NOVA

NOVA MERCHANT BANK LIMITED

Annual report and financial statements
for the year ended 31 December 2021

NOVA

FOR THE YEAR ENDED 31 DECEMBER 2021

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CORPORATE INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2021

Directors

These are the list of Directors who served in the entity during the year and up to the date of this report

Name	Position	
Mr. Phillips Oduoza	Chairman	
Chief Malachy Nwaiwu	Independent Non-Executive Director	
Mr. Emmanuel Ijewere	Independent Non-Executive Director	Retired September 30 2021
Mrs. Habiba Wakil	Independent Non-Executive Director	Retired September 30 2021
Mr. Shams Butt	Non-Executive Director	
Ms. Bolanle Onagoruwa	Independent Non-Executive Director	Retired September 30 2021
Mrs. Funmi Oyetunji	Independent Non-executive Director	Effective 15th December 2021
Mr. Chinedu Uzoho	Non-executive Director	Effective 10th January 2022
Mrs. Gbemisola Laditan	Independent Non-executive Director	Effective 15th December 2021
Mr. Nath Ude	Managing Director/CEO	
Mrs. Funke Okoya	Executive Director	
Mr. Emmanuel Onokpasa	Executive Director	Appointed1st June 2021

Registered Office:

23 Kofo Abayomi Street,
Victoria Island,
Lagos,
Nigeria
Email: info@novambl.com
Telephone: +234 1 280 400
Website :
https://www.novambl.com

Auditor:

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

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

The Board is of the opinion that Nova has in all material respects, complied with the requirements of the CBN code, and its own governance charters, during the 2021 financial year.

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

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

As at December 31, 2021, the Board comprised a Non-Executive Chairman, five (5) Non-Executive Directors and three (3) Executive Directors, all of whom bring a wide range of skills and experience to the Board.

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

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

A. THE BOARD

The Board presently consists of 9 members, 3 of whom, inclusive of the MD/CEO are Executive Directors and 6 Non-Executive Directors. All the Directors have the requisite integrity, skills and experience to bring to bear on Board deliberations and discussions.

Responsibility

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

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

The Board meets quarterly and additional meetings are convened as the need arises. In 2021, the Board met 7 times.

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

Appointments & Retirements

During the course of the year, Mr. Emmanuel Ijewere, Ms Bolanle Onagoruwa and Mrs Habiba Wakil retired from the Board. Thereafter, Mrs. Funmi Oyetunji and Mrs Gbemisola Laditan were apointed as Independent Non-executive Directors, Mr. Chinedu Uzoho was appointed as a Non-executive Director while Mr. Emmanuel Onokpasa was appointed as an Executive Director. All appointments have subsequently been confirmed by the CBN.

Professional Independent Advice

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

B. ACCOUNTABILITY AND AUDIT

Financial Reporting

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

FOR THE YEAR ENDED 31 DECEMBER 2021

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

PricewaterhouseCoopers acted as external auditors to the Bank during the 2021 financial year. Their report is contained on page 16 of this Annual Report.

Internal Controls

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

C. CONTROL ENVIRONMENT

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

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

D. SHAREHOLDER RIGHTS

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

Shareholders are encouraged to communicate their opinions and recommendations whenever they see the need to do so, to the Company Secretary.

E. BOARD COMMITTEES

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

Board Audit Committee

The Board Audit Committee is comprised as follows:

1. Ms. Funmi Oyetunji** - Chairman
2. Mr. Emmanuel Ijewere* - Chairman
3. Mr Shams Butt - Member
4. Ms Bolanle Onagoruwa* - Member
5. Ms. Habiba Wakil* - Member
6. Mr. Malachy Nwaiwu - Member
7. Ms. Gbemisola Laditan** - Member

**Retired 30 September 2021*
***Appointed 15 December 2021*

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

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

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

FOR THE YEAR ENDED 31 DECEMBER 2021

Board Credit and Risk Committee

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

1. Mr. Shams Butt - Chairman
2. Mr. Emmanuel Ijewere* - Member
3. Chief Malachy Nwaiwu - Member
4. Ms. Funmi Oyetunji** - Member

**Retired 30 September 2021*
***Appointed 15 December 2021*

S/N	MEMBERS	NUMBER OF MEETINGS HELD	NUMBER OF MEETINGS ATTENDED
1	Mr. Shams Butt	5	5
2	Mr. Emmanuel Ijewere	5	4
3	Chief Malachy Nwaiwu	5	5

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

Nomination and Governance Committee

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

1. Mrs. Habiba Ammah Wakil* - Chairperson
2. Mr. Shams Butt - Member
3. Chief Malachy Nwaiwu - Member
4. Ms. Gbemisola Laditan** - Member

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

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

Finance and General Purpose Committee

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

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

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

**Retired 30 September 2021*
***Appointed 15 December 2021*

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

FOR THE YEAR ENDED 31 DECEMBER 2021

Attendance at Board Meetings

Membership and attendance at Board Meetings are set out below:

S/N	MEMBERS	NUMBER OF MEETINGS HELD	NUMBER OF MEETINGS ATTENDED
1	Mr. Phillips Oduoza	7	7
2	Mr. Nath Ude	7	7
3	Mr. Shams Butt	7	7
4	Mr. Emmanuel Ijewere	7	5
5	Chief Malachy Nwaiwu	7	7
6	Mrs. Habiba Wakil	7	5
7	Ms. Bolanle Onagoruwa	7	4
8	Mrs. Funke Okoya	7	7
9	Mr. Emmanuel Onokpasa	7	4
10	Mr. Chinedu Uzoho*	7	2
11	Mrs. Gbemisola Laditan*	7	2
12	Mrs. Funmi Oyetunji*	7	2

*Nominee Attendance

Executive Management Committees

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

The Directors present their report on the affairs of Nova Merchant Bank Limited ("the Bank") together with its subsidiaries ("the Group"), the Group and the Bank Audited Financial Statements with Auditor's Report for the year ended 31 December 2021.

Its subsidiaries are NovaMBL Asset Management Limited and NovaMBL Securities Limited. The Bank has a controlling interest in the subsidiaries.

Legal form

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

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

Major activities and business review

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

Results at a glance

	Group 31 December 2021 N'000	Group 31 December 2020 N'000	Bank 31 December 2021 N'000	Bank 31 December 2020 N'000
Profit before tax	1,683,575	3,519,670	1,664,258	3,425,301
Taxation	(78,001)	(34,424)	(80,062)	(34,424)
Profit after tax	1,605,574	3,485,246	1,584,196	3,390,877
Other Comprehensive (loss)/income for the year net of tax	(36,897)	(185,345)	(36,897)	(185,345)
Total Comprehensive income for the year	1,568,677	3,299,901	1,547,299	3,205,532

Post balance sheet events

There are no significant post balance sheet events with material effect on the financial affairs of the Bank and the financial performance for the year ended 31 December 2021.

Directors' interest in shares

The interest of Directors in the issued share capital of the Bank as recorded in the register of Directors' shareholding and/or as notified by the Directors for the purpose of sections 301 and 302 of CAMA 2020

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

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

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

Analysis of shareholdings

The details of the shareholding of the Bank as at 31 December 2021 is as detailed below:

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

Substantial interest in shares: shareholding of 5% and above

According to the register of shareholders as at 31 December 2021, the following shareholders held more than 5% of the issued share capital of the Bank.

	December 2021		December 2020	
Shareholders	**Shareholding**	**% Holding**	**Shareholding**	**% Holding**
Afriglobal Investment Holding	1,980,250	12.377%	1,980,250	12.377%
Five Star Associate Limited	1,980,250	12.377%	1,980,250	12.377%
Carbon Commodities DMCC	3,960,500	24.753%	3,960,500	24.753%
Phillips Oduoza (Direct and Indirect Holding)	8,079,000	50.494%	8,079,000	50.494%

Directors' interest in contracts

None of the directors has declared any direct or indirect interest in contracts or proposed contracts with the bank during the year ended 31 December 2021.

Human resources

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

Composition of employees by gender

	Group	Bank
Male	70	62
Female	28	26
Total	**98**	**88**

Senior Management's composition by gender

	Group	Bank
Male	18	17
Female	4	4
Total	**22**	**21**

Board Member's composition by gender

	Group	Bank
Male	6	6
Female	3	3
Total	**9**	**9**

Health and safety

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

The Bank operates a contributory pension plan in accordance with the Pension Reform Act, 2004, wherein the Bank contributes 10% of employees' basic salary, housing and transport allowance to the designated pension fund administration chosen by each employee. As a part of the scheme, Bank also remit employees' contribution of 8% of the relevant compensation to the same account, as provided by the Pension Reform Act, 2004, as amended.

Employee involvement

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

Training and development

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

Donations

The Bank made a donation of N325.5m (2020: N100m) during the year. The details of the donation are as listed below:

Description	Organisation	Amount (N'000)
Donation to support Police Equipment Fund	Nigeria Police	250,000
Renovation of Police Stations	Nigeria Police	70,959
2021 Annual Bankers Committee Dinner	Bankers Committee	4,500
		325,459

Auditor

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors of the Bank and will do so pursuant to section 401(2) of Companies and Allied Matters Act 2020.

Proposed dividend

The Board of Directors did not propose any dividend to shareholders (2020: 50k per share)

By order of the Board

Nnadozie Ohaji
Company Secretary/General Counsel
FRC/2020/004/00000020376
6 July 2022

NOVA

REPORT OF THE AUDIT COMMITTEE

FOR THE YEAR ENDED 31 DECEMBER 2021

In accordance with the provisions of Section 404 of the Companies & Allied Matters Act 2020,, we the members of the Audit Committee hereby report as follows:

- We confirm that we have seen the audit plan and scope, and the Management Letter on the audit of the accounts of the Bank and the responses to the said letter.
- In our opinion, the plan and scope of the audit for the year ended December 31, 2021 were adequate. We have reviewed the Auditors' findings and we are satisfied with the Management responses thereon.
- We also confirm that the accounting and reporting policies of the Bank are in accordance with legal requirements and ethical practices.
- As required by the provisions of the Central Bank of Nigeria circular 85D/1//2004 dated February 18, 2004 on "Disclosure of Insider-Related Credits in Financial Statements" we reviewed the insider-related credits of the Bank and found them to be as analysed in the financial statements as at December 31, 2021.

Mrs. Funmi Oyetunji
FRC/2010/ICAN/00000017879

MEMBERS OF THE AUDIT COMMITTEE ARE:

1. Mrs. Funmi Oyetunji	Chair person
2. Mr. Chinedu Uzoho	Member
3. Mrs. Gbemisola Laditan	Member
4. Chief Malachy Nwaiwu	Member

RISK MANAGEMENT

Introduction

The Bank's activities in the normal course of business lead to exposure to a variety of risks, financial and otherwise, making Risk management central to the organisation in a particularly turbulent year as witnessed in 2021. COVID-19 remained the key issue which impacted the operating environment especially with the emergence of the various COVID-19 variants. This led to increased uncertainty about how quickly the pandemic can be overcome. The vaccines have brought some much-needed respite to this pandemic. Nevertheless, the Omicron variant is of concern as it is more infectious and spreads very easily. The year 2021 like 2020 proved to be another unique year due to the unprecedented health crisis and economic challenges globally occasioned by the pandemic. The fact we were able to successfully navigate such a challenging period with minor impact on the Bank's operations demonstrates the resilience, persistence and it was a year to test the resilience of contingency plans and ensure continuity of business under radically different circumstances.

Risk management has had to ensure that the Bank reacted appropriately to the pandemic and changing operating environment whilst remaining profitable and competitive. Regulators around the world scrambled to prevent their economies from collapse, with stimulus packages being financed by infusion of a staggering volume of money which has changed the investment landscape for years to come. Asides from launching the e-Naira - the digital currency project of the naira - the CBN commenced the implementation of Basel III, halted FX sale and license issuances to BDCs while directing banks to sell FX directly to customers as well as extented indefinitely the CBN's Naira 4 Dollar scheme on the back of improved diaspora remittances. The CBN kept the rates on investment securities low for most parts of the year amidst increased government borrowings, the depressed yield on fixed income securities, increased regulatory cost and relatively lower FX revaluations gains. Key areas of concern for risk management are:

- The long term effects on the real sector from the pandemic as some countries are unable to contain the threat through vaccination programs and have fragile healthcare such as in Nigeria where the system has threatened to be overwhelmed.
- The new world of work with virtualisation and digitisation means that risk management techniques must change and adapt accordingly, with system embedded controls replacing traditional containment measures.
- The Nigerian Regulators have been dynamic and agile so far, and will continue to adapt reporting and forbearance requirements which may place a compliance burden on industry operators.
- Client sophistication and access to information means that the scope for arbitrage is much reduced with margins generally thinning out as the economy advances.

All of these trends and many others will continue to change the industry, eliminating some risks and introducing new ones for which it may be necessary to modify existing operational procedures and products.

In view of the forbearances granted by the CBN to banks on certain exposures, the apex bank has continued to assist banks in dealing with the issues of bad loans. In 2021, the CBN introduced a sinking fund for loans enjoying forbearance. The sinking fund will require banks to set aside 15% of Retained Earnings every half year for 3-5 years. In effect, the regulators have given the banks the option of taking provisions for delinquent loans through Retained Earnings instead of hitting the P&L. We note that this is a positive for the industry as sterilised funds will help to douse the impact of delinquent loans on capital in the event they crystalize.

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

The CBN adopted the NAFEX rate as the official rate in Q2 2021 and eventually devalued the naira to N435/US$1 on the last business day of the year, representing a 6.12% y-o-y depreciation of the naira at the I & E window in 2021. Notably, 2021 witnessed the continued widening of the gap between the official and parallel market rates. While we expect FPI inflows to remain low as rates in developing economies normalise and the real return on government securities remain negative, remittance inflow is likely to improve on the back of improved economic activities in emigrants host countries and the continuation of the CBN's Naira 4 Dollar initiative.

Enterprise Risk Management Framework

Nova Merchant Bank has adopted an Enterprise Risk Management approach to identify, assess, monitor, control and report the inherent and residual risks associated with the business of banking in line with International Best Practices. As we deepen our presence in the market, proactive Risk Management Framework becomes even more critical to ensure stability of earnings and confidence in our brand.

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

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

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

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

Risk Management Framework

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

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

Here in Nova Merchant Bank, we have a holistic view of all major risks facing the Bank. We remain vigilant with regard to both known and emerging risks and ensure that we are strong enough to withstand any exogenous shock. Our Board-level risk committees play a critical role in providing oversight of risk management and ensuring that our risk appetite, risk culture and risk profile are consistent with and support our strategy to deliver long-term, sustainable success in achieving our strategic vision of being Africa's preferred financial solution provider.

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

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

Balancing Risk and Return

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

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

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

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

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

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

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

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

Risk Appetite

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

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

Risk management objectives

The broad risk management objectives of the Bank are:

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

Scope of risks

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

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

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

Responsibilities

The responsibilities of the Risk Management Division are highlighted below:

Risk Management Governance Framework

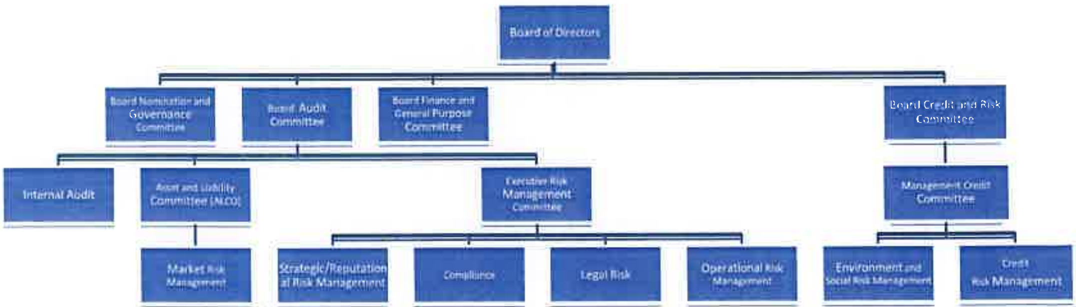
The framework details Nova Merchant Bank's risk universe and governance structure comprising three distinct layers:

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

Risk Management Governance Structure

Risk Management Organisational Framework

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



The Board and management committees

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

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

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

Operational Risk Management

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

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

This framework includes:

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

We seek to minimise exposure to operational risk, subject to cost trade-offs. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.
The goal is to keep operational risk at appropriate levels relative to the characteristics of our businesses and the markets in which we operate, our capital and liquidity, and the competitive, economic and regulatory environment. Notwithstanding these controls, Nova Merchant Bank incurs operational losses.

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

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

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

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

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

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

This periodic confirmation of the existence and utilization of controls in compliance with approved policies and procedures, provide assurance as to the effectiveness of the Bank's operational risk management framework. Some of the tools being used to assess, measure and monitor operational risks in the Bank include;
A loss database of operational risk events; an effective risk and control self-assessment process that helps to analyse business activities and identify operational risks that could affect the achievement of business objectives; and key risk indicators which are used to monitor operational risks on an ongoing basis.

The Bank's operational risk framework

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

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

Management and control responsibilities

The first line of governance for managing operational risk rests with business and operational risk management forms part of the day-to-day responsibilities of all business unit management. Business unit staff report any identified breakdowns in control and any risk events that may result in financial loss and/or reputation damage. Amongst others, business management are responsible to ensure that processes for identifying and addressing ineffective controls and the mitigating of risk events are implemented and executed.
Operational Risk teams form the secondary line of governance by ensuring that processes to identify weaknesses are effective and identified weaknesses are acted upon. The Bank's operational risk profile is presented to the Board quarterly. Control effectiveness is monitored at the Risk Management Committee (RMC) and at the Board; and the multi-layered system of defenses ensures pro-active operational risk management.

Measuring and managing operational risk

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

Risk event data collection and reporting

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

Risk and control self-assessments (RCSA)

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

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

Key risk indicators (KRIs)

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

Reporting

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

Information Security and Continuity of Business

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

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

Strategic Risk Management

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

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

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

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

The strategic risk management functions support the Board and senior management in managing strategic risk and other related processes in the Bank.
Strategic plans are approved and monitored by the Board. Regular environmental scan, business strategy sessions and workshops are set up to discuss business decisions, close monitoring to ensure that strategic plans are properly aligned with the business model, regular performance review by EXCO and business plans are approved by the Board.
The Bank also maintains a well-defined succession plan, proper monitoring and well-defined structures to align its activities to international best practices.

Reputational Risk Management

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

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

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

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

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

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

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

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

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

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

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

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

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

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

Mr. Nath Ude
Managing Director/CEO
FRC/2014/CIBN/00000009331
6 July 2022

Mr. Phillips Oduoza
Chairman
FRC/2013/CIBN/00000001955
6 July 2022

STATEMENT OF CORPORATE RESPONSIBILITY

FOR THE YEAR ENDED 31 DECEMBER 2021

Further to the provisions of section 405 of the Companies and Allied Matters Act (CAMA), 2020, we, the Managing Director and Chief Financial Officer, hereby certify the financial statements of Nova Merchant Bank Limited for the year ended 31 December 2021 as follows:

a That we have reviewed the audited consolidated and separate financial statements of the Bank for the year ended 31 December 2021.

b That the audited consolidated and separate 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.

c That the audited consolidated and separate financial statements and all other financial information included in the statements fairly present, in all material respects, the financial condition and results of operation of the Bank as of and for, the year ended 31 December 2021.

d That we are responsible for establishing and maintaining internal controls and have designed such internal controls to ensure that material information relating to the Bank and its subsidiaries is made known to us by other officers of the companies, during the period end 31 December 2021.

e That we have evaluated the effectiveness of the Bank's internal controls within 90 days prior to the date of audited consolidated and separate financial statements, and certify that the Bank's internal controls are effective as of that date

f That there were no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our evaluation, including any corrective action with regard to significant deficiencies and material weaknesses.

g That we have disclosed the following information to the Bank's Auditors and Audit Committee:

i there are no significant deficiencies in the design or operation of internal controls which could adversely affect the Bank's ability to record, process, summarise and report financial data, and have identified for the Bank's auditors any material weaknesses in internal controls, and

ii there is no fraud that involves management or other employees who have a significant role in the Bank's internal control.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

Mr. Nath Ude
Managing Director/CEO
FRC/2014/CIBN/00000009331
6 July 2022

Mr. Daniel Ajoma
Ag.Chief Financial Officer

6 July 2022

Independent auditor's report

To the Members of Nova Merchant Bank Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Nova Merchant Bank Limited ("the bank") and its subsidiaries (together "the group") as at 31 December 2021, and of their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act, the Banks and Other Financial Institutions Act and the Financial Reporting Council of Nigeria Act.

What we have audited

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

- the consolidated and separate statements of comprehensive income for the year ended 31 December 2021;
- the consolidated and separate statements of financial position as at 31 December 2021;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans and advances to customers – N41.5 million (refer to notes 2.5.5, 3.0(i), 5.1.2, 8 and 18b) We focused on this area because management exercises significant judgement, using subjective assumptions when determining both the timing and amounts to recognise as impairment on loans and advances to customers. The allowance for expected credit losses (ECL) uses a model that requires the use of assumptions and significant judgement. The key areas of judgement are as follows: • the definition of credit impaired financial assets focusing on both the qualitative and quantitative criteria used by the bank; • the identification of exposures with a significant increase in credit risk (SICR) focusing on both the qualitative and quantitative criteria used by the bank; • the determination of the 12-month probability of default (PD) using obligor risk and external agency PD as well as extrapolation of lifetime PD; • determining the appropriateness of the Loss Given Default (LGD) used in the expected credit losses; • determination of the key inputs used in determining the lifetime exposure at default (EAD); • estimating the Credit Conversion Factor of Off-balance sheet exposures used in determining the lifetime exposure at default (EAD); and • determining the economic scenarios used in the ECL model and estimating the probability weights for each scenario. This is considered a key audit matter in the consolidated and separate financial statements.	Our procedures included: • checking the bank's definition of credit impaired financial assets, qualitative and quantitative criteria applied by management for determining SICR and default, and confirming their alignment with the requirements of the standard; • applying a risk-based testing approach by checking related customer files and account statements in order to evaluate management's conclusions on SICR; • examining the appropriateness of the probability of default (PD) by agreeing assigned PDs for each rating scale to external source data and checking that lifetime PDs were correctly computed considering counterparty's individual maturities; • evaluating the reasonableness of the Loss Given Default (LGD) by re-performing the LGD calculations to test for accuracy; • where collateral exists, evaluating the reasonableness of assumptions on haircut and recovery rates; • tested the appropriateness of the exposure at default by checking whether relevant facility specific information have been incorporated in determining the EAD term structure; • checking the appropriateness of the credit conversion factor used in determining the exposure at default for off-balance sheet loan commitments and financial guarantees; • evaluating the sensitivity of the risk drivers to macro-economic factors (forward-looking assumptions). We also checked appropriateness of the multiple economic scenarios chosen; • checking the disclosures in the consolidated and separate financial statements to the requirements of IFRS 9.

Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report are the Corporate information, Corporate governance report, Directors' report, Report of the audit committee, Risk management report, Statement of directors' responsibilities, Statement of corporate responsibility, Value added statement, Three-year financial summary – Group, Five-year financial summary – Bank , but does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Report on other legal and regulatory requirements

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

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

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

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

iv) the information required by Central Bank of Nigeria Circular BSD/1/2004 on insider related credits is disclosed in Note 36 to the consolidated and separate financial statements; and

v) the bank did not pay penalties in respect of contraventions of the Banks and Other Financial Institutions Act and relevant circulars issued by the Central Bank of Nigeria during the year ended 31 December 2021.

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INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
ICAN
0932367

Patrick Obianwa

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

8 July 2022

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

NOVA

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

In thousands of Naira	Note	Group December 2021	Group December 2020	Bank December 2021	Bank December 2020
Interest income calculated using effective Interest rate	6	12,065,011	9,644,250	12,054,334	9,603,920
Interest income on financial assets at FVTPL	6	-	1,761	-	1,761
Interest expense	7	(11,875,953)	(7,177,219)	(11,885,626)	(7,181,076)
Net interest income		**189,058**	**2,468,792**	**168,708**	**2,424,605**
Impairment writeback/(charge) for credit losses	8	7,104	(72,696)	7,104	(72,696)
Net fee and commission income	9	827,087	336,597	798,732	320,272
Net gains on financial instruments at fairvalue through profit or loss	10	1,486,585	3,013,645	1,496,753	2,959,026
Net foreign exchange gain	11	2,485,260	369,614	2,483,112	369,614
Other income	12	170,075	181,968	42,589	5,862
Operating expenses	13	(3,481,592)	(2,778,249)	(3,332,741)	(2,581,382)
Profit before tax		**1,683,575**	**3,519,670**	**1,664,258**	**3,425,301**
Income tax	14	(78,001)	(34,424)	(80,062)	(34,424)
Profit for the year		**1,605,574**	**3,485,247**	**1,584,196**	**3,390,877**
Items that may be subsequently reclassified to the income statement:					
Net changes in fair value of financial assets FVOCI		(36,897)	(185,345)	(36,897)	(185,345)
Other comprehensive (loss)/income, net of related tax effects:		**(36,897)**	**(185,345)**	**(36,897)**	**(185,345)**
Total comprehensive income for the year		**1,568,677**	**3,299,902**	**1,547,299**	**3,205,532**
Profit for the year attributable to:					
Owners of Parent		1,605,508	3,485,247	1,584,196	3,390,877
Non-controlling interest		66	-	-	-
Profit for the period		1,605,574	3,485,247	1,584,196	3,390,877
Total comprehensive income attributable to:					
Owners of Parent		1,568,611	3,299,902	1,547,299	3,205,532
Non-controlling interest		66	-	-	-
Total comprehensive income for the year		1,568,677	3,299,902	1,547,299	3,205,532

NOVA

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

In thousands of Naira	*Note*	Group December 2021	Group December 2020	Bank December 2021	Bank December 2020
Assets					
Balances with banks	16	57,186,698	46,983,617	56,107,545	46,822,920
Loans to banks and other financial institutions	18a	-	4,978	-	-
Loans and advances to customers	18b	88,382,235	49,971,622	90,382,235	49,971,622
Investment securities	19b	22,774,177	53,430,722	19,424,091	52,822,843
Investment in subsidiaries	20	-	-	431,167	415,000
Derivative financial assets	17	3,149,319	3,700,410	3,149,319	3,700,410
Pledged assets	19a	50,016,537	22,071,575	50,016,537	22,071,575
Property and equipment	23	1,365,086	932,615	1,363,500	931,272
Right-of-use asset	24	249,054	264,941	249,054	264,941
Intangible assets	22	579,258	701,100	544,976	672,375
Other assets	21	20,066,913	3,825,592	20,468,893	4,143,416
Deferred tax assets	14	448,407	445,006	443,497	443,498
Total assets		**244,217,684**	**182,332,178**	**242,580,814**	**182,259,871**
Liabilities					
Deposits	25a	116,912,496	89,627,443	116,889,467	89,611,830
Due to Banks	25b	26,813,409	21,713,953	26,813,409	21,713,953
Derivative financial liabilities	17	3,072,162	3,680,548	3,072,162	3,680,548
Lease liabilities	24	111,651	96,184	111,651	96,184
Current tax liabilities	14	80,010	35,356	80,646	34,670
Other liabilities	27	63,314,509	34,064,139	61,739,140	34,023,634
Debt securities issued	26	10,253,567	10,259,852	10,361,697	10,333,708
Total liabilities		**220,557,804**	**159,477,475**	**219,068,172**	**159,494,527**
Equity					
Share capital	28	16,000,000	16,000,000	16,000,000	16,000,000
Statutory reserve	29	2,486,205	2,010,946	2,486,205	2,010,946
Retained earnings	29	3,010,297	3,494,146	2,899,625	3,404,787
Fair value reserve	29	25,291	62,188	25,291	62,188
Regulatory risk reserve	30	2,101,521	1,287,423	2,101,521	1,287,423
Total equity attributable to owners of the Parent		23,623,314	22,854,703	23,512,642	22,765,344
Non-controlling interest		36,566	-	-	-
Total Equity		**23,659,880**	**22,854,703**	**23,512,642**	**22,765,344**
Total liabilities and equity		**244,217,684**	**182,332,178**	**242,580,814**	**182,259,871**

The accompanying notes form an integral part of the financial statements. The financial statements were approved and authorized for issue by the Board of Directors on 6 July 2022 and signed on its behalf by:

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

.... **Daniel Ajoma - Ag.Chief Financial Officer**

.... **Nath Ude - Managing Director**
FRC/2014/CIBN/00000009331

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

NOVA

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

GROUP	Share capital	Retained earnings	Statutory reserves	Fair value reserve	Regulatory risk reserve	Total	NCI	Total equity
2021	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**
Balance at 1 January 2021	**16,000,000**	**3,494,146**	**2,010,946**	**62,188**	**1,287,423**	**22,854,703**	-	**22,854,703**
Total comprehensive income:								
Profit for the year	-	1,605,508	-	-	-	**1,605,508**	66	**1,605,574**
Other comprehensive income	-	-	-	(36,897)	-	**(36,897)**	-	**(36,897)**
Transfer to statutory reserves	-	(475,259)	475,259	-	-	-	-	-
Transfer to regulatory risk reserve	-	(814,098)	-	-	814,098	-	-	-
Dividend paid	-	(800,000)	-	-	-	**(800,000)**	-	**(800,000)**
Non controlling interest	-	-	-	-	-	-	36,500	**36,500**
At 31 December 2021	**16,000,000**	**3,010,297**	**2,486,205**	**25,291**	**2,101,521**	**23,623,314**	**36,566**	**23,659,880**
2020	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**
Balance at 1 January 2020	**16,000,000**	**1,807,168**	**993,683**	**247,533**	**506,417**	**19,554,801**	-	**19,554,801**
Total comprehensive income:								-
Profit for the year	-	3,485,247	-	-	-	**3,485,247**	-	**3,485,247**
Other comprehensive income	-	-	-	(185,345)	-	**(185,345)**	-	**(185,345)**
Transfer to statutory reserves	-	(1,017,263)	1,017,263	-	-	-	-	-
Transfer to regulatory risk reserve	-	(781,006)	-	-	781,006	-	-	-
At 31 December 2020	**16,000,000**	**3,494,146**	**2,010,946**	**62,188**	**1,287,423**	**22,854,703**	-	**22,854,703**

BANK	Share capital	Retained earnings	Statutory reserves	Fair value reserve	Regulatory risk reserve	Total
2021	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**
Balance at 01 January 2021	**16,000,000**	**3,404,787**	**2,010,946**	**62,188**	**1,287,423**	**22,765,344**
Total comprehensive income:						-
Profit for the year	-	1,584,196	-	-	-	**1,584,196**
Other comprehensive income	-	-	-	(36,897)	-	**(36,897)**
Transfer to statutory reserves	-	(475,259)	475,259	-	-	-
Transfer to regulatory risk reserve	-	(814,098)	-	-	814,098	-
Dividend Paid	-	(800,000)	-	-	-	**(800,000)**
At 31 December 2021	**16,000,000**	**2,899,625**	**2,486,205**	**25,291**	**2,101,521**	**23,512,642**
2020	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**
Balance at 01 January 2020	**16,000,000**	**1,812,179**	**993,683**	**247,533**	**506,417**	**19,559,811**
Total comprehensive income:						
Profit for the year	-	3,390,877	-	-	-	**3,390,877**
Other comprehensive income	-	-	-	(185,345)	-	**(185,345)**
Transfer to statutory reserves	-	(1,017,263)	1,017,263	-	-	-
Transfer to regulatory risk reserve	-	(781,006)	-	-	781,006	-
At 31 December 2020	**16,000,000**	**3,404,787**	**2,010,946**	**62,188**	**1,287,423**	**22,765,344**

NOVA

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

In thousands of Naira	Note	Group December 2021	Group December 2020	Bank December 2021	Bank December 2020
Cash flows from operating activities					
Profit before income tax		1,683,575	3,519,670	1,664,258	3,425,301
Adjustments for non-cash items:					
Depreciation charge on property and equipment	23	267,704	278,365	267,496	277,786
Depreciation charge on right of use asset	13	15,887	15,930	15,887	15,930
Amortisation of intangible assets	22	172,321	156,604	164,953	156,604
Gain on disposal of Property plant and equipment	12	(12,794)	21,938	(12,794)	21,938
Interest income	6	(12,065,011)	(9,681,300)	(12,054,334)	(9,605,681)
Interest expense	7	11,875,953	7,181,076	11,885,626	7,181,076
Impairment (writeback)/charge on loans and advances	8	(56,914)	67,345	(56,914)	67,345
Impairment (writeback)/charge on contingent assets	8	(35,937)	5,351	(35,937)	5,351
Impairment (writeback)/charge on Investment Securities	8	85,826	-	85,826	
Impairment charge on loans to banks	8	(80)	-	(80)	-
Net gains on financial instruments	10	1,408,305	(2,959,027)	(1,418,474)	(2,959,027)
Exchange gain	11		(369,614)	-	(369,614)
		3,338,836	**(1,763,661)**	**505,515**	**(1,782,991)**
Changes in working capital					
Mandatory reserve deposits with the Central Bank of Nigeria	39(ii)	3,552,276	(33,883,827)	3,552,276	(33,883,827)
Loans and advances to customers	39(iii)	(36,406,728)	(20,733,353)	(38,406,728)	(20,733,353)
Loans and advances to banks	18a	4,978	-	-	-
Financial instruments - FVTPL	39(iv)	(1,346,417)	3,288,632	1,418,473.50	3,675,968
Derivative assets		551,091	-	551,091	-
Derivative liabilities		(608,386)	-	(608,386)	-
Other assets	39(v)	(16,204,821)	(1,731,750)	(16,325,478)	(1,771,261)
Due to banks	39(vi)	5,045,823	21,008,784	5,045,823	21,008,784
Due to customers	39(vii)	26,872,822	48,014,793	26,865,406	48,014,867
Other liabilities	39(viii)	29,286,306	32,018,864	27,751,442	31,830,423
Cash from operations		**10,746,944**	**47,982,145**	**9,843,920**	**48,141,601**
Interest received	39(ix)	10,118,040	6,796,732	10,107,363	6,728,701
Interest paid	39(x)	(11,400,906)	(4,850,264)	(11,376,305)	(4,850,264)
Income tax paid	14	(36,748)	(15,018)	(34,085)	(15,018)
Net cash from operating activities		**9,427,330**	**49,913,594**	**8,540,893**	**50,005,021**
Cash flows from investing activities					
Pledged assets	39(xi)	(27,944,962)	(19,574,196)	(27,944,962)	(19,574,196)
Investment securities	39(xii)	30,471,933	(36,653,087)	33,276,029	(36,955,409)
Investment in subsidiary	20(a)	-	-	(16,167)	(265,000)
Purchase of property, plant and equipment	23	(748,828)	(201,911)	(748,377)	(201,333)
Proceeds from sale of property and equipment	39(i)	61,447	62,913	61,447	62,913
Purchase of intangible assets	22	(50,479)	(51,910)	(37,554)	(51,910)
Net cash used in investing activities		**1,789,111**	**(56,418,190)**	**4,590,416**	**(56,984,934)**
Cash flows from financing activities					
Debt securities issued	26	-	9,735,447	-	9,805,447
Additional Capital from Parent		-	(265,000)	-	-
Dividend Paid		(800,000)	-	(800,000)	-
Net cash generated from/(used in) financing activities		**(800,000)**	**9,470,447**	**(800,000)**	**9,805,447**
Increase in cash and cash equivalents		**13,755,277**	**1,202,190**	**12,836,824**	**1,042,543**
Effect of exchange rate changes on cash and cash equivalents					
Analysis of changes in cash and cash equivalents					
At start of year		1,042,543	10,610,445	1,042,543	10,610,445
At end of year		14,797,821	11,812,635	13,879,367	11,652,988
Increase in cash and cash equivalents		**13,755,277**	**1,202,190**	**12,836,824**	**1,042,543**
Increase in cash and cash equivalents					
Net increase in cash and cash equivalents		13,755,277	1,202,190	12,836,824	1,042,543
Cash and cash equivalents at beginning of year		11,812,635	10,610,445	11,652,988	10,610,445
Cash and cash equivalents at end of year		**25,567,912**	**11,812,635**	**24,489,812**	**11,652,988**
Cash and cash equivalents comprise:					
Balances with banks	16	18,802,772	9,696,368	18,651,824	9,650,141
Placement with banks	16	6,765,141	2,116,267	5,837,986	2,002,848
		25,567,912	**11,812,635**	**24,489,810**	**11,652,989**

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

1.0 General Information

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

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

2.0 Summary of significant accounting policy
The accounting policies adopted in the preparation of the financial statement of Nova Merchant Bank Limited and its subsidiaries ("the Group"), are set out below:

2.1 Basis of preparation

Statement of compliance with International Financial Reporting Standards
The Consolidated and separate financial statements of the parent and the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the provisions of the Companies and Allied Matters Act, the Financial Reporting Council Act No 6, 2011 and relevant CBN circulars and guidelines
The financial statements are presented in naira and all values are rounded to the nearest thousand (N'000), except when otherwise indicated. The financial statements have been prepared on a historical cost basis except for the following:

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

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

Changes in accounting policy and disclosures

Adoption of amended standards effective for the current financial year
IFRS 4 Insurance Contracts (IFRS 4), IFRS 7 Financial Instruments: Disclosures (IFRS 7), IFRS 9 Financial Instruments (IFRS 9), IFRS 16 Leases (IFRS 16), IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) (amendments):
The second phase of Interest Rate Benchmark Reform (IBOR) resulted in amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 requirements to enable companies to deal with its effect on financial instruments and to continue providing useful information to investors. The amendments require entities to update the effective interest rate to reflect the change to the alternative risk-free rates (ARRs), instead of derecognising or adjusting the carrying amount of financial instruments, for changes required by the reform if the transition from the IBOR rate to the ARR is as a direct consequence of the reform and on an economically equivalent basis. The amendment also provides specific hedge accounting relief, including that an entity will not have to discontinue hedge accounting solely because it makes changes required by the reform to hedge designations and hedge documentation, if the hedge meets the other hedge accounting criteria. The amendments also require companies to provide additional information about new risks arising from the reform and how it manages the transition to ARRs. The group will transition to ARRs as each interest rate benchmark is replaced.

IFRS 16 Leases (amendment): In light of the recent Covid-19 pandemic and resultant rent concessions to be granted by lessors, the amendment permits lessees, as a practical expedient, not to assess whether particular Covid-19 related rent concessions are lease modifications and instead account for those rent concessions as if they were not lease modifications. The amendment permits lessees to apply the practical expedient as an accounting policy choice to rent concessions for which any reduction in lease payments affects payments originally due on or before 30 June 2021. The group elected not to apply this practical expedient

2.2 Basis of consolidation
(a) Subsidiaries
Subsidiaries are all entities (including structured entities) over which the Group exercise control.
Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Control exists when the Parent has:
[i] power over the investee;
[ii] exposure, or rights, to variable returns from its involvement with the investee; and
[iii] the ability to use its power over the investee to affect the amount of the investor's returns

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

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

The subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.
Subsidiaries are measured at cost less impairment in the separate financial statement

(b) Business combinations

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

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

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

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

When this total is negative, a gain from a bargain purchase is recognised immediately in statement of comprehensive income.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement.

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

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

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service

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

(c) Loss of control

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

(d) Disposal of subsidiaries

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

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

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

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

(f) Transactions eliminated on consolidation

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

2.3 Foreign currency translation

2.3.1 Functional and presentational currency

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

2.3.2 Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the income statement.

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

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

2.4a Interest income and expense
Interest income and expense for all interest-earning and interest-bearing financial instruments are recognised in the income statement within "interest income" and "interest expense" using the effective interest method.

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

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

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

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

2.4b Fees and commission
Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including account servicing fees, investment management and other fiduciary activity fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed (over time). When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment year (over-time).

2.5. Financial assets and liablilties

2.5.1 Recognition

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. The Group uses settlement date accounting for regular way contracts when recording financial asset & liability transactions, i.e. the date the Bank receives value for purchase or sales of assets.

Embedded derivative
An embedded derivative is defined as 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. Embedded derivatives are not separated for accounting purposes if the non-derivative host is a financial asset within the scope of IFRS 9 i.e. the classification criteria of IFRS 9 are applied to the financial asset as a whole.
An embedded derivative is separated from the host contract if, and only if, all of the criteria below are met:
>the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
>a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
>the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

2.5.2 Classification and Measurement
Financial Assets
The Bank classifies its financial assets in the following measurement categories:
- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.
For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Bank has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).
The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

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

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

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

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instruments due to repayments. Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin.
In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:
• contingent events that would change the amount and timing of cash flows;
• leverage features;
• prepayment and extension terms;
• terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
• Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

a) Financial assets measured at amortised cost

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

b) Financial assets measured at FVOCI

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

c) Financial assets measured at FVTPL

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

d) Equity Instruments
The group initially measured all equity investments at fair value through profit or loss. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.
Changes in the fair value of financial assets at FVTPL are recognised in net gains/(loss) on investment securities in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

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

e) Financial Liabilities at fair value through profit or loss

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

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

f) Financial Liabilities at amortised cost

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

2.5.3. Reclassifications

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

• Significant internal restructuring or business combinations; for example an acquisition of a private asset management company that might necessitate transfer and sale of loans to willing buyers, this action will constitute changes in business model and subsequent reclassification of the Loan held from Business Model 1 to Business Model 2 Category
• Disposal of a business line i.e. disposal of a business segment
• Any other reason that might warrant a change in the Group's business model asdetermined by management based on facts and circumstances.

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

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

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

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

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

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

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

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

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

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

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

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

De-recognition of financial Instruments

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

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

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

b. Financial Liabilities

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

2.5.5. Impairment of Financial Assets

In line with IFRS 9, the Group assesses the under listed financial instruments for impairment using Expected Credit Loss (ECL) approach:

- Amortized cost financial assets;
- Debt securities classified as at FVOCI;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts.

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

Expected Credit Loss Impairment Model

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

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

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

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

Measuring the Expected Credit Loss

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

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

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

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

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

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

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

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

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

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

Forward-looking information

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

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

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

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

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

Macroeconomic factors

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

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

The macro economic variables are obtained for 3 years in the future and are reassessed every 6 months to ensure that they reflect prevalent circumstances and are up to date.

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

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

Multiple forward-looking scenarios

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

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

Assessment of significant increase in credit risk (SICR)

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

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

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

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

Definition of Default and Credit Impaired Financial Assets

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

2.5.6. Write-off

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

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

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

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

2.5.7. Offsetting financial instruments

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

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

2.5.8 Investment securities

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

2.5.9. Pledged assets

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

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

2.5.10. Collateral valuation

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

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

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

2.5.11. Financial guarantee contracts and loan commitments

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

- The amount of the loss allowance
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15

Loan commitments provided by the Bank are measured as the amount of the loss allowance (calclulated as described in Note 4.1.3). The Bank has not provided any commitment to provide loans at a below-market interest rate or that can be settled net in cash or by delivering ot issuing another financial instrument.

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

2.5.12. Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise, deposit held at call with banks, other short term highly liquid investment, cash portion of investments in foreign securities, bank balances with foreign banks, sundry currencies balances and time deposits which are readily convertible into cash with an initial maturity of three months or less.

2.6. Property and equipment

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

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

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

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The group commences depreciation when the asset is available for use.

The estimated useful lives are, as follows:

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

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

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

2.7. Intangible assets

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

The useful lives of intangible assets are assessed as finite. The estimated useful life of Computer software is five years. Amortisation methods, useful lives and residual values are reviewed at each financial year and adjusted if appropriate.

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

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

The annual amortisation rate generally in use for the current and comparative year is as follows:
• Computer software – 5 years

2.8. Impairment of non–financial assets

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

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

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

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

2.8. Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the group determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

2.9. Taxes

2.9.1. Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the countries where the Bank operates and generates taxable income.
The Bank has no uncertain taxes as at 31 December 2021.

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

2.9.2. Deferred tax

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

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

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

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

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

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

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

2.9.3. Value added tax

Expenses and assets are recognised net of the amount of value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the Amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.10. Employee benefits
The Bank operates defined contribution pension scheme.

Pensions and other post- employment benefits
Defined contribution pension plan

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

Short-term employee benefits

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

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

– the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
– the group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
– the group has the right to direct the use of the asset. The group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
- the group has the right to operate the asset; or
- the group designed the asset in a way that predetermines how and for what purpose it will be used.

The group has only one lease asset which is the building in which its operations are carried out. The contractual lease term is 10 years. However, it is reasonably certain that the group will extend its lease by another 10 years based on the lease contract agreement. The contract contains both lease and non-lease components. The group has elected to separate lease and non-lease components and treat them accordingly. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

-fixed payments (including in-substance fixed payments), less any lease incentives receivable
-variable lease payment that are based on an index or a rate
-amounts expected to be payable by the Bank under residual value guarantees
-the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

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

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

2.11.2 'Right of use assets
Right-of-use assets are initially measured at cost, comprising the following:
-the amount of the initial measurement of lease liability
-any lease payments made at or before the commencement date less any lease incentives received
-any initial direct costs, and- restoration costs.
Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment
Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Short-term leases and leases of low value
The group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. low value assets). Low-value assets are assets with lease amount of less than N1 million when new. Lease payments on short-term leases and leases of low-value assets are recognised as expense in profit or loss on a straight-line basis over the lease term. The group has no leases of low value as at 2021 (2020: Nil).

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

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

For leases of properties, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend (or not terminate).

- Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

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

2.12 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 management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.0 Critical accounting estimates and judgments

These disclosures supplement the commentary on financial risk management (see note 5). Estimates where management has applied judgements are:
(i) Allowances for credit losses
(ii) Valuation of financial instruments
(iii) Assessment of recoverability of deferred tax assets
(iv) Depreciation of property and equipment
(v) Depreciation of right of use asset
(vi) Amortisation of intangible asset

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

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

(i) *Allowances for credit losses*

Loans and advances to banks and customers are accounted for at amortised cost and are evaluated for impairment on a basis described in accounting policy (see note 2.5.5)

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

(ii) *Valuation of financial instruments*

At 31 December 2021, the carrying value of the Group's financial instrument assets held at fair value was N4.79billion (2020: N57.56 billion), its derivatives assets was valued at N3.15billion (2020: N3.7billion) and the fair valueof the derivative liabilities was N3.07billion (2020: N3.68billion).

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

The valuation techniques for level 2 and, particularly, level 3 financial instruments involve management judgement and estimates the extent of which depends on the complexity of the instrument and the availability of market observable information. Details about sensitivities to market risk arising from treasury positions can be found in Note 5.2.1.

The Bank issued a N10Bn unsecured subordinated bond on July, 23, 2020 with a coupon rate of 12% payable semi-annually. The bond has a tenor of 7 years and is due on July, 2027. This is Series 1 of the bank's N50bn Bond programme issued via Novambl Investments SPV Plc. The subscription offer for this series contains a provision for early redemption in Year 5 at a redemption amount of N10bn. This call option is an embedded derivative which has not been seperated from the host contract as the exercise price is approximately equivalent to the amortised cost at year 5.

(iii) *Recoverability of deferred tax assets*

The deferred tax assets include an amount of N443 million (2020: N443 million) which relates to mainly carried forward tax losses of the Bank. These losses arise due to tax-exempt nature of the Bank's income from government securities. The Bank has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the Bank. The Bank is expected to generate taxable income in the future. The losses can be carried forward indefinitely and have no expiry date.

4.0 Financial instruments

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

4.1.1 Recurring fair value measurements

GROUP
In thousands of Naira
December 2021

	Level 1	Level 2	Total
Assets			
Derivative financial assets	-	3,149,319	3,149,319
Investment securities			-
Mutual funds FVTPL		152,033	152,033
Quoted Equity FVTPL	177,339	-	177,339
Nigerian Treasury Bills FVOCI	1,436,802	-	1,436,802
Federal Government of Nigeria (FGN) bonds FVOCI	3,020,715	-	3,020,715
	4,634,856	3,301,352	7,936,208
Liabilities			
Derivative financial liabilities	-	3,072,162	3,072,162
	-	3,072,162	3,072,162

December 2020

	Level 1	Level 2	Total
Assets			
Derivative financial assets	-	3,700,410	3,700,410
Pledged assets			
Treasury bills	22,071,575	-	22,071,575
Investment securities			
Mutual funds FVTPL	-	170,047	170,047
Quoted Equity FVTPL	221,213	-	221,213
Nigerian Treasury Bills FVOCI	30,124,651	-	30,124,651
Federal Government of Nigeria (FGN) bonds FVOCI	4,973,976	-	4,973,976
	57,391,415	3,870,457	61,261,872
Liabilities			
Derivative financial liabilities	-	3,680,548	3,680,548
	-	3,680,548	3,680,548

BANK
December 2021

	Level 1	Level 2	Total
Assets			
Derivative financial assets	-	3,149,319	3,149,319
Investment securities			
Nigerian Treasury Bills FVOCI	1,436,802	-	1,436,802
	1,436,802	3,149,319	4,586,121
Liabilities			
Derivative financial liabilities	-	3,072,162	3,072,162
	-	3,072,162	3,072,162

December 2020	Level 1	Level 2	Total
Assets			
Derivative financial assets	-	3,700,410	3,700,410
Pledged assets			
Treasury bills	22,071,575	-	22,071,575
Investment securities			
Nigerian Treasury Bills FVOCI	30,124,651	-	30,124,651
Federal Government of Nigeria (FGN) bonds FVOCI	4,757,357	-	4,757,357
	56,953,584	3,700,410	60,653,993
Liabilities			
Derivative financial liabilities	-	3,680,548	3,680,548
	-	3,680,548	3,680,548

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

4.1.2 **Recognised fair value measurements**

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily classified as trading securities or FVOCI investments.

(b) Financial instruments in level 2

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

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

(c) Financial instruments in level 3

There were no level 3 financial instruments with recurring fair value measurements as at year end.

(d) Valuation of financial instruments

Valuation techniques used to derive Level 2 fair values

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

Description	Fair value as at 31 December 2021 (N'000)	Valuation technique	Observable inputs
Derivative financial assets	3,149,319	Futures and forward contracts: Fair value through market rate from a quoted market	Market rates from quoted market
Derivative financial liabilities	3,072,162		

FOR THE YEAR ENDED 31 DECEMBER 2021

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

GROUP

In thousands of Naira	Fair value through profit or loss	Amortized cost	FVOCI	Financial Liabilities at fair value	Carrying amount	Fair value	FV Hierarchy
31 December 2021							
Balances with banks	-	57,186,698	-	-	57,186,698	57,186,698	Level 3
Derivative financial assets	3,149,319	-	-	-	3,149,319	3,149,319	Level 2
Loans and advances to customers	-	88,382,235	-	-	88,382,235	88,382,235	Level 3
Pledged assets							
- Treasury bills	-	33,697,517	-	-	33,697,517	33,099,295	Level 1
- Bonds	-	16,319,020	-	-	16,319,020	10,832,838	Level 1
Investment securities	329,371	18,073,115	4,457,517	-	22,860,003	22,782,873	Level 1
Other assets	-	20,006,391	-	-	20,006,391	20,006,391	Level 3
	3,478,690	**233,664,974**	**4,457,517**	**-**	**241,601,182**	**235,439,648**	
Due to Banks		26,813,409			26,813,409		Level 3
Derivative financial liabilities	-	-	-	3,072,162	3,072,162	3,072,162	Level 2
Due to customers	-	116,912,496	-	-	116,912,496	116,912,496	Level 3
Other liabilities	-	62,872,863	-	-	62,872,863	62,872,863	Level 3
Other borrowed fund	-	10,253,567	-	-	10,253,567	-	Level 3
	-	**216,852,334**	**-**	**3,072,162**	**219,924,496**	**182,857,521**	

In thousands of Naira	Fair value through profit or loss	Amortized cost	FVOCI	Financial Liabilities at fair value	Carrying amount	Fair value	FV Hierarchy
31 December 2020							
Balances with banks	-	46,983,617	-	-	46,983,617	46,983,617	Level 3
Derivative financial assets	3,700,410	-	-	-	3,700,410	3,700,410	Level 2
Loans to banks and other financial institutions	-	4,978	-	-	4,978	4,978	Level 3
Loans and advances to customers	-	49,971,622	-	-	49,971,622	49,971,622	Level 3
Pledged assets							
- Treasury bills	-	-	21,094,924	-	21,094,924	21,094,924	Level 1
- Bonds	-	-	976,652	-	976,652	976,652	Level 1
Investment securities	391,260	17,940,835	35,098,627	-	53,430,722	53,430,722	Level 1
Other assets	-	3,734,613	-	-	3,734,613	3,734,613	Level 3
	4,091,670	**118,635,663**	**57,170,203**	**-**	**179,897,537**	**179,897,537**	
Due to Banks		21,713,953			21,713,953	21,713,953	Level 3
Derivative financial liabilities	-	-	-	3,680,548	3,680,548	3,680,548	Level 2
Due to customers	-	89,627,443	-	-	89,627,443	89,627,443	Level 3
Other liabilities	-	33,827,823	-	-	33,827,823	33,827,823	Level 3
Other borrowed fund	-	10,259,852	-	-	10,259,852	-	Level 3
	-	**155,429,071**	**-**	**3,680,548**	**159,109,619**	**127,135,815**	

BANK

In thousands of Naira	Fair value through profit or loss	Amortized cost	FVOCI	Financial Liabilities at fair value	Total carrying amount	Fair value	FV Hierarchy
31 December 2021							
Balances with banks	-	56,107,545	-	-	56,107,545	56,107,545	Level 3
Derivative financial assets	3,149,319	-	-	-	3,149,319	3,149,319	Level 2
Loans and advances to customers	-	90,382,235	-	-	90,382,235	90,382,235	Level 3
Pledged assets							
- Treasury bills	-	33,697,517	-	-	33,697,517	33,099,295	Level 1
- Bonds	-	16,319,020	-	-	16,319,020	10,832,838	Level 1
Investment securities	-	18,073,115	1,436,802	-	19,509,917	19,432,787	Level 1
Other assets	-	20,408,370	-	-	20,408,370	20,408,370	Level 3
	3,149,319	**234,987,801**	**1,436,802**	-	**239,573,923**	**233,412,389**	
Due to Banks		26,813,409			26,813,409	26,813,409	Level 3
Derivative financial liabilities	-	-	-	3,072,162	3,072,162	3,072,162	Level 2
Due to customers	-	116,889,466	-		116,889,466	116,889,466	Level 3
Other liabilities	-	61,322,682	-		61,322,682	61,322,682	Level 3
Other borrowed fund	-	10,361,697	-	-	10,361,697	-	Level 3
	-	**215,387,254**	-	**3,072,162**	**218,459,415**	**181,284,310**	

In thousands of Naira	Fair value through profit or loss	Amortized cost	FVOCI	Financial Liabilities at fair value	Total carrying amount	Fair value	FV Hierarchy
31 December 2020							
Balances with banks	-	46,822,920	-	-	46,822,920	46,822,920	Level 3
Derivative financial assets	3,700,410	-	-	-	3,700,410	3,700,410	Level 2
Loans to banks and other financial institutions	-	-	-	-	-	-	Level 3
Loans and advances to customers	-	49,971,622	-	-	49,971,622	49,971,622	Level 3
Pledged assets							
- Treasury bills	-	-	21,094,924	-	21,094,924	21,094,924	Level 1
- Bonds	-	-	976,652	-	976,652	976,652	Level 1
Investment securities	-	17,940,835	52,822,843	-	70,763,677	70,763,677	Level 1
Other assets	-	4,052,437	-	-	4,052,437	4,052,437	Level 3
	3,700,410	**118,787,813**	**74,894,418**	-	**197,382,642**	**197,382,642**	
Due to Banks		21,713,953			21,713,953	21,713,953	Level 3
Derivative financial liabilities	-	-	-	3,680,548	3,680,548	3,680,548	Level 2
Due to customers	-	89,611,830	-		89,611,830	89,611,830	Level 3
Other liabilities	-	33,809,898	-		33,809,898	33,809,898	Level 3
Other borrowed fund	-	10,333,708	-	-	10,333,708	-	Level 3
	-	**155,469,388**	-	**3,680,548**	**159,149,936**	**127,102,275**	

5.0 Financial risk

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

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

5.1 Credit risk

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

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

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

5.1.1 Credit quality analysis

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

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

Corporate

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

Treasury

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

5.1.2 Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 2.5.5 for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 2.5.5 for a description of how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 2.5.5 includes an explanation of how the Bank has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on

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

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

5.1.2.1 *Significant increase in credit risk*

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

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

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

Qualitative criteria:
Forward transitions: Credit Ratings
The Bank specifies the number of notch increases that will be viewed as a significant increase in credit risk since origination. Assuming the account is currently classified as Stage 1, if the current credit rating increases by more notches than the specified number since origination, the account is classified as Stage 2.
In addition, if the accounts current credit rating is worse than the default credit rating indicator, also specified by the Bank, the account is classified as Stage 3.

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

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

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

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

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

1	0 to 29
2	30 to 89
3	90+

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

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

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

Qualitative criteria

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

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

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

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

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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

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

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

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
'- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.
The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.
'- For secured products, this is primarily based on collateral type, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
'- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate forward-looking information. The Bank recently commenced operations and as such do not have adequate default history to support the modelling of the impairment parameters. The Bank maps the internal ratings assigned to individual obligor to an external rating. The obligor then take on the PD term structure corresponding the assigned external ratings.
To make these PDs sensitive to macroeconomic variables, the sensitivities of a peer company default rates to some macroeconomic factors were used to extrapolate adjustment scalars that conditioned the PD for the impact of forecast macroeconomic variables. These economic variables and their associated impact on the impairment parameters vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables are provided by the risk management department and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of two to five years. The impact of these economic variables on the impairment parameters has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.
In addition to the base economic scenario, the risk management department also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the qualitative and backstop indicators. This determines whether the financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

5.1.3 *Credit risk exposure*

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

For ECL purposes, the Bank's financial asset is segmented into sub-portfolios as listed below

- Corporate loan portfolio
- Placement with other banks
- Off balance sheet exposures

Credit quality per class

Loans to customers portfolio

	GROUP 2021					GROUP 2020				
	Stage 1 Gross amount	Stage 2 Gross amount	Stage 3 Gross amount	ECL	Carrying amount	Stage 1 Gross amount	Stage 2 Gross amount	Stage 3 Gross amount	ECL	Carrying amount
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
Credit grade										
Investment grade	88,081,678	3,149	338,868	(41,461)	**88,382,235**	50,069,997	-	-	(98,375)	**#########**

Loans to customers portfolio

	Bank 2021					Bank 2020				
	Stage 1 Gross amount	Stage 2 Gross amount	Stage 3 Gross amount	ECL	Carrying amount	Stage 1 Gross amount	Stage 2 Gross amount	Stage 3 Gross amount	ECL	Carrying amount
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
Credit grade										
Investment grade	90,081,678	3,149	338,868	(41,461)	**90,382,235**	50,069,997	-	-	(98,375)	**#########**

Loans to banks portfolio

	GROUP 2021					GROUP 2020				
	Stage 1 Gross amount	Stage 2 Gross amount	Stage 3 Gross amount	ECL	Carrying amount	Stage 1 Gross amount	Stage 2 Gross amount	Stage 3 Gross amount	ECL	Carrying amount
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
Credit grade										
Investment grade	-	-	-	-	-	4,978	-	-	(80)	**4,898**

Loans to banks portfolio

	Bank 2021					Bank 2020				
	Stage 1 Gross amount	Stage 2 Gross amount	Stage 3 Gross amount	ECL	Carrying amount	Stage 1 Gross amount	Stage 2 Gross amount	Stage 3 Gross amount	ECL	Carrying amount
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
Credit grade										
Investment grade	-	-	-	-	-	-	-	-	(80)	**(80)**

Off balancesheet engagement

	GROUP 2021					GROUP 2020				
	Stage 1 Gross amount	Stage 2 Gross amount	Stage 3 Gross amount	ECL	Carrying amount	Stage 1 Gross amount	Stage 2 Gross amount	Stage 3 Gross amount	ECL	Carrying amount
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
Credit grade										
Investment grade	34,227,136	-	-	(18,218)	**34,208,918**	64,974,258	-	-	(54,155)	**#########**

Off balancesheet engagement

	Bank 2021					Bank 2020				
	Stage 1 Gross amount	Stage 2 Gross amount	Stage 3 Gross amount	ECL	Carrying amount	Stage 1 Gross amount	Stage 2 Gross amount	Stage 3 Gross amount	ECL	Carrying amount
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
Credit grade										
Investment grade	34,227,136	-	-	(18,218)	**34,208,918**	64,974,258	-	-	(54,155)	**#########**

Investment Securities

	GROUP 2021					GROUP 2020				
	Stage 1 Gross amount	Stage 2 Gross amount	Stage 3 Gross amount	ECL	Carrying amount	Stage 1 Gross amount	Stage 2	Stage 3	ECL	Carrying amount
	N'000	N'000	N'000	N'000	N'000	N'000			N'000	N'000
Credit grade										
Investment grade	72,790,714	-	-	(85,826)	**72,704,888**	53,430,722	-	-	-	**#########**

Investment Securities

	Bank 2021					Bank 2020				
	Stage 1	Stage 2	Stage 3			Stage 1	Stage 2	Stage 3		
	Gross amount	Gross amount	Gross amount	ECL	Carrying amount	Gross amount	Gross amount	Gross amount	ECL	Carrying amount
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
Credit grade										
Investment grade	69,440,628	-	-	(85,826)	**69,354,802**	52,822,843	-	-	-	**#########**

Balances with banks

	GROUP 2021					GROUP 2020				
	Stage 1	Stage 2	Stage 3			Stage 1	Stage 2	Stage 3		
	Gross amount	Gross amount	Gross amount	ECL	Carrying amount	Gross amount	Gross amount	Gross amount	ECL	Carrying amount
Credit grade	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
Investment grade	57,186,698	-	-	-	**57,186,698**	46,983,617	-	-	-	**#########**

Balances with banks

	Bank 2021					Bank 2020				
	Stage 1	Stage 2	Stage 3			Stage 1	Stage 2	Stage 3		
	Gross amount	Gross amount	Gross amount	ECL	Carrying amount	Gross amount	Gross amount	Gross amount	ECL	Carrying amount
Credit grade	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
Investment grade	56,107,545	-	-	-	**56,107,545**	46,822,920	-	-	-	**#########**

Other assets

	GROUP 2021					GROUP 2020				
	Stage 1	Stage 2	Stage 3			Stage 1	Stage 2	Stage 3		
	Gross amount	Gross amount	Gross amount	ECL	Carrying amount	Gross amount	Gross amount	Gross amount	ECL	Carrying amount
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
Credit grade										
Investment grade	20,006,391	-	-	-	**20,006,391**	3,825,592	-	-	-	**3,825,592**

Other assets

	Bank 2021					Bank 2020				
	Stage 1	Stage 2	Stage 3			Stage 1	Stage 2	Stage 3		
	Gross amount	Gross amount	Gross amount	ECL	Carrying amount	Gross amount	Gross amount	Gross amount	ECL	Carrying amount
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
Credit grade										
Investment grade	20,408,370	-	-	-	**20,408,370**	4,143,416	-	-	-	**4,143,416**

The bank has not impaired balances with banks and other assets as it considers them to have low credit risk. This is because there has not been any increase in credit risk related to the balances in the year ended 31 December 2021.

Maximum exposure to credit risk – Financial instruments not subject to impairment
The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e.Financial assets at fair value through profit or loss):

	Maximum exposure to credit risk (N'000)
Financial assets at fair value through profit or loss	
- Debt Securities	-
- Derivatives	3,149,319

5.1.3.2 Collateral and other credit enhancements

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

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

5.1.3.3 Loss allowance

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

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

GROUP
2021

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
Corporate loan portfolio	N'000	N'000	N'000	N'000	N'000
Loss allowance as at 1 January 2021	98,375	-	-	-	98,375
Decrease in allowance	(93,803)	-	36,889	-	(56,914)
Loss allowance as at 31 December	4,572	-	36,889	-	41,461

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
Loans to banks	N'000	N'000	N'000	N'000	N'000
Loss allowance as at 1 January 2021	80	-	-	-	80
Additional allowance (Writeback)	(80)	-	-	-	(80)
Loss allowance as at 31 December	-	-	-	-	-

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
Off balance sheet engagment	N'000	N'000	N'000	N'000	N'000
Loss allowance as at 1 January 2021	54,155	-	-	-	54,155
Decrease in allowance	(35,937)	-	-	-	(35,937)
Loss allowance as at 31 December	18,218	-	-	-	18,218

2020

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
Corporate loan portfolio	N'000	N'000	N'000	N'000	N'000
Loss allowance as at 1 January 2020	31,030	-	-	-	31,030
Decrease in allowance	67,345	-	-	-	67,345
Loss allowance as at 31 December	98,375	-	-	-	98,375

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
Placement with other Banks	N'000	N'000	N'000	N'000	N'000
Loss allowance as at 1 January 2020	80	-	-	-	80
Decrease in allowance	(0)	-	-	-	(0)
Loss allowance as at 31 December	80	-	-	-	80

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
Off balance sheet engagment	N'000	N'000	N'000	N'000	N'000
Loss allowance as at 1 January 2020	48,804	-	-	-	48,804
Decrease in allowance	5,351	-	-	-	5,351
Loss allowance as at 31 December	54,155				54,155

BANK
2021

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
Corporate loan portfolio	N'000	N'000	N'000	N'000	N'000
Loss allowance as at 1 January 2021	98,375	-	-	-	98,375
Decrease in allowance	(93,803)	-	36,889	-	(56,914)
Loss allowance as at 31 December	4,572	-	36,889	-	41,461

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
Loans to banks	N'000	N'000	N'000	N'000	N'000
Loss allowance as at 1 January 2021	80	-	-	-	80
Decrease in allowance	(80)	-	-	-	(80)
Loss allowance as at 31 December	-	-	-	-	-

Off balance sheet engagment	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Purchased credit-impaired N'000	Total N'000
Loss allowance as at 1 January 2021	54,155	-	-	-	54,155
Additional allowance (writeback)	(35,937)	-	-	-	(35,937)
Loss allowance as at 31 December	18,218	-	-	-	18,218

2020

Corporate loan portfolio	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Purchased credit-impaired N'000	Total N'000
Loss allowance as at 1 January 2020	31,030	-	-	-	31,030
New financial assets originated or purchased	67,345	-	-	-	67,345
Loss allowance as at 31 December 2020	98,375	-	-	-	98,375

Placement with other Banks	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Purchased credit-impaired N'000	Total N'000
Loss allowance as at 1 January 2020	80	-	-	-	80
Decrease in allowance	-	-	-	-	-
Loss allowance as at 31 December 2020	80	-	-	-	80

Off balance sheet engagment	Stage 1 12-month ECL N'000	Stage 2 Lifetime ECL N'000	Stage 3 Lifetime ECL N'000	Purchased credit-impaired N'000	Total N'000
Loss allowance as at 1 January 2020	48,804	-	-	-	48,804
Decrease in allowance	5,351	-	-	-	5,351
Loss allowance as at 31 December	54,155	-	-	-	54,155

5.1.3.4 Days past due

As discussed above in the significant increase in credit risk section, under Nova Merchant Bank Limited's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans and advances to customers.

5.1.4 Sensitivity Analysis

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

Corporate Portfolios

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

On balance sheet exposure

GDP growth rate : Given the signficant impact on companies performance and collateral valuations.

Inflation : Given it impacts on purchasing power, demand as well as overall health of the economy

The table below outlines the total ECL for wholesale portfolios as at 31 December 2021, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus 10%. The responsiveness of the ECL estimates to variation in macroeconomic variables have been presented below while putting in perspective, interdependencies between the various economic inputs.

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

Off balance Sheet Exposure

GDP growth rate : Given the signficant impact on companies performance and collateral valuations

Inflation : Given it impacts on purchasing power, demand as well as overall health of the economy

The table below outlines the total ECL for wholesale off balance sheet exposures as at 31 December 2020, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus 10%. The responsiveness of the ECL estimates to variation in macroeconomic variables have been presented below while putting in perspective, interdependencies between the various economic inputs.

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

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

In thousands of Naira	Group December 2021	Group December 2020	Bank December 2021	Bank December 2020
Agriculture	12,748,243	9,633,109	12,748,243	9,633,109
Finance and Insurance	3,288	1,025,456	2,003,288	1,025,456
General	229,265	205,809	229,265	205,809
General Commerce	11,083,333	5,621,480	11,083,333	5,621,480
Manufacturing	40,044,864	16,504,496	40,044,864	16,504,496
Oil and Gas	8,930,050	4,296,657	8,930,050	4,296,657
Power	8,828,121	9,315,361	8,828,121	9,315,361
Transportation and Storage	6,556,532	3,467,628	6,556,532	3,467,628
	88,423,696	50,069,997	90,423,696	50,069,997

5.1.6 Credit quality by risk rating class

Loans and advances to Corporates

In thousands of Naira

Internal rating		Group December 2021	Group December 2020	Bank December 2021	Bank December 2020
AAA					
AA		-	-	-	-
A		61,818,829	-	63,818,829	-
BBB		17,253,847	-	17,253,847	-
B+		4,866,431	8,757,977	4,866,431	8,757,977
B-		4,163,057	4,178,042	4,163,057	4,178,042
BB-		321,533	37,020,645	321,533	37,020,645
B		-	113,332	-	113,332
	-	88,423,697	50,069,996	90,423,697	50,069,996
Impairment	-	(41,461)	(98,375)	(41,461)	(98,375)
Carrying amount		88,382,236	49,971,621	90,382,236	49,971,621

Loans and advances to Banks

In thousands of Naira

Internal rating		Group December 2021	Group December 2020	Bank December 2021	Bank December 2020
AAA					
AA		-	4,978	-	4,978
A		-	-	-	-
BBB		-	-	-	-
B+		-	-	-	-
B-		-	-	-	-
BB-		-	-	-	-
B		-	-	-	-
	-	-	4,978	-	4,978
Impairment	-	-	-	-	-
Carrying amount		-	4,978	-	4,978

Off balance sheet engagements

In thousands of Naira

Internal rating		Group December 2021	Group December 2020	Bank December 2021	Bank December 2020
AAA					
AA		-	-	-	-
A		28,736,310	-	28,736,310	-
BBB		371,958	53,850,519	371,958	53,850,519
B+		-	2,111,524	-	2,111,524
B-		-	-	-	-
BB-		1,540,434	7,999,777	1,540,434	7,999,777
B		2,000,000	5,355,427	2,000,000	5,355,427
	-	32,648,702	69,317,247	32,648,702	69,317,247
Impairment	-	(18,218)	(54,155)	(18,218)	(54,155)
Carrying amount		32,630,484	69,263,092	32,630,484	69,263,092

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

(d) GROUP

2021

In thousands of Naira	Level 1	Level 2	Level 3
	December 2021		
Against neither past due and not impaired			
Cash	32,431,916	-	-
All Assets Debenture	-	-	14,838,685
Negative pledge	-	-	17,614,103
Corporate/Cross Company Guarantee	-	-	23,538,993
Total	32,431,916	-	55,991,780
Total	**32,431,916**	**-**	**55,991,780**

2020

In thousands of Naira	Level 1	Level 2	Level 3
	December 2020		
Against neither past due and not impaired			
Cash	25,833,234	-	-
All Assets Debenture	-	-	6,974,889
Negative pledge	-	-	1,888,081
Corporate/Cross Company Guarantee	-	-	17,612,379
Total	25,833,234	-	26,475,349
Total	**25,833,234**	**-**	**26,475,349**

BANK

2021

In thousands of Naira	Level 1	Level 2	Level 3
	December 2021		
Against neither past due and not impaired			
Cash	32,431,916	-	-
All Assets Debenture	-	-	12,838,685
Negative pledge	-	-	17,614,103
Corporate/Cross Company Guarantee	-	-	23,538,993
Total	32,431,916	-	53,991,780
Total	**32,431,916**	**-**	**53,991,780**

2020

In thousands of Naira	Level 1	Level 2	Level 3
	December 2020		
Against neither past due and not impaired			
Cash	25,833,234	-	-
All Assets Debenture	-	-	6,974,889
Negative pledge	-	-	1,888,081
Corporate/Cross Company Guarantee	-	-	17,612,379
Total	25,833,234	-	26,475,349
Total	**25,833,234**	**-**	**26,475,349**

Collateral held and other credit enhancements, and their financial effect

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

The fair values of non-property collaterals (such as equities, treasury bills, etc.) are determined with reference to market quoted prices or market values of similar instruments.

5.1.8 Credit concentration

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

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

GROUP

December 2021

In thousands of Naira	Corporate	Financial institutions	Government	Others	Total
Balances with banks	-	-	-	-	-
Financial assets held for trading	-	-	-	-	-
Derivative financial assets	-	3,149,319	-	-	3,149,319
Loans and advances to banks and other financial institutions	-	-	-	-	-
Loans and advances to customers	88,149,682	3,288	-	229,265	88,382,235
Pledged assets	-	16,319,020	33,697,517	-	50,016,537
Investment securities	-	10,530,664	11,908,899	-	22,439,563
Other assets	-	-	-	20,006,391	20,006,391
Total	**88,149,682**	**30,002,291**	**45,606,416**	**20,235,656**	**183,994,045**

Credit risk exposures relating to other credit commitments at gross amount are as follows:					
Transaction related to Bonds and guarantees	3,431,217	-	-	-	3,431,217
Clean line facilities for letters of credit and other commitments	30,795,919	-	-	-	30,795,919
Total	**34,227,136**	-	-	-	**34,227,136**

December 2020

In thousands of Naira	Corporate	Financial institutions	Government	Others	Total
Balances with banks	-	46,983,617	-	-	46,983,617
Financial assets held for trading	-	-	-	-	-
Derivative financial assets	-	3,700,410	-	-	3,700,410
Loans and advances to banks and other financial institutions	-	4,978	-	-	4,978
Loans and advances to customers	49,765,813			205,809	49,971,622
Pledged assets	-	-	22,071,575	-	22,071,575
Investment securities	391,260	17,940,835	35,098,627	-	53,430,722
Other assets	-	-	-	3,734,613	3,734,613
Total	**50,157,073**	**68,629,838**	**57,170,203**	**3,940,422**	**179,897,535**

Credit risk exposures relating to other credit commitments at gross amount are as follows:					
Transaction related to Bonds and guarantees	1,073,804	-	-	-	1,073,804
Clean line facilities for letters of credit and other commitments	63,900,455	-	-	-	63,900,455
Total	**64,974,258**	-	-	-	**64,974,258**

BANK

December 2021

In thousands of Naira	Corporate	Financial institutions	Government	Others	Total
Balances with banks	-	-	-	-	-
Financial assets held for trading	-	3,149,319	-	-	3,149,319
Derivative financial assets	-	-	-	-	-
Loans and advances to banks and other financial institutions	-	2,003,288	-	-	2,003,288
Loans and advances to customers	88,149,682	3,288	-	229,265	88,382,235
Pledged assets	-	16,319,020	33,697,517	-	50,016,537
Investment securities	-	7,987,725	11,908,899	-	19,896,624
Other assets	-	-	-	20,408,370	20,408,370
Total	**88,149,682**	**29,462,639**	**45,606,416**	**20,637,635**	**183,856,373**

Credit risk exposures relating to other credit commitments at gross amount are as follows:					
Transaction related to Bonds and guarantees	3,431,217	-	-	-	3,431,217
Clean line facilities for letters of credit and	30,795,919	-	-	-	30,795,919
Total	**34,227,136**	-	-	-	**34,227,136**

December 2020

In thousands of Naira	Corporate	Financial institutions	Government	Others	Total
Balances with banks	-	46,822,920	-	-	46,822,920
Financial assets held for trading	-	-	-	-	-
Derivative financial assets	-	3,149,319	-	-	3,149,319
Loans and advances to banks and other financial institutions	-	-	-	-	-
Loans and advances to customers	49,765,813	-	-	205,809	49,971,622
Pledged assets	-	-	22,071,575	-	22,071,575
Investment securities	-	17,940,835	34,882,008	-	52,822,843
Other assets	-	-	-	4,052,437	4,052,437
Total	49,765,813	67,913,073	56,953,584	4,258,246	178,890,714

Credit risk exposures relating to other credit commitments at gross amount are as follows:					
Transaction related to Bonds and guarantees	1,073,804	-	-	-	1,073,804
Clean line facilities for letters of credit and	63,900,455	-	-	-	63,900,455
Total	**64,974,258**	-	-	-	**64,974,258**

5.2 Market risk management

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

5.2.1 Sensitivity Analysis

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

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

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

GROUP

Bank Sensitivity by risk type	December 2021			
In thousands of Naira	Average	High	Low	Actual
Foreign exchange risk	(596)	(4,003)	(25)	(36)
Interest rate risk	(819,251)	(2,266,664)	18,034	(20,525)
Total	**(819,848)**	**(2,270,666)**	**18,009**	**(20,561)**

Bank Sensitivity by risk type	December 2020			
In thousands of Naira	Average	High	Low	Actual
Foreign exchange risk	(740)	(1,880)	(136)	(1,034)
Interest rate risk	(1,317,912)	(2,103,298)	(997,515)	(110,129)
Total	**(1,318,652)**	**(2,105,178)**	**(997,651)**	**(111,163)**

BANK

Bank Sensitivity by risk type	December 2021			
In thousands of Naira	Average	High	Low	Actual
Foreign exchange risk	(596)	(4,003)	(25)	(36)
Interest rate risk	(819,251)	(2,266,664)	18,034	(20,525)
Total	**(819,848)**	**(2,270,666)**	**18,009**	**(20,561)**

BANK

Bank Sensitivity by risk type	December 2020			
In thousands of Naira	Average	High	Low	Actual
Foreign exchange risk	(740)	(1,880)	(136)	(1,034)
Interest rate risk	(1,317,912)	(2,103,298)	(997,515)	(110,129)
Total	**(1,318,652)**	**(2,105,178)**	**(997,651)**	**(111,163)**

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

GROUP

In thousands of Naira

31 December 2021

	Re-pricing year			
	Less than 6 months	7 - 12 months	Above 1 year	Total
Money market placements	6,765,141	-	-	6,765,141
Loans and advances to customers:	46,682,907	24,572,121	17,168,668	88,423,696
Pledged assets - Treasury bills	33,697,517	-	-	33,697,517
Pledged assets - Bonds	-	-	16,319,020	
Investment securities	11,436,366	-	11,008,440	22,444,806
	98,581,929	24,572,122	44,496,129	151,331,158
Due to Banks	26,813,409	-	-	26,813,409
Customer Deposits	108,652,380	8,260,115	-	116,912,495
Debt securities issued	-	-	10,253,567	10,253,567
	135,465,789	8,260,115	10,253,567	153,979,471
Total interest re-pricing gap	(36,883,859)	16,312,007	34,242,562	(2,648,313)

In thousands of Naira

31 December 2020

	Less than 6 months	7 - 12 months	Above 1 year	Total
Loans and advances to banks	4,978	-	-	4,978
Loans and advances to customers:	36,314,944	486,874	13,268,180	50,069,998
Pledged assets	19,105,524	1,989,400	976,652	22,071,576
Investment Securities	48,456,746	-	-	48,456,746
Investment Securities -Bonds	-	-	4,973,976	4,973,976
	103,882,191	2,476,275	19,218,808	125,577,271
Due to Banks	21,713,953	-	-	21,713,953
Customer Deposits	83,498,005	6,129,438		89,627,443
Debt securities issued	-	-	10,259,852	10,259,852
Interest bearing borrowings	-	-	-	-
	105,211,958	6,129,438	10,259,852	121,601,248
Total interest re-pricing gap	(1,329,767)	(3,653,163)	8,958,956	3,976,023

BANK

In thousands of Naira

31 December 2021

	Re-pricing year			
	Less than 6 months	7 - 12 months	Above 1 year	Total
Money market placements	5,837,986	-	-	5,837,986
Loans and advances to customers:	46,682,907	26,572,121	17,168,668	90,423,696
Pledged assets - Tbills	33,697,517	-	-	33,697,517
Pledged assets - Bonds	-	-	16,319,020	16,319,020
Investment securities	11,436,366	-	7,987,725	19,424,091
	141,588,808	26,572,122	41,475,413	209,636,342
Due to Banks	26,813,409	-	-	26,813,409
Customer Deposits	108,909,369	7,980,097	-	116,889,466
Debt securities issued	-	-	10,361,697	10,361,697
	135,722,778	7,980,097	10,361,697	154,064,571
Total interest re-pricing gap	5,866,031	18,592,025	31,113,717	55,571,770

In thousands of Naira

31 December 2020

	Less than 6 months	7 - 12 months	Above 1 year	Total
Loans and advances to banks		-	-	-
Loans and advances to customers:	36,314,944	486,874	13,268,180	50,069,997
Pledged assets	19,105,524	1,989,400	976,652	22,071,575
Investment securities	48,065,486	-		48,065,486
Bonds	-	-	4,757,357	4,757,357
	103,485,953	2,476,275	19,002,189	124,964,414
Due to Banks	21,713,953	-		21,713,953
Customer Deposits	83,482,391	6,129,438	-	89,611,830
Debt securities issued	10,333,708	-		10,333,708
	115,530,052	6,129,438	-	121,659,491
Total interest re-pricing gap	(12,044,099)	(3,653,164)	19,002,189	3,304,924

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

GROUP

31 December 2021	Fixed N'000	Non-interest bearing N'000	Total N'000
ASSETS			
Balances with banks	6,765,141	50,421,557	57,186,698
Derivative financial financial assets	-	3,149,319	3,149,319
Loans and advances to customers	88,382,235	-	88,382,235
Pledged assets	50,016,537	-	50,016,537
Investment securities	22,444,806	329,371	22,774,177
Other assets	-	20,006,391	20,006,391
TOTAL	**167,613,696**	**73,906,638**	**241,520,333**
LIABILITIES			
Derivative financial liabilities	-	3,072,162	3,072,162
Due to Banks	26,813,409	-	26,813,409
Customer Deposits	86,341,513	30,570,983	116,912,496
Other liabilities	-	62,872,863	62,872,863
Debt securities issued	10,253,567	-	-
TOTAL	**123,408,488**	**96,516,008**	**209,670,930**

31 December 2020	Fixed N'000	Non-interest bearing N'000	Total N'000
ASSETS			
Balances with banks	-	46,983,617	46,983,617
Financial assets held for trading	-	-	-
Derivative financial financial assets	-	3,700,410	3,700,410
Loans to banks and other financial Institutions	4,978	-	4,978
Loans and advances to customers	49,971,622	-	49,971,622
Pledged assets	22,071,575	-	22,071,575
Investment securities	53,039,462	391,260	53,430,722
Other assets	-	3,734,613	3,734,613
TOTAL	**125,087,637**	**54,809,900**	**179,897,536**
LIABILITIES			
Derivative financial liabilities	-	3,680,548	3,680,548
Due to Banks	21,713,953	-	21,713,953
Customer Deposits	65,544,720	24,082,723	89,627,443
Other liabilities	31,211,447	2,616,376	33,827,823
Debt securities issued	10,259,852	-	10,259,852
TOTAL	**128,729,972**	**30,379,648**	**159,109,620**

BANK

In thousands of Naira

31 December 2021	Fixed N'000	Non-interest bearing N'000	Total N'000
ASSETS			
Balances with banks	5,837,986	50,269,560	56,107,545
Derivative financial financial assets	-	3,149,319	3,149,319
Loans and advances to customers	90,382,235	-	90,382,235
Pledged assets	50,016,537	-	50,016,537
Investment securities	19,424,091	-	19,424,091
Other assets	-	20,408,370	20,408,370
TOTAL	**165,660,848**	**73,827,249**	**239,488,096**
LIABILITIES			
Derivative financial liabilities	-	3,072,162	3,072,162
Due to Banks	26,813,409	-	26,813,409
Customer Deposits	30,547,954	86,341,513	116,889,466
Other liabilities	-	61,322,682	61,322,682
Debt securities issued	10,333,708	-	-
TOTAL	**67,695,070**	**150,736,356**	**208,097,719**

In thousands of Naira

31 December 2020	Fixed	Non-interest bearing	Total
ASSETS	N'000	N'000	N'000
Balances with banks	-	46,822,920	46,822,920
Financial assets held for trading	-	-	-
Derivative financial financial assets	-	3,700,410	3,700,410
Loans to banks and other financial Institutions	-	-	-
Loans and advances to customers	49,971,622	-	49,971,622
Pledged assets	22,071,575	-	22,071,575
Investment securities at FVOCI	52,822,843	-	52,822,843
Other assets	-	4,052,437	4,052,437
TOTAL	**124,866,041**	**54,575,767**	**179,441,806**
LIABILITIES			
Derivative financial liabilities	-	3,680,548	3,680,548
Due to Banks	21,713,953	-	21,713,953
Customer Deposits	65,544,720	24,067,109	89,611,830
Other liabilities	31,211,447	2,598,451	33,809,898
Debt securities issued	10,333,708	-	
TOTAL	**118,470,121**	**30,346,108**	**148,816,229**

Interest rate risk

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

Cash flow and fair value interest rate risk

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

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

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

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

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

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

Financial instruments by currency
GROUP
In thousands of Naira

31 December 2021	Total	Naira	US	Euro	GBP
Balances with banks	57,186,698	36,259,691	18,485,725	2,456,415	(15,133)
Financial assets held for trading	-	-	-	-	-
Derivative financial assets	3,149,319	-	3,149,319	-	-
Loans to banks and other financial institutions	-	-	-	-	-
Loans and advances to customers	88,382,235	66,079,204	22,170,256	132,776	-
Pledged assets					
- Treasury bills	33,697,517	33,697,517	-	-	-
- Bonds	16,319,020	16,319,020	-	-	-
Investment securities	22,774,177	22,774,177	(0)	-	-
Other assets	20,006,391	6,375,430	13,546,993	83,738	229
	241,515,356	**181,505,040**	**57,352,293**	**2,672,928**	**(14,904)**
Derivative financial liabilities	3,072,162	-	3,072,162	-	-
Due to Banks	26,813,409	-	27,178,835	(365,426)	-
Due to customers	116,912,496	103,731,840	10,775,973	2,403,240	1,443
Other liabilities	62,872,863	43,360,366	19,498,144	14,354	-
Debt securities issued	10,253,567	10,253,567	-	-	-
	219,924,497	**157,345,773**	**60,525,114**	**2,052,167**	**1,443**
Off balance sheet exposures					
Transaction related bonds and guarantees	5,009,651	5,009,651	-	-	
Clean line facilities for letters of credit and other commitments	29,217,485	-	29,217,485	-	
	34,227,136	5,009,651	29,217,485	-	

In thousands of Naira

31 December 2020	Total	Naira	US	Euro	GBP
Balances with banks	46,983,617	40,067,727	4,701,597	95,060	3,045
Financial assets held for trading	-	-	-	-	-
Derivative financial assets	3,700,410	-	3,700,410	-	-
Loans to banks and other financial institutions	4,978	4,978	-	-	-
Loans and advances to customers	49,971,622	39,060,763	10,910,859	-	-
Pledged assets					
- Treasury bills	21,094,924	21,094,924	-	-	-
- Bonds	976,652	976,652	-	-	-
Investment securities	53,430,722	53,296,477	134,244	-	-
Other assets	3,734,613	199,961	3,526,879	7,445	328
	179,897,536	**154,701,482**	**22,973,989**	**102,505**	**3,373**
Derivative financial liabilities	3,680,548	-	3,680,548	-	-
Due to Banks	21,713,953		21,713,953	-	-
Due to customers	89,627,443	86,987,742	2,636,235	-	3,466
Other liabilities	33,827,823	22,668,895	11,058,904	100,025	-
Debt securities issued	10,259,852	10,259,852	-	-	
	159,109,619	**119,916,488**	**39,089,641**	**100,025**	**3,466**
Off balance sheet exposures					
Transaction related bonds and guarantees	9,472,665	9,472,665	-	-	-
Clean line facilities for letters of credit and other commitments	55,501,594	-	55,501,594	-	-
	64,974,259	9,472,665	55,501,594	-	-

Bank

In thousands of Naira

31 December 2021	Total	Naira	US	Euro	GBP
Balances with banks	56,107,545	35,180,539	18,485,725	2,456,415	(15,133)
Financial assets held for trading	-	-	-	-	-
Derivative financial assets	3,149,319	-	3,104,131	-	-
Loans to banks and other financial institutions	-	-	-	-	-
Loans and advances to customers	90,382,235	68,079,204	22,170,256	132,776	-
Pledged assets					
- Treasury bills	33,697,517	33,697,517	-	-	-
- Bonds	16,319,020	16,319,020	-	-	-
Investment securities	19,424,091	19,424,091	(0)	-	-
Other assets	20,408,370	6,777,410	13,546,993	83,738	229
	239,488,097	**179,477,781**	**57,307,105**	**2,672,928**	**(14,904)**
Derivative financial liabilities	3,072,162	-	3,072,162	-	-
Due to Banks	26,813,409		27,178,835	(365,426)	-
Due to customers	116,889,467	103,708,811	10,775,973	2,403,240	1,443
Other liabilities	61,322,682	41,810,184	19,498,144	14,354	-
Debt securities issued	10,361,697	10,361,697	-	-	-
	218,459,416	**155,880,692**	**60,525,114**	**2,052,167**	**1,443**
Off balance sheet exposures					
Transaction related bonds and guarantees	5,009,651	5,009,651	-	-	-
Clean line facilities for letters of credit and other commitments	29,217,485	-	29,217,485	-	-
	34,227,136	5,009,651	29,217,485	-	-

In thousands of Naira

31 December 2020	Total	Naira	US	Euro	GBP
Balances with banks	46,822,920	40,020,450	4,701,597	95,060	3,045
Derivative financial assets	3,700,410	-	3,700,410	-	-
Loans to banks and other financial institutions	-	-	-	-	-
Loans and advances to customers	49,971,622	39,060,763	10,910,859	-	-
Pledged assets					
- Treasury bills	21,094,924	21,094,924	-	-	-
- Bonds	976,652	976,652	-	-	-
Investment securities	52,822,843	52,688,598	134,244	-	-
Other assets	4,052,437	161,968	3,526,879	7,445	328
	179,441,807	**154,003,354**	**22,973,989**	**102,505**	**3,373**
Derivative financial liabilities	3,680,548	-	3,680,548	-	
Due to Banks	21,713,953		21,713,953		
Due to customers	89,611,830	86,972,128	2,636,235	-	3,466
Other liabilities	33,809,898	22,650,969	11,058,904	100,025	
Debt securities issued	10,333,708	10,333,708			
	159,149,937	**119,956,805**	**39,089,641**	**100,025**	**3,467**
Off balance sheet exposures					
Transaction related bonds and guarantees	9,472,665	9,472,665	-	-	-
Clean line facilities for letters of credit and other commitments	55,501,594	-	55,501,594	-	-
	64,974,259	9,472,665	55,501,594	-	-

5.3 Liquidity risk management

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

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

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

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

Residual contractual maturities of financial assets and liabilities

GROUP 31 December 2021 *In thousands of Naira*	Carrying amount	Gross nominal inflows/outflows	Less than 3 months	3 months -12 months	More than 1 year
Assets					
Balances with banks	57,186,698	57,186,698	57,186,698	-	-
Loans and advances to customers	88,382,235	103,121,050	29,730,667	44,875,782	28,514,601
Pledged assets	50,016,537	78,952,297	3,248,218	31,885,206	43,818,873
Investment securities	22,774,177	30,934,437	10,142,314	2,674,480	18,117,643
Other assets	20,006,391	20,006,391	19,671,233	-	335,158
	238,371,015	290,205,850	119,984,107	79,435,468	90,786,275
Liabilities					
Due to Banks	26,813,409	26,791,210	537,995	26,253,215	-
Due to customers	116,912,496	117,390,036	106,637,518	10,752,518	-
Other liabilities	61,322,682	61,322,682	61,322,682	-	-
Debt securities issued	10,253,567	17,082,865	600,697	590,903	15,891,265
	215,413,805	222,698,444	169,098,892	37,596,636	16,002,916
Gap (asset - liabilities)	22,957,211	67,507,406	(49,114,784)	41,838,833	74,783,358
Off balance-sheet					
Transaction related bonds and guarantees	5,009,651	5,009,651	-	5,009,651	-
Clean line facilities for letters of credit and other commitments	29,217,485	-	-	29,217,485	-
	34,227,137	5,009,651	-	34,227,137	-

31 December 2020 *In thousands of Naira*	Carrying amount	Gross nominal inflows/outflows	Less than 3 months	12 months	More than 1 year
Assets					
Balances with banks	46,822,920	46,983,617	46,983,617	-	-
Loans to banks	4,978	4,978	4,978	-	-
Loans and advances to customers	49,971,622	50,069,998	36,314,944	486,874	13,268,180
Investment securities	75,502,297	75,502,297	67,562,269	1,989,400	5,950,628
Other assets	3,734,613	3,734,613	3,568,999	-	165,614
	172,301,817	172,560,889	150,865,807	2,476,274	19,384,422
Liabilities					
Due to Banks	21,713,953	21,713,953	-	21,713,953	-
Due to customers	89,627,443	89,627,443	83,498,005	6,129,438	-
Other liabilities	33,827,823	33,827,823	33,827,823		-
Debt securities Issued	10,259,852	18,274,465	600,697	590,903	17,082,865
	155,429,071	163,443,685	117,926,525	28,434,294	17,082,865
Gap (asset - liabilities)	16,872,746	9,117,205	32,939,281	(25,958,020)	2,301,557
Off balance-sheet					
Transaction related bonds and guarantees	9,472,665	9,472,665	-	9,472,665	-
Clean line facilities for letters of credit and other commitments	55,501,594	-	-	55,501,594	-
	64,974,259	9,472,665	-	64,974,259	-

BANK
31 December 2021
In thousands of Naira

	Carrying amount	Gross nominal inflows/outflows	Less than 3 months	12 months	More than 1 year
Assets					
Balances with banks	46,822,920	46,822,920	46,822,920	-	-
Loans and advances to customers	90,382,235	105,124,854	29,730,667	46,879,586	28,514,601
Pledged assets	50,016,537	78,952,297	3,248,218	31,885,206	43,818,873
Investment securities	22,774,177	30,934,437	10,142,314	2,674,480	18,117,643
Other assets	20,408,370	20,408,370	20,073,213	-	335,158
	230,404,240	282,242,879	110,017,332	81,439,272	90,786,275
Liabilities					
Due to Banks	26,813,409	26,791,210	537,995	26,253,215	-
Due to customers	116,889,467	117,367,007	106,614,489	10,752,518	-
Other liabilities	61,322,682	61,322,682	61,322,682	-	-
Debt securities issued	10,361,697	17,203,288	604,932	595,068	16,003,288
	215,387,254	222,684,187	169,080,098	37,600,801	16,003,288
Gap (asset - liabilities)	15,016,986	59,558,692	(59,062,765)	43,838,471	74,782,987
Off balance-sheet					
Transaction related bonds and guarantees	5,009,651	-	-	5,009,651	-
Clean line facilities for letters of credit and other commitments	29,217,485	-	-	29,217,485	-
	34,227,137	-	-	34,227,137	-

31 December 2020
In thousands of Naira

	Carrying amount	Gross nominal inflows/outflows	Less than 3 months	12 months	More than 1 year
Assets					
Balances with banks	46,822,920	46,822,920	46,822,920	-	-
Loans and advances to customers	49,971,622	50,069,997	36,314,944	486,874	13,268,180
Investment securities	74,894,418	84,533,951	67,461,012	2,222,902	14,850,037
Other assets	4,052,437	4,052,437	3,886,823	-	165,614
	171,688,961	181,426,869	150,598,876	2,709,776	28,118,217
Liabilities					
Due to Banks	21,713,953	21,713,953	-	21,713,953	-
Due to customers	89,611,830	89,611,829	83,482,391	6,129,438	-
Other liabilities	33,809,898	33,809,898	33,809,898	-	-
Debt securities issued	10,333,708	18,403,288	604,932	595,068	17,203,288
	155,469,389	163,538,968	117,897,221	28,438,459	17,203,288
Gap (asset - liabilities)	16,219,572	17,887,900	32,701,655	(25,728,683)	10,914,929
Off balance-sheet					
Transaction related bonds and guarantees	9,472,665	9,472,665	-	9,472,665	-
Clean line facilities for letters of credit and other commitments	55,501,594	55,501,594	-	55,501,594	-
	64,974,260	64,974,260	-	64,974,260	-

Derivatives settled on a gross basis

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

GROUP
31 December 2021
In thousands of Naira

	1-3 months	Total
Liabilities held for trading		
Forward contracts - Payment	10,989,514	10,989,514
Forward contracts - Receipt	10,990,460	10,990,460
Swap contracts (inflow)	-	-
Swap contracts (outflow)	-	-
Total inflows	10,990,460	
Total outflows	10,989,514	

31 December 2020
In thousands of Naira

	1 - 3 months	Total
Liabilities held for trading		
Forward contracts - Payment	24,281,694	24,281,694
Forward contracts - Receipt	24,083,944	24,083,944
Total inflows	24,083,944	24,083,944
Total outflows	24,281,694	24,281,694

BANK
31 December 2021
In thousands of Naira

	1 - 3 months	Total
Liabilities held for trading		
Forward contracts - Payment	10,989,514	10,989,514
Forward contracts - Receipt	10,990,460	10,990,460
Total inflows	10,990,460	10,990,460
Total outflows	10,989,514	10,989,514

BANK
31 December 2020
In thousands of Naira

	1 - 3 months	Total
Liabilities held for trading		
Forward contracts - Payment	24,281,694	24,281,694
Forward contracts - Receipt	24,083,944	24,083,944
Total inflows	24,083,944	24,083,944
Total outflows	24,281,694	24,281,694

5.4 ECL Coverage Ratio

	Gross Carrying Amount				ECL Provision				ECL Coverage Ratio			
Financial statements items	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	%	%	%	%
On-balance sheet items												
Cash and balances with central banks	57,186,698	-	-	57,186,698	-	-	-	-	-	-	-	-
Placements and other short term investments	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers at amortised cost	90,081,676	3,149	338,868	90,423,696	4,573	-	36,889	41,461	0.01	-	0.0	0.01
Debt investment securities at amortised cost	18,073,115	-	-	18,073,115	85,826	-	-	85,826	0.47	-	-	-
Debt investment securities at Fair value	4,786,889	-	-	4,786,889	-	-	-	-	-	-	-	-
Other assets	20,408,370			20,408,370								
Debt securities at FVTPL	-	-	-	-	-	-	-	-	-	-	-	-
Sub total	190,536,750	3,149	338,868	190,878,767	90,399	-	36,889	127,287	0.48	-	0.0	0.01
Off-balance sheet items												
Loan and other credit related commitments												
- Letter of credits	29,217,485	-	-	29,217,485	18,218	-	-	18,218	0.062	-	-	0.06
Financial guarantee and similar contracts												
- financial guarantees	3,431,217	-		3,431,217	-	-	-	-	-	-	-	-
Loan commitments	1,578,434	-	-	1,578,434	-	-	-	-	-	-	-	-
Sub total	34,227,136	-	-	34,227,136	18,218	-	-	18,218	0.062	-	-	0.06
Total												

Facilities held by the bank are classified across stage 1, stage 2 and stage 3.

31 December 2020	Gross Carrying Amount				ECL Provision				ECL Coverage Ratio			
Financial statements items	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	%	%	%	%
On-balance sheet items												
Cash and balances with central banks	46,822,920			46,822,920	-	-	-	-	-	-	-	-
Placements and other short term investments	-			-	80	-	-	80	-	-	-	-
Loans and advances to customers at amortised cost	50,069,997			50,069,997	98,375	-	-	98,375	0.20	-	-	0.20
Debt investment securities at amortised cost	17,940,835			17,940,835	-	-	-	-	-	-	-	-
Debt investment securities at Fair value	35,489,887			35,489,887	-	-	-	-	-	-	-	-
Other assets	-			-								
Debt securities at FVTPL	-			-	-	-	-	-	-	-	-	-
Pledged securities	22,071,575			22,071,575								
Sub total	172,395,214			172,395,214	98,455	-	-	98,455	0.20	-	-	0.20
Off-balance sheet items												
Loan and other credit related commitments												
- Letter of credits	63,900,455			63,900,455	54,155	-	-	54,155	0.08	-	-	0.08
Financial guarantee and similar contracts												
- financial guarantees	1,073,804			1,073,804	-	-	-	-	-	-	-	-
Loan commitments	8,398,861			8,398,861	-	-	-	-	-	-	-	-
Sub total	73,373,120			73,373,120	54,155	-	-	152,610	0.28	-	-	0.28
Total												

5.5 Capital management

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

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

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

In thousands of Naira	Group December 2021	Group December 2020	Bank December 2021	Bank December 2020
Tier 1 capital				
Ordinary share capital	16,000,000	16,000,000	16,000,000	16,000,000
Retained earnings	3,010,297	3,494,145	2,899,625	3,404,787
Other reserves	4,613,017	3,360,557	4,613,017	3,360,557
Non-controlling interests	-	-	-	-
	23,623,314	**22,854,702**	**23,512,642**	**22,765,344**
Add/(less):				
Fair value reserve	25,291	62,188	25,291	62,188
Total Tier 1	**23,598,023**	**22,792,514**	**23,487,351**	**22,703,155**
Less:				
Deferred tax assets	(448,407)	(445,006)	(443,497)	(443,498)
Regulatory risk reserve	(2,101,521)	(781,006)	(2,101,521)	(781,006)
Intangible assets	(579,258)	(701,100)	(544,976)	(672,375)
Adjusted Tier 1	**20,468,836**	**20,865,401**	**20,397,356**	**20,806,277**
Sub-ordinated debt	10,253,567	10,259,852	10,361,697	10,333,708
Fair value reserve	25,291	62,188	25,291	62,188
Total Tier 2	**10,278,858**	**10,322,040**	**10,386,988**	**10,395,896**
Adjusted Tier 2 capital (33% of Tier 1)	**6,822,263**	**6,954,438**	**6,798,439**	**6,934,732**
Total regulatory capital	**27,291,099**	**27,819,840**	**27,195,795**	**27,741,009**
Risk-weighted assets	93,883,976	70,159,497	93,883,976	70,159,497
Capital ratios				
Total regulatory capital expressed as a percentage of total risk-weighted assets	29.07%	39.65%	28.97%	39.54%
Total tier 1 capital expressed as a percentage of risk-weighted assets	21.80%	29.74%	21.73%	29.66%

		Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
6	**Interest income calculated using effective interest rate**				
a.	**Interest income at FVOCI**				
	Bonds	349,630	618,273	344,410	610,178
	Treasury bills	1,036,753	2,282,421	1,036,753	2,282,421
	Total	1,386,383	2,900,694	1,381,164	2,892,599
b	**Interest income at amortised cost**				
	Placements	2,322,264	2,532,323	2,316,806	2,500,088
	Loans and advances to customers	8,065,952	4,211,233	8,065,952	4,211,233
	Bond	290,412	-	290,412	-
		10,678,628	6,743,556	10,673,170	6,711,321
c	**Interest income on financial assets at FVTPL**				
	Bond	-	1,761	-	1,761
	Total	-	1,761	-	1,761
	Total interest income	12,065,011	9,646,011	12,054,334	9,605,681

		Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
7	**Interest expense**				
	Deposit from banks	1,753,865	762,447	1,753,865	762,447
	Deposit from customers	7,558,743	4,412,846	7,558,743	4,412,846
	Interest expense on lease liability	15,468	13,359	15,468	13,359
	Interest expense on margin	1,081,579	1,090,518	1,081,579	1,090,518
	Interest expense on debt securities	1,218,315	524,405	1,227,988	528,261
	Interest expense due to banks	247,983	373,644	247,983	373,644
	Total	11,875,953	7,177,219	11,885,626	7,181,076

		Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
8	**Impairment charge/(write back) for credit losses**				
	Impairment (see note below)	(7,104)	72,696	(7,104)	72,696
		(7,104)	72,696	(7,104)	72,696
	ECL impairment (writeback)/charge on loans and advance to customers (note 18)	(56,914)	67,345	(56,914)	67,345
	ECL impairment writeback on placement (note 16)	(80)	-	(80)	-
	ECL impairment (writeback)/charge on off balance sheet engagements (note 27)	(35,937)	5,351	(35,937)	5,351
	ECL impairment charge on investment securities (note 19)	85,826	-	85,826	-
		(7,104)	72,696	(7,104)	72,696

		Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
9	**Net Fee and commission income**				
	Credit related fees	350,247	140,587	334,845	140,587
	Other fee & Commission income	554,816	290,622	535,763	268,142
	Fee and commission income	905,063	431,209	870,608	408,730
	Fee and commisison expense	(77,977)	(94,612)	(71,876)	(88,458)
	Net fee and commission income	827,087	336,597	798,732	320,272

		Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
10	**Net gains on financial instruments held for trading**				
	Nigerian Treasury Bills & Bonds	1,408,305	3,007,709	1,418,474	2,953,091
	Derivatives	78,279	5,936	78,279	5,936
		1,486,585	3,013,645	1,496,753	2,959,026

		Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
11	**Net foreign exchange gain**				
	Foreign currency revaluation gain/loss	1,693,035	180,907	1,690,887	180,907
	Foreign currency income	792,225	188,707	792,225	188,707
		2,485,260	369,614	2,483,112	369,614

		Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
12	**Other income**				
	Other sundry income	157,281	181,968	29,796	5,862
	Profit on disposal of property and equipment	12,794	-	12,794	-
		170,075	181,968	42,589	5,862

		Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
13	**Operating expenses**				
	In thousands of Naira				
	Staff cost (note (I))	906,559	829,097	806,122	719,527
	Contract Staff cost	11,151	2,921	11,151	2,921
	Depreciation	267,704	278,365	267,496	277,786
	Depreciation of right of use asset	15,887	15,930	15,887	15,930
	Amortisation	172,321	156,604	164,953	156,604
	Professional fees and legal expense	137,760	56,149	128,534	40,173
	Business travel expenses	16,555	15,064	16,533	15,037
	Auditor's renumeration	30,640	24,183	30,000	23,500
	Administrative expense	240,077	230,637	236,058	179,852
	NDIC	400,320	141,805	400,320	141,805
	Directors' emoluments (note (ii))	333,275	296,339	317,962	281,689
	Consultancy expenses	-	41,667	-	41,667
	Stationeries, postage, printing and consumables	7,005	6,976	6,997	5,799
	Penalty	100	350	-	-
	Repairs and maintenance	37,945	22,919	37,850	22,029
	Advertisement expense	92,372	144,288	92,212	144,288
	Subscription expense	222,551	218,398	219,461	217,430
	Other license fees	104,884	150,262	98,155	150,262
	Loss on disposal of fixed asset	-	21,938	-	21,938
	Other expenses	484,489	124,358	483,049	123,145
		3,481,592	2,778,249	3,332,741	2,581,382

		Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
(I)	Staff related costs, excluding executive directors, during the year amounted to:				
	Wages, salaries, other benefits and staff costs	876,409	776,664	779,977	674,655
	Pension costs - Defined contribution plan	30,149	52,433	26,145	44,872
		906,559	829,097	806,122	719,527

The number of persons employed by the Bank during the year was as follows:	Group 2021	Group 2020	Bank 2,021	Bank 2020
Executive	3	2	3	2
Management	19	17	18	16
Non-management	76	46	67	37
	98	65	88	55

The number of employees of the Bank, other than Directors, who received emoluments in the following ranges (excluding pension contributions and certain benefits) were:

N300,001 - N1,000,000	0	3	0	3
N1,000,001 - N3,000,000	14	14	14	13
N3,000,001 - N5,000,000	24	12	20	10
Above N5,000,000	57	34	51	27
	95	63	85	53

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
(ii) Directors' emoluments and expenses				
Remuneration paid to the directors (excluding certain allowances) is shown below				
Fees and sitting allowances	82,750	90,150	67,650	75,500
Executive compensation	230,677	194,397	230,677	194,397
Pension cost - defined contribution scheme	9,889	10,263	9,889	10,263
Other directors expenses	9,959	1,529	9,746	1,529
	333,275	296,339	317,962	281,689

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

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

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
14 Income tax expense				
Tax charge for the year comprises:				
a) Income tax charge				
NITDA levy	17,401	34,253	16,983	34,253
NASENI Levy	4,246	-	4,246	-
Police trustfund levy	83	171	80	171
Income tax expenses	835	-	-	-
Education tax	16,662	-	16,577	-
b) Minimum tax				
Minimum tax	42,176	-	42,176	-
Total current tax charge	**81,402**	**34,424**	**80,062**	**34,424**
b) Deferred tax				
Recognised in income statement:	(3,401)	-	-	-
Deferred tax from origination of temporary difference	-	-	-	-
Total deferred tax credit	**(3,401)**	-	-	-
Income tax charge/credit	**78,001**	**34,424**	**80,062**	**34,424**
(c) Reconciliation of effective tax rate				
Profit before income tax	1,683,575	3,519,670	1,664,258	3,425,301
Effective tax as per accounts:				
Income tax using the companies income tax rate at 30%	505,072	1,055,901	499,277	1,027,590
Non-deductible expenses	1,158,941	441,562	1,158,106	441,562
Education tax	16,577	-	16,577	-
Minimum tax	42,176	-	42,176	-
NASENI Levy	4,246	-	4,246	-
Police Trust Fund Levy	80	-	80	-
Tax effect of unrelieved losses	(602,490)	-	(602,490)	-
Tax incentives	-	361,278	-	361,278
Tax exempt income	(1,063,585)	(1,858,570)	(1,065,118)	(1,830,260)
Effect of NITDA levy	16,983	34,253	16,983	34,253
Total income tax expense in income statement	**78,001**	**34,424**	**69,837**	**34,424**

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

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

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

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
Current tax payable				
At 1 January	35,356	15,304	34,670	15,304
Tax paid	(36,748)	(14,372)	(34,085)	(15,059)
Income tax charge	81,402	34,424	80,062	34,424
At 31 December	**80,010**	**35,356**	**80,646**	**34,670**

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
Deferred tax asset				
At 1 January	445,006	443,497	443,497	443,497
Deferred tax credit	3,401	1,509	-	-
At 31 December	448,407	445,006	443,497	443,497

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
Deferred income tax assets are attributable to the following items				
Property, Plant and Equipment	409,419	6,474	409,419	6,474
Unrelieved losses	90,173	543,431	85,263	541,922
Right of use asset/Lease liability	(41,221)	(50,627)	(41,221)	(50,627)
Unrealised exchange difference	(9,964)	(54,272)	(9,964)	(54,272)
	448,407	445,006	443,497	443,497

(d) Deferred tax asset not recognised

The bank's deferred tax asset which typically arise from allowable loss, un-utilized capital allowance and ECL allowance on not credit impaired financial instruments is N921 million as at 31 December 2021. (2020: N1.4billion). The bank has assessed based on its profit forecast, the extent to which there will be future taxable profits against which the deferred tax assets recognised, can be utilised. The value of unrecognized deferred tax asset as at 31 December 2021 is N476million (2020: N981million). The amount of deductible temporary differences for which no deferred tax asset is recognised is detailed below:

Group and Bank	Gross amount 2021 N'000	Tax Impact 2021 N'000	Gross amount 2020 N'000	Tax impact 2020 N'000
Deferred income tax assets are attributable to the following items				
Unrelieved losses	1,491,449	447,435	2,053,369	616,010
Unclaimed capital allowance	-	-	1,111,629	333,489
ECL Impairment allowance	97,322	29,196	105,019	31,505
	1,588,771	476,631	3,270,017	981,004

(e) Uncertain tax position

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

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

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
15 Earnings per share				
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average				
Profit for the period from continuing operations *(In thousands of Naira)*	1,568,677	3,299,902	1,547,299	3,205,532
Weighted average number of ordinary shares in issue *(In thousands of units)*	16,000,000	16,000,000	16,000,000	16,000,000
In kobo per share				
Basic earnings per share from continuing operations (annualised)	9.80	20.62	9.67	20.03
Diluted earnings per share from continuing operations (annualised)	9.80	20.62	9.67	20.03

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
16 Balances with banks				
16a Balances held with Central bank of Nigeria and other banks				
-Balances with the Central Bank of Nigeria other than mandatory reserve deposits	36,924	4,836,542	36,924	4,836,542
-Balances with banks in Nigeria	174,362	60,123	23,414	13,896
-Balances with banks outside Nigeria	18,591,486	4,799,703	18,591,486	4,799,703
	18,802,772	9,696,368	18,651,824	9,650,141
Placement with Banks within 1 year	6,765,141	2,116,267	5,837,986	2,002,848
ECL impairment charge	-	(80)	-	(80)
	6,765,141	2,116,187	5,837,986	2,002,768
Mandatory reserve deposits with the Central Bank of Nigeria	31,618,785	35,171,062	31,617,735	35,170,012
	31,618,785	35,171,062	31,617,735	35,170,012
	57,186,698	46,983,617	56,107,545	46,822,920

Mandatory reserve deposits with the Central Bank of Nigeria are not available for use in the bank's day to day operations. This balance represents CBN Cash Reserve Requirement of N31.62Bn.

Included in balances with banks outside of Nigeria is an amount of N8.06Bn (31 Dec 2020: N3.75bn) representing the naira value of foreign currency held on behalf of customers to cover letters of credit transactions. The corresponding liability is reported as customers' deposit for foreign trade under other liabilities (see note 27).

16b Cash and cash equivalent in statement of cashflow

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
Balances held with Central bank of Nigeria and other banks	18,802,772	9,696,368	18,651,824	9,650,141
Placement with banks	6,765,141	2,116,267	5,837,986	2,002,848
	25,567,912	11,812,635	24,489,809	11,652,988

17 Derivative financial instruments

GROUP 2021

	Derivative financial assets		Derivative financial liabilities	
	Notional amount Dec-21 N'000	Fair Value Assets Dec-21 N'000	Notional amount Dec-21 N'000	Fair Value (Liabilities) Dec-21 N'000
Foreign exchange forward contracts	27,334,088	1,082,449	27,334,090	(1,050,480)
Foreign exchange futures	350,475,580	2,066,869	350,475,580	(2,021,682)
	377,809,668	3,149,319	377,809,670	(3,072,162)

GROUP 2020

	Derivative financial assets		Derivative financial liabilities	
	Notional amount Dec-20 N'000	Fair Value Assets Dec-20 N'000	Notional amount Dec-20 N'000	Fair Value (Liabilities) Dec-20 N'000
Foreign exchange forward contracts	11,277,577	264,859	11,277,577	(265,981)
Foreign exchange futures	62,399,548	3,435,551	62,399,548	(3,414,567)
	73,677,125	3,700,410	73,677,125	(3,680,548)

BANK 2021

	Derivative financial assets		Derivative financial liabilities	
	Notional amount Dec-21 N'000	Fair Value Assets / (Liabilities) Dec-21 N'000	Notional amount Dec-21 N'000	Fair Value Assets / (Liabilities) Dec-21 N'000
Foreign exchange forward contracts	27,334,088	1,082,449	27,334,090	(1,050,480)
Foreign exchange futures	152,940,178	2,066,869	152,985,365	(2,021,682)
Derivative financial assets	180,274,266	3,149,319	180,319,455	(3,072,162)

BANK 2020	Derivative financial assets		Derivative financial liabilities	
	Notional amount	Fair Value Assets / (Liabilities)	Notional amount	Fair Value Assets / (Liabilities)
	Dec-20	Dec-20	Dec-20	Dec-20
	N'000	N'000	N'000	N'000
Foreign exchange forward contracts	11,277,577	264,859	11,277,577	(265,981)
Foreign exchange futures	62,399,548	3,435,551	62,399,548	(3,414,567)
	73,677,125	3,700,410	73,677,125	(3,680,548)

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

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
18a Loans to banks and other financial institutions				
Placements with banks	-	4,978	-	-
	-	4,978	-	-
Current	-	4,978	-	-
	-	4,978	-	-
The reconciliation of ECL on placement with banks is stated below:				
Balance at 1 January	-	80	-	80
Increase in ECL impairment (see note 8)	-	(80)	-	(80)
At 31 December	-	-	-	-

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
18b Loans and advances to customers				
Loans and advances to customers	88,194,431	49,864,188	90,194,431	49,864,188
Loans to staff	229,265	205,809	229,265	205,809
Allowance for impairment	(41,461)	(98,375)	(41,461)	(98,375)
	88,382,235	49,971,622	90,382,235	49,971,622
Current	71,255,028	36,729,511	73,255,028	36,729,511
Non-current	17,127,207	13,242,111	17,127,207	13,242,111
	88,382,235	49,971,622	90,382,235	49,971,622

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
The reconciliation of the ECL impairment charge on loans and advances to customers is stated below				
Balance at 1 January	98,375	31,030	98,375	31,030
Increase/(Decrease) in ECL impairment	(56,914)	67,345	(56,914)	67,345
At 31 December	41,462	98,375	41,462	98,375

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
19 Financial assets				
Pledged assets (note a below)	50,016,537	22,071,575	50,016,537	22,071,575
Investment securities (note b below)	22,860,003	53,430,722	19,509,917	52,822,843
	72,876,540	75,502,297	69,526,454	74,894,418

19a Pledged assets

Nigerian Treasury Bills	33,697,517	21,094,924	33,697,517	21,094,924
Federal Government of Nigeria (FGN) bonds	16,319,020	976,652	16,319,020	976,652
	50,016,537	22,071,575	50,016,537	22,071,575
Current	33,697,517	21,094,924	33,697,517	21,076,331
Non-current	16,319,020	976,652	16,319,020	976,652
	50,016,537	22,071,575	50,016,537	22,052,983

19b Investment securities

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
Investment securities (see note (I))	22,860,003	53,430,722	19,509,917	52,822,843
Allowance for Impairment on Investment Securities	(85,826)	-	(85,826)	-
	22,774,177	53,430,722	19,424,091	52,822,843
Current	22,444,806	48,456,746	19,424,091	48,065,486
Non current	415,197	4,973,976	-	4,757,357
	22,860,003	53,430,722	19,424,091	52,822,843

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
The reconciliation of the ECL impairment charge on investment securities is stated below				
Balance at 1 January	-	-	-	-
Increase/(Decrease) in ECL impairment	85,826	-	85,826	-
At 31 December	85,826	-	85,826	-

(i) Investment securities

Debt securities at amortised cost	18,073,115	17,940,835	18,073,115	17,940,835
Mutual funds FVTPL	152,033	170,047	-	-
Quoted Equity FVTPL	177,339	221,213	-	-
Nigerian Treasury Bills FVOCI	1,436,802	30,124,651	1,436,802	30,124,651
Federal Government of Nigeria (FGN) bonds FVOCI	3,020,715	4,973,976	-	4,757,357
	22,860,003	53,430,722	19,509,917	52,822,843

20 Investment in Subsidiaries

Investment in Novambl Asset Management Ltd	-	-	148,500	150,000
Investment in Novambl Securities Ltd	-	-	282,667	265,000
	-	-	431,167	415,000

(a) The movement in Investment subsidiaries is as follows:

Opening balance	-	-	415,000	415,000
Additions during the year	-	-	16,167	-
Closing balance	-	-	431,167	415,000

(b) Set out below is the group's subsidiaries as at 31 December 2021

Name of Subsidiary	Principal activity	Place of operation	Proportion of ownership interests
NovaMBL Asset Management Limited	Fund & Portfolio Management	Lagos	99%
Novambl Securities Limited	Stockbroking	Lagos	88%

(c) Condensed result of consolidated entities
The condensed financial data of the consolidated entities is as follows:

Condensed statement of comprehensive income

	NovaMBL Asset Management Limited		Novambl Securities Limited	
	December 2021 N'000	December 2020 N'000	December 2021 N'000	December 2020 N'000
Operating income	133,936.83	198,891	40,333.29	98,499
Operating expenses	(92,142.07)	(111,537)	(62,809.70)	(91,485)
Profit before tax	41,795	87,354	(22,476)	7,014
Taxation	(2,054.28)	-	4,113.93	-
Profit/(loss) for the year	39,740	87,354	(18,362)	7,014
Other comprehensive income			-	
Total comprehensive income	39,740	87,354	(18,362)	7,014

Condensed statement of financial position	NovaMBL Asset Management Limited		Novambl Securities Limited	
	December 2021 N'000	December 2020 N'000	December 2021 N'000	December 2020 N'000
Cash and balances with banks	818,727	14,691	260,605	150,065
Investments	3,240,900	396,111	217,315	285,624
Other assets	36,858	26,897	7,836	2,449
Intangible assets	34,282	28,725	-	
Property and equipment	1,220	862	366	482
Total assets	4,131,988	467,285	486,122	438,620
Financed by:				
Other liabilities	3,862,533	234,942	177,175	131,606
Equity	270,380	232,343	308,947	307,014
Total liabilities and equity	4,132,913	467,285	486,122	438,620
Net cashflow from operating activities	22,388,758	(174,771)	68,384,366	150,643
Net cashflow from investing activities	(13,375,103)	-	-	(578)
Net cashflow from financing activities	-	-	17,666,667	-
Increase in cash and cash equivalent	9,013,657	(174,771)	86,051,033	150,065
Cash and cash equivalent, beginning of year	9,713,218	189,462.22	46,349,407	-
Cash and cash equivalent, end of year	18,726,875	14,691	132,400,440	150,065

Nova Asset Management Limited had assets under management of N3.0bn as at 31 December 2021

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
21 Other assets				
in thousands of Naira				
Financial assets				
Contribution to AGSMEIS (note (i))	335,158	165,614	335,158	165,614
Foreign exchange settlement (note (ii))	18,113,814	3,037,380	18,113,814	3,015,209
Receivable from subsidiaries (note 33(ii)	-	-	440,273	309,610
Other receivables	1,557,374	531,620	1,519,081	562,004
Cash advance	45	-	45	-
	20,006,391	3,734,613	20,408,370	4,052,437
Non-financial assets				
Prepayments	60,523	90,979	60,523	90,979
	60,523	90,979	60,523	90,979
Total other assets	**20,066,913**	**3,825,592**	**20,468,893**	**4,143,415**
Current	20,006,391	3,734,613	20,408,370	4,052,437
Non-current	60,523	90,979	60,523	90,979
	20,066,913	**3,825,592**	**20,468,893**	**4,143,415**

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

(ii) These amounts are receivables from the Central Bank of Nigeria for the purchase of foreign currency from the Retail Special Secondary Market Intervention Sales (SMIS) window.

22 Intangible assets

In thousands of naira

The intangible assets are not internally generated. The amortization method used is straight line and the charge for the year is included within operating expenses. WIP is not depreciated until brought into use.

Group

2021

31 December 2021	**Computer software**	**Work in progress**	**Total**
Cost			
Balance at 1 January	806,422	80,665	887,087
Additions	31,938	18,541	50,479
Reclassification	99,206	(99,206)	-
Balance at 31 December	937,566	-	937,566
Accumulated amortisation			
Balance at 1 January	185,987	-	185,987
Amortization	172,321	-	172,321
Balance at 31 December	358,308	-	358,308
Carrying amount			
Balance at 31 December 2021	**579,258**	**-**	**579,258**

2020

31 December 2020	**Computer software**	**Work in progress**	**Total**
Cost			
Balance at 1 January	104,373	730,804	835,177
Additions	702,049	80,665	782,714
Reclassification	-	(730,804)	(730,804)
Balance at 31 December	806,422	80,665	887,087
Accumulated amortisation			
Balance at 1 January	29,383	-	29,383
Amortization	156,604	-	156,604
Balance at 31 December	185,987	-	185,987
Carrying amount			
Balance at 31 December 2020	**620,436**	**80,665**	**701,100**

Bank

2021

31 December 2021	**Computer software N'000**	**Work in progress N'000**	**Total N'000**
Cost			
Balance at 1 January	806,422	51,940	858,362
Additions	19,013	18,541	37,554
Reclassification	70,481	(70,481)	-
Balance at 31 December	895,916	-	895,916
Accumulated amortisation			
Balance at 1 January	185,987	-	185,987
Amortization	164,953	-	164,953
Balance at 31 December	350,940	-	350,940
Carrying amount			
Balance at 31 December 2021	**544,976**	**-**	**544,976**

2020

31 December 2020	**Computer software N'000**	**Work in progress N'000**	**Total N'000**
Cost			
Balance at 1 January	104,373	702,079	806,453
Additions	702,049	51,940	753,989
Reclassification		(702,079)	(702,079)
Balance at 31 December	806,422	51,940	858,362
Accumulated amortisation			
Balance at 1 January	29,383	-	29,383
Amortization	156,604	-	156,604
Balance at 31 December	185,987	-	185,987
Carrying amount			
Balance at 31 December 2020	**620,436**	**51,940**	**672,375**

23 **Property and equipment**

In thousands of Naira

Group

31 December 2021

	Office equipment	IT equipments	Furnitures & Fittings	Motor Vehicles	Leasehold Improvement	WIP	Total
Cost							
Balance as at 1 January 2021	58,069	420,271	62,293	653,127	356,956	9,192	1,559,910
Acquisitions	1,221	26,557	9,725	32,250	2,473	676,601	748,828
Disposal	-	-	-	(121,800)	-	-	(121,800)
Reclassification	-	-	-	-	6,740	(6,740)	-
Balance as at 31 December 2021	59,291	446,828	72,018	563,577	366,170	679,053	2,186,936
Depreciation							
Balance as at 1 January 2021	32,221	200,652	31,844	263,242	99,334	-	627,294
Charge for the period	11,785	88,105	13,241	114,988	39,585		267,704
Disposal	-	-	-	(73,147)	-		(73,147)
Balance as at 31 December 2021	44,006	288,756	45,086	305,083	138,919	-	821,850
Carrying amount							
Balance as at 31 December 2021	15,285	158,072	26,933	258,493	227,250	679,053	1,365,086

31 December 2020

	Office equipment	IT equipments	Furnitures & Fittings	Motor Vehicles	Leasehold Improvement	WIP	Total
Cost							
Balance as at 1 January 2020	54,809	399,820	53,849	678,127	310,644	-	1,497,249
Acquisitions	3,260	20,452	8,445	114,250	46,313	9,192	201,911
Disposal	-	-	-	(139,250)	-	-	(139,250)
Balance as at 31 December 2020	58,069	420,271	62,293	653,127	356,956	9,192	1,559,909
Depreciation							
Balance as at 1 January 2020	20,657	117,591	20,146	180,096	64,838	-	403,327
Charge for the period	11,564	83,061	11,699	137,545	34,496	-	278,365
Disposal	-	-	-	(54,398)	-	-	(54,398)
Balance as at 31 December 2020	32,221	200,652	31,844	263,242	99,334	-	627,294
Carrying amount							
Balance as at 31 December 2020	25,848	219,619	30,449	389,884	257,622	9,192	932,615

Bank

31 December 2021

	Office equipment	IT equipments	Furnitures & Fittings	Motor Vehicles	Leasehold Improvement	WIP	Total
Cost							
Balance as at 1 January 2021	57,987	419,693	60,900	653,127	356,816	9,192	1,557,715
Acquisitions	1,221	26,107	9,725	32,250	2,473	676,601	748,377
Disposal	-	-	-	(121,800)	-	-	(121,800)
Reclassification	-	-	-	-	6,740	(6,740)	-
Balance as at 31 December 2021	59,208	445,800	70,625	563,577	366,030	679,053	2,184,293
Depreciation							
Balance as at 1 January 2021	32,193	200,556	31,146	263,242	99,307	-	626,444
Charge for the period	11,768	87,951	13,220	114,988	39,568	-	267,496
Disposal	-	-	-	(73,147)	-	-	(73,147)
Balance as at 31 December 2021	43,962	288,507	44,366	305,083	138,875	-	820,793
Carrying amount							
Balance as at 31 December 2021	15,247	157,293	26,260	258,493	227,155	679,053	1,363,500

31 December 2020

	Office equipment	IT equipments	Furnitures & Fittings	Motor Vehicles	Leasehold Improvement	WIP	Total
Cost							
Balance as at 1 January 2020	54,727	399,820	52,456	678,127	310,504	-	1,495,632
Acquisitions	3,260	19,874	8,445	114,250	46,313	9,192	201,333
Disposal	-	-	-	(139,250)	-		(139,250)
Balance as at 31 December 2020	57,987	419,693	60,900	653,127	356,816	9,192	1,557,715
Depreciation							
Balance as at 1 January 2020	20,646	117,591	19,897	180,096	64,827	-	403,056
Charge for the period	11,548	82,965	11,249	137,545	34,480	-	277,786
Disposal	-	-	-	(54,398)	-	-	(54,398)
Balance as at 31 December 2020	32,193	200,556	31,146	263,242	99,307	-	626,444
Carrying amount							
Balance as at 31 December 2020	25,793	219,138	29,754	389,884	257,510	9,192	931,272

	Building	Total
24 Right of use assets		
Group and Bank		
Opening balance at 1 January 2021	296,714	296,714
Additions in the year	-	-
Closing balance as at 31 December 2021	296,714	296,714
Depreciation		
	N'000	N'000
Opening balance as at 1 January 2021	31,773	31,773
Charge for the year	15,887	15,887
Closing balance as at 31 December 2021	47,660	47,660
Net book value	249,054	249,054
ii **Amounts recognised in the statement of profit or loss**	N'000	N'000
Depreciation charge of right-of-use assets	15,887	15,887
Interest expense (included in finance cost)	15,468	15,468
Total amount expensed	31,355	31,355
iii. **Lease liability**		
Opening balance at 1 January 2021	96,184	96,184
Interest expense	15,468	15,468
Closing balance as at 31 December 2021	111,651	111,651

	N'000	N'000
Opening balance at 1 January 2020	296,714	296,714
Additions in the year	-	-
Closing balance as at 31 December 2020	296,714	296,714
Depreciation		
	N'000	N'000
Opening balance as at 1 January 2020	15,843	15,843
Charge for the year	15,930	15,930
Closing balance as at 31 December 2020	31,773	31,773
Net book value	264,941	264,941
ii **Amounts recognised in the statement of profit or loss**	N'000	N'000
Depreciation charge of right-of-use assets	15,930	15,930
Interest expense (included in finance cost)	13,359	13,359
Total amount expensed	29,289	29,289
iii. **Lease liability**		
Opening balance at 1 January 2020	82,825	82,825
Interest expense	13,359	13,359
Closing balance as at 31 December 2020	96,184	96,184

		Group December 2021	Group December 2020	Bank December 2021	Bank December 2020
	Financial liabilities carried at amortised cost				
25a	**Deposits**				
	Demand deposits	30,570,983	24,082,723	30,547,954	24,067,109
	Term deposits	86,341,513	65,544,720	86,341,513	65,544,720
	Deposits	**116,912,496**	**89,627,443**	**116,889,466**	**89,611,830**
	Current	116,912,496	89,627,443	116,889,466	89,611,830
		116,912,496	**89,627,443**	**116,889,466**	**89,611,830**
25b	**Due to banks**				
	Deposit from Banks	26,813,409	21,713,953	26,813,409	21,713,953
		26,813,409	**21,713,953**	**26,813,409**	**21,713,953**
	Current	26,813,409	21,713,953	26,813,409	21,713,953
		26,813,409	**21,713,953**	**26,813,409**	**21,713,953**
26	**Debt securities issued carried at amortised cost**				
	Debt securities issued carried at amortised cost	10,253,567	10,259,852	10,361,697	10,333,708
		10,253,567	**10,259,852**	**10,361,697**	**10,333,708**
	Current	1,184,042	524,405	1,227,989	528,261
	Non-current	9,069,525	9,735,447	9,133,708	9,805,447
		10,253,567	**10,259,852**	**10,361,697**	**10,333,708**

Movement in Debt securities issued	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
Net debt as at 1 January 2021	10,259,852	-	10,333,708	-
Debt securities issued	-	9,735,447	-	9,805,447
Interest expense	1,184,042	524,405	1,227,989	528,261
Interest paid	(1,190,327)	-	(1,200,000)	-
Balance as at December 2021	**10,253,567**	**10,259,852**	**10,361,697**	**10,333,708**

The Bank issued a N10Bn unsecured subordinated bond on July, 23, 2020 with a coupon rate of 12% payable semi-annually. The bond has a tenor of 7 years and is due on July, 2027. This is Series 1 of the bank's N50bn Bond programme issued via Novambl Investments SPV Plc. The subscription offer for this series contains a provision for early redemption in Year 5 at a redemption amount of N10bn. This call option is an embedded derivative which has not been seperated from the host contract as the exercise price is approximately equivalent to the amortised cost at year 5.

		Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
27	**Other liabilities**				
	Financial liabilities				
	Customer's deposits for foreign trade - see note (i) below	8,058,877	3,749,046	8,058,878	3,749,046
	Amount held for customer foreign exchange transactions - see note (ii) below	49,992,814	27,692,479	49,992,814	27,692,479
	Sundry Creditors (iii)	4,802,953	2,332,142	3,252,771	2,314,215
	ECL impairment charge on off balance sheet engagements	18,218	54,155	18,218	54,155
		62,872,863	**33,827,823**	**61,322,682**	**33,809,898**
	Non- Financial liabilties				
	Statutory payables	313,227	187,283	313,132	187,100
	Deferred Income (iv)	128,419	49,033	103,326	26,637
	Total other liabilities	**63,314,509**	**34,064,139**	**61,739,140**	**34,023,635**
	Current	63,314,509	34,021,237	61,739,140	33,980,733
	Non-current	-	42,902	-	42,902
		63,314,509	**34,064,139**	**61,739,140**	**34,023,635**

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

Balance at 1 January	54,155	48,804	54,155	48,804
(Decrease)/Increase in ECL impairment (see note 8)	(35,937)	5,351	(35,937)	5,351
At 31 December	18,218	54,155	18,218	54,155

(i) This represents the naira value of foreign currencies held on behalf of customers to cover letters of credit transactions.
(ii) This represents collections for the purchase of foreign currency from the Central Bank of Nigeria on behalf of customers.
(iii) This mostly represents unsettled interbank transactions as at 31 Dec 2021
(iv) This represent contract fees charged from customers, which is being amortized through the life span of the contract

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
28 Share capital				
Share capital in thousands of Naira				
i Authorised:				
20,000,000,000 ordinary shares of N1 each	20,000,000	20,000,000	20,000,000	20,000,000
Issued and fully paid-up :				
ii 16,000,000,000 ordinary shares of N1 each	16,000,000	16,000,000	16,000,000	16,000,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to vote at meetings of the Bank.

29 Retained earnings and other reserves

Other regulatory reserves

i Statutory reserves

Nigerian Banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by S.16(1) of the Banks and Other Financial Institution Act of Nigeria, an appropriation of 30% of profit after tax is made if the statutory reserve is less than paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid up share capital.

ii Retained earnings

Retained earnings are the carried forward recognised income net of expenses plus current period profit attributable to shareholders.

iii Fair value reserves

The revaluation reserves show the effects from the fair value measurement of financial instruments of the fair value through other comprehensive income category. Any gains or losses on this class of financial instruments are not recognised in the income statement until the asset has been sold or impaired.

30 Regulatory risk reserves

This represents a non-distributable reserves for the excess between the impairment reserves on loans and advances determined using Prudential Guidelines issued by the Central Bank of Nigeria over the impairment reserves calculated under IFRS.

Movement in regulatory risk reserves

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
Balance as at 1 January	**1,287,423**	**506,417**	**1,287,423**	**506,417**
Transfer from retained earnings	814,098	781,006	814,098	781,006
Balance as at 31 December	**2,101,521**	**1,287,423**	**2,101,521**	**1,287,423**

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
31 Prudential adjustments				
Prudential guidelines provision:				
- General provisions	2,247,026	1,439,952	2,247,026	1,439,952
	2,247,026	1,439,952	2,247,026	1,439,952
IFRS impairment provisions:				
- ECL provision on financial assets	145,505	152,530	145,505	152,530
	145,505	**152,530**	**145,505**	**152,530**
Difference in IFRS impairment over prudential guidelines accounted for in regulatory risk reserves	**2,101,521**	**1,287,423**	**2,101,521**	**1,287,423**

In line with the regulatory requirements of the Central Bank of Nigeria, provisions for loans recognised in the statement of comprehensive income determined based on the impairment provision requirement under IFRS should be compared with the provisions determined under prudential guidelines and the difference should be treated as follows:

i. If impairment under Prudential Guidelines exceed the IFRS provisions; the resulting excess provision should be transferred from the general reserve account to a non-distributable " regulatory risk reserve"

ii. If the provisions under the Prudential Guidelines is less than the IFRS provisions; IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve account.

As at 31 December 2021, the CBN Prudential provision was higher than the IFRS impairment provision. The sum of N814 million (2020: N781 million) was reclassified from retained earnings to the regulatory risk reverse.

32 Contingent liabilities and commitments

a Legal Proceedings

The Group is presently involved in several litigation suits in the ordinary course of business. The total amount claimed against the Group is estimated at N520.60 million as at 31 December 2021 (31 December 2020: Nil). The actions are being contested and the Directors are of the opinion that no significant liability will crystalise from these cases, and they are not aware of any other pending or threatened claims and litigations.
In arriving at this conclusion, the Group has relied on evidence and recommendations from its internal litigation group and its team of external solicitors.

b Credit related commitments

In the normal course of business, the Bank is party to financial instruments with off-balance sheet risk. The instruments are used to meet credit and other financial requirements of customers. The contractual amounts of the off-balance sheet financial instruments are:

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
Letters of credit	29,217,485	55,501,594	29,217,485	55,501,594
Bonds and Guarantees	3,431,217	1,073,804	3,431,217	1,073,804
Loan commitments	1,578,434	8,398,861	1,578,434	8,398,861
	34,227,136	**64,974,258**	**34,227,136**	**64,974,258**

33 Related party transactions

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

A number of transactions are entered into with related parties in the normal course of business. These include wages and salaries paid and payable to related parties, employer pension contribution and loans and advances to related parties.

Parent
The parent company, which is also the ultimate parent company, is Nova Merchant Bank Limited

(i) Key management personnel

	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
(a) Compensation to directors				
Fees and sitting allowances	82,750	90,150	67,650	75,500
Wages and salaries	230,677	194,397	230,677	194,397
Pension Contribution	9,889	10,263	9,889	10,263
Other directors expenses	9,959	1,529	9,746	1,529
	333,275	296,339	317,962	281,689
(b) Loans and advances to directors	120,625	-	120,625	-

(ii) Subsidiaries	Group December 2021 N'000	Group December 2020 N'000	Bank December 2021 N'000	Bank December 2020 N'000
Receivable from NovaMBL Asset Management Limited	-	-	292,122	198,893
Receivable from NovaMBL Securities Limited	-		148,151	110,717
	-	-	440,273	309,610

The receivable from subsidiaries above represent transaction payments made by the bank on behalf of the subsidiaries. Cash reimbursement are made to the bank at no

34 Impact of Covid 19

The Group has considered the impact of Covid-19 on its business operations and has put in place appropriate safeguards to minimize negative impact of Covid-19 pandemic on its business.
The Group continues to make adjustments to the way and manner in which it renders banking and other financial services to its customers in order to cope with the challenges posed by the Covid-19 pandemic.

The Nigeria economy faced serious macroeconomic disequilibrium and distortions in H1 2021 as the pandemic led to a spike in inflation, decrease in oil prices & production levels, lower level of investment, weak government revenue to finance critical projects & bailouts, weak alignment of fiscal and monetary policy thrusts, foreign currency (FX) supply bottlenecks and delay in implementing new FX regime, declining external reserves making LCY support tough, rising public debt without improvement in infrastructure and huge Naira devaluation. The spike in inflation resulted in rising food prices following supply disruptions, increased logistic cost, impact of rising exchange rate of the local currency and continuous border closure.
The rising inflation made Nigerians poorer as purchasing power dips, decreased disposable income, elevate cost of doing business and generally kept real interest rates in the negative territory.

As a Bank operating within this environment, it was also directly impacted by the pandemic. Some of the factors that directly impacted the Bank's operations includes:

a) Operational challenges of keeping employees safe and meeting customer expectations
b) Pressure on IT infrastructures

In combating the challenges above, the Group was able to deploy its business continuity plan and put in place some measures to ensure that its going concern status is not threatened. See below a summary of some of the measures amongst others put in place by the Bank to ensure its operations are not halted by the pandemic:

a) Secure VPN access was granted to staff working from home.
b) Various prevention kits such as hand sanitizers, face masks were provided within the bank's environment
c) The bank contracted a neighboring hospital for quick resolution of emergencies

d) Activation of Incident Command Center
e) Adequate Liquidity management
f) Intensify our cybersecurity activities to prevent operational losses due to electronic frauds
g) Business support and constant engagement with customers operating within those sectors badly hit by the pandemic.
h) Daily monitoring and assessment of our loan portfolio.
i) Continuous communications and customer engagements throughout this period.
j) Constant monitoring of sectors severely affected by the pandemic and proactively ascertaining the liquidity of secured collateral to exposure in the sector
k) Constant monitoring of staff working from Home to ensure that the Bank's productivity level does not relapse.

In addition to the above, a forecast of macroeconomic indicators under different scenarios using key macro indicators that drive the Nigerian economy such as Government spending, revenue from Oil & Non-oil exports, Exchange rate, GDP, Interest Rate, Inflation, Capital and money market was done. Also, an assessment of the likely impact of the pandemic, government interventions and management responses were carried out. Given that there are still some uncertainties surrounding the possible effects of the pandemic, how long it will last, and macro outlook, the quantitative impact is constantly being monitored and reviewed.

At this point however, the impact on our business and results has not been significant and based on our experience to date we expect this to remain the case. We will continue to follow various government policies and advice, and we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health of our people. The Group is confident that, based on the robust risk management in place, the going concern status of the institution is not threatened and the Group will continue to operate in the foreseeable future.

35 Events after statement of financial position date

There were no events after the reporting date which could have a material effect on the financial position of the Group as at 31 Dec 2021 which have not been recognised or disclosed.

36 Insider related credits

In compliance with Central Bank of Nigeria circular BSD/1/2004 on insider related credits, the Bank follows a strict process in its Credit policy manual granting insider related credits

Below is a schedule showing Directors insider related credites as at 31 December 2021

S/N	CUSTOMER NAME	DIRECTOR RELATIONSHIP	FACILITY TYPE	BALANCE IN NAIRA	BANK IFRS9 STAGING	DETAILS OF SECURITIES
1	ABUJA STEEL MILLS LIMITED	Shams Butt - Chairman BCRC	OFFSHORE REFINANCE	24,200,989	1	Cross Company Guarantee
2	ABUJA STEEL MILLS LIMITED	Shams Butt - Chairman BCRC	OFFSHORE REFINANCE	15,783,678	1	Cross Company Guarantee
3	ABUJA STEEL MILLS LIMITED	Shams Butt - Chairman BCRC	OVERDRAFT IGF	6,108,461	1	Cross Company Guarantee
4	AFRICAN FOUNDRIES LIMITED	Shams Butt - Chairman BCRC	OVERDRAFT IGF	2,113,637	1	Cross Company Guarantee
5	AFRICAN STEEL MILLS NIGERIA LIMITED	Shams Butt - Chairman BCRC	OVERDRAFT IGF	2,151,421	1	Cross Company Guarantee
6	AFRICAN STEEL MILLS NIGERIA LIMITED	Shams Butt - Chairman BCRC	OFFSHORE REFINANCE	107,300	1	Cross Company Guarantee
7	CAPITAL COLD ROLLING STEEL MILLS LIMITED	Shams Butt - Chairman BCRC	TERM LOAN	1,412,317,808	1	Corporate Guarantee
8	HFP DECOR LIMITED	Shams Butt - Chairman BCRC	CBN DCRR RSSF	3,994,187,397	1	Charge Over Asset Financed
9	NOVAMBL ASSET MANAGEMENT LIMITED	Olufunke Okoya - Executive Director	TERM LOAN	2,003,287,671	1	FGN Bonds
10	OLUFUNKE OKOYA	Olufunke Okoya - Executive Director	STAFF LOAN MORTGAGE	120,625,836	1	Legal Mortgage on property
11	PARCO ENTERPRISES NIGERIA LIMITED	Shams Butt - Chairman BCRC	OFFSHORE REFINANCE	47,482,931	1	Cross Company Guarantee
12	PARCO ENTERPRISES NIGERIA LIMITED	Shams Butt - Chairman BCRC	OFFSHORE REFINANCE	7,304,022	1	Cross Company Guarantee
13	PARCO ENTERPRISES NIGERIA LIMITED	Shams Butt - Chairman BCRC	OVERDRAFT IGF	1,131,854	1	Cross Company Guarantee
			TOTAL	**7,636,803,006**		

37 Proposed dividend

The Board of Directors has not proposed any Dividend for year ended 31 December 2021 (2020: 50kobo per share)

38 Non-audit services

During the year, the auditors PwC performed the following non-audit engagements.

Name of signer	FRC number	Name of firm	Contract sum (N)	Service Description
Patrick Obianwa	FRC/2013/ICAN/00000000880	PricewaterhouseCoopers	500,000	Certification of total deposit outstanding in the books of the bank as at 31 December 2021.

		Note	Group December 2021	Group December 2020	Bank December 2021	Bank December 2020
39	**Statement of Cashflow workings**					
(i)	**Profit/loss on disposal of property and equipment**					
	Cost	23	121,800	139,250	121,800	139,250
	Accummulated depreciation	23	(73,147)	(54,398)	(73,147)	(54,398)
	Net book value		48,653	84,852	48,653	84,852
	Proceeds from disposal of property and equipment		61,447	62,913	61,447	62,913
	Profit/(loss) on disposal	12	12,794	(21,938)	12,794	(21,938)
(ii)	**Mandatory reserve deposits with the Central Bank of Nigeria**					
	Balance as at beginning of the year	16	35,170,012	1,286,185	35,170,012	1,286,185
	Cash (inflow)/outflow from reserve deposit		(3,552,276)	33,883,827	(3,552,276)	33,883,827
	Balance as at end of the year	16	31,617,735	35,170,012	31,617,735	35,170,012
(iii)	**Loans and advances to customers**					
	Gross loans beginning of the year	18b	50,069,997	29,316,534	50,069,997	29,316,534
	Gross loans, end of the year	18b	88,423,696	50,069,997	90,423,696	50,069,997
			38,353,699	20,753,463	40,353,699	20,753,463
	Interest receivable		(1,946,971)	-	(1,946,971)	-
	Foreign exchange gain/(loss) on FCY balances		-	(20,111)	-	(20,111)
	Cash outflow		36,406,728	20,733,352	38,406,728	20,733,352
(iv)	**Financial instruments - FVTPL**					
	Balance as at beginning of the year	19	391,260	722,877	-	722,877
	Cash outflow due to proceeds from sale of financial assets at FVTPL		1,346,417	3,288,632	1,418,474	(722,877)
	Net gains on FVTPL instruments	10	(1,408,305)	(3,007,709)	(1,418,474)	
	Balance as at end of the year	19	329,371	391,260	-	-
(v)	**Other assets**					
	Balance as at beginning of the year	21	3,825,592	2,491,126	4,143,416	2,372,154
	Cash inflow due to changes in other assets		16,204,821	1,731,750	16,325,478	1,771,262
	Adjustment for NCI		36,500	-	-	-
	Balance as at end of the year	21	20,066,913	3,825,592	20,468,893	4,143,416
(vi)	**Due to banks**					
	Balance as at beginning of the year	25b	21,713,953	-	21,713,953	-
	Cash inflow due to increase in liabilities - due to banks		5,045,823	21,008,784	5,045,823	21,008,784
	Interest payable		53,633	705,168	53,633	705,168
	Balance as at end of the year	25b	26,813,409	21,713,953	26,813,409	21,713,953
(vii)	**Deposits**					
	Balance as at beginning of the year	25a	89,627,443	40,512,882	89,611,830	40,512,940
	Cash inflow due to increase in liabilities - due to banks		26,872,822	48,014,793	26,865,406	48,014,867
	Interest payable		412,231	1,084,023	412,231	1,084,023
	Balance as at end of the year	25a	116,912,496	89,627,443	116,889,467	89,611,830

(viii) Other liabilities

Balance as at beginning of the year (See note 27)	27	34,064,139	2,193,532	34,023,635	2,089,318
Impairment charge on contingent assets	8	(35,937)	5,351	(35,937)	5,351
Cash inflow due to increase in liabilities - Other liabilites		29,286,306	32,018,864	27,751,442	31,830,423
Balance as at end of the year (See note 27)	27	63,314,509	34,064,139	61,739,140	34,023,635

(ix) Interest received

Interest income for the year	6	12,065,011	9,646,011	12,054,334	9,605,681
Interest receivable	39(iii)	(1,946,971)	(2,849,279)	(1,946,971)	(2,876,979)
Interest received		10,118,040	6,796,732	10,107,363	6,728,701

(x) Interest paid

Interest expense	7	(11,875,953)	(7,177,219)	(11,885,626)	(7,181,076)
Interest payable		-	2,326,955	-	2,330,811
Interest payable on deposit	39(vii)	412,231	-	412,231	-
Interest payable on due to banks	39(vi)	53,633	-	53,633	-
Interest payable on debt securities issued	26	(6,285)	-	27,989	-
Interest payable on lease liability	7	15,468	-	15,468	-
Interest paid		(11,400,906)	(4,850,264)	(11,376,305)	(4,850,264)

(xi) Pledged assets

Balance as at beginning of the year	19a	22,071,575	2,497,380	22,071,575	2,497,380
Cash outflow due to changes in pledged assets		27,944,962	19,574,196	27,944,962	19,574,196
Balance as at end of the year (See note 19a)	19a	50,016,537	22,071,575	50,016,537	22,071,575

(xii) Investment securities - FVOCI and Amortised Cost

Balance as at beginning of the year	19b	53,039,462	12,827,857	52,822,843	12,826,295
Change in fair value (See SOCI)		(36,897)	(185,345)	(36,897)	(185,345)
ECL Impairment charges	8	(85,826)	-	(85,826)	-
Cash outflow		(30,471,933)	40,396,950	(33,276,029)	40,181,892
Balance as at end of the year	19b	22,444,806	53,039,462	19,424,091	52,822,843

40 Operating segments

The Group has two reportable segments, as described below, which are the Group'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.The group presents segment information to its Board of Directors, which is the group's chief operating decision maker, based on International Financial Reporting Standards. All segments are operated in Nigeria.

2021	Bank Segment	Investment Management Segment	Unallocated Segment	Total
Interest income	12,054,334	10,677	-	12,065,011
Interest expense	(11,885,626)	9,673	-	(11,875,953)
Net interest income	**168,708**	**20,350**	-	**189,058**
Impairment charge for credit losses	7,104	-	-	7,104
Other operating income	4,821,186	147,820	-	4,969,006
Operating expenses	(3,332,741)	(148,852)	-	(3,481,592)
Profit before tax	**1,664,258**	**19,318**	-	**1,683,576**
Income tax	(80,062)	2,061	-	(78,001)
Profit for the year	**1,584,196**	**21,379**	-	**1,605,575**
Total assets	242,580,814	1,636,870	-	244,217,684
Total liabilities	219,068,172	1,489,631	-	220,557,804
Net Assets	**23,512,642**	**147,239**	-	**23,659,880**
2020				
Interest income	9,605,681	40,330	-	9,646,011
Interest expense	(7,181,076)	3,856	-	(7,177,219)
Net interest income	**2,424,605**	**44,186**	-	**2,468,792**
Impairment charge for credit losses	(72,696)	-	-	(72,696)
Other operating income	3,654,774	247,050	-	3,901,824
Operating expenses	(2,581,382)	(196,868)	-	(2,778,250)
Profit before tax	**3,425,301**	**94,368**	-	**3,519,670**
Income tax	(34,424)	-	-	(34,424)
Profit for the year	**3,390,877**	**94,368**	-	**3,485,245**
Total assets	182,259,871	72,307	-	182,332,178
Total liabilities	159,494,527	56,804	(73,856)	159,477,475
Net asset	**22,765,344**	**15,502**	**73,856**	**22,854,703**

OTHER NATIONAL DISCLOSURES

NOVA

OTHER NATIONAL DISCLOSURES
VALUE ADDED STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

	Group 2021 N'000	%	Group 2020 N'000	%	Bank 2021 N'000	%	Bank 2020 N'000	%
Gross earnings	17,034,017		13,547,835		16,875,520		13,260,455	
Interest expense	(11,875,953)		(7,177,219)		(11,885,626)		(7,181,076)	
Administrative overheads- local	(1,815,641)		(1,459,956)		(1,912,981)		(1,387,886)	
Total value added	3,342,423		4,910,659		3,076,913		4,691,493	
Distribution of value added								
To employees and directors:								
Salaries and benefits	1,239,833	37%	1,125,435	23%	1,001,215	33%	1,001,215	21%
To government:								
Tax	78,001	2%	34,424	1%	80,062	3%	34,424	1%
Provide for maintenance and expansion of the company								
For replacement of property, plant and equipment (depreciation)	267,704	8%	278,365	6%	267,496	9%	277,786	6%
Depreciation of right of use asset	15,887	0%	15,930	0%	15,887	1%	15,930	0%
For replacement of intangible assets (amortisation)	172,321	5%	156,604	3%	164,953	5%	156,604	3%
Retained earnings	1,568,677	47%	3,299,901	67%	1,547,299	50%	3,205,532	68%
	3,342,423	100%	4,910,660	100%	3,076,913	100%	4,691,493	100%

These statements shows the distribution of the wealth created by the Bank during the period.

Three Year Financial Summary- Group

In thousands of Naira	December 2021	December 2020	December 2019
Assets			
Balances with banks	57,186,698	46,983,617	4,861,089
Loans to banks and other financial institutions	-	4,978	7,035,462
Loans and advances to customers	88,382,235	49,971,622	29,285,504
Investment securities	22,774,177	53,430,722	13,550,734
Derivative financial assets	3,149,319	3,700,410	1,460,523
Pledged assets	50,016,537	22,071,575	2,497,380
Property and equipment	1,365,086	932,615	1,093,921
Right-of-use asset	249,054	264,941	280,871
Intangible assets	579,258	701,100	805,795
Other assets	20,066,913	3,825,592	2,491,126
Deferred tax assets	448,407	445,006	443,497
Total assets	**244,217,684**	**182,332,178**	**63,805,902**
Liabilities			
Due to Banks	26,813,409	-	-
Due to customers	116,912,496	89,627,443	40,512,882
Derivative financial liabilities	3,072,162	3,680,548	1,446,597
Lease liability	111,651	96,184	82,825
Current tax liabilities	80,010	35,356	15,264
Other liabilities	63,314,509	34,064,139	2,193,532
Debt securities issued	10,253,567	10,259,852	-
Total liabilities	**220,557,804**	**159,477,475**	**44,251,100**
Equity			
Share capital	16,000,000	16,000,000	16,000,000
Statutory reserve	2,486,205	2,010,946	993,683
Retained earnings	3,010,297	3,494,146	1,807,169
Fair value reserve	25,291	62,188	247,533
Regulatory risk reserve	2,101,521	1,287,423	506,417
Total equity attributable to owners of the Parent	**23,623,314**	**22,854,703**	**19,554,802**
Non-controlling interest	36,566	-	-
Total Equity	**23,659,880**	**22,854,703**	**19,554,802**
Total liabilities and equity	**244,217,684**	**182,332,178**	**63,805,902**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Naira	December 2021	December 2020	December 2018
Interest income	12,065,011	9,644,250	4,536,246
Interest expense	(11,875,953)	(7,177,219)	(2,329,665)
Net interest income	**189,058**	**2,468,792**	**2,206,581**
Impairment charge for credit losses	7,104	(72,696)	(78,766)
Fee and commission income	827,087	336,597	309,611
Net gains on financial instruments held for trading	1,486,585	3,013,645	765,117
Net foreign exchange gain	2,485,260	369,614	246,116
Other income	170,075	181,968	11,281
Operating expenses	(3,481,592)	(2,778,249)	(1,948,063)
Profit before tax	**1,683,575**	**3,519,670**	**1,511,877**
Income tax	(78,001)	(34,424)	133,831
Profit for the year	**1,605,574**	**3,485,247**	**1,645,708**
Net changes in fair value of financial assets FVOCI	(36,897)	(185,345)	297,664
Other comprehensive loss, net of related tax effects:	**(36,897)**	**(185,345)**	**297,664**
Total comprehensive income for the period	**1,568,677**	**3,299,902**	**1,943,372**
Profit for the period attributable to:			
Owners of Parent	1,605,508	3,485,247	1,645,708
Non-controlling interest	66	-	-
Profit for the period	**1,605,574**	**3,485,247**	**1,645,708**
Total comprehensive income attributable to:			
Owners of Parent	1,568,611	3,299,902	1,943,372
Non-controlling interest	66	-	-
Total comprehensive income	**1,568,677**	**3,299,902**	**1,943,372**

NOVA

Other National Disclosures:

Five Year Financial Summary- Bank

In thousands of Naira	December 2021	December 2020	December 2019	December 2018	December 2017
Assets					
Balances with banks	56,107,545	46,822,920	4,861,089	1,195,794	17,557,340
Loans to banks and other financial institutions	-	-	7,035,462	3,883,788	-
Loans and advances to customers	90,382,235	49,971,622	29,285,504	2,427,818	23,163
Investment securities	19,424,091	52,822,843	13,549,172	13,050,778	-
Investment in subsidiaries	431,167	415,000	150,000	-	-
Derivative financial assets	3,149,319	3,700,410	1,460,523	20,753	-
Pledged assets	50,016,537	22,071,575	2,497,380	1,192,312	-
Property and equipment	1,363,500	931,272	1,092,576	1,213,250	313,684
Right-of-use asset	249,054	264,940	280,871	-	-
Intangible assets	544,976	672,375	777,071	727,568	3,066
Other assets	20,468,893	4,143,416	2,372,154	979,583	-
Deferred tax assets	443,497	443,498	443,497	294,497	94,497
Total assets	**242,580,814**	**182,259,871**	**63,805,299**	**24,986,141**	**17,991,750**
Liabilities					
Due to banks	26,813,409	21,713,953	-	-	-
Due to customers	116,889,467	89,611,830	40,512,940	6,494,473	-
Derivative financial liabilities	3,072,162	3,680,548	1,446,598	87,319	-
Lease liability	111,651	96,184	82,825	-	-
Current tax liabilities	80,646	34,670	15,264	9,606	4,161
Other liabilities	61,739,140	34,023,634	2,187,861	783,310	1,477,013
Debt securities issued	10,361,697	10,333,708	-	-	-
Total liabilities	**219,068,172**	**159,494,527**	**44,245,488**	**7,374,708**	**1,481,174**
Equity					
Share capital	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000
Statutory reserve	2,486,205	2,010,946	993,683	498,468	153,173
Retained earnings	2,899,625	3,404,787	1,812,178	1,115,666	357,403
Fair value reserve	25,291	62,188	247,533	(50,131)	-
Regulatory risk reserve	2,101,521	1,287,423	506,417	47,428	-
Total equity attributable to owners of the Parent	23,512,642	22,765,344	19,559,811	17,611,431	16,510,576
Non-controlling interest	-	-	-	-	-
Total Equity	**23,512,642**	**22,765,344**	**19,559,811**	**-**	**-**
Total liabilities and equity	**242,580,814**	**182,259,871**	**63,805,299**	**24,986,139**	**17,991,750**

NOVA

Other National Disclosures:

Five Year Financial Summary- Bank

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Naira	December 2021	December 2020	December 2019	December 2018	December 2017
Interest income	12,054,334	9,603,920	4,529,392	1,876,519	1,224,514
Interest expense	(11,885,626)	(7,181,076)	(2,343,268)	(373,347)	(60,878)
Net interest income	**168,708**	**2,424,605**	**2,186,124**	**1,503,172**	**1,163,636**
Impairment charge for credit losses	7,104	(72,696)	(78,766)	(1,148)	-
Fee and commission income	798,732	320,272	267,072	29,068	-
Net gains on financial instruments held for trading	1,496,753	2,959,026	765,117	545,475	-
Net foreign exchange gain	2,483,112	369,614	246,116	302,419	-
Other income	42,589	5,862	11,281	1,987	-
Operating expenses	(3,332,741)	(2,581,382)	(1,880,059)	(1,420,382)	(743,396)
Profit before tax	**1,664,258**	**3,425,301**	**1,516,886**	**960,591**	**420,240**
Income tax	(80,062)	(34,424)	133,831	190,394	90,336
Profit for the year	**1,584,196**	**3,390,877**	**1,650,717**	**1,150,985**	**510,576**
Net changes in fair value of financial assets FVOCI	(36,897)	(185,345)	297,664	(50,131)	-
Other comprehensive loss, net of related tax effects:	**(36,897)**	**(185,345)**	**297,664**	**(50,131)**	-
Total comprehensive income for the period	**1,547,299**	**3,205,532**	**1,948,381**	**1,100,854**	**510,576**
Profit for the period attributable to:					
Owners of Parent	1,605,508	3,483,555	1,645,708	3,390,877	1,650,717
Non-controlling interest	66	1,692	-	-	-
Profit for the period	**1,605,574**	**3,485,247**	**1,645,708**	**3,390,877**	**1,650,717**
Total comprehensive income attributable to:					
Owners of Parent	1,568,611	3,298,210	1,943,371	3,205,532	1,948,381
Non-controlling interest	66	1,692	-	-	-
Total comprehensive income	**1,568,677**	**3,299,902**	**1,943,371**	**3,205,532**	**1,948,381**