properties	-	-	-	11,236	32,999	-	44,235
Exposures Secured by Mortgages on Commercial Real Estates	-	-	-	-	86,641	-	86,641
Past due loans	-	-	2,305	-	3,832	1,896	8,033
Higher –risk categories	-	-	-	-	-	5,470	5,470
Other assets	23,572	6,995.65	23,397.95	-	60,793	-	114,759
Total	399,344	73,139	135,095	51,869	649,541	7,366	1,316,353

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**37 Financial Risk Management - continued****Exposure to Credit Risk - continued****Impairment assessment**

The references below show where the Group's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments (except for specialised lending facilities where the 90 days past due is rebutted and 180 days past due is used instead). The Group considers treasury and interbank balances defaulted and takes immediate action when the required intra-day payments are not settled by the close of business as outlined in the individual agreements.

As a part of the qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default (debt service default or technical default) or past due event.
- The Bank, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the Bank would not otherwise consider.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.
- 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.
- The Bank puts the credit obligation on non-accrued status.
- 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 Bank.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**37 Financial Risk Management - continued**

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 90 consecutive days. The decision whether to classify an asset as Stage 2 or Stage 1 once cured, depends on the updated credit grade at the time of the cure, and whether this indicates there has been a significant reduction in credit risk.

The following probationary period is applied in transferring financial asset back to a lower stage following a significant reduction in credit risk:

- When there is evidence of a significant reduction in credit risk for a financial instrument in stage 2, a probationary period of 90 days will be applied to confirm if the risk of default on such financial instrument has decreased sufficiently before upgrading such exposure to stage 1.
- When there is evidence that a financial asset in stage 3 (other than originated or purchased credit impaired financial asset) is no longer credit impaired and also that there is a significant reduction in credit risk for a financial instrument in stage 3, a probationary period of 90 days will be applied to confirm if the risk of default on such financial instrument has decreased sufficiently before upgrading such exposure to stage 2.
- When there is evidence that a financial asset in stage 3 (other than originated or purchased credit impaired financial asset) is no longer credit impaired and also that there is a significant reduction in credit risk for a financial instrument in stage 3, a probationary period of 180 days will be applied to confirm if the risk of default on such financial instrument has decreased sufficiently before upgrading such exposure to stage 1.

The Bank's internal rating and Probability of Default (PD) estimation process

The Group runs separate models for its key portfolios in which its customers are rated from RR-1 to RR-9 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplementary external information that could affect the borrower's behaviour. These information sources are first used to determine the ratings within the Bank's risk management framework. The internal credit grades are assigned based on these assessments.

PDs is an estimate of the likelihood of default over a given time horizon which is based on the historical default data of the Bank which are then adjusted for IFRS 9 ECL calculations by incorporating forward looking information. This is further assessed based on three economic scenarios (Base, Upturn and Downturn) with appropriate probability weights assigned to derive the probability weighted ECLs.

Treasury, trading and interbank relationships

The Group's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Group analyses available information such as financial information and other external data to conduct credit assessments and assign internal ratings.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**37 Financial Risk Management - continued****Corporate lending**

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Group. The credit risk assessment is based on a credit rating model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond.
- Any macro-economic or geopolitical information, e.g., GDP growth for the specific industry and geographical segments where the client operates. Industry or sector information to assess the competitive position of the obligors with regards to market share.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Group and the complexity and size of the customer. Some of the less complex small business loans are rated within the Group's models for retail products.

Retail/MSME lending

Retail lending comprises, asset finance, unsecured personal loans, credit cards and overdrafts. These products, along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool. Key inputs into the models are:

- Consumer/Retail lending products: personal income/salary levels based on records of current accounts, personal indebtedness, demographic information and loan-to-value ratios (mortgages).
- MSMEs: financial, management and industry information. In addition, historical account performance is evaluated.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

The Bank's internal credit rating grades

Internal risk rating grade	External rating equivalent		Remarks
RR -1	AAA TO AA-		Superior
RR -2	A+ TO A-		Strong
RR -3	BBB+ TO BB-		Good
RR -4	BB+ TO BB-		Satisfactory
RR -5	B+ TO B-		High Risk
RR -6	CCC+ TO CCC		Watch List
RR -7	CC+ TO C		Substandard
RR -8	D		Doubtful
RR -9	D		Lost

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12m ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the reporting date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and purchased or originated credit impaired (POCI) financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding to multiple scenarios.

Loss given default

LGD is the portion of the loan determined to be irrecoverable at the time of loan default. the Group estimates the general Life Time LGD curves based on an Intensity Matrix, which is built on top of the actual migration of exposure in between the Credit Risk States (buckets). The secured portion of the LGD adjusted for collateral values while recovery data is observed for the unsecured portion of the LGD. The models in calculating the LGD considers in its computation a wider set of transaction characteristics (e.g. product type, collateral, recovery cost, time to recovery e.t.c.).

The Group segments its products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**37 Financial Risk Management - continued**

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or Lifetime (LT) ECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers both qualitative and quantitative factors in assessing whether credit risk has increased significantly on any exposure. Some of these factors include significant increase in PD since initial recognition, expectation of forbearance and restructuring due to financial difficulties.

Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 19c), the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Analysis of inputs to the ECL model under multiple economic scenarios

An overview of the approach to estimating ECLs is set out in Note 2.2 Summary of significant accounting policies and in Note 3.0 Significant accounting judgements, estimates and assumptions. To ensure completeness and accuracy, the Group obtains the data used from third party sources (Central Bank of Nigeria, Nigeria Bureau of Statistics, BMI Research, Trading Economics etc.) and a team of expert within its Enterprise Risk Management Department verifies the accuracy of inputs to the Group' ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Group's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios as at 31 December 2019 and 2020.

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued
The Group and Bank

31 December 2020								
Key drivers	ECL Scenario	Assigned probabilities	2021	2022	2023	2024	2025	Subsequent years
GDP growth rate%	Upside	23%	1.70%	2.80%	3.60%	4.00%	4.00%	4.00%
	Base Case	50%	1.20%	1.80%	2.60%	3.00%	3.00%	3.00%
	Downside	27%	0.70%	1.50%	2.30%	2.70%	2.70%	2.70%
Exchange rate	Upside	23%	413.06	451.02	492.57	500.00	500.00	500.00
	Base Case	50%	423.06	461.02	507.25	519.37	519.37	519.37
	Downside	27%	444.22	484.77	532.25	544.37	544.37	544.37
Inflation rate %	Upside	23%	13.25%	11.70%	9.90%	9.80%	9.80%	9.80%
	Base Case	50%	13.75%	12.70%	10.90%	10.80%	10.80%	10.80%
	Downside	27%	14.50%	13.20%	11.40%	11.30%	11.30%	11.30%

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

Analysis of inputs to the ECL model under multiple economic scenarios - continued								
31 December 2019								
Key drivers	ECL Scenario	Assigned probabilities	2020	2021	2022	2023	2024	Subsequent years
		%						
GDP growth rate%	Upside	23%	2.75%	2.75%	3.41%	4.51%	4.95%	4.95%
	Base Case	58%	2.50%	2.50%	3.10%	4.10%	4.50%	4.50%
	Downside	20%	2.25%	2.25%	2.79%	3.69%	4.05%	4.05%
Exchange rate	Upside	23%	338.27	363.93	383.61	436.33	436.82	436.82
	Base Case	58%	375.86	370.00	390.00	443.60	444.10	444.10
	Downside	20%	413.40	407.00	429.00	487.96	488.51	488.51
Inflation rate %	Upside	23%	12.60%	11.25%	9.00%	7.20%	6.30%	6.30%
	Base Case	58%	14.00%	12.50%	10.00%	8.00%	7.00%	7.00%
	Downside	20%	15.40%	14.00%	11.00%	9.00%	8.00%	8.00%

At the beginning of each year, the key economic indicators used in ECL models for the Group are always reassessed to reflect current and accurate data.

The following tables outline the impact of multiple scenarios on the allowance:

Group

31 December 2020	Debt instruments at FVOCI	Debt instruments at amortised cost	Corporate lending	Individual/Retail lending	Financial guarantee	Letter of credit
In millions						
Upside (23%)	37	3	3,212	551	64	7
Base (50%)	82	6	7,094	1,217	140	15
Downside (27%)	44	3	3,805	653	75	8
Total	163	13	14,111	2,421	279	29

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

31 December 2019	Debt instruments at FVOCI	Debt instruments at amortised cost	Corporate lending	Individual/Retail lending	Financial guarantee	Letter of credit
In millions						
Upside (23%)	52	30	2,531	420	4	1
Base (58%)	132	75	6,402	1,063	11	2
Downside (19%)	45	26	2,186	363	4	1
Total	229	131	11,119	1,847	18	4

Bank

31 December 2020	Debt instruments at FVOCI	Debt instruments at amortised cost	Corporate lending	Individual/Retail lending	Financial guarantee	Letter of credit
In millions						
Upside (23%)	37	3	3,212	551	64	7
Base (50%)	82	6	7,094	1,217	140	15
Downside (27%)	44	3	3,805	653	75	8
Total	163	11	14,111	2,421	279	29

31 December 2019	Debt instruments at FVOCI	Debt instruments at amortised cost	Corporate lending	Individual/Retail lending	Financial guarantee	Letter of credit
In millions						
Upside (23%)	28	27	2,531	420	4	1
Base (58%)	70	67	6,402	1,063	11	2
Downside (19%)	24	23	2,186	363	4	1
Total	121	117	11,119	1,847	18	4

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

Overview of modified financial assets

From a risk management point of view, once an asset is forborne or modified, the Group's credit recovery department for distressed assets continues to monitor the exposure until it is completely and ultimately derecognised.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification gain earned by the Bank.

Group	31 Dec 2020	31 Dec 2019
Amortised costs of financial assets modified during the period	141,840	12,212
Net modification loss/gain	(843)	119
Amortised cost after modification	140,997	12,332

Bank	31 Dec 2020	31 Dec 2019
Amortised costs of financial assets modified during the period	141,840	12,212
Net modification loss	843	119
Amortised cost after modification	142,683	12,332

The table below shows the gross carrying amount of previously modified financial assets for which loss allowance has changed to 12m ECL measurement during the period:

31 December 2020	Post-modification		Pre-modification	
	Gross carrying amount	Corresponding ECL	Gross carrying amount	Corresponding ECL
<i>In millions of Naira</i>				
Facilities that have cured since modification and are now measured using 12 months ECLs (Stage 1)	-	-	-	-
Facilities that reverted to (Stage 2/3) LT ECLs having once cured	-	-	-	-

31 December 2019	Post-modification		Pre-modification	
	Gross carrying amount	Corresponding ECL	Gross carrying amount	Corresponding ECL
<i>In millions of Naira</i>				
Facilities that have cured since modification and are now measured using 12 months ECLs (Stage 1)	-	-	-	-
Facilities that reverted to (Stage 2/3) LT ECLs having once cured	-	-	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Enterprise risk review - continued

(e) Liquidity risk

Liquidity risk and Funding Management: The Group is exposed to two types of liquidity risk;

- 1 **Market/Trading Liquidity Risk** is the risk of inability to conduct transaction at current market price because of the size of the transaction, this type of liquidity risk comes to play when certain assets cannot be liquidated at short notice due to market illiquidity.
- 2 **Funding Liquidity Risk** relates to the Group's ability to raise the necessary cash to roll over its debt; to meet the cash, margin, and collateral requirements of counterparties; and to satisfy capital withdrawals. Funding liquidity risk is managed through holding cash and cash equivalents, setting credit lines in place, and monitoring buying power. (Buying power refers to the amount a trading counterparty can borrow against assets under stressed market conditions).

The Asset & Liability Committee (ALCO) is responsible for managing the liquidity of the Group, this function is delegated to the Asset & Liability Management (ALM) Department that manage the day-to-day liquidity requirements of the Group, and also act as secretariat to ALCO. Liquidity risk is assessed by comparing the expected outflows with expected inflows, and liquidity risk arises when there is a mismatch arising between the inflow and outflow, also when there is unexpected delay in repayment of loans (term liquidity risk) or unexpectedly high payment outflow (withdrawal/call risk).

In line with the Liquidity Risk Management Framework, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Net liquid assets consist of cash, short-term bank placements and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month.

Presented below is the process used in managing liquidity:

Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in money markets to enable this to happen;

Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

Monitoring balance sheets liquidity ratios against internal and regulatory requirements (in conjunction with Financial and Regulatory Reporting Department).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Liquidity risk - continued

(e) Liquidity Risk Measurement Techniques

Liquidity positions are measured by calculating the net liquidity gap and by comparing selected ratios with targets as specified in the liquidity risk management policy.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and Government Bonds for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitment. A similar calculation is used to measure the Group's compliance with the liquidity limit established by the CBN.

The following table reflects the Group's regulatory liquidity ratio for the years indicated.

	As at 31 December 2020	As at 31 December 2019
At end of year	33.87%	39.22%
Average for the year	30.21%	37.36%
Maximum for the year	39.93%	44.45%
Minimum for the year	22.09%	30.57%

In addition to the above, the Group also applies the following metrics in measuring liquidity risk and ensuring that day-to-day funding requirements are met.

- 1 **Liquidity Coverage Ratio (LCR)** - The LCR aims to ensure that the Group has sufficient unencumbered high-quality liquid assets ('HQLA') to withstand a stressed 30-day funding scenario. HQLA consist of cash or assets that can easily be converted into cash at little or no loss of value to cover any net outflow. The minimum requirement is 100%.

On a Business-As-Usual (BAU) basis, the Group's LCR as at 31 December 2020 was 138%. The LCR indicates that the Group has adequate liquidity to support its current level of growth.

- 2 **Net Stable Funding Ratio (NSFR)** – The Net Stable Funding Ratio (NSFR) is a longer-term structural ratio designed to reduce funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress.

It measures the amount of available stable funding relative to the required stable funding. This ratio should be equal to at least 100% on an ongoing basis. It is designed to complement the LCR.

The Group's NSFR of 147.5% as at 31 December 2020, was well above the Basel requirement of 100% and internal risk tolerance level.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Liquidity risk - continued

(e) Liquidity Risk Measurement Techniques - continued

3 Liquidity Gap: Liquidity Gap describe a discrepancy or mismatch in the supply or demand for cash inflows and outflows. The ALM Team use maturity gap analysis to compare cash inflows and outflows daily and over a series of time-bands. The liquidity gap reports are prepared using the projection worksheets created for different scenarios and stress levels. For each scenario, the assumptions used were approved by the ALCO. For liquidity in the normal or ordinary course of business, the minimum levels of projected liquidity shall be maintained. For liquidity in all other scenarios and stress levels, the ALCO establishes minimum guidance levels.

4 Liquidity Ratios: Liquidity ratios describe the structure and shape of the balance sheet in business-as-usual conditions and allow the ALCO to monitor changes in structural liquidity. The Group establishes various liquidity ratios to indicate the business's ability to meet short-term obligations with liquid assets, identify any mismatches between long-term funding sources and uses and review the ability of the banking business to fund loans through customer deposits.

The ALCO sets the internal liquidity ratios targets aimed at ensuring that the Group meets its liquidity needs under going concern and stressed market conditions.

Please find below key liquidity risk metrics as at 31st December 2020

	As at 31 December 2020	As at 31 December 2019
Liquidity Ratio	33.87%	39.22%
Net Interbank Borrowing / Total Deposit	1.66%	0.00%
Loan/ Deposit Ratio	62.36%	65.29%
Current and Savings Account/Total Deposit	78.95%	62.00%

**Loan to Deposit shown above is the average LDR for Q4 2020*

5 Stress Testing: In addition, stress testing and scenario analysis are used to assess the financial and management capabilities of the Group to continue operating effectively under extreme but still viable trading conditions. A liquidity stress test is conducted, at least monthly, reviewing the impact of an accelerated run-off from funding sources and changes in normal business situation.

The ALCO integrates the results of the stress testing process into the Group's strategic planning process (e.g. Management could adjust its asset-liability composition) and the firm's day-to-day risk management practices (e.g. through monitoring sensitive cash flows or reducing concentration limits).

To ensure that liquidity risk is controlled within the Group, limits and triggers are set. These limits serve to control the overall extent and composition of liquidity risk taken by managing exposure to particular sources of liabilities, asset-liability mismatches and counterparty concentrations.

These limits include liquidity ratio limits (Loan/Deposit, Liquid Assets/Customer Liabilities, Medium Term Funding Ratio, Core Funding Ratio etc.), Maturity Mismatch limits, Cumulative Outflow limit as well as Concentration limits. Furthermore, diversification of the Group's funding profile in terms of investor types, regions, products and instruments is also an important element of controlling liquidity risk.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**37 Financial risk management - continued****Liquidity risk - continued****(e) Liquidity Risk Measurement Techniques - continued****Liquidity Contingency Funding Plan**

The Group has an approved liquidity Contingency Funding Plan (CFP or the Plan) for managing unanticipated stressful scenarios that could result in a significant erosion of group-specific or general market liquidity. The Plan details the policies, procedures and actions for responding to contingent liquidity events as well as incorporates early warning indicators to monitor market conditions.

Such early warning indicators include, among others, decline in the liquidity ratio below approved limits for a prescribed period, delays in disbursements of statutory allocations beyond a prescribed period, negative clearing balances for a prescribed period or a branch running out of physical cash.

The Contingency Funding plan covers the available sources of contingent funding to supplement cash flow shortages, the lead times to obtain such funding, the roles and responsibilities of those involved in the contingency plans, and the communication and escalation requirements when early warning indicators signal deteriorating market conditions. Both short term and long-term funding crises are addressed in the Contingency Funding Plan.

In the period between 31 December 2019 and 31 December 2020, the Group's total deposit base grew on a yearly basis by 7% from N893billion to N951billion. It is instructive to note that 59% of the customer deposits were Demand deposits.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

Enterprise Risk Review - continued

(e) Liquidity Risk

Group

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

31 December 2020	Note	Carrying amount	Gross nominal Inflow/(outflow)	Less than 3 months	3-6 months	6-12 months	1 - 5 years	More than 5 years
<i>In millions of Naira</i>								
Financial assets								
Cash and balances with Central Bank of Nigeria	16	303,314	303,314	63,407	-	-	-	239,907
Due from banks	17	21,084	21,084	21,084	-	-	-	-
Pledged assets	18	34,860	34,860	1,496		28,949		4,415
Loans and advances to customers	19	596,827	795,986	120,309	127,490	138,595	259,599	149,993
Investment securities:			-					
- Financial assets at fair value through profit or loss	20(a)	1,454	1,454	2	-	1,452	-	-
- Debt instruments at fair value through other comprehensive income	20(c)	135,780	149,603	66,064	5,035	40,628	26,665	11,210
- Equity instruments at fair value through other comprehensive income	20(b)	10,745	10,745	-	-	-	-	10,745
- Debt instruments at amortised cost	20(d)	110,229	139,641	6,150	425	5,972	91,016	36,078
Other assets	22	43,950	43,950				43,950	
		1,258,243	1,500,637	278,512	132,950	215,597	421,230	452,348
Financial liabilities								
Deposits from Banks	26 (a)	21,289	21,987	5,057	16,930			
Deposits from customers	26 (b)	950,835	957,608	336,478	58,891	181,393	193,153	187,693
Debt securities issued & other borrowed funds	27&28	128,641	128,628	-	1,666	-	101,509	25,454
Other liabilities	29	61,552	61,552				61,552	
		1,162,317	1,169,775	341,535	77,487	181,393	356,213	213,147
Gap (asset - liabilities)		95,926	330,861	(63,024)	55,463	34,204	65,017	239,201
Cumulative liquidity gap				(63,024)	(7,561)	26,643	91,660	330,861

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

Enterprise Risk Review - continued

(e) Liquidity Risk - continued

Group

31 December 2019	Note	Carrying amount	Gross nominal inflow/(outflow)	Less than 3 months	3-6 months	6-12 months	1 - 5 years	More than 5 years
<i>In millions of Naira</i>								
Financial assets								
Cash and balances with Central Bank of Nigeria	16	307,622	156,059	32,773	-	-	-	123,286
Due from banks	17	17,423	69,361	69,361	-	-	-	-
Pledged assets	18	34,831	15,450	-	6,169	2,221	1,360	5,700
Loans and advances to customers	19	651,360	875,429	121,358	129,543	108,318	419,253	96,957
Investment securities:								
- Financial assets at fair value through profit or loss	20(a)	1,454	8,317	2,323	2,024	3,970	-	-
- Debt instruments at fair value through other comprehensive income	20(c)	135,663	168,939	30,475	16,345	72,950	43,529	5,641
- Equity instruments at fair value through other comprehensive income	20(b)	13,519	5,470	-	-	-	-	5,470
- Debt instruments at amortised cost	20(d)	110,403	162,217	4,897	1,604	7,355	99,759	48,602
		<u>1,272,275</u>	<u>1,461,242</u>	<u>261,187</u>	<u>155,685</u>	<u>194,814</u>	<u>563,901</u>	<u>285,656</u>
Financial liabilities								
Deposits from customers	26 (b)	951,170	898,455	371,470	39,104	120,601	180,672	186,609
Debt securities issued & other borrowed funds	27&28	157,724	218,763	2,032	10,844	52,299	71,334	82,254
Other liabilities - Customers' deposits for foreign trade	29	25,636	14,820	14,820	-	-	-	-
Creditors & accruals	29	19,257	13,117	13,117	-	-	-	-
		<u>1,153,787</u>	<u>1,145,155</u>	<u>401,439</u>	<u>49,948</u>	<u>172,900</u>	<u>252,006</u>	<u>268,862</u>
Gap (asset - liabilities)		<u>118,488</u>	<u>316,087</u>	<u>(140,251)</u>	<u>105,737</u>	<u>21,914</u>	<u>311,895</u>	<u>16,794</u>
Cumulative liquidity gap				<u>(140,251)</u>	<u>(34,515)</u>	<u>(12,601)</u>	<u>299,294</u>	<u>316,088</u>

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

Enterprise Risk Review - continued

(e) Liquidity Risk - continued

Bank								
31 December 2020	Note	Carrying amount	Gross nominal Inflow/(outflow)	Less than 3 months	3-6 months	6-12 months	1 - 5 years	More than 5 years
In millions of Naira								
Financial assets								
Cash and balances with Central Bank of Nigeria	16	303,314	303,314	63,407	-	-	-	239,907
Due from banks	17	21,079	21,079	21,079	-	-	-	-
Pledged assets	18	34,860	34,860	1,496	-	28,949	-	4,415
Loans and advances to customers	19	596,827	795,986	120,309	127,490	138,595	259,599	149,993
Investment securities:								
- Financial assets at fair value through profit or loss	20(a)	1,454	1,454	2	-	1,452	-	-
- Debt instruments at fair value through other comprehensive income	20(c)	135,780	149,603	66,064	5,035	40,628	26,665	11,210
- Equity instruments at fair value through other comprehensive income	20(b)	10,745	10,745	-	-	-	-	10,745
- Debt instruments at amortised cost	20(d)	93,234	122,400	5,391	372	5,235	79,779	31,624
Other assets		43,704	43,704	-	-	-	43,704	-
		1,240,997	1,483,145	277,747	132,897	214,860	409,747	447,893
Financial liabilities								
Deposits from Banks	26 (a)	21,289	21,987	5,057	16,930	-	-	-
Deposits from customers	26 (b)	950,835	957,608	336,478	58,891	181,393	193,153	187,693
Debt securities issued & other borrowed funds	27&28	111,690	111,677	-	1,666	-	84,154	25,857
Other liabilities	29	61,621	61,621	-	-	-	61,621	-
		1,145,435	1,152,893	341,535	77,487	181,393	338,928	213,550
Gap (asset - liabilities)		95,562	330,252	(63,788)	55,410	33,466	70,819	234,344
Cumulative liquidity gap				(63,788)	(8,377)	25,089	95,908	330,252

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

Enterprise Risk Review - continued

(e) Liquidity Risk - continued

Bank

31 December 2019	Note	Carrying amount	Gross nominal Inflow/(outflow)	Less than 3 months	3-6 months	6-12 months	1 - 5 years	More than 5 years
In millions of Naira								
Financial assets								
Cash and balances with Central Bank of Nigeria	16							
Due from banks	17	17,418	69,361	69,361	-	-	-	-
Pledged assets	18	34,831	15,450		6,169	2,221	1,360	5,700
Loans and advances to customers	19	625,645	875,429	121,358	129,543	108,318	419,253	96,957
Investment securities:								
- Financial assets at fair value through profit or loss	20(a)	1,454	8,317	2,323	2,024	3,970		
- Debt instruments at fair value through other comprehensive income	20(c)	135,663	168,939	30,475	16,345	72,950	43,529	5,641
- Equity instruments at fair value through other comprehensive income	20(b)	13,519	5,470					5,470
- Debt instruments at amortised cost	20(d)	93,159	133,758	4,897	428	5,938	88,586	33,910
		<u>921,689</u>	<u>1,276,724</u>	<u>228,414</u>	<u>154,508</u>	<u>193,397</u>	<u>552,728</u>	<u>147,678</u>
Financial liabilities								
Deposits from customers	26 (b)	951,170	898,455	371,470	39,104	120,601	180,672	186,609
Debt securities issued & other borrowed funds	27&28	115,056	140,565	1,374	8,171	48,969	38,042	44,009
Other liabilities - Customers' deposits for foreign trade	29	25,636	14,820	14,820				
Creditors & accruals	29	19,257	13,117	13,117				
		<u>1,111,119</u>	<u>1,066,958</u>	<u>400,781</u>	<u>47,275</u>	<u>169,569</u>	<u>218,715</u>	<u>230,618</u>
Gap (asset - liabilities)		<u>(189,430)</u>	<u>209,767</u>	<u>(172,367)</u>	<u>107,233</u>	<u>23,827</u>	<u>334,013</u>	<u>(82,940)</u>
Cumulative liquidity gap				<u>(172,367)</u>	<u>(65,133)</u>	<u>(41,306)</u>	<u>292,707</u>	<u>209,767</u>

While there is a negative cumulative liquidity gap within one year, it does not reflect the actual liquidity position of the Bank as most of the term deposits from customers maturing within one year are historically being rolled over.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**37 Financial risk management - continued****(f) Market Risk**

Market risk is the risk that earnings or capital would be adversely affected by changes in the level, correlation or volatility of market factors. Market factors include interest rates, foreign exchange rates, equity prices, and commodity prices. This risk arises mainly from trading activities as well as through non-traded risk in the banking book.

The Group's objective is to control and manage market risk exposures within the acceptable risk appetite approved by the Board while optimizing returns. The Group's ability to effectively identify, assess, monitor and manage market risks involved in its activities is critical to its soundness and profitability. Its strategy is to invest its own capital on a limited and carefully selected basis in transactions, underwritings and other activities that involve market risk.

Central to the Group's market risk management is the deployment of appropriate tools and methodologies tailored towards identifying, measuring, monitoring, controlling and reporting the Group's exposure to each market risk factor.

Market Risk Management and Control Framework

The Group has put in place a robust and clearly defined market risk management framework, which essentially provides the Board and Management with guidance on market risk management processes. All teams involved in the management and control of market risk are required to fully comply with the policy statements to ensure the Group is not exposed to market risk beyond the qualitative and quantitative risk tolerances.

ALCO manages market and liquidity risks across the Group and meets monthly to review, approve and make recommendations concerning the risk profile including limits, utilization and strategy. They also recommend, to the Board, amendments to the market risk policy.

A dedicated market risk team, independent of the trading and business units, is responsible for implementing the market risk control framework and assumes day-to-day responsibility for market risk management. A limit framework is set within the context of the approved market risk appetite while daily market risk dashboard and stress testing reports are generated.

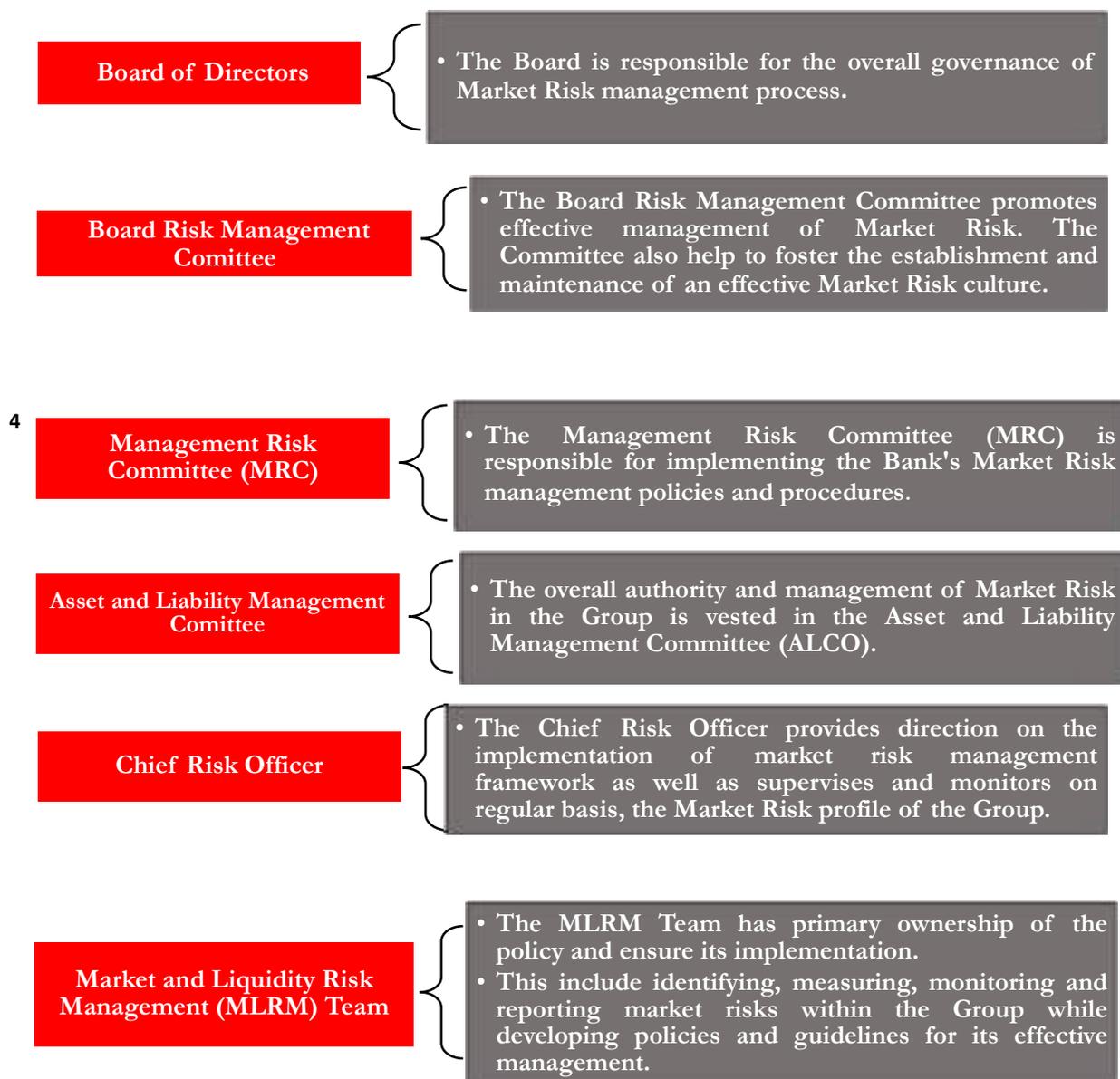
Risk limits, which are monitored daily by the Market Risk team include stop loss limits, unhedged open positions, VaR, duration amongst others. Daily positions of the Group's trading and FVTOCI portfolios are marked-to-market to enable the Group have an accurate view of its trading exposures.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

(f) Market Risk

Market Risk Governance Structure



NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

Market Risk Measurement Techniques

The major measurement techniques used by the Group to monitor and control Market Risk exposures are outlined below.

- 1 Value at Risk (VaR):** Is a technique that produces estimates of the potential change in the market value of a portfolio over a specified time horizon at a given confidence level. In line with the Group's policy, VaR assumes a time horizon of one trading day and a confidence level of 99% for internal risk management purposes bearing in mind present market realities, the Group's level of exposure as well as the composition of its portfolio.

However, the Group equally computes an S-VaR (stressed VaR). The VaR model is based on the Historical simulation model, utilising data across a minimum of 252 trading days. VaR is computed on all trading portfolio i.e. fixed income securities and foreign exchange trading position. The model, which is validated, is an important market risk measurement and control tool.

The Group's trading VaR for the financial year is reflected in the table below.

2020 (all figures in N'million)	Interest Rate	Foreign Exchange
VaR as at 31 Dec 2020	15.44	1.48

Back-testing

In order to verify that the results acquired from VaR calculations are consistent and reliable, the model is always back-tested. Back-testing is an integral part of VaR reporting in the Group's risk management processes. Back-testing is a procedure where actual profits and losses are compared to projected VaR estimates aimed at ensuring that the model yields accurate risk estimates.

We would expect, on average, to see two or three profits and two or three losses in excess of VaR at the 99% confidence level over a one-year period. The actual number of profits or losses in excess of VaR over this period can therefore be used to measure how well the models are performing.

All exceptions generated from the back-testing process are documented with suitable explanation. Based on the exception classification, necessary action is taken on risk models by the Market & Liquidity Risk Management Team with directive from the ALCO.

- 2 Stress Testing:** Due to volatilities in the operating environment, the Group conducts stress tests to evaluate the potential losses originating from impact of market risk factors under extreme market conditions. The stress testing includes the impact of exceptional changes in market rates and prices on the fair value of the Fair Value through P or L (FVPL) and Fair Value through Other Comprehensive Income (FVOCI) portfolios. The Group calculates:

- > risk factor stress testing, where stress movements are applied to each risk ;
- > historical stress tests where shocks based on historical movements are assumed and applied; and
- > ad-hoc stress testing, which includes applying possible stress events to specific positions.

The results of the stress tests are reviewed by the ALCO who may respond by modifying the portfolio and taking other strategic steps to reduce the expected impact in the event that these risks crystallizes. The stress test results may also be presented to the Board.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued**Enterprise Risk Review - continued****f(i) Interest Rate Risk**

Interest rate risk in the banking book is the risk of an adverse impact on earnings or capital due to changes in market interest rates. Changes in interest rates affect earnings by changing its net interest income and the level of other interest sensitive income and operating expenses. Changes in interest rates also affect the underlying value of the assets, liabilities, and off-balance-sheet instruments because the present value of future cash flows (and in some cases, the cash flows themselves) change when interest rates change.

The Group's objective for management of interest rate risk in the banking book is to ensure a higher degree of interest rate mismatch margin stability and lower interest rate risk over an interest rate cycle. This is achieved by hedging material exposures with the external market.

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or in differing amounts. In the case of floating rate assets and liabilities, the Group is also exposed to basis risk, which can arise due to the movement in the various floating rate indices, such as the savings rate and the 90-day NIBOR, until maturity. Non-traded interest rate risk arises in the group's book from the provision of retail and wholesale banking products and services, as well as from certain structural exposures within the balance sheet, mainly due to the fact that assets, liabilities and equity may be re-priced at different times. These risks impact both the earnings and the economic value of the Group.

Overall, management of the Group's non-trading interest rate risk positions lies with the ALCO. In addition to various strategies, the ALCO defines the internal transfer pricing framework constructed to ensure that interest rate risk arising from mismatches in the maturity profile of assets and liabilities is managed to achieve a balanced repricing cumulative gap position that is in line with the limits set by the Board. The ALCO also makes judgmental assumptions about the behaviour of assets and liabilities that do not have specific contractual maturity or repricing dates.

Measurement of Interest Rate Risk in the Banking Book

Generally, the primary source of interest rate risk is the differences in the timing of the repricing of the assets, liabilities and off-balance sheet instruments. Repricing mismatches generally occur from borrowing short term to fund long term assets or borrowing long term to fund long term assets. These activities can expose an institutions earnings and economic value of equity (EVE) to changes in market interest rate.

The measures applied by the Group in monitoring and controlling interest rate risk in the banking book includes:

Net Interest Income (NII) Sensitivity – An integral part of the Group's management of non-traded interest rate risk is to monitor the sensitivity of expected net interest income while applying different rate scenarios (simulation modelling) where other macro-economic metrics are held constant. This monitoring is undertaken at the ALCO level. The Group applies a combination of scenarios and assumptions relevant to our peculiar businesses in forecasting one-year net interest income sensitivities across a range of interest rate scenarios.

Economic Value of Equity (EVE) - EVE represents the present value of the future banking book cash flows that could be distributed to equity providers under a managed run-off scenario, i.e. the current book value of equity plus the present value of future net interest income in this scenario. This can be used to assess the economic capital required to support interest rate risk in the banking book (IRRBB). An EVE sensitivity is the extent to which the EVE value will change due to a pre-specified movement in interest rates, where all other economic variables are held constant. Operating entities are required to monitor EVE sensitivity as a percentage of capital resources.

The following tables provide information on the extent of the Group's interest rate exposure. The assets and liabilities are grouped into brackets defined by their time to maturity or the date of the interest rate adjustment. The difference, or gap, between assets and liabilities in each time bracket makes the Bank sensitive to interest rate fluctuations. The amounts are based on interest rate maturities. However, saving and current accounts have a non-defined interest maturity. A quantitative assessment of the interest rate sensitivity of our saving accounts and current accounts has been executed. The outcome of this assessment is used in the calculations for interest rate risk.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

(f) Market risks - continued

f(i) Interest Rate Risk - continued

		RATE SENSIBILITY OF ASSETS AND LIABILITIES					
Group		Less than				More than	
In millions of Naira	Notes	3 months	3-6 months	6-12 months	1 - 5 years	5 years	Total
(a)	31 December 2020						
Due from banks	17	21,084		-	-	-	21,084
Loans and advances to customers	19	63,730	33,576	52,585	193,626	134,638	478,155
Investment securities :							
- Financial assets at fair value through profit or loss	20(a)	2	-	1,452	-	-	1,454
- Debt instruments at fair value through other comprehensive income	20(c)	67,214	6,617	22,756	24,904	14,289	135,780
- Debt instruments at amortised cost	20(d)	-	-	12,868	71,185	26,176	110,229
		-	152,030	40,193	89,661	289,715	746,702
Non-derivative liabilities:							
Deposits from Banks	26 (a)	4,615	16,674	-	-	-	21,289
Deposits from customers	26 (b)	311,437	54,529	162,226	167,971	254,672	950,835
Other borrowed funds & Debt securities issued	27&28		1,666		52,165	2,158	55,989
		-	316,052	72,869	162,226	220,136	1,028,113
Total interest sensitivity gap		-	(164,022)	(32,676)	(72,565)	69,579	(81,727)
							(281,411)

Impact of Standardized Interest Rate Shock on Earnings

Time Band	No. of Days	Upward 2%	Downward -2%	Interest Rate Gap (Net Positions)	Impact of upward movement	Impact of Downward movement
Up to 1 month	365	0.02	(0.02)	(106,597)	(2,132)	2,132
from 1 to 3 months	335	0.02	(0.02)	(110,245)	(2,024)	2,024
from 3 to 6 months	275	0.02	(0.02)	(24,899)	(375)	375
from 6 to 12 months	185	0.02	(0.02)	(23,596)	(239)	239
Total				(265,337)	(4,770)	4,770

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

(f) Market Risks - continued

f(i) Interest Rate Risk - continued

Impact of Standardized Interest Rate Shock on Equity

Time Band	Weighting factor	Interest Rate Gap (Net Position)	Impact on Equity
Up to 1 month	0.08%	(106,597)	(85)
from 1 to 3 months	0.32%	(110,245)	(353)
from 3 to 6 months	0.72%	(24,899)	(179)
from 6 to 12 months	1.43%	(23,596)	(337)
1 years to 2 years	2.77%	45,119	1,250
2 years to 3 years	4.49%	65,251	2,930
3 years to 4 years	6.14%	63,418	3,894
4 years to 5 years	7.71%	(47,392)	(3,654)
5 years to 7 years	10.15%	(30,002)	(3,045)
7 years to 10 years	13.26%	(13,370)	(1,773)
10 years to 15 years	17.84%	(7,539)	(1,345)
15 years to 20 years	22.43%	9,509	2,133
More than 20 years	26.03%	(29,205)	(7,602)
Total		(209,547)	(8,167)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

(f) Market Risks - continued

f(i) Interest Rate Risk - continued

Group	Notes	RATE SENSIBILITY OF ASSETS AND LIABILITIES					Total
		Less than 3 months	3-6 months	6-12 months	1 - 5 years	More than 5 years	
In millions of Naira							
(a) 31 December 2019							
Financial assets							
Due from banks	17	6,001		-	-	-	6,001
Loans and advances to customers	19	118,805	45,658	75,881	253,759	76,194	570,295
Investment securities:							
- Financial assets at fair value through profit or loss	20(a)	2,323	2,024	3,970	-	-	8,317
- Debt instruments at fair value through other comprehensive income	20(c)	13,638	15,204	66,789	28,994	16,649	141,272
- Debt instruments at amortised cost	20(d)	-	-		69,770	32,174	101,944
Total financial assets (A)		140,767	62,885	146,639	352,523	125,016	827,830
Financial Liabilities							
Non-derivative liabilities:							
Deposits from Customers	26 (b)	331,182	122,867	143,600	159,409	135,602	892,660
Other borrowed funds & Debt securities issued	27&28		-		8,432	28,033	36,465
Total financial Liabilities (B)		331,182	122,867	143,600	167,840	163,635	929,125
Net financial assets/ (liabilities)		(190,415)	(59,982)	3,039	184,682	(38,619)	(101,295)

Impact of Standardized Interest Rate Shock on Earnings

Time Band	No. of Days	Upward 2%	Downward -2%	Interest Rate Gap (Net Positions)	Impact of upward movement	Impact of Downward movement
Up to 1 month	365	0.02	(0.02)	(92,523)	(1,850)	1,850
from 1 to 3 months	335	0.02	(0.02)	(126,974)	(2,331)	2,331
from 3 to 6 months	275	0.02	(0.02)	13,623	205	(205)
from 6 to 12 months	185	0.02	(0.02)	6,661	68	(68)
Total				(199,213)	(3,908)	3,908

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

(f) Market Risks - continued

f(i) Interest Rate Risk - continued

Impact of Standardized Interest Rate Shock on Equity

Time Band	Weighting factor	Interest Rate Gap (Net Positions)	Impact on Equity
Up to 1 month	0.08%	(92,523)	(74)
from 1 to 3 months	0.32%	(126,974)	(406)
from 3 to 6 months	0.72%	13,623	98
from 6 to 12 months	1.43%	6,661	95
1 years to 2 years	2.77%	170,809	4,731
2 years to 3 years	4.49%	20,431	917
3 years to 4 years	6.14%	10,492	644
4 years to 5 years	7.71%	2,457	189
5 years to 7 years	10.15%	(42,718)	(4,336)
7 years to 10 years	13.26%	(14,259)	(1,891)
10 years to 15 years	17.84%	(21,657)	(3,864)
15 years to 20 years	22.43%	22,257	4,992
More than 20 years	26.03%	(30,115.41)	(7,839)
Total		(81,516)	(6,742)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

(f) Market Risks - continued

f(i) Interest Rate Risk - continued

Bank <i>In millions of Naira</i> 31 December 2020		Notes	RATE SENSIBILITY OF ASSETS AND LIABILITIES					Total N'million	
			Less than 3 months N'million	3-6 months N'million	6-12 months N'million	1 - 5 years N'million	More than 5 years N'million		
Non-derivative assets:									
Due from banks	17		21,079		-	-	-	21,079	
Loans and advances to customers	19		63,730	33,576	52,585	193,626	134,638	478,155	
Investment securities:									
- Financial assets at fair value through profit or loss	20(a)		2		1,452			1,454	
- Debt instruments at fair value through other comprehensive income	20(c)		67,214	6,617	22,756	24,904	14,289	135,780	
- Debt instruments at amortised cost	20(d)				10,859	60,068	22,307	93,234	
			-	152,025	40,193	87,652	278,598	171,234	729,702
Non-derivative liabilities:									
Deposits from Banks	26 (a)		4,615	16,674				21,289	
Deposits from Customers	26 (b)		311,437	54,529	162,226	167,971	254,672	950,835	
Other borrowed funds & Debt securities issued	27&28			1,666		35,262	2,158	39,086	
			-	316,052	72,868	162,226	203,233	256,830	1,011,210
Total interest sensitivity gap			-	(164,028)	(32,675)	(74,574)	75,365	(85,596)	(281,508)

Impact of Standardized Interest Rate Shock on Earnings

Time Band	No. of Days	Upward 2%	Downward -2%	Interest Rate Gap (Net Position)	Impact of upward movement	Impact of Downward movement
Up to 1 month	365	0.02	(0.02)	(106,597)	(2,132)	2,132
from 1 to 3 months	335	0.02	(0.02)	(110,245)	(2,024)	2,024
from 3 to 6 months	275	0.02	(0.02)	(24,899)	(375)	375
from 6 to 12 months	185	0.02	(0.02)	(25,606)	(260)	260
Total				(267,347)	(4,790)	4,790

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

(f) Market Risks - continued

f(i) Interest Rate Risk - continued

Impact of Standardized Interest Rate Shock on Equity

Time Band	Weighting factor	Interest Rate Gap (Net Positions)	Impact on Equity
Up to 1 month	0.08%	(106,597)	(85)
from 1 to 3 months	0.32%	(110,245)	(353)
from 3 to 6 months	0.72%	(24,899)	(179)
from 6 to 12 months	1.43%	(25,606)	(366)
1 year to 2 years	2.77%	42,224	1,170
2 years to 3 years	4.49%	60,025	2,695
3 years to 4 years	6.14%	55,196	3,389
4 years to 5 years	7.71%	(25,263)	(1,948)
5 years to 7 years	10.15%	(30,425)	(3,088)
7 years to 10 years	13.26%	(16,638)	(2,206)
10 years to 15 years	17.84%	(7,962)	(1,420)
15 years to 20 years	22.43%	9,509	2,133
More than 20 years	26.03%	(29,205)	(7,602)
Total		(209,885)	(7,861)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

(f) Market Risks - continued

f(i) Interest Rate Risk - continued
Bank

		RATE SENSITIVITY OF ASSETS AND LIABILITIES					Total
		Less than			More than		
As at 31 December 2019		3 months	3-6 months	6-12 months	1 - 5 years	5 years	
In millions of Naira							
Financial assets							
Non-derivative assets:							
Due from banks	17	6,001		-	-	-	6,001
Loans and advances to customers	19	118,805	45,658	75,881	253,759	76,194	570,295
Investment securities:							
- Financial assets at fair value through profit or loss	20(a)	2,323	2,024	3,970	-	-	8,317
- Debt instruments at fair value through other comprehensive income	20(c)	13,638	15,204	66,789	28,994	16,649	141,272
- Debt instruments at amortised cost	20(d)		-	-	58,014	26,753	84,767
Total financial assets (A)		140,767	62,885	146,639	340,767	119,595	810,652
Non-derivative liabilities:							
Deposits from customers	26 (b)	331,182	122,867	143,600	159,409	135,602	892,660
Other borrowed fund & Debt securities issued	27&28	-	-	-	8,432	28,033	36,465
Total financial liabilities (B)		331,182	122,867	143,600	167,840	163,635	929,126
Net financial assets/ (liabilities)		(190,415)	(59,982)	3,039	172,926	(44,040)	(118,473)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

f(i) Interest Rate Risk - continued

Impact of Standardized Interest Rate Shock on Earnings

Time Band	No. of Days	Upward 2%	Downward -2%	Interest Rate Gap (Net Positions)	Impact of upward movement	Impact of Downward movement
Up to 1 month	365	0.02	-0.02	(92,523)	(1,850)	1,850
from 1 to 3 months	335	0.02	-0.02	(126,974)	(2,331)	2,331
from 3 to 6 months	275	0.02	-0.02	13,623	205	(205)
from 6 to 12 months	185	0.02	-0.02	4,656	47	(47)
Total				(201,217)	(3,929)	3,929

Impact of Standardized Interest Rate Shock on Equity

Time Band	Weighting factor	Interest Rate Gap (Net Position)	Impact on Equity
Up to 1 month	0.08%	(92,522.56)	(74)
from 1 to 3 months	0.32%	(126,973.86)	(406)
from 3 to 6 months	0.72%	13,623.33	98
from 6 to 12 months	1.43%	4,655.68	67
1 year to 2 years	2.77%	168,803.90	4,676
2 years to 3 years	4.49%	18,425.96	827
3 years to 4 years	6.14%	10,491.56	644
4 years to 5 years	7.71%	8,951.93	690
5 years to 7 years	10.15%	(36,280.87)	(3,683)
7 years to 10 years	13.26%	(16,264.55)	(2,157)
10 years to 15 years	17.84%	(23,662.28)	(4,221)
15 years to 20 years	22.43%	22,257.00	4,992
More than 20 years	26.03%	(30,115.41)	(7,839)
Total		(78,610)	(6,385)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

f(ii) Foreign Currency Risk

Foreign exchange risk is the risk that fluctuations in the prevailing foreign exchange rates would affect the value of the Group's assets and liabilities as well as off-balance sheet items. This also includes positions in local currency that are indexed to foreign exchange rate. Financial Instruments that are exposed to this risk includes; foreign currency denominated loans and advances, securities, future cash flows in foreign currencies arising from foreign currency transactions. Exposures to foreign exchange risk are consistently monitored by limit structures for overnight and intraday positions.

The ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily since an effective overview of such risk is a critical element of the Group's asset/liability risk management. The Board defines the overall risk tolerance levels and expectations for foreign exchange risk management and Management aims to ensure that the risk tolerance is maintained at prudent levels.

Foreign exchange risk is quantified using the net balance of assets and liabilities in each currency, and their total sum. This net open position is measured on a daily basis and is to be kept within set limits. The assets and liabilities include current positions, forward positions, commitments, and the market value of derivatives in a foreign currency.

The table below summarises the Group's exposure to foreign exchange risk at 31st December 2020.

(a) Foreign Currency Concentrations risk as at 31 December 2020

Group						
In millions of Naira	Naira	Dollar	GBP	Euro	Others	Total
Assets						
Cash and balance with Central Bank of Nigeria	238,314	24,577	254	1,176	-	264,321
add un-restricted balance	38,993					38,993
Due from other banks	2,172	12,175	589	5,993	155	21,084
Financial assets to maturity pledged as collateral	34,740	120				34,860
Loans and advances to customer	451,275	145,552	0	0	-	596,827
Financial assets at fair value through profit or loss	1,454					1,454
- Debt instruments at fair value through other comprehensive income	131,312	4,468				135,780
Debt instruments at amortised cost	110,229	-				110,229
Other assets	9,951	33,978	0	0	21	43,950
Total financial assets (A)	1,018,440	220,870	843	7,169	176	1,247,498
Liabilities						
Due to banks	4,187	17,102				21,289
Due to customers	746,199	191,684	3,970	8,946	36	950,835
Debts issued and other borrowed funds	117,476	11,165				128,641
Other financial liabilities	38,900	18,417	20	4,042	174	61,552
Total financial liabilities (B)	906,762	238,368	3,990	12,988	210	1,162,317
Net financial assets/ (liabilities)	111,678	(17,498)	(3,146)	(5,819)	(34)	85,181

SENSITIVITY ANALYSIS OF FOREIGN CURRENCY BALANCE SHEET

Currency	Dollar	GBP	Euro	Total
	N'000	N'000	N'000	N'000
Net On Balance Sheet Position	(47,486)	(3,142)	(5,804)	(56,432)
Closing Exchange Rate (Naira/Currency)	400	546	491	
10% Currency Appreciation (-)	360	492	442	
10% Currency Depreciation (+)	440	601	540	
Effect of 10% appreciation on Profit	4,749	314	580	5,643
Effect of 10% depreciation on Profit	(4,749)	(314)	(580)	(5,643)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

f(ii) Foreign currency risk - continued

Group

31 December 2019

In millions of Naira	Naira	Dollar	GBP	Euro	Others	Total
Assets						
Cash and balance with Central Bank of Nigeria	132,536	10,244	745	2,173	-	145,698
add un-restricted balance	10,361	-	-	-	-	10,361
Due from other banks	31,842	30,433	2,883	4,197	7	69,361
Financial assets to maturity pledged as collateral	11,722	109	-	-	-	11,831
Loans and advances to customers	484,522	134,210	-	-	-	618,732
Financial assets measured at fair value through profit or loss	8,317	-	-	-	-	8,317
Financial assets at fair value through other comprehensive income	134,368	6,904	-	-	-	141,272
Financial investment at amortized cost	101,944	-	-	-	-	101,944
Other assets	14,722	13,963	4	-	6	28,695
Total financial assets (A)	930,333	195,864	3,632	6,370	13	1,136,211

31 December 2019

	Naira N'million	Dollar N'million	GBP N'million	Euro N'million	Others N'million	Total N'million
Liabilities						
Due to customers	705,150	181,449	3,608	2,437	15	892,660
Debt issued and other borrowed funds	116,925	8,432	-	-	-	125,357
Other financial liabilities	29,441	13,283	1,986	12	20	44,742
Total financial liabilities (B)	851,516	203,164	5,594	2,450	35	1,062,759
Net financial assets/ (liabilities)	78,817	(7,300)	(1,962)	3,920	(22)	73,452

SENSITIVITY ANALYSIS OF FOREIGN CURRENCY BALANCE SHEET

Currency	Dollar	GBP	Euro	Total
	N'000	N'000	N'000	N'000
Net On Balance Sheet Position	(6,398)	(1,962)	3,920	(4,462)
Closing Exchange Rate(Naira/Currency)	365	482	410	
1% Currency Appreciation(-)	328	434	369	
1% Currency Depreciation(+)	401	530	451	
Effect of 1% appreciation on Profit	640	196	(392)	444
Effect of 1% depreciation on Profit	(640)	(196)	392	(444)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

f(ii) Foreign currency risk

(a) Foreign Currency Concentrations Risk as at 31 December 2020

Bank

31 December 2020

	Naira	Dollar	GBP	Euro	Others	Total
In millions of Naira						
Cash and balance with Central Bank of Nigeria	238,314	24,577	254	1,176	-	264,321
add un-restricted balance	38,993	-	-	-	-	38,993
Due from other banks	2,167	12,175	589	5,993	155	21,079
Financial assets to maturity pledged as collateral	34,740	120				34,860
Loans and advances to customers	451,275	145,552	-	-	-	596,827
Financial assets held for trading	1,454	-	-	-	-	1,454
- Debt instruments at fair value through other comprehensive income	131,312	4,468	-	-	-	135,780
Debt instrument at amortised cost	93,234	-	-	-	-	93,234
Other assets	9,705	33,978	-	-	21	43,704
Total financial assets (A)	1,001,194	220,870	843	7,169	176	1,230,252
	Naira	Dollar	GBP	Euro	Others	Total
Liabilities						
Due to banks	4,187	17,102				21,289
Due to customers	746,199	191,684	3,970	8,946	36	950,835
Debt issued and other borrowed funds	100,525	11,165				111,690
Other financial liabilities	38,969	18,417	20	4,042	174	61,621
Total financial liabilities (B)	889,880	238,368	3,990	12,988	210	1,145,435
Net financial assets/ (liabilities)	111,314	(17,498)	(3,147)	(5,819)	(34)	84,817

SENSITIVITY ANALYSIS OF FOREIGN CURRENCY BALANCE SHEET

Currency	Dollar	GBP	Euro	Total
	N'000	N'000	N'000	N'000
Net On Balance Sheet Position	(47,486)	(3,142)	(5,804)	(56,432)
Closing Exchange Rate (Naira/Currency)	400	546	491	
10% Currency Appreciation (-)	360	492	442	
10% Currency Depreciation (+)	440	601	540	
Effect of 10% appreciation on Profit	4,749	314	580	5,643
Effect of 10% depreciation on Profit	(4,749)	(314)	(580)	(5,643)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial Risk Management - continued

f(ii) Foreign currency risk

In millions of Naira
31 December 2019

	Naira	Dollar	GBP	Euro	Others	Total
Assets						
Cash and balance with Central Bank of Nigeria	132,536	10,244	745	2,173	-	145,698
add un-restricted balance	10,361					10,361
Due from other banks	31,842	30,433	2,883	4,197	7	69,361
Financial assets to maturity pledged as collateral	11,722	109				11,831
Loans and advances to customer	483,619	135,112	-	-	-	618,732
Financial assets held for trading	8,317		-	-	-	8,317
Financial assets at fair value through profit or loss	134,368	6,904	-	-	-	141,272
Financial investments at amortized cost	84,767		-	-	-	84,767
Other assets	14,722	13,963	4	-	6	28,695
Total financial assets (A)	912,253	196,766	3,632	6,370	13	1,119,034
Liabilities						
Due to banks	-	-	-	-	-	-
Due to customers	705,150	181,449	3,608	2,437	15	892,660
Debt issued and other borrowed funds	99,979	8,432	-	-	-	108,411
Other financial liabilities	29,441	13,283	1,986	12	20	44,742
Total financial liabilities (B)	834,570	203,164	5,594	2,450	35	1,045,813
Net financial assets/ (liabilities)	77,682	- 6,398	(1,962)	3,920	(22)	73,220

SENSITIVITY ANALYSIS OF FOREIGN CURRENCY BALANCE SHEET

Currency	Dollar	GBP	Euro	Total
	N'000	N'000	N'000	N'000
Net On Balance Sheet Position	(6,398)	(1,962)	3,920	(4,440)
Closing Exchange Rate (Naira/Currency)	365	482	410	
1% Currency Appreciation (-)	328	434	369	
1% Currency Depreciation (+)	401	530	451	
Effect of 1% appreciation on Profit	640	196	(392)	444
Effect of 1% depreciation on Profit	(640)	(196)	392	(444)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

(g) Operational Risk Management - continued

Operational risk in the Group is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risks.

Operational risk exists in all activities, processes, products and systems. The Group aims to maintain operational risk within its risk appetite through a strategy anchored on the sustenance of a strong risk culture of individual and collective awareness and understanding of operational risk, accountability and transparency on operational risk issues at all levels, deployment of robust operational risk policies, processes and tools, and collaboration across all the business units and support functions in managing operational risk.

Operational Risk Governance Structure

Operational risk is managed in the Group along three lines of defense. The first line consists of the business units who own and are directly responsible for managing the risk. They identify and report operational risks in their activities and communicate these risks to the second line of defense which includes the independent risk management and control functions. This line formulates the risk management policies, processes and tools, and provides support in enhancing and monitoring the effectiveness of controls in the business units and support functions, while the third line of defense, the Internal Audit department, provides independent assurance on the adequacy, appropriateness and effectiveness of the risk management policies and process on an ongoing basis.

The Group maintains a dedicated Operational Risk Management (ORM) function which formulates the operational risk management strategy, policy and framework. The department, through the Chief Risk Officer, has a reporting line to the Executive Management, Management Risk Committee and Board Risk Management Committee, depicting a robust governance structure. The Board approves the Group's ORM policy and appetite. The Management Risk Committee reviews operational risk management reports quarterly and defines action plans to minimize material risks to acceptable levels. In addition, the ORM department collaborates with the Conduct and Compliance Division to ensure effective implementation of the ORM framework in the business units and support functions. It also works closely with the business units to manage operational risk based on the outcomes of the monitoring activities of the Conduct and Compliance Division. The ORM department is audited regularly by the Group's internal and external auditors.

Operational Risk Management Framework

The Group has a robust framework for managing operational risk. The framework defines the core governing principles and processes for the effective identification, assessment, mitigation, and monitoring of operational risks in line with regulatory requirements and international best practices. The key processes and tools in the ORM framework include the following:

1 Risk and Control Self-Assessment

The Group's Risk and Control Self-Assessment (RCSA) program provides a structured approach for business owners to identify material risks in their business areas, assess the effectiveness of controls in mitigating the risks and implement actions to proactively address the identified vulnerabilities. RCSA helps senior management to assess the overall effectiveness of the control environment, improve risk decision making, and optimize controls to meet business objectives.

The RCSA is also a rich source of information for developing heat maps that highlight the Group's areas of vulnerability, risk concentration and materiality.

The RCSA program was redesigned and enhanced in the third quarter of the year to improve the risk identification and control assessment process, ensure ownership of risks at senior levels within the business, and enhance the monitoring and resolution of issues.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**37 Financial risk management - continued****(g) Operational Risk Management - continued****2 Key risk indicators**

The Group uses Key Risk Indicators which provide early warning signals of changes in the risk profile to monitor and mitigate key threats to the achievement of strategic goals. Material breaches are reported monthly and quarterly to Management for timely remediation.

3 Operational Risk Event Data Collection

The Group maintains a comprehensive internal loss database aligned with regulatory and Basel standards for collecting, analyzing and reporting operational risk events and losses. The data on the Group's historical loss experience provides meaningful information for assessing the exposure to operational risk, developing risk scenarios, prioritizing risk decisions, and implementing controls to mitigate risks. Strict reporting requirements are in place to ensure that operational risk incidents are escalated to relevant stakeholders for timely decision making. Adequate risk transfer mechanisms including insurance and outsourcing are in place to minimize the impact of operational risk events on the Group. The lessons learnt from operational risk events and losses are communicated across the Bank and used in improving the control environment.

4 Scenario Analysis

The Operational Risk Management department utilizes scenario analysis of the Group's internal historical losses and material external risk events in modelling tail risk events, determining the potential impact on the organization, and proactively developing action plans to mitigate the risks.

Business Continuity Management

The Group obtained the Business Continuity Management System (BCMS) certification (ISO 22301) within the year in line with international principles and standards. This certification indicates that a comprehensive Business Continuity Plan and robust recovery processes and systems are in place to build resilience, safeguard the Bank's employees and assets, maintain strategic communications, minimize service disruption and losses, and ensure timely recovery and resumption of operations and technology infrastructure in the event of a disaster. The Bank's dedicated Business Continuity Manager coordinates the activities of the BCMS and ensures the development, implementation and testing of the BCP is in line with international standards and best practices.

The Operational Risk Management framework is supported by other departmental policies and procedures that guide the daily activities of the business units and functions and ensure adequate controls are implemented to mitigate risks. The policies and procedures are regularly reviewed and updated, and the processes redesigned or automated where required, to improve operational efficiency and the effectiveness of controls across the Bank.

Periodic reports on the identified operational risks are circulated to the relevant stakeholders for timely remediation of issues, enhancement of controls and to increase awareness of operational risk across the Bank.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued
(g) Operational Risk Management - continued

Operational Risk Capital Charge

The Bank uses the Basic Indicator Approach for computing the capital charge for operational risk in line with

31 December 2020

Nature of item	capital charge factor	First year	Second year	Third year	Aggregate Gross Income (years 1 to 3)	Capital charges
In millions of Naira						
Basic Indicator Approach (BIA)						
Gross Income	15%	79,012	87,126	89,398	255,536	38,330
Number of years with positive annual gross income						3
Mean Average of Aggregate Capital						12,777
Calibrated Risk Weighted Amount (BIA)						159,710

31 December 2019

Nature of item	capital charge factor	First year	Second year	Third year	Aggregate Gross Income (years 1 to 3)	Capital charges
In millions of Naira						
Basic Indicator Approach (BIA)						
Gross Income	15%	73,231	79,012	87,126	239,369	35,905
Number of years with positive annual gross income						3
Mean Average of Aggregate Capital						11,968
Calibrated Risk Weighted Amount (BIA)						149,606

(h) Capital management

(a) Regulatory capital

The Central Bank of Nigeria, sets and monitors capital requirements for the Bank. The banking operations are directly supervised by the Central Bank of Nigeria. In implementing current capital requirements, the Central Bank of Nigeria requires the Bank to maintain a 10% minimum ratio for total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

Tier 2 capital, which includes qualifying subordinated liabilities, allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as Fair value through other comprehensive income.

Various limits are applied to elements of the capital base. The qualifying Tier 2 capital is limited to 33.3% of Tier 1 capital.

Banking operations are categorised mainly as trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**37 Financial risk management - continued****(h) Capital management - continued****(a) Regulatory capital - continued**

The CBN in its circular BSD/DIR/GEN/LAB/07/021 effective 5 August 2014 informs banks on the exclusion of the following reserves in the computation of total qualifying capital:

- Regulatory Risk Reserve created pursuant to Section 12.4 (a) of the Prudential Guidelines,
- Collective impairment on loans and receivables and other financial assets,
- Other Comprehensive Income (OCI) Reserves will be recognized as part of Tier 2 capital subject to the limits set in paragraph 3.2 of the CBN Guidance, and Notes on the Calculation of Regulatory Capital

(b) Capital Adequacy Ratio

In accordance with Central Bank of Nigeria regulations, a minimum threshold of 10% is to be maintained when computing the ratio qualifying capital to risk weighted assets.

The capital adequacy computation for the year ended 31 December 2018 is in line with revised guidance notes on implementation and the reporting template for capital adequacy ratio issued by Central Bank of Nigeria, referenced BSD/DIR/GEN/BAS/08/031 and dated 24 June 2015. The computations are consistent with the requirements of Pillar I of Basel II Accord (International Convergence of Capital Measurement and Capital Standards). Although the guidelines comply with the requirements of the Basel II accords, certain sections were adjusted to reflect the peculiarities of the Sterling Bank, in line with the directives from the Central Bank of Nigeria (CBN), has adopted the following approaches for its Pillar 1 capital calculations:

- Credit Risk – Standardised Approach
- Market Risk – Standardised Approach
- Operational Risk – Basic indicator approach, which is 15% of the average gross income for the past 3 year.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

(h) Capital management - continued

(b) Capital Adequacy Ratio - continued

		Group 2020	Group 2019	Bank 2020	Bank 2019
Constituents of Capital					
In millions of Naira					
Tier 1 capital	<i>Note</i>				
Paid- up share capital	30	14,395	14,395	14,395	14,395
Share premium		42,759	42,759	42,759	42,759
General reserve (Retained earnings)		25,278	6,187	24,913	5,954
SMEEIS reserve		235	235	235	235
AGSMEIS reserve		1,711	1,155	1,711	1,155
Statutory reserve		23,289	21,622	23,291	21,624
Other reserves		5,276	5,276	5,276	5,276
Tier 1 Capital Before Regulatory Deduction		112,943	91,629	112,580	91,398
Regulatory Deduction					
Deferred tax assets		(6,971)	(6,971)	(6,971)	(6,971)
Other intangible assets		(1,582)	(1,933)	(1,582)	(1,933)
Total Regulatory Deduction		(8,553)	(8,904)	(8,553)	(8,904)
Tier 1 Capital after Regulatory Deduction		104,390	82,725	104,027	82,494
Tier 2 capital: Instruments & Reserves					
Sub-ordinated debt *		22,422	21,016	22,301	20,939
Other comprehensive income		12,375	6,559	12,375	6,559
Eligible Tier 2 Capital		34,797	27,575	34,676	27,498
Total regulatory capital		139,187	110,299	138,703	109,992
Risk-weighted assets		771,981	748,358	771,587	748,119
Total tier 1 and tier 2 capital expressed as a percentage of risk-weighted assets		18.03%	14.74%	17.98%	14.70%

*Recognition of capital instrument in Tier 2 capital in its final five years to maturity is amortized on a straight-line basis by 20% per annum.

Description of Tier 2 Capital (Sub-ordinated debt)

.....	Place	Issue date	Date of maturity	Coupon rate	N'million
Non- convertible debenture stock	Nigeria	25 August 2016	25 August 2023	18.86%	5,220
Non- convertible debenture stock	Nigeria	5 October 2018	5 October 2025	17.55%	20,103

Internal Capital Adequacy Assessment Process (ICAAP)

The Bank has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy. The framework includes a comprehensive internal capital adequacy assessment process (ICAAP) conducted annually which determines the adequate level of capitalization for the Bank to meet regulatory requirements for current and future business needs, including under stress scenarios. The framework has been structured in line with CBN requirements to identify the risks inherent in the Bank's business and sets out the Bank's philosophy, processes, and techniques for managing risks across the Bank. Furthermore, it describes the controls management has implemented to reduce the likelihood of occurrence and minimize the impact of risk events on the business and includes information on the Bank's governance structure, and policies that support risk and capital management systems.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

(h) Capital management - continued

(b) Capital Adequacy Ratio - continued

Internal Capital Adequacy Assessment Process (ICAAP)

Risk Weighted Assets and Capital Requirement per Credit Exposure

S/N	Exposure	Risk Weighted Assets	Capital requirements
	In millions of Naira		
1	Credit Risk		
1.01	Sovereign	-	-
1.02	Public Sector Entities	4,354	452
1.03	State and Local Government	57,806	5,997
1.04	Multilateral Development Bank	-	-
1.05	Supervised Institutions	4,024	417
1.06	Corporate and Other Persons	269,024	27,910
1.07	Regulatory Retail Portfolio	27,722	2,876
1.08	Secured by Mortgages on Residential Properties	48,380	5,019
1.09	Exposures Secured by Mortgages on Commercial Real Estates	91,473	9,490
1.10	Past Due	1,030	107
1.11	Higher Risk Exposures	16,120	1,672
1.12	Other Balance Sheet Exposures	75,984	7,883
1.13	Off Balance Sheet Exposures	18,818	1,952
1.14	Regulatory Adjustment	(10,435)	
2	Market risk		
2.01	Interest Rate Risk	133	11
2.02	Foreign Exchange Risk	7,444	596
3	Operational risk		
3.01	Basic Indicator Approach	159,710	12,777
4	Capital Adequacy Ratio		
4.01	Tier 1 Capital Adequacy Ratio	13.48%	
4.02	Total Capital Adequacy Ratio	17.98%	

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

37 Financial risk management - continued

(h) Capital management - continued

(iii) Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives.

38 Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled as at 31 December 2020.

- Group

Maturity analysis of assets and liabilities 31 December 2020	Less than 3 months	3-6 months	6-12 months	1 - 5 years	More than 5 years	Total
Assets						
Cash and balances with Central Bank of Nigeria	63,696	-	-	-	239,618	303,314
Due from banks	21,084	-	-	-	-	21,084
Pledged assets	1,496	-	28,949	-	4,415	34,860
Loans and advances to customers	77,429	49,722	73,202	220,749	175,725	596,827
Investment in securities:	-	-	-	-	-	-
- Financial assets at fair value through profit or loss	2	-	1,452	-	-	1,454
- Debt instruments at fair value through other comprehensive income	67,214	6,617	22,756	24,904	14,289	135,780
- Equity instruments at fair value through other comprehensive income	-	-	-	-	10,745	10,745
- Debt instruments at amortised cost	-	-	12,869	71,185	26,175	110,229
Other assets	-	-	-	43,950	-	43,950
Total	230,921	56,339	139,228	360,788	470,967	1,258,243
- Group						
	Less than 3 months	3-6 months	6-12 months	1 - 5 years	More than 5 years	Total
In millions of Naira						
Liabilities						
Deposits from bank	4,615	16,674	-	-	-	21,289
Deposits from customers	334,282	58,507	180,210	191,892	185,945	950,835
Debts issued and other borrowed funds	-	1,666	-	101,508	25,467	128,641
Other liabilities	-	-	-	61,552	-	61,552
Total	338,897	76,847	180,210	354,952	211,412	1,162,317
Net	(107,976)	(20,508)	(40,981)	5,836	259,555	95,926

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

38 Maturity Analysis of Assets and Liabilities - continued

	Less than 3 months	3-6 months	6-12 months	1 - 5 years	More than 5 years	Total
In millions of Naira						
31 December 2019						
Cash and balances with Central Bank of Nigeria	32,773	-	-	-	123,286	156,059
Due from banks	69,361	-	-	-	-	69,361
Pledged assets	-	7,904	-	3,927	-	11,831
Loans and advances to customers	128,509	48,934	82,560	274,001	84,727	618,732
Investment in securities:	-	-	-	-	-	-
- Financial assets at fair value through profit or loss	2,323	2,024	3,970	-	-	8,317
- Debt instruments at fair value through other comprehensive income	13,638	15,204	66,789	28,994	16,649	141,272
- Equity instruments at fair value through other comprehensive income	-	-	-	-	5,470	5,470
- Debt instruments at amortised cost	-	-	-	69,770	32,174	101,944
Other assets	-	-	-	28,581	-	28,581
Total	246,604	74,065	153,318	405,273	262,306	1,141,567
Deposits from customers	331,182	122,867	143,600	159,409	135,602	892,660
Debts issued and other borrowed funds	-	-	-	16,617	108,740	125,357
Other liabilities	-	-	-	44,742	-	44,742
Total	331,182	122,867	143,600	220,767	244,342	1,062,759
Net	(84,578)	(48,802)	9,718	184,506	174,787	78,808

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

38 Maturity Analysis of Assets and Liabilities - continued

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled as at 31 December 2020.

- Bank

31 December 2020

Maturity analysis of assets and liabilities

In millions of Naira

Assets

	Less than 3 months	3-6 months	6-12 months	1 - 5 years	More than 5 years	Total
Cash and balances with Central Bank of Nigeria	63,696	-	-	-	239,618	303,314
Due from banks	21,079	-	-	-	-	21,079
Pledged assets	1,496	-	28,949	-	4,415	34,860
Loans and advances to customers	77,429	49,722	73,202	220,749	175,725	596,827
Investment in securities :	-	-	-	-	-	-
- Financial assets at fair value through profit or loss	2	-	1,452	-	-	1,454
- Debt instruments at fair value through other comprehensive income	67,214	6,617	22,756	24,904	14,289	135,780
- Equity instruments at fair value through other comprehensive income	-	-	-	-	10,745	10,745
- Debt instruments at amortised cost	-	-	10,859	60,068	22,307	93,234
Other assets	-	-	-	43,704	-	43,704
Total	230,915	56,339	137,218	349,425	467,099	1,240,997
Deposits from banks	4,615	16,674	-	-	-	21,289
Deposits from customers	334,282	58,507	180,210	191,892	185,945	950,835
Debts issued and other borrowed funds	-	1,666	-	84,154	25,870	111,690
Other liabilities	-	-	-	61,621	-	61,621
Total	338,897	76,847	180,210	337,667	211,815	1,145,435
Net	(107,982)	(20,508)	(42,991)	11,759	255,284	95,562

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

38 Maturity Analysis of Assets and Liabilities - continued

Bank						
31 December 2020	Less than 3 months	3-6 months	6-12 months	1 - 5 years	More than 5 years	Total
In millions of Naira						
Maturity analysis of assets and liabilities						
Cash and balances with Central Bank of Nigeria	32,773	-	-	-	123,286	156,059
Due from banks	69,361	-	-	-	-	69,361
Pledged assets	-	7,886	-	3,919	-	11,805
Loans and advances to customers	128,509	48,934	82,560	274,001	84,727	618,732
Investment in securities:	-	-	-	-	-	-
- Financial assets at fair value through profit or loss	2,323	2,024	3,970	-	-	8,317
- Debt instruments at fair value through other comprehensive income	13,638	15,204	66,789	28,994	16,649	141,272
- Equity instruments at fair value through other comprehensive income	-	-	-	-	5,470	5,470
- Debt instruments at amortised cost	-	-	-	58,014	26,753	84,767
Investment in subsidiary	-	-	-	-	1	1
Other assets	-	-	-	28,665	-	28,665
Total	246,604	74,048	153,318	393,592	256,886	1,124,449
Deposits from customers	331,182	122,867	143,600	159,409	135,602	892,660
Debts issued and other borrowed funds	-	-	-	14,037	94,374	108,411
Other liabilities	-	-	-	37,678	-	37,678
Total	331,182	122,867	143,600	255,865	229,976	1,083,491
Net	(84,578)	(48,819)	9,718	137,727	26,910	40,958

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

39 Fair Value of financial instruments

The Group's accounting policy on fair value measurements is discussed under note 2.2.19. The Group measures fair values using the following fair value hierarchy that reflects the nature and process used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using inputs that are not based on observable market data, i.e., unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value measurement hierarchy for assets & liabilities as at 31 December 2020:

- GROUP

In millions of Naira		Level 1	Level 2	Level 3	Total
Assets measured at fair value					
Pledged assets – FVOCI	18.1	30,513	-	-	30,513
Debt instruments at FVTPL	20(a)	1,454	-	-	1,454
Debt instruments measured at FVOCI	20(c)	133,202	2,578	-	135,780
Equity instruments at fair value through other comprehensive income	20(b)	-	10,745	-	10,745
Assets for which fair value are disclosed					
Due from banks		-	21,084	-	21,084
Pledged assets at Amortised cost		4,347	-	-	4,347
Loans and advances to customers		-	-	564,752	564,752
Debt instruments at amortised cost		93,933	-	-	93,933
Liabilities for which fair values are disclosed:					
Deposits from banks		-	-	21,289	21,289
Deposits from customers		-	-	906,793	906,793
Other borrowed funds		-	-	72,551	72,551
Debt securities issued		-	40,990	-	40,990

- 31 December 2019

Pledged assets – FVOCI	18.1				
Debt instruments at FVTPL	20(a)		8,277		8,277
Debt instruments measured at FVOCI	20(c)		-		-
Equity instruments at fair value through other comprehensive income			5,470		5,470
Assets for which fair value are disclosed					
Pledged assets at Amortised cost			11,831		11,831
Loans and advances to customers			582,656		582,656
Debt instrument at Amortised cost			57,748		57,748
Liabilities for which fair values are disclosed:					
Deposits from customers			857,198		857,198
Other borrowed funds			69,808		69,808
Debt securities issued			39,268		39,268

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

39 Fair Value of financial instruments- continued

Fair value measurement hierarchy for assets & liabilities as at 31 December 2020

- BANK

In millions of Naira		Level 1	Level 2	Level 3	Total
Assets measured at fair value					
Pledged assets – FVOCI	18.1	30,513	-	-	30,513
Debt instruments at FVTPL	20(a)	1,454	-	-	1,454
Debt instruments measured at FVOCI	20(c)	133,202	2,578	-	135,780
Equity instruments at fair value through other comprehensive income	20(b)	10,745	-	-	10,745
Assets for which fair value are disclosed					
Due from banks		-	21,079	-	21,079
Pledged assets at amortised cost		4,347	-	-	4,347
Loans and advances to customers		-	-	564,752	564,752
Debt instruments at amortised cost		76,692	-	-	76,692
Liabilities for which fair values are disclosed:					
Deposits from banks		-	-	21,289	21,289
Deposits from customers		-	-	906,793	906,793
Other borrowed funds		-	-	72,551	72,551
Debt securities issued		-	24,039	-	24,039
- 31 December 2019					
Assets measured at fair value					
Pledged assets – FVOCI	18.1				
Debt instrument at FVTPL	20(a)		8,277		8,277
Debt instrument measured at FVOCI	20(c)		-		-
- Equity instruments at fair value through other comprehensive income	20(b)		5,470		5,470
Assets for which fair value are disclosed					
Due from banks					-
Pledged assets at Amortised cost			11,831		11,831
Loans and advances			582,656		582,656
Debt instrument at Amortised cost			48,815		48,815
Liabilities for which fair values are disclosed:					
Deposits from customers			857,198		857,198
Other borrowed funds			69,808		69,808
Debt securities issued			25,149		25,149

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

39 Fair Value of financial instruments - continued

Group

In millions of Naira	Carrying amount		Fair value amount	
	2020	2019	2020	2019
Financial assets				
Cash and balances with Central Bank of Nigeria	303,314	156,059	303,314	156,059
Due from banks	21,084	69,361	21,084	69,361
Pledged assets	34,860	11,831	34,860	11,831
Loans and advances to customers	596,827	618,732	564,752	582,656
Investment in securities:				
- Financial assets at fair value through profit or loss	1,454	8,317	1,454	8,317
- Debt instruments at fair value through other comprehensive income	135,780	141,272	135,780	141,272
- Equity instruments at fair value through other comprehensive income	10,745	5,470	10,745	5,470
- Debt instruments at amortised cost	110,229	101,944	93,933	57,748
Total	1,214,293	1,112,986	1,165,922	1,032,714
Financial liabilities				
Deposits from banks	21,289	-	21,289	-
Deposits from customers	950,835	892,660	906,793	857,198
Other borrowed funds	86,367	82,702	72,551	69,808
Debt securities issued	42,274	42,655	40,990	39,268
Customer deposits for foreign trade	25,636	14,820	25,636	14,820
Creditors and accruals	19,012	13,117	19,012	13,117
Total	1,145,413	1,045,954	1,086,271	994,211

Bank

In millions of Naira	Carrying amount		Fair value amount	
	2020	2019	2020	2019
Financial assets				
Cash and balances with Central Bank of Nigeria	303,314	156,059	303,314	176,057
Due from banks	21,079	69,361	21,079	69,360
Pledged assets	34,860	11,831	34,860	11,831
Loans and advances to customers	596,827	618,732	564,752	582,656
Investment in securities:				
- Financial assets at fair value through profit or loss	1,454	8,317	1,454	8,277
- Debt instruments at fair value through other comprehensive income	135,780	141,272	135,780	120,775
- Equity instruments at fair value through other comprehensive income	10,745	5,470	10,745	5,470
- Debt instruments at amortised cost	93,234	84,767	76,692	48,815
Total	1,197,293	1,095,809	1,148,676	1,023,241
Financial liabilities				
Deposits from banks	21,289	-	21,289	-
Deposits from customers	950,835	892,660	906,793	857,198
Other borrowed funds	86,367	82,702	72,551	69,808
Debt securities issued	25,323	25,709	24,039	25,149
Customer deposits for foreign trade	25,636	14,820	25,636	14,820
Creditors and accruals	19,081	13,117	19,081	13,117
Total	1,128,531	1,029,008	1,069,388	980,092

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**39 Fair Value of financial instruments - continued**

The following methods and assumptions were used to estimate the fair values:

Assets for which fair value approximates carrying value

The management assessed that cash and balances with Central Bank of Nigeria, creditors & accruals and customer deposit for foreign trade approximate their carrying amounts largely due to the short-term maturities of these instruments. For financial assets and financial liabilities that are without a specific maturity; it is assumed that the carrying amounts approximates their fair value.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the quoted bonds and treasury bills are based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The fair values of the remaining FVOCI financial assets are measured using quoted market prices in active markets which are adjusted for using the accrued interest to date.

The fair values of the Group's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2020 was assessed to be insignificant.

For loans and advances, a discounted cash flow model is used based on various fair value of the loan portfolio by discounting the future cash flows on these loans using interest rates on loans and remaining days to maturity of each of the cash flows.

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits and debt issued are based on discounted cash flows using prevailing money-market interest rates for deposits and debts with similar credit risk and maturity.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

40 Compliance with banking regulations

Included in fines and penalties are contraventions with certain Central Bank of Nigeria's guidelines and circulars listed below:

Circular/Letters	Nature of contravention	2020	2019
		Penalty	Penalty
In millions of Naira			
CBN FX Manual	Non-processing of e-Form M for importation of goods.	30.0	
FPR/DIR/CIR/GEN/05/014 - Revised Assessment Criteria for Approved Persons Regime for Financial Institutions. BSD/DIR/GEN/LAB/07/004 & BSD/DIR/GEN/LAB/07/044 - The need for prior CBN Clearance of prospective employees of Banks.	Recruitment of staff prior to CBN approval.	4.0	
Risk Based Examination findings , BSD/9/2004 - Large exposure and connected lending	Facility exposure to insider related higher than limit		2.0
	Not obtaining BVN on inactive credit customers; 2017 RBS examination.		2.0
		34.0	4.0

41(a) Customer Complaints

In line with Circular No: FPR/DIR/CIR/GEN/01/020, the returns on customer complaints for the year ended 31 December 2020 is as set out below:

Financial year	NUMBER		AMOUNT CLAIMED		AMOUNT REFUNDED	
	2020	2019	2020	2019	2020	2019
			In millions of Naira		In millions of Naira	
Pending complaints b/f	94	6	20	269	269	269
Complaints received	137,620	74,833	7,661	5,875	7,661	
Complaints resolved	137,300	69,093	6,339	1,420	6,339	1,420
Unresolved complaints escalated to CBN for intervention	NIL	NIL	N/A	N/A	N/A	N/A
Unresolved complaints pending with the bank c/f	414	94	1,342	20	N/A	N/A

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

41(b) Report to the CBN on Fraud and Forgeries

In line with Section 5.1.2 (L) of the CBN Code of Corporate Governance, the breakdown of fraud and forgeries for the year is presented below:

	2020	2019
Actual/Expected Loss (N'000)	73	92
Amount involved (N'000)	195,339	165,937
Amount involved (\$'000)	9	21
Actual/Expected Loss (N'000)	123,811	109,530
Actual/Expected Loss (\$'000)	9	21

42 Card Usage data

In line with the Central Bank of Nigeria guidelines for card issuance and usage in Nigeria, Section 11.0, the report on card issuance and usage for the year ended 31 December 2020 is set out below:

Product	31 December 2020		31 December 2019	
	Volume	Value N'million	Volume	Value N'million
Visa	679	6,642	451	6,561
Verve	35,124	409,830	82,427	964,279

43 Whistle Blowing

The Bank complied with the provisions of CBN circular FPR/DIR/CIR/GEN/01/004, Code of Corporate Governance for Banks and Discount Houses in Nigeria and Guidelines for Whistle Blowing in Nigeria Banking Industry, for the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**44 Non-Audit Services**

During the year, the Bank's auditor, Deloitte & Touche, provided the following permissible non-audit services to the Bank:

Description of the service	2020
	<i>In millions of Naira</i>
i) Independent Assessment of the Board's Oversight of Assurance Functions	5

In the Bank's opinion, the provision of these services did not impair the independence and objectivity of the external auditor.

45 COVID-19 Impact Assessment

Globally, 2020 was an eventful year, characterized by social, economic and political tensions, primarily as a result of the the Covid-19 pandemic outbreak. While the Covid-19 pandemic is a global health crisis, its economic impact and social impact are extremely significant. However, the positive developments in production and distribution of several vaccines have given hope for a better economic outlook in 2021, albeit expected to remain well below pre-pandemic levels.

Sterling bank has continued to leverage on its agile structure and optimized pre-pandemic measures in response to the COVID pandemic. Risk management and operational process improvements, including frequent stress testing and contingency planning, alongside the activation of the Bank's Business Continuity Plan (BCP), are some of the Bank's measures to ensure sustained customer service delivery to our customers. The BCP led to rapid implementation of the remote work and shift work patterns, which were made possible by prior and current investments in the Bank's core technology infrastructure, network capacity and enterprise cloud strategy. To support the well-being of our customers and staff, the Bank implemented the physical distancing measures in all its locations and introduced new health and wellness resources such as Tremendoc, Employee Assisted Program and Sterling First Responders. These measures have proven to be effective in minimizing disruptions with respect to the Bank's continued operations.

In response to the pandemic, the Central Bank of Nigeria introduced unprecedented intervention measures, which include the concessions to commercial Banks to restructure some loans. These measures by the Regulators and Federal Government, have mitigated the impact of the crisis and enabled the continued effective functioning of financial markets.

The International Accounting Standard Board, Financial Reporting Council of Nigeria (FRC), Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC) have all issued pronouncements to guide entities on disclosures and valuations of Financial Assets with respect to the impact of the pandemic.

Financial Assets

In line with these guidelines, Sterling Bank has recalibrated its IFRS9 ECL model. The recalibration of the model reflects new Forward-looking Information (FLIs) due to the negative macroeconomic trend. It also reflects our modified outlook which resulted in updated scenario probability weights with regards to observed Probability of Default (PD) values. The adjusted scenario outlook involved a certain level of expert judgement which reflect the perceived elevated risks due to market volatilities and persistent uncertainties.

These changes to the model impacted mainly on the Bank's exposures in Stage 1 and 2 buckets. We also recorded some migrations from stage 1 to stage 2 which reflect a significant increase in credit risk (SICR), while we acknowledge the various loan restructures and the support of the CBN in managing the associated risks. Consequently, the impact of the pandemic has been recognised in the loan-provisioning as of December 2020. The Group will continue to monitor the situation, and as new information becomes available necessary adjustment will be made in the appropriate reporting period.

We also reviewed our portfolio of investment securities and corporate bonds. We remain confident that the Federal Government will continue to meet its obligations on its instruments. Although the state government and corporate bonds, valued at N12.6bn, remain a small proportion of the Bank's total portfolio, our assessment did not reveal significant increase in credit risk as a result of the pandemic. Nevertheless, we shall continue to monitor the portfolio for any related deterioration in quality.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**45 COVID-19 Impact Assessment - continued****Non-Financial Assets**

Investment Property: The Bank relied on expert judgement in its assessment. Consequently, the market value of this portfolio did not experience significant deterioration to induce impairment.

Property, Plant and Equipment, Right-of-use Assets, Intangible Assets were subjected to individual impairment testing and the outcome was insignificant.

Unquoted Equities Valuation: EPS/PBS of market comparable companies were used. Allowance for both country risk and non-quotation risk at 10% respectively was considered in determining the expected value. The assessment outcome did not show asset diminution.

Earnings, Liquidity and Capital Adequacy

The Bank conducted various stress tests and scenario analyses to assess the possible impacts of Covid-19 on its liquidity, capital adequacy and earning capacity. The Bank remains resilient to deal with liquidity risk that may arise from adverse situations. Also, as evidenced by the Bank's overall improved financial performance, the Bank's capital position and earnings capacity are adequate to withstand the shocks that may arise.

The Bank is confident that it will continue to operate and mitigate the risk associated with COVID-19 in the next 12 months from the date of this report.

OTHER NATIONAL DISCLOSURES

Annual Report, Consolidated and Separate Financial Statements
For the year ended 31 December 2020

STATEMENTS OF VALUE ADDED

FOR THE YEAR ENDED 31 DECEMBER 2020

	Group				Bank			
	2020	%	2019	%	2020	%	2019	%
<i>In millions of Naira</i>								
Gross earnings	138,897		150,195		136,475		147,439	
Interest expense	(49,305)		(62,592)		(47,013)		(60,284)	
	89,592		87,603		89,462		87,155	
Exceptional income								
Net impairment	(7,906)		(5,838)		(7,913)		(5,842)	
Bought-in-materials and services -local	(48,423)		(48,280)		(48,418)		(48,267)	
Value added	33,263	100	33,485	100	33,131	100	33,046	100
Applied to pay:								
Employee as wages, salaries and pensions	14,841	45	14,912	45	14,841	45	14,912	45
Income taxes	1,130	3	70	0	1,130	3	70	0
Retained in business:								
Depreciation and amortisation	6,050	18	7,901	24	6,050	18	7,901	24
Profit for the year	11,242	34	10,602	32	11,110	34	10,163	31
	33,263	100	33,485	100	33,131	100	33,046	100

Value added is the wealth created by the efforts of the Bank and its employees. This statement shows the allocation of that wealth among the employees, shareholders, government and amount re-invested for creation of further wealth.

OTHER NATIONAL DISCLOSURES

FIVE-YEAR FINANCIAL SUMMARY - GROUP

	31 DECEMBER				
	2020	2019	2018	2017	2016
<i>In millions of Naira</i>					
ASSETS					
Cash and balances with Central Bank of Nigeria	303,314	156,059	117,685	122,630	107,859
Due from other banks	21,084	69,361	43,542	51,066	31,289
Pledged assets	34,860	11,831	11,423	145,179	86,864
Derivative financial assets	-	-	-	-	8
Loans and advances to customers	596,827	618,732	621,017	598,073	468,250
Investment securities:					
- Financial assets at fair value through profit or loss	1,454	8,317	4,110	6,883	1,653
- Debt instruments at fair value through other comprehensive income	135,780	141,272	117,620	-	-
- Equity instruments at fair value through other comprehensive income	10,745	5,470	4,011	-	-
- Debt instruments at amortised cost	110,229	101,944	123,086	-	-
- Available for sale	-	-	-	80,031	34,867
- Held to maturity	-	-	-	24,075	54,724
Other assets	43,950	28,581	29,446	18,728	21,676
Property, plant and equipment	15,956	18,476	16,942	16,451	14,604
Right-of-use asset	8,319	8,896	-	-	-
Investment property	8,004	4,141	-	-	-
Intangible assets	1,582	1,933	1,850	2,114	2,038
Deferred tax assets	6,971	6,971	6,971	6,971	6,971
	1,299,075	1,181,984	1,097,704	1,072,201	830,803
Non-current assets held for sale	-	701	5,218	-	-
TOTAL ASSETS	1,299,075	1,182,685	1,102,922	1,072,201	830,803
LIABILITIES					
Deposits from banks	21,289	-	-	11,048	23,769
Deposits from customers	950,835	892,660	760,608	684,834	584,734
Derivative financial liabilities	-	-	-	-	8
Current income tax liabilities	551	201	405	232	941
Other borrowed funds	86,367	82,702	119,526	212,847	82,450
Debt securities issued	42,274	42,655	86,609	13,068	11,976
Other liabilities	61,552	44,742	37,678	48,234	40,950
Provisions	454	167	295	295	295
TOTAL LIABILITIES	1,163,322	1,063,127	1,005,121	970,558	745,123
NET ASSETS	135,753	119,558	97,801	101,643	85,680
EQUITY					
Share capital	14,395	14,395	14,395	14,395	14,395
Share premium	42,759	42,759	42,759	42,759	42,759
Retained earnings	25,278	6,187	(3,307)	6,991	6,245
Other components of equity	53,321	56,217	43,954	37,498	22,281
Attributable to equity holders of the Bank	135,753	119,558	97,801	101,643	85,680
Other Commitments and Contingencies	175,287	159,021	130,347	131,106	111,260
PROFIT OR LOSS ACCOUNT					
	2020	2019	2018	2017	2017
	N'million	N'million	N'million	N'million	N'million
Gross earnings	138,897	150,195	148,708	133,490	111,238
Profit before income tax expense	12,372	10,672	9,489	8,105	6,019
Income tax expense	(1,130)	(70)	(271)	(85)	(837)
Profit after income tax	11,242	10,602	9,218	8,020	5,182
Earning per share in Kobo (Basic/Diluted)	39k	37k	32k	28k	18k

OTHER NATIONAL DISCLOSURES
FIVE-YEAR FINANCIAL SUMMARY - BANK

	31 DECEMBER				
	2020	2019	2018	2017	2016
<i>In millions of Naira</i>					
ASSETS					
Cash and balances with Central Bank of Nigeria	303,314	156,059	117,685	122,630	107,859
Due from other banks	21,079	69,361	43,435	51,066	31,289
Pledged assets	34,860	11,831	11,423	145,179	86,864
Derivative financial assets	-	-	-	-	8
Loans and advances to customers	596,827	618,732	621,017	598,073	468,250
Investment securities:					
- Financial assets at fair value through profit or loss	1,454	8,317	4,110	6,883	1,653
- Debt instruments at fair value through other comprehensive income	135,780	141,272	117,620	-	-
- Equity instruments at fair value through other comprehensive income	10,745	5,470	4,011	-	-
- Debt instruments at amortised cost	93,234	84,767	106,147	-	-
- Available for sale	-	-	-	80,031	34,867
- Held to maturity	-	-	-	20,671	54,724
Investment in subsidiary	1	1	1	1	1
Other assets	43,704	28,581	29,446	18,728	21,676
Property, plant and equipment	15,956	18,476	16,942	16,451	14,604
Right-of-use asset	8,319	8,896	-	-	-
Investment property	8,004	4,141	-	-	-
Intangible assets	1,582	1,933	1,850	2,114	2,037
Deferred tax assets	6,971	6,971	6,971	6,971	6,971
	1,281,830	1,164,808	1,080,658	830,803	799,451
Non-current assets held for sale	-	701	5,218	-	-
TOTAL ASSETS	1,281,830	1,165,509	1,085,876	830,803	799,451
LIABILITIES					
Deposits from banks	21,289	-	-	11,048	23,769
Deposits from customers	950,835	892,660	760,608	684,834	584,734
Derivative financial liabilities	-	-	-	-	8
Current income tax liabilities	551	201	405	232	941
Other borrowed funds	86,367	82,702	119,526	212,847	82,450
Debt securities issued	25,323	25,709	69,355	9,709	11,976
Other liabilities	61,621	44,742	37,678	48,234	40,950
Provisions	454	167	295	295	295
TOTAL LIABILITIES	1,146,440	1,046,181	987,867	967,199	703,886
NET ASSETS	135,390	119,328	101,599	85,681	95,565
EQUITY					
Share capital	14,395	14,395	14,395	14,395	14,395
Share premium	42,759	42,759	42,759	42,759	42,759
Retained earnings	24,913	5,954	3,101	6,944	6,245
Other components of equity	53,323	56,220	43,956	37,501	22,282
Attributable to equity holders of the Bank	135,390	119,328	98,009	101,599	85,681
Other Commitments and Contingencies	175,287	159,021	130,347	131,106	111,260
PROFIT OR LOSS ACCOUNT					
	2020	2019	2018	2017	2016
	N'million	N'million	N'million	N'million	N'million
Gross earnings	136,475	147,439	147,791	133,022	111,238
Profit before income tax expense	12,240	9,739	9,739	8,039	6,019
Income tax expense	(1,130)	(271)	(271)	(85)	(837)
Profit after income tax	11,110	9,468	9,468	7,954	5,182
Earning per share in Kobo (Basic/Diluted)	39k	33k	33K	28k	18k
Dividend per share	5K	3K	0K	2k	0k