

This document is important and should be read carefully. If you are in any doubt as to its contents or the action to be taken, please consult your Banker, Stockbroker, Accountant, Solicitor or any other professional adviser for guidance immediately. For information concerning certain risk factors which should be considered by prospective investors, see "risk factors" commencing on page 130 hereof.



**FSDH FUNDING SPV PLC**

**(RC 1123160)**

**(INCORPORATED AS A PUBLIC LIMITED LIABILITY IN THE FEDERAL REPUBLIC OF NIGERIA)**

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## **₦30,000,000,000 DEBT ISSUANCE PROGRAMME SHELF PROSPECTUS**

This Shelf Prospectus and the Bonds which it offers have been registered by the Securities & Exchange Commission (the "SEC" or "the Commission"). It is a civil wrong and a criminal offence under the Investments and Securities Act (No. 29) 2007 ("the ISA" or "the Act") to issue a prospectus which contains false or misleading information. Clearance and registration of this Shelf Prospectus and the Bonds which can be issued under the Programme do not relieve the parties of any liability arising under the Act for false and misleading statements contained herein or for any omission of a material fact. Investors are advised to note that liability for false or misleading statements or acts made in connection with the Prospectus is provided in Sections 85 and 86 of the ISA.

This Shelf Prospectus has been issued in compliance with Part IX of the Act, the Rules and Regulations of the Commission ("SEC Rules") and the listing requirements of the Nigerian Stock Exchange (the "NSE") and Financial Markets Dealers Quotation ("FMDQ") and contains particulars which are in compliance with the requirements of the Commission for the purpose of giving information with regard to the Programme.

Under the Programme described in this Shelf Prospectus, the Issuer may from time to time issue Debt Securities or any other evidence of indebtedness for borrowed money. These instruments may be issued from time to time in separate series, amounts, prices, by public offer or private placement and on terms to be set out in any accompanying Supplementary Shelf Prospectus.

The maximum aggregate nominal amount of all Bonds issued from time to time and outstanding under the Programme shall not exceed ₦30,000,000,000 over the three (3) years specified by the SEC as at the date of this Shelf Prospectus or any other time frame set forth by the SEC following the issue of this Shelf Prospectus, including any amendments thereto, remains valid. This Shelf Prospectus is to be read and construed in conjunction with any supplement hereto and all documents which are incorporated herein by reference and, in relation to any series of the Programme, together with the applicable Supplementary Shelf Prospectus.

The registration of this Shelf Prospectus and any Supplementary Shelf Prospectus shall not be taken to indicate that the Commission endorses or recommends the Bonds or assumes responsibility for the correctness of any statements made or opinions or reports expressed in this Shelf Prospectus or any Supplementary Shelf Prospectus.

This Shelf Prospectus is to be read and construed in conjunction with any supplement, hereto and all documents incorporated by reference as a whole and, in relation to any series of the Programme, together with the relevant Pricing Supplement. An investment in certain Bonds may entail a risk of loss of all or a portion of the principal amount of the Bonds which is directly caused by fluctuation of interest rates; devaluation of the currency of issue; value of Bonds at a securities market; or other indices or by a change in the condition of business or assets of the party selling the Bonds or other parties. Also, an exercise of an option or other right associated with certain Bonds or cancellation of a contract for sale of certain Bonds may be subject to certain time limitations. Investment in the Bonds is strictly for eligible institutional investors and high net worth Individuals as defined under rule 321 of the rules and regulations of the Securities and Exchange Commission.

For information about risks factors which should be considered by prospective investors, please refer to Risk Factors starting from page 130.

**LEAD ISSUING HOUSE/BOOK RUNNER**



**JOINT ISSUING HOUSES / BOOK RUNNERS**



**RC 444999**

**THIS SHELF PROSPECTUS IS DATED FEBRUARY 16, 2021**

**This Shelf Prospectus will be available on the following websites through the 3 years Validity Period**

[www.sec.gov.ng](http://www.sec.gov.ng);

[www.fsdhgroup.com](http://www.fsdhgroup.com)

**Investors may confirm the clearance of the prospectus and registration of the securities with the Securities and Exchange Commission by contacting the Commission on [sec@sec.gov.ng](mailto:sec@sec.gov.ng) or +234(0)94621100;+234(0) 94621168**

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## IMPORTANT NOTICE

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This Shelf Prospectus is made in accordance with the provisions of the Act, Rules and Regulations of the SEC, the listing and quotation requirements of FMDQ and The NSE, and for the purpose of giving information with regard to the Issuer, the Sponsor and the Debt Securities which, according to the particular nature of the Issuer and the Sponsor, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Sponsor.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Shelf Prospectus or any other information supplied in connection with the Programme and, if given or made, such information must not be relied upon as having been authorised by either the Issuer or the Sponsor, or any of the parties to the Programme.

Neither this Shelf Prospectus nor any other information supplied in connection with the Programme or the Debt Securities: (a) is intended to provide the basis of any credit or other evaluation, or (b) should be considered as a recommendation by either the Issuer or the Sponsor or any of the parties to the Programme that any recipient of this Shelf Prospectus or any other information supplied in connection with the Programme should purchase any Bonds. Each investor that intends to purchase any Bonds should make its own independent investigation regarding the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer and the Sponsor.

This Shelf Prospectus has been issued in compliance with part IX of the Act, the rules and regulations of the Commission and listing requirements of the Nigerian Stock Exchange ("The NSE") and FMDQ Securities Exchange Limited ("FMDQ") and contains particulars which are in compliance with the requirements of the Commission for the purpose of giving information with regards to the ₦30,000,000,000 Bond Issuance Programme.

### **1. Presentation of Information**

The information set forth herein has been obtained from official sources that are believed to be reliable, but is not guaranteed as to its accuracy, reliability or completeness. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Shelf Prospectus nor any issue made hereunder or any future use of this Shelf Prospectus shall, under any circumstances, create any implication that there has been no change in the affairs of the Sponsor and the Issuer since the date hereof.

All financial and other information presented or incorporated by reference in this Shelf Prospectus have been provided by the Issuer and the Sponsor from their records, except for information expressly attributed to other sources. The presentation of certain information, including tables of receipts and other revenues, is intended to show recent historic financial information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Sponsor. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

A wide variety of other information concerning the Sponsor, including financial information, are available from the Sponsor's website - [www.fsdhgroup.com](http://www.fsdhgroup.com) - and other authorised publicly available company publications. Any such information that is inconsistent with the information set forth in this Shelf Prospectus should be disregarded. No such information is a part of or incorporated into this Shelf Prospectus.

## IMPORTANT NOTICE

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### 2. Financial Information

Unless otherwise indicated, the financial information regarding the Sponsor indicated in this Shelf Prospectus has been derived from the Reporting Accountants' Report on the Sponsor's audited financial statements for the years ended 31 December 2019, 31 December 2018, 31 December 2017, 31 December 2016, and 31 December 2015. The Sponsor's audited financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the CAMA and the Financial Reporting Council of Nigeria Act, and are presented in Naira, the reporting currency of the Sponsor.

### 3. Rounding

Certain numerical figures included in this Shelf Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown in totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

### 4. Forward-Looking Statements

Certain statements included herein and in any Pricing Supplement may constitute forward-looking statements that involve a number of risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Such forward-looking statements can be identified by the use of forward-looking terminologies such as "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "would be", "seeks", "approximately" or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminologies. These forward-looking statements include all matters that are not historical facts and include statements regarding the Sponsor's intentions, beliefs or current expectations concerning, amongst other things, its operating results, financial condition, liquidity, prospects, growth, strategies and the industry in which it operates.

Prospective investors should be aware that forward-looking statements are not guarantees of future performance and that the Sponsor's actual results of operations, financial condition and liquidity, and the development of the industry in which it operates may differ materially from those made in or suggested by the forward-looking statements contained in this Shelf Prospectus. In addition, even if the Sponsor's results of operations, financial condition and liquidity and the development of the industry in which it operates are consistent with the forward-looking statements contained in this Shelf Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

Factors that could cause actual results to differ materially from the Sponsor's expectations are contained in cautionary statements in this Shelf Prospectus and include, among other things, the following:

- overall political, economic and business conditions in Nigeria;
- changes in government regulations;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- economic and political conditions in international markets, including governmental changes;
- the demand for the Sponsor's products and services;
- competitive factors in the industries in which the Sponsor and its customers compete;
- interest rate fluctuations and other capital market conditions;
- exchange rate fluctuations; and
- the timing, impact and other uncertainties of future actions.

## IMPORTANT NOTICE

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The sections of this Shelf Prospectus entitled “**Risk Factors**”, “**Description of FSDH Merchant Bank Limited**”, “**FSDH Funding SPV PLC**” and “**Statutory and General Information**” contain a more detailed discussion of the factors that could affect the Sponsor’s future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Shelf Prospectus may not occur.

The Sponsor and the Issuer do not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Sponsor or the Issuer or to persons acting on their behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Shelf Prospectus.

This Shelf Prospectus has been prepared by the Issuer, the Sponsor and Issuing Houses in connection with the ₦30,000,000,000 Debt Issuance Programme of the Issuer (pursuant to which the Issuer will issue Debt Securities) for the purpose of giving information to the prospective investors in respect of the Debt Securities described herein. The SEC has cleared this Prospectus and registered the securities listed herein.

This Prospectus contains certain statements, estimates and projections with respect to the future performance of the Issuer. These statements, estimates and projections reflect various assumptions by the Issuer concerning its anticipated future performance, which have been included solely for illustrative purposes. These statements, estimates and projections should not however, be relied upon as a representation, warranty or undertaking, expressed or implied, as to the future financial condition of the Issuer and actual occurrences may vary materially from the projected developments contained herein and/or the assumptions on which such statements, estimates and projections were based.

The receipt of this Shelf Prospectus or any information contained in it or supplied with it or subsequently communicated to any person does not constitute investment advice from the Issuing Houses to any prospective investor. Each prospective investor should make their own independent assessment of the merits or otherwise of subscribing to the securities offered herein and should seek their own professional advice in connection with any prospective investment by them.

The members of the Sponsor’s Board and Issuer’s Board individually and collectively accept full responsibility for the accuracy of the information contained herein and have taken reasonable care to ensure that the material facts contained herein are true and accurate in all material respects and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no material facts, the omission of which, would make any material statement herein misleading or untrue. Additional information may be obtained through the offices of the Issuing Houses as listed on page 16 of this Shelf Prospectus on any Business Day during the period of the respective opening and closing dates of the issuance of Debt Securities under the Debt Issuance Programme, provided the Issuing Houses possess such information or can acquire it without unreasonable effort or expense.

Nothing in this Shelf Prospectus should be construed to mean that the Issuing Houses are bound to provide any information coming to their attention to the Trustees, any Bondholder or potential investors in the Bonds. Also, the Issuing Houses are not bound to advise any investor or potential investors on the financial condition or affairs of the Issuer during the life of the arrangement contemplated therein.

## INFORMATION RELATING TO THIS SHELF PROSPECTUS

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This Shelf Prospectus has been prepared by the Issuer, the Sponsor and Issuing Houses in connection with the ₦30,000,000,000 Bond Issuance Programme of the Issuer (pursuant to which the Issuer will issue Debt Securities) for the purpose of giving information to the prospective investors in respect of the Debt Securities described herein. The SEC has cleared this Prospectus and registered the securities listed herein.

This Prospectus contains certain statements, estimates and projections with respect to the future performance of the Sponsor and Issuer. These statements, estimates and projections reflect various assumptions by the Sponsor and Issuer concerning their anticipated future performance, which have been included solely for illustrative purposes. These statements, estimates and projections should not however, be relied upon as a representation, warranty or undertaking, expressed or implied, as to the future financial condition of the Sponsor and Issuer and actual occurrences may vary materially from the projected developments contained herein and/or the assumptions on which such statements, estimates and projections were based.

The receipt of this Shelf Prospectus or any information contained in it or supplied with it or subsequently communicated to any person does not constitute investment advice from the Issuing Houses to any prospective investor. Each prospective investor should make their own independent assessment of the merits or otherwise of subscribing to the securities offered herein and should seek their own professional advice in connection with any prospective investment by them.

The members of the Sponsor's and Issuer's Board of Directors individually and collectively accept full responsibility for the accuracy of the information contained herein and have taken reasonable care to ensure that the material facts contained herein are true and accurate in all material respects and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no material facts, the omission of which would make any material statement herein misleading or untrue. Additional information may be obtained through the offices of the Issuing Houses as listed on page 16 of this Shelf Prospectus on any Business Day during the period of the respective opening and closing dates of the issuance of instruments under the Debt Issuance Programme, provided the Issuing Houses possess such information or can acquire it without unreasonable effort or expense.

Nothing in this Shelf Prospectus should be construed to mean that the Issuing Houses are bound to provide any information coming to their attention to the Trustees, any Bondholder or potential investors in the Bonds. Also, the Issuing Houses are not bound to advise any investor or potential investors on the financial condition or affairs of the Issuer during the life of the arrangement contemplated therein.

## ISSUE OF PRICING SUPPLEMENT

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Following the publication of this Shelf Prospectus, a Pricing Supplement may be prepared by the Issuer, the Sponsor and the Issuing Houses for the approval of the SEC in accordance with the SEC Rules and Regulations.

Statements contained in any such Pricing Supplement, shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Shelf Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Shelf Prospectus.

Each of FSDH Merchant Bank Limited and FSDH Funding SPV PLC declares, to the best of its knowledge and honest belief, that no material facts have been omitted from nor is there any material misstatement in this Shelf Prospectus, which would make any statement contained herein misleading or untrue. They shall, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Shelf Prospectus which is capable of affecting the assessment of the Bonds, prepare a Pricing Supplement to this Shelf Prospectus or publish a new Shelf Prospectus for use in connection with any subsequent issue of Bonds.



DECLARATION BY THE SPONSOR

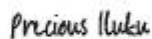
This Prospectus has been prepared by the Issuing Houses on behalf of FSDH Funding SPV PLC (the "Issuer") and FSDH Merchant Bank Limited (the "Sponsor" or the "Bank") with a view to providing a description of the relevant aspects of the Issuer and the Sponsor in connection with the Issue and an investment therein.

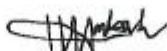
On behalf of the Board of Directors, we hereby make the following declarations:

1. We confirm that the information contained in this Prospectus is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import;
2. There has been no significant change in the financial condition or material adverse change in the prospects of the Bank since the audited financial statements for the period ended 31 December 2019;
3. The Bank is not in breach of any terms and conditions in respect of borrowed monies which resulted in the occurrence of an event of default and an immediate recall of such borrowed monies during the twelve months preceding the date of this prospectus; and
4. No prosecution has been commenced against the Bank during the twelve calendar months immediately preceding the registration of this shelf prospectus, in respect of any breach or contravention of any securities or banking laws or the CAMA or the listing requirements of a recognised Securities Exchange.

SIGNED for and on behalf of  
FSDH Merchant Bank Limited  
By its duly authorised representatives:

  
Bolanle Meshida  
Company Secretary

  
Precious Iluku  
Chief Financial Officer

  
Hamda Ambah  
Managing Director/CEO

  
**E.A. OKORIE**  
NOTARY PUBLIC  
8, Ajasa Street, Onikan Lagos  
+234-1-2712788, 0802-305-8615  
August 21, 2020



Head Office: UAC House (5th - 8th Floors), 1/5 Odunlami Street, P.M.B. 12913, Lagos State, Nigeria. (RC 199528)  
Tel: 01 - 2702880 - 2, 2802111, 2802112, 2770275-9; Dealing Only: 01 - 2716280-3  
Website: <http://www.fsdhgroup.com> E-mail: [info@fsdhgroup.com](mailto:info@fsdhgroup.com)  
Port-Harcourt Office: Polaris Bank Building (2nd Floor), 5 Trans Amadi Road, Port-Harcourt, Rivers State. Tel: 08126451162



**DECLARATION BY THE ISSUER**

This Prospectus has been prepared by the Issuing Houses on behalf of FSDH Funding SPV PLC (the "Company") with a view to providing a description of the relevant aspects of the Company in connection with the Issue and an investment therein.

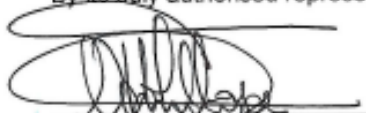
On behalf of the Company, we hereby make the following declarations:

1. We confirm that the information contained in this Prospectus is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import;
2. There has been no significant change in the financial condition or material adverse change in the prospects of the Company since incorporation;
3. The Company is not in breach of any terms and conditions in respect of borrowed monies which resulted in the occurrence of an event of default and an immediate recall of such borrowed monies during the twelve months preceding the date of this prospectus; and
4. No prosecution has been commenced against the Company during the twelve calendar months immediately preceding the registration of this shelf prospectus, in respect of any breach or contravention of any securities or banking laws or the CAMA or the listing requirements of a recognised Securities Exchange.

**SIGNED** for and on behalf of

**FSDH Funding SPV PLC**

By its duly authorised representatives:

  
Tolulope Adetugbo  
Company Secretary

  
Adekunle Awojobi  
Director

  
Taiwo Okeowo  
Director

  
Patrick Mgbenwelu  
Director

  
**CHARLES O. MUSA, ESQ.**  
Notary Public  
1st Floor, Mandilas Building Annex  
35, Simpson Street, Lagos Island, Lagos  
Tel.: 07030177991, 07085263753  
Email: info@charlesmusaandco.com



DIRECTORS: TAIWO OKEOWO, PATRICK MGBENWELU, ADEKUNLE AWOJOBI

35 Marina Lagos  
Tel: +234-1-4622871, 4412814  
Fax: +234-1-4622872

## KEY TERMS AND ABBREVIATIONS

Except where expressed otherwise, the following definitions apply throughout this document:

Terms/Abbreviations	Description
"Applicable Pricing Supplement"/"Pricing Supplement" or "SP"	The document(s) to be issued pursuant to this Shelf Prospectus, which shall provide final terms and conditions of a specific Series or Tranche of Bonds under the Programme;
"Allotment Date"	The date on which the Bonds are allotted to the Allottee by the Issuer and Issuing Houses/Bookrunners;
"Allottee"	A successful participant from whom receipt of subscription monies is confirmed by the Receiving Bank and to whom the Bonds shall be allotted by the Issuer;
"AMCON"	Asset Management Corporation of Nigeria;
"Board" or "Directors"	Board of Directors of the Sponsor or the Issuer in the context specified;
"BOFIA"	Banks and Other Financial Institutions Act, Cap B3, LFN 2004;
"Bonds" or "Debt Securities"	A registered certificate of debt issued by the Issuer from time to time which the Issuer obligates itself to pay to a Bondholder in accordance with terms of the Shelf Prospectus and any subsequent Pricing Supplement;
"Bondholder" or "Holder"	In relation to any Bonds of a Series or Tranche, any person registered in the applicable Register of such Tranche or Series of Bonds as a holder, owner or beneficial owner of Bond units or other Debt Securities to be issued under the Programme and shall include the legal, personal representative or successor of such holder and those entered as joint holders ;
"Business Day"	Any day (other than a Saturday, Sunday and public holidays declared by the Federal Government of Nigeria) on which commercial banks are open for general business in Nigeria;
"CAC"	Corporate Affairs Commission;
"CAMA"	Companies and Allied Matters Act 2020;
"CBN"	Central Bank of Nigeria;
"Certificates"	In relation to the Bonds, a certificate in or substantially in the form specified in the Schedule to the Programme Trust Deed or in such other form as may be agreed from time to time by the Trustees;
"CIR"	Cost-to-Income Ratio;
"CITA"	Companies Income Tax Act Cap C21 LFN, 2004 (as amended by the Companies Income Tax (Amendment Act No. 11 of 2007) and the Finance Act 2019);
"CITA Order"	The Companies Income Tax (Exemption of Bonds and Short-Term Government Securities) Order 2011 made pursuant to the CITA;
"Completion Board Meeting" or "Signing Ceremony"	The meeting at which the Offer Documents in connection with the Issue shall be executed by the parties to the Issue;
"Conditions" or "Terms and Conditions"	Terms and conditions in accordance with which the Bonds will be issued, as set out in the section headed "Terms and Conditions of the Bonds" and in the Second Schedule of the Programme Trust Deed;
"Conversion Rights"	The right of the holder of a Convertible Bond to exercise the option to call for the conversion of the Convertible Bond into shares of the Issuer;
"Coupon"	The interest paid on the Bond periodically, expressed as a percentage

	of the face value of the Bond as specified in the applicable Pricing Supplement;
“Convertible Bond”	A Bond which provides the Bondholder with an option to convert the Bond into shares of the Issuer, on such terms as prescribed in any Supplementary Shelf Prospectus or Pricing Supplement;
“Coupon” or “Coupons”	Interest payment or payments due to Bondholders as specified in the Supplementary Shelf Prospectus or Pricing Supplement;
“Coupon Commencement Date”	The Issue Date for any particular Series of Bonds, or such other date as may be specified in Supplementary Shelf Prospectus, from which interest on the Bonds begins to accrue;
“Coupon Determination Date”	The date falling no later than two Business Days prior to the Coupon Payment Date on which the Trustee determines the interest rate applicable on a Bond (other than a Fixed Rate Bond) for that Interest Period;
“Coupon Payment Date”	The date on which coupons are to be paid to Bondholders as specified in the Supplementary Shelf Prospectus or Pricing Supplement;
“Coupon Period”	The period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next Interest Payment Date;
“Coupon Rate”	Interest rate payable to Bondholders as specified in the Supplementary Shelf Prospectus or Pricing Supplement;
“Clearing System” or “Depository”	Central Securities Clearing System PLC, the operator of the securities depository, or any other clearing house appointed by the Issuer for subsequent series;
“Deed of Undertaking”	An undertaking on the Bonds to be provided by the Sponsor;
“Debt Securities”	Any securities, which include registered bonds, promissory notes, certificates, debentures and other obligations authorized to be issued under the Programme by the Issuer;
Depository	Central Securities Clearing Systems PLC or FMDQ Depository Limited;
“EPS”	Earnings per Share;
“Event of Default”	has the meaning provided in Clause [•] of the Programme Trust Deed;
“Exchange”	FMDQ or any other securities exchange that the Issuer chooses to list the Bonds;
“Exchange Rate”	The applicable NGN/USD currency exchange rate which shall be the applicable CBN clearing rate at the allotment date;
“Extraordinary Resolution”	A resolution passed at a meeting of the Bondholders at which Bondholders holding in the aggregate not less than 50% of the Bonds are present, in person or by proxy, with the approval of not less than two-thirds (66.6%) of the Bondholders by number if the resolution is voted on by show of hands and by value, if the resolution is voted on by poll;
“Face Value” or “Par Value”	The value the Bondholder would get per Bond once the Bond matures;
“Federal Government” or “FGN”	Federal Government of Nigeria;
“FMDQ”	FMDQ Securities Exchange Limited;
“FIRS”	Federal Inland Revenue Service;
“Fixed Rate Bonds”	Bonds in respect of which interest is to be calculated and paid on

	a fixed rate basis, and will not change during the life of the Bond;
“Floating Rate Bond”	A Bond in respect of which interest is payable in accordance with a floating rate basis as prescribed in the relevant Supplementary Shelf Prospectus or Pricing Supplement;
“GDP”	Gross Domestic Product;
“High Net-Worth Investors” or “HNIs”	As defined in SEC Rule 321 of the SEC Rules (or as amended from time to time)
“IASB”	International Accounting Standards Board;
“IFC”	International Finance Corporation;
“IFRS”	International Financial Reporting Standards;
“ISA”	Investments and Securities Act No 29, 2007;
“Issue Date”	The date on which Bonds are issued and allotted to investors, as specified in the Supplementary Shelf Prospectus;
“Issue Price”	The price at which the Bonds are issued, as specified in the Supplementary Shelf Prospectus;
“Issuer”	FSDH Funding SPV PLC is the Issuer under the Debt Issuance Programme;
“Issuing Houses” “Issuing Houses/Book Runner” or “Joint Issuing Houses” or “Joint Issuing Houses/Book Runners”	Stanbic IBTC Capital Limited, FSDH Capital Limited, Rand Merchant Bank Nigeria Limited, and United Capital PLC and any other issuing house appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Series or Tranche of Bonds;
“Kobo”	Legal tender used in Nigeria as a subdivision of the Naira. One hundred Kobo is equivalent to one Naira;
“Lead Issuing House” or “Lead Issuing House/Book Runner”	Stanbic IBTC Capital Limited, and any other issuing house appointed from time to time by the Issuer as lead issuing house either generally in respect of the Programme or in relation to a particular Series or Tranche of Bonds;
“LFN”	Laws of the Federation of Nigeria 2004;
“Listing Rule”	The Listing Rules of FMDQ or any other exchange selected for listing a specific issue of debt securities;
“Maturity Date”	The date as specified in each applicable Pricing Supplement on which the Principal Amount is due;
“Master Notes Issuance Agreement”	This is the Agreement dated on or about the 16th day of February, 2021, between the Trustee, FSDH Funding SPV PLC, and FSDH Merchant Bank Limited under which FSDH Merchant Bank Limited issues Notes to FSDH Funding SPV PLC;
“MPC”	Monetary Policy Committee;
“MPR”	Monetary Policy Rate;
“Naira” “NGN” or “ <del>N</del> ”	The Nigerian Naira, the lawful currency of the Federal Republic of Nigeria;
“NAV”	Net Asset Value;
“NBS”	National Bureau of Statistics;
“NDIC”	The Nigeria Deposit Insurance Corporation;
“NDIC Act”	The Nigeria Deposit Insurance Corporation Act No 16 of 2006;
“Nigeria”	The Federal Republic of Nigeria;
“NNPC”	The Nigerian National Petroleum Corporation;

“Notes”	Debt instruments issued by the Sponsor to the Issuer;
“NPL”	Non-Performing Loan;
“NSE” or “Stock Exchange”	The Nigerian Stock Exchange;
“Offer Documents”	The documents created in connection with the Debt Issuance Programme and subsequent bond issues;
“OTC”	Over-The-Counter;
“Pensions Act”	Pension Reform Act, Cap P4, LFN 2014;
“PFAs”	Pensions Fund Administrators;
“PITA”	Personal Income Tax Act, Cap P8, LFN 2004 as amended by the Personal Income Tax (Amendment) Act No. 20 of 2011 and the Finance Act 2019);
“Principal Amount” or “Principal”	The nominal amount of each Bond outstanding, as specified in the Supplementary Shelf Prospectus;
“Professional Parties”	Professionals engaged by the Sponsor to advise on the establishment of the Debt Issuance Programme and the issuance of Bonds thereunder;
“Programme” or “Debt Issuance Programme”	The Debt Issuance Programme described in this Shelf Prospectus pursuant to which the Issuer may issue several separate Series or Tranches of Bonds from time to time with varying maturities and variable rates of interests provided however that the aggregate value does not exceed ₦30,000,000,000;
“Programme Trust Deed”	A master trust deed made between the Issuer and the Trustee, in relation to the entire Programme dated 16 February, 2021;
“Prospectus” or “Shelf Prospectus”	This Shelf Prospectus dated 16 February, 2021;
“Qualified Institutional Investor”	A purchaser of securities that is financially sophisticated. These include Banks, Fund Managers, PFAs, Insurance Companies, Investment/Unit Trusts, Multilateral and Bilateral Institutions, Registered and/or Verifiable Private Equity Funds, Registered and/or verifiable Hedge Funds, Market Makers, Staff Schemes, Trustees/Custodians, Stock Broking Firms and any other category as the Commission may determine as stipulated by Rule 321 of the SEC Rules and Regulations (or as amended from time to time);
“Rate of Interest”	The applicable rate of interest on any Bond (other than a Fixed Rate Bond) to be determined on a Coupon Determination Date for each Interest Period by the Trustee;
“Receiving Agents”	Market operators authorised to receive Application forms/monies from investors;
“Rating Agencies”	Agusto & Co. Limited or any other SEC-registered rating agency appointed by the Sponsor;
“Receiving Banks”	Any receiving bank appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Series or Tranche of Bonds;
“Record Date”	The date falling no later than fifteen (15) days prior to an Interest Payment Date or Maturity Date, on which the Registrars determines Bondholders listed on record as eligible for Coupon Payment and/or principal repayment;
“Redemption Amount”	The aggregate Principal Amount outstanding and due in respect of a Bond on the Maturity Date;
“Register”	The register kept at the specified office of First Registrars & Investor

	Services Limited into which shall be entered the names and addresses of each Bondholder and the particulars, transfers and redemption of the Bonds held by each Bondholder;
“Registrar”	First Registrars & Investor Services Limited and/or, if applicable, any successor Registrar appointed by the Sponsor and authorized by the SEC to maintain the Register of Bondholders;
“Related Party”	Any corporate entity, which is the Sponsor’s holding company or a subsidiary of the Sponsor’s holding company;
“Rules and Regulations” “SEC Rules” or “SEC Rules and Regulations”	The Rules and Regulations of the Securities & Exchange Commission issued pursuant to the Investments and Securities Act No. 29 2007;
“SEC” or “the Commission”	Securities & Exchange Commission;
“Series”	A Tranche of Debt Securities together with any further Tranche or Tranches of Debt Securities which are (i) expressed to be consolidated and form a single series and (ii) are identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices;
“Share Trustee”	FBNQuest Trustees Limited and/or any other trustee appointed to hold the shares of the SPV for the benefit of the owners of the debt securities;
“Shelf Prospectus” or “SP”	This document issued in accordance with the Rules and Regulations of the Commission, which details the aggregate size and broad terms and conditions of the Programme;
“Special Purpose Vehicle” or “SPV”	A legal entity created to fulfil narrow, specific and/or temporary objectives;
“Special Resolution”	A resolution passed at a meeting of the Bondholders duly convened and held in accordance with the provisions herein contained and carried by a majority consisting of not less than three-fourths (3/4) in value of the votes given on such poll;
“Sponsor”, “the Company” or “FSDH MB”	FSDH Merchant Bank Limited;
“Supplementary Shelf Prospectus”, “SSP” or “Pricing Supplement”	The document(s) to be issued pursuant to this Shelf Prospectus, which shall provide final terms and conditions of a specific Series or Tranche of Bonds under the Programme;
“Supplemental Trust Deed” or “Series Trust Deed”	A trust deed made between the Issuer and the Trustees, in relation to a specific Series under the Programme;
“Terms and Conditions”	The terms and conditions of the Bonds as set out in this Shelf Prospectus;
“The Constitution”	The Constitution of the Federal Republic of Nigeria 1999 (as amended);
“Tranche”	Bonds which are identical in all respects (including as to listing and admission to trading);
“Transaction Documents”	Shelf Prospectus, Pricing Supplement, Programme Trust Deed, Series Trust Deed, Master Notes Issuance Agreement, Vending Agreement, Deed of Undertaking, Board Resolution authorising the Programme, Reporting Accountants’ Report and/or Management Discussion Analysis on the applicable audited financial statements, Solicitor’s Opinion on Claims and Litigation & Material Contracts, and Rating Report;

“Trustee”	ARM Trustees Limited and/or any other Trustee appointed by the Issuer;
“Trustee Act”	Trustee Investments Act, Cap T22, LFN 2004;
“USD” or “US\$”	The United States Dollar, the lawful currency of the United States of America;
“Validity Period”	The period of time for which the Programme and/or Shelf Prospectus would remain valid as specified by SEC. The period in effect is currently three (3) years from the date of this Shelf Prospectus and it shall be subject to renewal as approved by the SEC;
“VAT”	Value Added Tax as provided for in the VAT Act;
“VAT Act”	The Value Added Tax Act, Cap V1, LFN 2004 (as amended by the Value Added Tax (Amendment) Act No 12 of 2007) and Finance Act 2019;
“VAT Exemption Order”	The Value Added Tax (Exemption of Commissions on Stock Exchange Transactions) Order, 2014 made pursuant to the VAT Act;
“VAT Order”	The Value Added Tax (Exemption of Proceeds of the Disposal of Government and Corporate Securities) Order, 2011 made pursuant to the VAT Act;
“WHT”	Withholding Tax as provided for in the relevant sections of the CITA and the PITA;
“Zero Coupon Bond”	A non-interest bearing Bond or a Bond issued at a discount to its face value.

## DOCUMENTS TO BE INCORPORATED BY REFERENCE

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This Shelf Prospectus should be read and construed in conjunction with the Sponsor's Audited Annual Report for the years ended 31 December 2019, 31 December 2018, 31 December 2017, 31 December 2016, and 31 December 2015, comprising of the audited annual financial statements of the Sponsor (and the notes thereto) and any quarterly or interim financial statements of the Sponsor for the life of the Programme and prepared in compliance with the International Financial Reporting Standards issued by the International Accounting Standards Board and prescribed by the Financial Reporting Council of Nigeria ("FRCoN") (which include standards and interpretations approved by the FRCoN), together with its pronouncements thereon from time to time, and applied on a consistent basis.

The Sponsor will, in the event of any material change in its financial position, which is not reflected in this Shelf Prospectus, prepare an amendment or supplement to this Shelf Prospectus. Also, the Sponsor's information given in this Shelf Prospectus and the terms and conditions of additional Debt Securities to be issued under the Programme may be updated in a Pricing Supplement pursuant to the SEC Rules. Any such amendment or supplement will be incorporated by reference into this Shelf Prospectus and form an integral part hereof. Any statement contained in a document that is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Shelf Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Shelf Prospectus.

The Issuer will provide at no cost to each prospective investor upon request, a copy of any document deemed to be incorporated herein by reference, unless such documents have been modified or superseded. Requests for such documents shall be directed to the Issuer at its registered office as set out in this Shelf Prospectus or the Issuing Houses at the address stated below:

Enquiries can be directed to the Sponsor and Joint Issuing Houses at the following addresses:

**FSDH Merchant Bank Limited**  
UAC House (5th – 8th Floors)  
1/5 Odunlami Street, Lagos  
**Attention: Tolulope Obadagbonyi**  
Tel: +234 1 271 6280  
Email: [treasury@fsdhgroup.com](mailto:treasury@fsdhgroup.com)

**FSDH Capital Limited**  
8th Floor, UAC House  
1/5 Odunlami Street  
Lagos  
**Attention: Taiwo Olatunji**  
Tel: +234 1 270 2880  
Email: [Projectcoral2@fsdhgroup.com](mailto:Projectcoral2@fsdhgroup.com)

**United Capital PLC**  
4th Floor, Afriland Towers  
97/105 Broad Street, Lagos  
**Attention: Babatunde Ajayi**  
Tel: +234 1 631 7883  
Email: [capitalmarkets@unitedcapitalplcgroup.com](mailto:capitalmarkets@unitedcapitalplcgroup.com)

**Stanbic IBTC Capital Limited**  
I.B.T.C. Place, Walter Carrington Crescent  
Victoria Island, Lagos  
**Attention: Kobby Bentsi-Enchill**  
Tel: +234 1 422 8000  
Email: [StanbicIBTC-DebtCapitalMarkets@stanbicibtc.com](mailto:StanbicIBTC-DebtCapitalMarkets@stanbicibtc.com)  
**Rand Merchant Bank Nigeria Limited**  
3rd Floor Wings East Tower,  
17A Ozumba Mbadiwe Street,  
Victoria Island, Lagos  
**Attention: Ikechukwu Omeruah**  
Tel: +234 1 463 7944  
Email: [Ikechukwu.omeruah@rmb.com](mailto:Ikechukwu.omeruah@rmb.com)

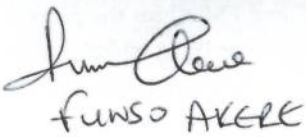
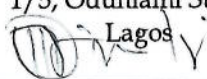
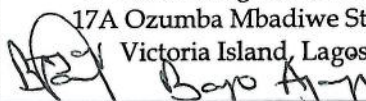
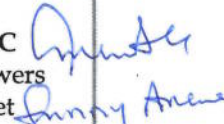
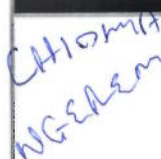
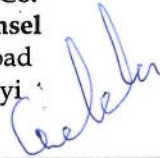

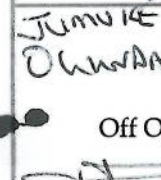
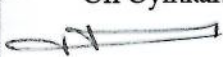
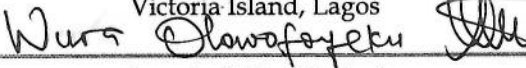
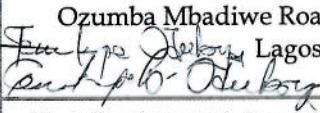
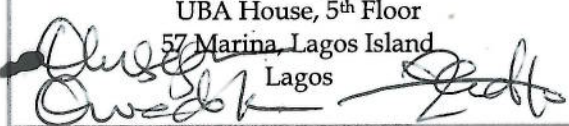
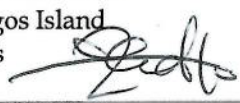

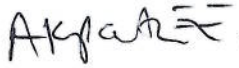
**PARTIES TO THE PROGRAMME**

The following parties have given and not withdrawn their written consents to the issue of this Shelf Prospectus:

DIRECTORS AND SECRETARY OF THE ISSUER	
<p><b>Mr. Taiwo Okeowo<sup>1</sup></b>  <b>Director</b>                      16, Keffi Street                      South West Ikoyi                      Lagos</p>	<p><b>Mr. Adekunle Awojobi</b>  <b>Director</b>                      16, Keffi Street                      South West Ikoyi                      Lagos</p>
<p><b>Mr. Patrick Mgbenwelu</b>  <b>Director</b>                      16, Keffi Street                      South West Ikoyi                      Lagos</p>	<p><b>Mrs. Tolulope Adetugbo</b>  <b>Company Secretary</b>                      16, Keffi Street                      South West Ikoyi                      Lagos</p>
DIRECTORS AND SECRETARY OF THE SPONSOR	
<p><b>Mr. Hamda Ambah</b>  <b>Chairman</b>                      UAC House, 5th - 8th Floor                      1/5 Odunlami Street                      Lagos</p>	<p><b>Mrs. Hamda Ambah</b>  <b>Managing Director/Chief Executive Officer</b>                      UAC House, 5th - 8th Floor                      1/5 Odunlami Street                      Lagos</p>
<p><b>Ms. Olufunsho Olusanya</b>  <b>Executive Director</b>                      UAC House, 5th - 8th Floor                      1/5 Odunlami Street                      Lagos</p>	<p><b>Mr. Taiwo Otiti</b>  <b>Executive Director</b>                      UAC House, 5th - 8th Floor                      1/5 Odunlami Street                      Lagos</p>
<p><b>Alhaji Bello Garba</b>  <b>Non-Executive Director &amp; Chairman Board Audit Committee</b>                      UAC House, 5th - 8th Floor                      1/5 Odunlami Street                      Lagos</p>	<p><b>Mr. Kelechi Okoro</b>  <b>Non-Executive Director</b>                      UAC House, 5th - 8th Floor                      1/5 Odunlami Street                      Lagos</p>
<p><b>Mr. Tosa Ogbomo</b>  <b>Non-Executive Director &amp; Member Board Audit Committee</b>                      UAC House, 5th - 8th Floor                      1/5 Odunlami Street                      Lagos</p>	<p><b>Mr. Patrice Backer</b>  <b>Non-Executive Director &amp; Member Board Audit Committee</b>                      UAC House, 5th - 8th Floor                      1/5 Odunlami Street                      Lagos</p>
<p><b>Mr. Godwin Ize-Iyamu</b>  <b>Non-Executive Director</b>                      UAC House, 5th - 8th Floor                      1/5 Odunlami Street                      Lagos</p>	<p><b>Ms. Bolanle Meshida</b>  <b>Company Secretary</b>                      UAC House, 5th - 8th Floor                      1/5 Odunlami Street                      Lagos</p>

<sup>1</sup> Mr. Taiwo Okeowo resigned from the board of directors of FSDH Funding SPV PLC – effective 01 February 2021

**PARTIES TO THE PROGRAMME**

Lead Issuing House		
<b>Stanbic IBTC Capital Limited</b> IBTC Place Walter Carrington Crescent Victoria Island, Lagos		 FUNSO AKERE
Joint Issuing Houses		
Tolu Osinibi <b>FSDH Capital Limited</b> UAC House, 8th Floor 1/5, Odunlami Street, Lagos 	<b>Rand Merchant Bank Nigeria Limited</b> 3rd Floor Wings East Tower, 17A Ozumba Mbadiwe Street, Victoria Island, Lagos 	<b>United Capital PLC</b> 4th Floor Afriland Towers 97/105 Broad Street Lagos 
Other Parties		
 <b>F.O. Akinrele &amp; Co.</b> <b>Transaction Counsel</b> 188 Awolowo Road South West, Ikoyi Lagos 	<b>Udo Udoma &amp; Belo-Osagie</b> <b>Issuer's Counsel</b> St Nicholas House, 10 <sup>th</sup> , 12 <sup>th</sup> & 13 <sup>th</sup> Floors Catholic Mission Street Lagos 	<b>Yinka Edu</b>
 <b>ARM Trustees Limited</b> <b>Trustee</b> 1 Mekunwen Road Off Oyinkan Abayomi Drive, Ikoyi, Lagos 	<b>George Ikoli &amp; Okagbue</b> <b>Legal Adviser to the Trustee</b> 864B Bishop Aboyade Cole Street Victoria Island Lagos	
<b>PricewaterhouseCoopers</b> <b>Auditors</b> Landmark Towers 5B, Water Corporation Road, Victoria Island, Lagos 	<b>Deloitte &amp; Touche Nigeria</b> <b>Reporting Accountants</b> Civic Towers, Plot GA 1 Ozumba Mbadiwe Road, Victoria Island Lagos 	
 <b>Agusto &amp; Co. Limited</b> <b>Rating Agency</b> UBA House, 5 <sup>th</sup> Floor 57 Marina, Lagos Island Lagos 	<b>First Registrars &amp; Investor Services Limited</b> <b>Registrar</b> Plot 2, Abebe Village Road off Eric Moore Road Iganmu, Lagos	<b>MODUREOLA AJIGBOTAFE</b> 
 <b>EGIE AKPATA</b>	<b>UCML Capital Limited</b> <b>Stockbroker</b> 7, Fatai Durosinmi Etti Crescent Off Ligali Ayorinde Street Victoria Island, Lagos	
Additional Information		
<b>Registered Address<sup>2</sup>:</b> UAC House, 5th - 8th Floor 1/5 Odunlami Street Lagos Tel: +234-1-2702880 Email Address: info@fsdhgroup.com		

<sup>2</sup> The Issuer has no additional offices. Regional offices of the Sponsor can be found on the Sponsor's website <https://fsdhgroup.com/contact>

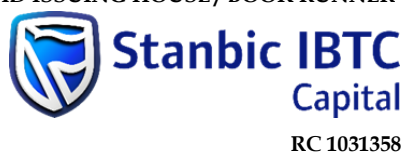
## THE PROGRAMME

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This Shelf Prospectus is being issued in compliance with the provisions of the ISA, the SEC Rules and Regulations and the listing requirements of FMDQ and the NSE, and contains particulars in compliance with the requirements of the SEC and FMDQ for the purpose of giving information to the public with regards to the ₦30 Billion Bond Issuance Programme being undertaken by the Issuer. An application will be made to the Listings and Quotations Committee of the FMDQ and/or The NSE for the admission to their platforms of each Series of the Bonds to be issued under the Programme.

Each of the Directors of the Sponsor and the Issuer represent that they have taken all reasonable care to ensure that the information concerning the Sponsor and Issuer contained in this Shelf Prospectus is true and accurate in all material respects as at the date of this Shelf Prospectus and that as of the date hereof there are no other material facts, in relation to the Sponsor or the Issuer, the omission of which would make misleading any statement herein, whether in fact or opinion.

### LEAD ISSUING HOUSE / BOOK RUNNER



### JOINT ISSUING HOUSES / BOOK RUNNERS



### ON BEHALF OF



Are authorised to Issue this Shelf Prospectus in respect of  
**THE ₦30 BILLION DEBT ISSUANCE PROGRAMME**

A copy of the Shelf Prospectus has been delivered to the SEC for registration. The registration of this Shelf Prospectus and any subsequent Pricing Supplement shall not be taken to indicate that the SEC endorses or recommends the Bonds described herein or assumes responsibility for the correctness of any statements made or opinions or reports expressed herein.

This Shelf Prospectus must be read in conjunction with any Pricing Supplement to be issued by the Issuer from time to time within its Validity Period. No Bonds will be issued on the basis of this Shelf Prospectus read together with any Pricing Supplement later than three (3) years after the issue date indicated on the cover of this Shelf Prospectus.

This Shelf Prospectus contains:

1. on page 25 – 37, the Terms and Conditions of the Programme;
2. on page 156, the legal opinion on the effect of the claims and litigation against the Sponsor prepared by F.O. Akinrele & Co.
3. on pages 65 – 128, the Reporting Accountants' Report on the Bank's historical financial information, prepared by Deloitte & Touche Nigeria; and
4. on page 64, extract of the Rating Report prepared by Agosto & Co. Limited;

## TRANSACTION OVERVIEW

The information contained in this section is a summary of certain aspects of the Programme and the principal features of the Bonds. This summary does not contain all of the information that you should consider before investing in the Bonds nor does it purport to be a complete or professional review of the investment situation regarding the possible acquisition of the Bonds, which you may currently be considering. Therefore, it should be read in conjunction with, and is qualified in its entirety by, reference to the detailed information presented in the remainder of this Shelf Prospectus and to the detailed provisions of each of the Offer Documents and the applicable Pricing Supplement. Investors should read the entire Shelf Prospectus carefully, especially the risks involved in investing in the Bonds which are discussed under "Risk Factors".

### Description of Transaction Structure

The Issuer is a Special Purpose Vehicle, established to raise and borrow funds for the Sponsor and other subsidiaries within the FSDH holding company structure through the issuance of bonds, debenture, debenture stock, other securities or perpetual annuities. The net proceeds of funds raised by the Issuer will be on-lent to the Sponsor via the purchase of notes and any other securities issued by the Sponsor to the Issuer (the "Notes") as may be agreed from time to time.

### Utilisation of the Issue Proceeds

Pursuant to the Master Notes Issuance Agreement, entered into between the Sponsor, the Issuer and the Trustees, the Issuer shall purchase the Notes from the Sponsor with the proceeds from the Debt Issuance Programme.

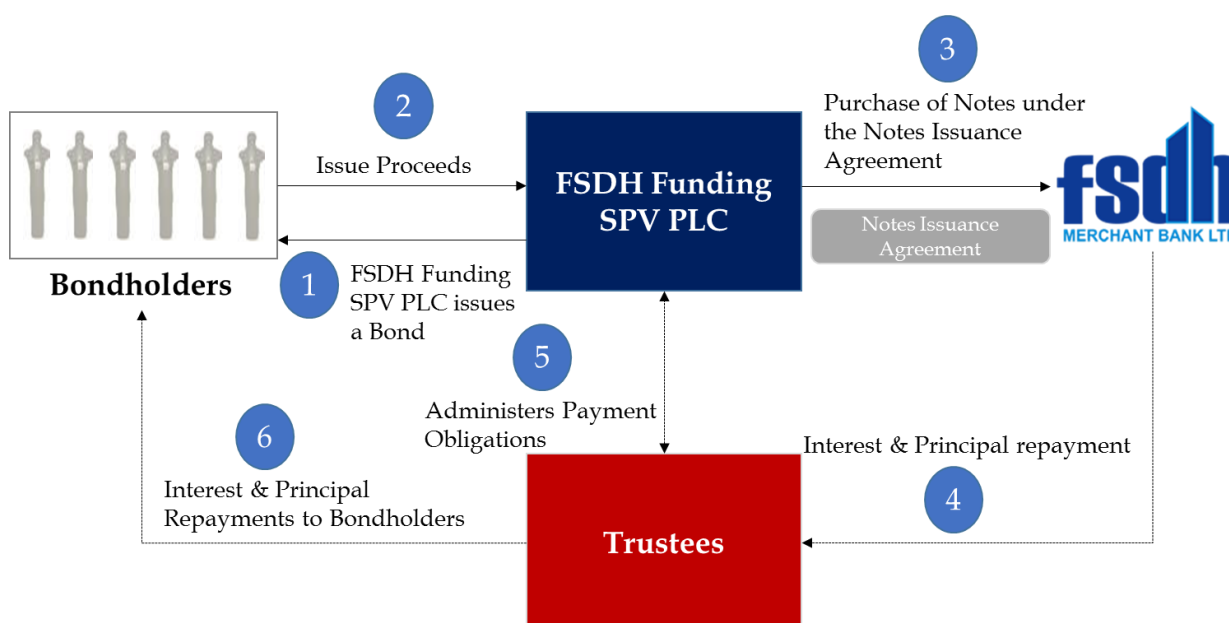
### Servicing of the Bonds

The Coupon and the principal payable on the Bonds to the Bondholders will be serviced with the payments received by the Issuer from its investments in the Notes of the Sponsor in accordance with the terms of the Note Issuance Agreement.

### Deed of Undertaking

The Bonds are backed by a Deed of Undertaking entered into by the Sponsor in favour of the Issuer and the Trustees on behalf of the Bondholders supporting the due discharge of all the obligations of the Issuer under the Programme.

### Transaction Structure



### Principal Transaction Documents

The under listed is a summary of the key legal agreements required for the above-referenced structure and is qualified in its entirety by reference to the detailed provisions of this Shelf Prospectus, the Programme Trust Deed and supplemental documents to be issued in relation to a particular Series.

1. **Master Notes Issuance Agreement (“MNIA”):** The MNIA is an agreement between the Issuer, the Sponsor and the Trustee by which the Issuer (called the “Subscriber” in this context) agrees to subscribe to Notes issued by the Sponsor using proceeds from the sale of Debt Securities.
2. **Deed of Undertaking:** This is an undertaking by the Sponsor in favour of the Issuer and the Trustee for the settlement of payment obligations of the Issuer and compliance with all applicable laws and regulations including performance of all necessary acts for the legal and efficient running of the Issuer as a going concern during the entire term of the Programme.
3. **Programme Trust Deed:** This is the agreement between the Issuer and the Trustee which sets out the terms, conditions and covenants governing the issuance of Debt Securities and the appointment of Trustee under the Programme

## SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and qualified in its entirety by the remainder of, this Shelf Prospectus and, in relation to the terms and conditions of any particular Series of Bonds, the applicable Pricing Supplement. Words and expressions defined in “Form of the Bonds” and “Terms and Conditions of the Bonds” shall have the same meaning in this summary:

TERMS	DESCRIPTION
<b>Issuer</b>	FSDH Funding SPV PLC
<b>Sponsor</b>	FSDH Merchant Bank Limited
<b>Programme Size</b>	₦30 Billion
<b>Lead Issuing House</b>	Stanbic IBTC Capital Limited
<b>Joint Issuing Houses</b>	FSDH Capital Limited Rand Merchant Bank Nigeria Limited United Capital PLC
<b>Methods of Issue</b>	The Bonds under this Programme may be issued by way of a public offer, private placement, book build, or any other methods as specified in the applicable Pricing Supplement and permitted by the SEC.
<b>Use of Proceeds</b>	The proceeds of the Programme will be utilized as stated in the Pricing Supplement.
<b>Interest Rates</b>	The Bonds may be interest-bearing or non-interest bearing. Interest (if any) may be at a fixed rate or vary as indicated in the Pricing Supplement and may vary during the lifetime of the relevant Series.
<b>Currency</b>	The Bonds will be denominated in Naira or such currency or currency units as may be agreed between the Issuer, the Sponsor and the Issuing Houses, subject to compliance with all applicable legal and/or regulatory requirements of the Commission.
<b>Ratings</b>	The Bonds issued under this Programme will be rated by at least one rating agency duly registered and/or recognized with the SEC and such rating shall be reviewed annually in accordance with the SEC Rules and Regulations.
<b>Status of the Bonds</b>	The Bonds, subject to modification in the Series Trust Deed and relevant Pricing Supplement, constitute senior/subordinated, direct, unsecured/secured and unconditional obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference among themselves. The payment obligations of the Issuer under the Bonds and in respect of principal and any coupon on the Bonds shall at all times rank at least equally with all other similar obligations of the Issuer, present and future except for obligations mandatorily preferred by law applying to companies generally.
<b>Events of Default</b>	The events of default under the Bonds are as specified within the Programme Trust Deed and as modified in respect of any Series by the applicable Series Trust Deed. The Trustees shall notify the Commission of such event(s) of default as required by the SEC Rules and Regulation.
<b>Form of the Bonds</b>	The Bonds will be issued in dematerialized form and shall be transferable. The issue and ownership of the Bonds will be effected and evidenced by the particulars of the Bonds being entered in the Register by the Registrar and the Bonds being electronically credited in the CSCS accounts of the Bondholder.

<b>Issuance in Series and Tranches</b>	The Bonds will be issued in series (each a "Series"). The Bonds of each Series will all be subject to identical terms, whether as to currency or maturity or otherwise, or terms which are identical except that the issue date, the amount of the first payment of interest and/or the denomination thereof may be different. Each Series may comprise of one or more tranches issued on different issue dates. A Series may only be comprised of Bonds in registered form.
<b>Maturity of Bonds</b>	The Bonds may be issued with such maturity periods as may be agreed between the Issuer and the Issuing Houses and as indicated in the Pricing Supplement, subject to such minimum or maximum maturity period as may be allowed or required from time to time by the Issuer or any laws or regulations applicable to the Issuer or the relevant specified currency.
<b>Issue Price</b>	Bonds may be issued at par or at a discount to par. The Issue Price of a specific Series shall be defined in the Applicable Pricing Supplement
<b>Closing Date</b>	The Closing Date of a specific Series shall be stated in the Applicable Pricing Supplement
<b>Opening Date</b>	The Opening Date of a specific Series shall be stated in the Applicable Pricing Supplement
<b>Coupon</b>	The Debt Securities may be interest-bearing or non-interest bearing. The Coupon if any, payable on the Bonds shall be determined by the Issuer, the Sponsor and the Issuing Houses and stated accordingly in the Applicable Pricing Supplement
<b>Frequency</b>	The frequency of payment of interest and any other monies due on the Debt Securities shall be specified in the applicable Pricing Supplement for the Bond being issued
<b>Denominations</b>	The Bonds will be issued in such denominations as may be agreed between the Issuer and the Issuing Houses and as specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and regulatory requirements, and in accordance with usual market practice.
<b>Early Redemption</b>	Early redemption will be permitted only to the extent specified in the Pricing Supplement and then only subject to any applicable legal or regulatory requirements.
<b>Principal Redemption</b>	Bonds will be redeemed on the dates specified in the Applicable Pricing Supplement
<b>Redemption</b>	The Bonds may be redeemable at par or at such other redemption amount as may be specified in the applicable Pricing Supplement.
<b>Business Day Convention</b>	Where the day on which a payment is due to be made is not a Business Day, that payment shall be effected on the next succeeding Business Day unless that succeeding business day falls in a different month in which case, payment shall be made on the immediately preceding Business Day.
<b>Listing</b>	Each Tranche or Series of Bonds will be listed on the FMDQ and/or The NSE and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed between the Issuer and the Issuing Houses.
<b>Bonds Trading &amp; Liquidity</b>	Bonds may trade OTC or on any other recognized trading platform between banks and qualified market counterparties. Dealers will be obliged to quote two-way prices for the Bonds.

<b>Taxation</b>	Payments in respect of the Bonds to the Bondholders will be made without deduction for or on account of withholding taxes imposed by Nigerian law. In the event that any such deduction is made, the Issuer will be required to pay additional amounts to cover the amounts so deducted. Please refer to the section "Tax Considerations" on page 130 of this Shelf Prospectus for a detailed description of tax considerations.
<b>Negative Pledge</b>	For as long as any of the Bonds are outstanding, the Issuer/Sponsor shall not create (without the written consent of the Trustee, such consent not to be unreasonably withheld) any mortgage, charge, pledge, lien or any Encumbrance upon the whole or any part of its present or future undertaking, business, assets or revenue to secure any indebtedness, unless the Sponsor/Issuer's obligations under the Bonds are secured equally and ratably with the said obligations or have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem not to be materially less beneficial to the Bondholders.
<b>Terms and Conditions</b>	The terms and conditions applicable to each Series (the "Terms and Conditions") will be agreed between the Issuer and the Issuing Houses at or prior to the time of issuance of such Tranche or Series, and will be specified in the applicable Supplementary Shelf Prospectus. The Terms and Conditions applicable to each Tranche or Series will therefore be those set out on pages 25 to 32 hereof as supplemented, modified or replaced by the applicable Supplementary Shelf Prospectus.
<b>Other Conditions</b>	Such other Terms and Conditions as may be incorporated by reference to, modified by, or supplemented by Supplementary Shelf Prospectus for the Issue.
<b>Statement of Indebtedness</b>	Save as disclosed, the Issuer and the Sponsor have no outstanding loans, charges or other similar indebtedness. Details of any indebtedness at the time of issuance of any bonds under the Programme will be disclosed in the applicable Pricing Supplement to that particular series of bonds.
<b>Governing Law</b>	The Bonds and all related contractual documentation will be governed by, and construed in accordance with Nigerian law.
<b>Transaction Documents</b>	<ul style="list-style-type: none"> <li>• Shelf Prospectus</li> <li>• Pricing Supplement</li> <li>• Programme Trust Deed</li> <li>• Series Trust Deed</li> <li>• Share Trust Deed</li> <li>• Master Notes Issuance Agreement</li> <li>• Vending Agreement</li> <li>• Deed of Undertaking</li> <li>• Board Resolution authorising the Programme</li> <li>• Reporting Accountants' Report and/or Management Discussion Analysis on the applicable audited financial statements</li> <li>• Solicitors' Opinion on Claims and Litigation &amp; Material Contracts</li> <li>• Rating Report</li> </ul>

## TERMS AND CONDITIONS OF THE PROGRAMME

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*The following is the text of the terms and conditions which (subject to amendment and as completed, modified, supplemented, varied or replaced, in whole or in part, by the conditions which form part of the relevant Series Trust Deed, Supplementary Shelf Prospectus and/or Pricing Supplement) will be deemed incorporated into the Bonds.*

*The provisions of these Terms and Conditions which are applicable to the Bonds issued under the Programme shall be deemed to be completed by the information supplied in the relevant Series Trust Deed. Any provisions of the Series Trust Deed, Pricing Supplement or Supplementary Shelf Prospectus modifying supplementing or replacing in whole or in part, the provisions of these Conditions shall be so construed, and all provisions of these Terms and Conditions which are inapplicable to the Bonds of any Series shall be deemed deleted from these Conditions as required to give effect to the relevant Series Trust Deed, Pricing Supplement or Supplementary Shelf Prospectus.*

### **The Bonds**

The Bonds are constituted by and under a Programme Trust Deed (the "Programme Trust Deed") dated 16 February 2021 (the "Trust Deed") between FSDH Funding SPV Plc ("the Issuer") and ARM Trustee Limited ("the Trustee", which expression shall include all persons who for the time being are trustee or trustee under the Trust Deed) as Trustee for the purpose of acting on behalf of the Bondholders, as supplemented by the relevant Series Trust Deed between the Issuer and the Trustee. The statements set out in these Terms and Conditions (the "Conditions") include summaries of and are subject to the detailed provisions of the Programme Trust Deed. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Programme Trust Deed and the relevant Series Trust Deed applicable to them. The Programme Trust Deed and any Series Trust Deed are hereinafter collectively referred to as "the Trust Deed". Copies of the Trust Deed are available for inspection during normal business hours at the specified offices of the Trustee, and at the offices of the Registrar as specified in the Pricing Supplement, throughout the tenor of the Programme.

These Terms and Conditions include summaries of and are subject to the detailed provisions of the Trust Deed.

Words and expressions defined in the Trust Deed (as some have been or may be amended, varied or supplemented from time to time with the consent of the Parties thereto) are expressly and specifically incorporated to and shall apply to these Conditions.

Terms in capital letters used but not defined in the Conditions shall have the meanings attributed to them in the Trust Deed unless the context otherwise requires or unless otherwise stated.

**1. Form of the Bonds**

The Bond shall be issued in uncertificated dematerialised/book entry form at the depository and shall be credited to Bondholders' accounts at the depository.

**2. Title to the Bonds**

Except as may subsequently be agreed between the Parties in a Series Trust Deed, the Bondholder (or his legal representative) shall be deemed and regarded as the absolute owner of the Bonds registered in his name on the Register for all purposes including but not limited to the payment of principal, premium (if any), and Coupon (if any).

**3. Status of the Bonds**

The Bonds shall constitute direct, unsecured/secured, unsubordinated/subordinated and unconditional obligations of the Issuer and shall rank pari passu and without any preference among themselves (subject to modifications in any Series Trust Deed). The payment obligations of the Issuer in respect of principal and interest thereon shall save for such obligations as may be preferred by applicable legislation relating to creditor's

rights, at all times rank equally with all other existing similar indebtedness and monetary obligations of the Issuer, present and future.

**4. Interest and other Calculations**

In this Clause:

**"Coupon Accrual Period"** means the period beginning on (and including) the Coupon Commencement Date and ending on (but excluding) the first Coupon Period Date and each successive period beginning on (and including) a Coupon Period Date and ending on (but excluding) the next succeeding Coupon Period Date;

**"Coupon Amount"** means

- (i) in respect of a Coupon Accrual Period, the amount of coupon payable per Calculation Amount for that Coupon Accrual Period and which, in the case of Fixed Rate Bonds, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Coupon Payment Date ending the Coupon Period of which such Coupon Accrual Period forms part; and
- (ii) in respect of any other period, the amount of coupon payable per Calculation Amount for that period;

**"Coupon Commencement Date"** means the first date from which interest on a Series of the Bonds will accrue, as specified in the Applicable Pricing Supplement;

**"Coupon Determination Date"** means, with respect to a Rate of Interest and Coupon Accrual Period, the date specified as such in respect of the Bonds;

**"Coupon Period"** means the period beginning on (and including) the Coupon Commencement Date and ending on (but excluding) the first Coupon Payment Date and each successive period beginning on (and including) a Coupon Payment Date and ending on (but excluding) the next succeeding Coupon Payment Date;

**"Coupon Period Date"** means each Coupon Payment Date unless otherwise specified in the applicable Series Trust Deed and/or Pricing Supplement in respect of the Bonds;

**"Coupon Rate"** or **"Rate of Interest"** means the rate of interest payable from time to time in respect of Coupon-bearing Bonds of a Series or Tranche and that is either specified or calculated in accordance with the provisions of the applicable Series Trust Deed or Pricing Supplement in respect of such Bonds;

**"Day Count Fraction"** means, in respect of the calculation of an amount of interest on Bonds of a Series for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting a Coupon Period or latest Accrual Period, the "Calculation Period");

**"Determination Date"** means the date specified in respect of the Bonds of a Series or, if none is so specified, the Coupon Payment Date;

**"Determination Period"** means the period from and including a Determination Date in any year to but excluding the next Determination Date;

**"Kobo"** means the sub-unit of the Naira.

**a. Coupon on Fixed Rate Bonds**

The Bonds shall bear Coupon on the outstanding nominal amount at the relevant Fixed Coupon Amount for the applicable Coupon Period. The amount of Coupon payable shall be determined in accordance with Condition 4(e).

**b. Coupon on Floating Rate Bonds:**

- i. Coupon Payment Dates: Floating Rate Bonds shall accrue Coupon on the outstanding nominal amount from the Coupon Commencement Date at the rate per annum (expressed as a percentage) equal to the Coupon Rate, such Coupon being payable in arrears on each Coupon Payment Date.

The Coupon amount payable shall be determined in accordance with Condition 4(e).

Such Coupon Payment Date(s) is/are either shown in the relevant Series Trust Deed and/or Pricing Supplement as Specified Coupon Payment Dates or, if no Specified Coupon Payment Date(s) is/are shown in the relevant Series Trust Deed and/or Pricing Supplement, Coupon Payment Date shall mean each date which falls the number of months or other period shown in the relevant Series Trust Deed and/or Pricing Supplement as the specified period after the preceding Coupon Payment Date or, in the case of the first Coupon Payment Date, after the Coupon Commencement Date.

- ii. Business Day Convention: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- iii. Coupon Rate: The Coupon Rate in respect of Floating Rate Bonds for each Coupon Accrual Period shall be determined in the manner specified in the relevant Pricing Supplement.

**c. Zero Coupon Bonds**

Where any Zero-Coupon Bond is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Bonds. As from the Maturity Date, the interest for any overdue principal of such Bonds shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 5(b)(i)).

- d. Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts Rate Multipliers and Rounding

- (i) If any Margin is specified in respect of the Bonds (either (i) generally, or (ii) in relation to one or more Coupon Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (i), or the Rates of Interest for the specified Coupon Accrual Periods, in the case of (ii), calculated in the manner specified in the Series Trust Deed and/or the relevant Pricing

Supplement by adding (if a positive number) or subtracting the absolute value (if a negative number) of such margin or multiplying by such Rate Multiplier, subject always to the next paragraph.

- (ii) If any maximum or minimum rate of interest, instalment amount or redemption amount is specified in respect of any series of the Bonds, then any rate of interest, instalment amount or redemption amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (i) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (ii) all figures shall be rounded to seven significant figures (with halves being rounded up); and (iii) all amounts that fall due and payable shall be rounded to the nearest Kobo (with halves being rounded up).

**e. Calculations**

The Coupon Amount payable in respect of each Bond shall be specified in (an amortisation/payment schedule appended to), or determined in accordance with, the applicable Series Trust Deed and/or Pricing Supplement. The Coupon Amount payable in respect of any Bonds for any Coupon Accrual Period shall be calculated by multiplying the product of the Rate of Interest and the Principal Amount Outstanding of such Bonds as specified in the applicable Series Trust Deed and/or Pricing Supplement (“the Calculation Amount”) by the Day Count Fraction for such Coupon Accrual Period and rounding the resulting figure to the nearest sub-unit of the Naira, unless a Coupon Amount (or formula for its calculation) is specified in respect of such Coupon Accrual Period, in which case the Coupon Amount payable per Calculation Amount in respect of such Bonds for such Coupon Accrual Period shall equal such Coupon Amount (or be calculated in accordance with such formula). Where any Coupon Period comprises two or more Coupon Accrual Periods, the Coupon Amount payable per Calculation Amount in respect of such Coupon Period shall be the sum of the Coupon Amount payable in respect of each of those Coupon Accrual Periods. In respect of any other period for which Coupon is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which Coupon is required to be calculated.

- (i) if “Actual/365” or “Actual/Actual-ICMA” is specified in respect of the Bonds, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in respect of Bonds of a Series, the actual number of days in the Calculation Period divided by 365;
- (iii) if “Actual/360” is specified in respect of Bonds of a Series, the actual number of days in the Calculation Period divided by 360;
- (iv) if “30/360”, “360/360” or “Bond Basis” is specified in respect of the Bonds, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall

not be considered to be lengthened to a 30-day month);

- (v) if “30E/360” or “Eurobond Basis” is specified in respect of the Bonds, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);

and

- (vi) if “Actual/Actual” is specified in respect of the Bonds:
- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) if the Calculation Period is longer than one Determination Period, the sum of: (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

## 5. **Redemption, Purchase, Cancellation and Options**

In this Clause:

“**Instalment Amount**” means the amount on the Bond which may be redeemed on a specified instalment;

“**Instalment Date**” means the date at which a specified Instalment Amount becomes redeemable;

“**Investor Put**” means the option available to any of the Bondholders to redeem the Bond prior to the Maturity Date;

“**Issuer Call**” means the option available to the Issuer to redeem the Bond prior to the Maturity Date;

“**Maximum Redemption Amount**” means the maximum specified price at which the Bond may be redeemed at the option of the Issuer or Bondholder as the case may be;

“**Minimum Redemption Amount**” means the minimum specified price at which the Bond may be redeemed at the option of the Issuer or the Bondholder as the case may be;

“**Optional Redemption Amount**” means the price at which the Bond may be redeemed at the option of the Issuer or Bondholder as the case may be prior to the Maturity Date;

“**Optional Redemption Date**” means the specified date on which the Bond may be redeemed at the option of the Bondholder or the Issuer as the case may be;

“**Relevant Date**” means the date on which a specified amount first becomes due.

a. **Redemption by Instalments and Final Redemption**

- i. Unless previously redeemed, purchased and cancelled as provided in this Condition 5, Bonds of a Series that provide for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified in respect of such Bonds. The outstanding nominal amount of such Bonds shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Bonds, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- ii. Unless previously redeemed, purchased and cancelled as provided below, the Bonds shall be finally redeemed on the Maturity Date specified in the relevant Series Trust Deed and/or Pricing Supplement at its Final Redemption Amount (which, unless otherwise provided in respect of the Bonds, is its nominal amount) or, in the case of Bonds falling within paragraph (i) above, its final Instalment Amount.

b. **Early Redemption**

(i) **Zero Coupon Bonds:**

- (A) The Early Redemption Amount payable in respect of Zero Coupon Bonds, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Bonds pursuant to Condition 5(c) or upon it becoming due and payable as provided in Condition 9 shall be the Amortised Face Amount (calculated as provided below) of such Bonds unless otherwise specified in respect of the Bonds.
- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of such Bonds shall be the scheduled Final Redemption Amount of such Bonds on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is specified in respect of the Bonds, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Bonds if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Bonds upon its redemption pursuant to Condition 5(c) or upon it becoming due and payable as provided in Condition 9 is not paid when due, the Early Redemption Amount due and payable in respect of such Bond shall be the Amortised Face Amount of such Bond as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Bonds becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Bonds on the Maturity Date together with any interest that may accrue in accordance with Condition 4(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the relevant Series Trust Deed and/or Pricing Supplement.

(ii) **Other Bonds:**

The Early Redemption Amount payable in respect of Bonds of a Series (other than Zero Coupon Bonds described in (i) above), upon redemption of such Bonds pursuant to Condition 5(c) or upon it becoming due and payable as provided in Condition 9, shall be the

Final Redemption Amount unless otherwise specified in the Series Trust Deed and/or Pricing Supplement in respect of the Bonds.

c. **Redemption for Taxation Reasons**

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, on any Coupon Payment Date (if the Bonds are Floating Rate Bonds) on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 5(b) above) (together with the Coupon accrued to the date fixed for redemption), if:

- (i) the Issuer satisfies the Trustee and the SEC immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as a result of any change in, or amendment to, the laws or regulations of the Federal Republic of Nigeria or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the Series or Tranche of the Bonds; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee and the SEC a certificate signed by two Directors stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

**Redemption at the Option of the Issuer prior to Maturity**

Subject to the terms of the relevant Series Trust Deed, the Issuer shall be entitled at any time to redeem the whole or any part of the Bonds upon giving the holders of the Bonds to be redeemed not less than three months' notice of its intention to do so, and at the expiration of such notice, the Issuer shall be entitled and bound to redeem the Bonds in respect of which such notice has been given.

Early redemption shall take place on such terms as shall be agreed in the relevant Series Trust Deed or on such terms as shall be determined by the Bondholders or the relevant Bondholder whose Bond is to be redeemed at [11a.m] on the date set for redemption.

In the case of redemptions made under this Condition, not less than 3 (three) month's previous notice in writing of the date fixed for redemption, which shall be a Coupon Repayment Date, shall be given by the Issuer to each Bondholder any of whose Bond is to be redeemed. Such notice shall state the amount of the Bond due for redemption and the condition under which such redemption is to be effected and shall name the date and place for redemption of such Bond.

effect to the exercise of the put option. Once such option has been exercised by the deposit of an Exercise Notice, it may not be withdrawn without the prior consent of the Issuer.

d. **Purchases**

The Issuer may at any time purchase Bonds at any price in the open market, by tender or otherwise.

e. **Cancellation and right to re-issue the Bonds**

Where the Issuer has redeemed or repurchased any Bond(s) under this Condition 5, such Bonds shall be cancelled and the Issuer shall not resell or reissue such Bonds.

The aggregate Principal Amount on the Bonds of each Series shall be finally redeemed in accordance with the terms of the applicable Series Trust Deed.

6. **Tax Considerations**

Under current legislation in Nigeria, the tax consequences of an investment in the Bonds to be issued under the Programme are quite broad and extensive. These include exemption from Companies Income Tax, Value Added Tax and Personal Income Tax respectively, by virtue of the Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order 2011, the Value Added Tax (Exemption of the Proceeds of the Disposal of Government and Corporate Securities) Order 2011 and the Personal Income Tax (Amendment) Act 2011 respectively.

Please note that this information about the tax exempt status of the Bonds and income accruing therefrom is meant to serve only as a guide and should not be considered as or deemed to be tax advice which can be acted upon by an investor. Investors are advised to seek specific tax advice regarding investment in the Bonds from their professional tax advisers.

Fees, Duties and other Taxes

Unless otherwise stated in the relevant Shelf Prospectus and the Relevant Supplementary Shelf prospectus or Pricing Supplement, the Issuer shall pay:

- (i) any stamp, issue, registration, documentary and other similar fees duties and taxes including interest and penalties payable on or in connection with
- (a) the execution and delivery of this Deed and (b) the constitution and issuance of the Bonds and
- (ii) any stamp, issue, registration, documentary and other similar fees duties and taxes including interest and penalties payable on or in connection with any action taken by or on behalf on behalf of the Trustee or (where permitted under this Deed) any Bondholder to enforce this Deed.

7. **Prescription**

Claims against the Issuer for payment in respect of the Bonds shall be prescribed and become void unless made within 6 (six) years from the appropriate Relevant Date in respect of Principal and Coupon.

As used in these Conditions, "Relevant Date" in respect of any payment means the date on which such payment first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to such Bondholders that such payment will be made.

8. **Events of Default**

- 8.1 The Trustee may at their discretion and shall, upon the request in writing of the registered Bondholders of at least one-fifth (1/5) of the nominal amount of the Bond for the time being outstanding or upon being so directed by a Special Resolution of the Bondholders by notice

in writing to the Issuer declare the Bond to have become immediately repayable, provided that one of the following Events of Default has occurred:

- 8.1.1 If the Issuer defaults for more than five (5) Business Days in the payment of any principal monies and Coupon owing on any Series, or any premium thereon and the Principal Amount payable under any provisions of this Deed. Provided however that the Issuer shall not be in default if during the five (5) Business Days' period, it satisfies the Trustee that such sums were not paid
- (i) in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment, the Issuer, the Trustee or the relevant Bondholder or
  - (ii) in case of doubt as to the validity or applicability of any such law, regulation or order, in accordance with advice as to such validity or applicability given at any time during the said period of five (5) Business Days by independent legal advisers notified to the Trustee or
  - (iii) due to a Disruption Event provided that the Issuer shall show to the Trustee that it has taken all steps necessary to mitigate the effect of the Disruption Event; or
  - (iv) its failure to pay is caused by an administrative or technical error, and payment is made within ten (10) Business Days of its due date; or
  - (v) non-payment is due to a Force Majeure Event and the Trustee has in its discretion (after consultation with the Issuer) determined that such Force Majeure Event can be remedied within a reasonable period and extend the grace period;
- 8.1.2 If the Issuer does not comply with its other obligations hereunder or in respect of the Bonds of the relevant Series and, if the non-compliance can be remedied, does not remedy the non-compliance within [30] Days after written notice requiring such default to be remedied has been delivered to the Issuer by the Trustee;
- 8.1.3 If the Issuer is (or is deemed by law or a court of competent jurisdiction to be) insolvent or unable to pay its debts as they fall due; or stops, payment of a substantial part of its debts as a result of financial difficulties;
- 8.1.4 If a distress, attachment, execution or other legal process is levied on, or enforced against the whole or any substantial part of the property, assets or revenues of the Issuer and is not discharged or stayed within 120 (One Hundred and Twenty) days thereof;
- 8.1.5 If there shall be any release of the Sponsor from its obligations under the Deed of Undertaking, other than with the express written approval of the Trustee and a Special Resolution of the Bondholders, including any release by operation of law, or any failure by the Sponsor to make payment when demanded by the Trustee in accordance with the Deed of Undertaking aforesaid.

**PROVIDED** that on the happening of any event specified in sub-clauses 8.1.1 to 8.1.3, the Bonds shall not be declared immediately payable unless and until the Trustee shall have first served on the Issuer and the Sponsor a preliminary notice requiring the Issuer and/or the Sponsor as the case may be, to make the relevant payment in arrears, with interest or to remove, discharge or pay out to the satisfaction of the Trustee or to perform and observe the covenant or provisions the breach whereof has been committed, or threatened and the Issuer and the Sponsor shall have failed or neglected for a period of thirty (30) days to comply with such notice.

**9. Notices**

9.1 Any notice or notification to be given by or to either of the Parties hereto shall be deemed to have been sufficiently given if it is delivered by hand or sent by courier or electronic mail transmission to the principal place of business of the other party to be notified or to such other address, facsimile number or electronic mail address as the Party to be notified shall have earlier given in writing to the other Party.

9.2 Any notice sent by hand or by courier shall only be deemed to have been given if the parties receiving the notice shall have signed an acknowledgement of receipt of same.

9.1 Any notice sent by electronic mail shall only be deemed to have been given upon receipt of an electronic mail from the recipient, confirming that the notice has been duly received.

9.4 The address of the Parties for delivery of notices is as set forth below:

**The Issuer:**

The Managing Director  
FSDH Funding SPV Plc  
UAC House  
1/5 Odunlami Street  
Lagos  
Email address: CorporateTrust@fbnquest.com

**The Trustee:**

The Managing Director  
ARM Trustees Limited  
1 Mekunwen Road  
Ikoyi  
Lagos  
Email address: armtrustees-ct@arm.com.ng

9.5 Notice may be given by the Issuer or by the Trustee to any Bondholder by sending same through the post in a prepaid letter addressed to such Bondholder at his address appearing on the Register of Bondholders.

**10. Register of Bondholders**

A register of Bondholders shall be maintained by the Registrar at its registered office or at such other place as may be approved by the Trustee and there shall be entered in such register:

- a. the names and addresses of the Bondholders and the persons deriving title thereunder;
- b. the principal amount of the Bonds held by each of them;
- c. the amount or the highest amount of any premium payable on redemption of the Bonds;
- d. the amount of the Bonds for the time being issued and fully paid and the date of registration;
- e. the serial number of each Certificate (where applicable) and date of issue thereof;
- f. the accounts details and payment instructions for each Bondholder, to the extent available;
- g. the date on which the person ceased to be a Bondholder; and
- h. the transfer or changes in ownership of the Bonds.

**11. Change in Name and Address of Bondholder.**

Any change of name or address on the part of the Bondholder shall forthwith be notified to the Issuer and subsequently, the Register shall be altered accordingly.

**12. Right to Inspect Register**

The Trustee, Bondholders and any person authorised in writing by either of them shall be entitled at all reasonable times during office hours to inspect the Register and to make copies of or take extracts from same.

**13. Rights against Predecessor in Title**

Except as required by law, the Issuer will recognise the registered Bondholder of the Bonds as the absolute owner thereof and shall not be bound to take notice, or see to the execution of any trust whether express, implied or constructive, to which any units of the Bonds may be subject, and the receipt of such registered Bondholder, or in the case of joint registered Bondholders the receipt by any of them, for the Coupon from time to time accruing due, or for any other monies available in respect thereof, shall be a good discharge by the Issuer notwithstanding any notice it may have whether express or otherwise of the right title, interest or claim of any other person to or in such units of the Bonds, interest or monies. No notice of any trust, express or constructive shall be entered in the Register in respect of any units of the Bonds.

**14. Transfer of Bonds**

The Bonds are transferable by instrument in writing in the usual common form of transfer in accordance with the provisions of the Programme Trust Deed.

**15. Instrument of Transfer**

Every instrument of transfer of units of the Bonds must be signed by both the transferor and the transferee and the transferor shall be deemed to remain the owner of the units of the Bonds to be transferred until the name of the transferee is entered in the Register in respect thereof.

**16. Suspension of Registration**

The registration of transfers may be suspended at such times and for such periods as the Registrar may determine, provided that registration shall not be suspended for more than 14 Business Days in a year.

**17. Liquidation of Bondholder**

In the event of the winding up of a registered Bondholder, the liquidator and/or receiver manager, shall be the only authorised persons recognised by the Issuer as having any title to such Bonds.

**18. Transmission of Bonds**

Any person becoming entitled to any units of the Bonds in consequence of the death, bankruptcy, winding-up or dissolution of the Bondholder may, upon producing such evidence of his title as the Issuer or the Registrar shall think sufficient, be registered himself as the holder of the Bond, or subject to the preceding conditions as to transfer may transfer the same. The Issuer shall be at liberty to retain the interest payable upon any of the Bonds which any person is entitled to transfer under the preceding conditions until such person shall be registered or duly transfer the same as aforesaid.

**19. Payment of Coupon etc.**

Any principal, coupon or other monies payable on or in respect of any units of the Bonds shall be paid into the account of the Bondholder or person entitled thereto, or into the account of such person as the Bondholder may in writing direct. Such credit into the accounts shall be satisfaction of the monies represented thereby.

**20. Receipt of Joint Bondholders**

If several persons are entered in the Register as joint holders of the units of the Bonds, then without prejudice to Condition 19 with respect to the Payment of Coupon, the receipt of any

one of such persons for any interest or other monies payable on or in respect of such Bonds shall be as effective a discharge to the Registrar and or the Issuer as if the person signing such receipt were the sole registered holder of those Bonds.

**21. Meetings of Bondholders**

The Deed contains provisions for convening Meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Special Resolution of a modification of any of these Conditions.

The quorum for any meeting of the Bondholders shall be two or more persons holding or representing by proxy at least two-fifths of the nominal amount of the Bonds of any Series ("the Bonds") unless the business of the meeting includes the consideration of a Special Resolution, in which event the necessary quorum shall be two or more persons holding or representing by proxy a simple majority (51%) of the nominal amount of the Bonds for the time being outstanding and no business shall be transacted at any meeting unless the requisite quorum shall be present when the meeting proceeds to business, PROVIDED THAT at any meeting the business of which includes any of the following matters (each of which shall only be capable of being effected after having been approved by a Special resolution):

- a. to sanction any modification or compromise or any arrangements in respect of the rights of the Bondholders against the Issuer whether such rights shall arise under the Programme Trust Deed, any applicable Series Trust Deed or otherwise;
- b. to assent to any modification of the provisions contained in this Trust Deed proposed or agreed to by the Issuer;
- c. to amend the dates of maturity or redemption of the Bonds or any Coupon Payment Date;
- d. to reduce the Coupon rates in respect of the Bonds or to vary the method or basis of calculating the Coupon rates or any amount payable as Coupon in respect of the Bonds;
- e. to give any sanction, direction or request which under any of the provisions of this the Programme Trust Deed is required to be given by Special Resolution;
- f. to authorise and empower the Trustee to concur in and execute all such deeds or instruments, and perform all such acts as may be necessary to carry out and give effect to any Special Resolution;
- g. to give any release to the Trustee in respect of anything done or omitted to be done by the Trustee hereunder before the giving of the release;
- h. to sanction a scheme for reconstruction or amalgamation of the Issuer; or
- i. to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass a Special Resolution, the necessary quorum shall be two or more persons holding or representing not less than three-fourths (75%) or at any adjourned meeting not less than one quarter (25%) in nominal amount of the Bonds for the time being outstanding.

Any Special Resolution duly passed shall be binding on the Bondholders (whether or not they were present at the meeting at which such resolution was passed).

**22. Modification and Waiver**

The Trustee may agree, without the consent of the Bondholders, to

- (i) any modification (except as mentioned in Condition 21 above) to, or the waiver or authorisation of any breach or proposed breach of these conditions or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or
- (ii) any modification to the Bonds or to the Trust Deed which, in the Trustee' opinion, is a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver or authorisation will be binding on the Bondholders and, any such modification will be notified by the Issuer to the Bondholders and the SEC as soon as practicable thereafter.

**23. Future Bonds**

The Issuer shall be at liberty, without the consent of the Bondholders, to issue, at such date or dates and in such amount or amounts, on such terms and conditions as the Board of Directors of the Issuer may from time to time decide upon, further Bonds pursuant to the Programme by one or more deeds supplemental to these presents and ranking pari passu in point of security with the Bonds. In the event of the Issuer at any time or times exercising the right hereby given to issue further Bonds, it shall be entitled to call upon the Trustee to join with the Issuer in executing such supplemental or further deed or deeds.

**24. Governing Law**

This Deed shall be governed by and construed in all respects in accordance with the laws of the Federal Republic of Nigeria.

## OVERVIEW OF NIGERIA AND ITS ECONOMY

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*The information in this section has been extracted from publicly available data obtained from organizations such as the CBN, the NBS, the DMO and other sources believed to be reliable. The Issuer and the Issuing Houses have relied on the accuracy of this information without independent verification and make no representation as to its accuracy.*

### **Overview**

The Federal Republic of Nigeria is located in the West African sub-region of Africa, bordered by the Republic of Niger to the North, Republic of Chad to the North East, Republic of Cameroon to the East, Republic of Benin to the West and the Atlantic Ocean to the South, and occupies a land area of approximately 923,773 sq. km. Nigeria is comprised of 36 states and a Federal Capital Territory – Abuja – which is located in north central Nigeria. The executive government of each state is headed by an elected state governor and the legislature which consists of a unicameral House of Assembly. The Federal Capital Territory is however administered by a designated Minister appointed by the President while legislative powers for the territory are vested on the National Assembly. The states and the Federal Capital Territory are grouped into six geopolitical zones: North West, North Central, North East, South East, South South and South West. Lagos, which is situated in the South West of Nigeria, is the principal commercial centre and has the main sea and air ports in the country.

There are currently 774 constitutionally recognized Local Government Areas (LGAs) and area councils in Nigeria. Each LGA is administered by a Local Government Council consisting of a chairman who is the Chief Executive of the LGA, and other elected members who are referred to as Councillors. Each of the areas is further subdivided into wards with a minimum of ten and a maximum of fifteen for each area.

According to the United Nations Population Division (UNPD)'s World Population Prospects, Nigeria's population was approximately 201 million in 2019, with a growth rate of 2.6%. These numbers have placed Nigeria to be the most populous nation in Africa and the 7<sup>th</sup> most populous country in the world. Though the population growth rate has slowed over the years, Nigeria is estimated to be the 3<sup>rd</sup> most populous country in the world by 2050.

Nigeria is endowed with several minerals across the country including gold, iron ore, coal and limestone, and has 36.97 billion barrels of proven oil reserves and 5.68 trillion cubic feet of proven natural gas according to the 2019 Annual Statistical Bulletin by the Organization of the Petroleum Exporting Countries (OPEC). The structure of the Nigerian economy is predominantly Services (52.60%), Agriculture (22.25%) and Industries (25.16%) (2019 GDP report; National Bureau of Statistics). In the same report, the non-oil sector contributes 91.22% to the economy while the oil sector contributes 8.78%.

### **Political Context**

Nigeria became an internationally recognized independent nation in 1960, after a period of colonialism under the British government which spanned about a century beginning with the formal annexation of Lagos in 1861. In October 1963, it became a Federal Republic and in May 1999 returned to democratic rule after thirty-three years of primarily military rule. For four years, between 1979 and 1983, democracy surfaced briefly under the civilian government of Alhaji Shehu Shagari, until it was ended by a military coup. Chief Olusegun Obasanjo became the first democratically elected President on the platform of the People's Democratic Party ("PDP"). After serving two terms, Chief Olusegun Obasanjo handed over power to Umaru Musa Yar'Adua on 29 May, 2007. However, President Yar'Adua's tenor was short lived due to his demise on May 5, 2010; following which Goodluck Ebele Jonathan was sworn in as President on 06 May, 2010.

Goodluck Ebele Jonathan contested and won the 2011 presidential elections. Presidential elections were held on 28 March, 2015 and saw the election of the Muhammadu Buhari under the platform of the All Progressives Congress (APC) marking a new era for the Country and the end of a 16-year rule by the PDP.

The most recent presidential elections were held on 23 February, 2019 and Muhammadu Buhari won a second term tenure to end in 2023.

Beginning since 1963, Nigeria has had four different republics and each republic came with its own constitution. Nigeria is currently running its fourth Republic which was inaugurated in May 1999. The present constitution was modeled after the United States Constitution and it provides for a tripartite structure in which power is divided among the executive, legislative and judicial branches. It establishes and sets out the powers and functions of the President (executive), the National Assembly (legislative) and an independent judicial system (judiciary) and prescribes the qualifications that individuals must possess to be appointed or elected to exercise such powers. The constitution has been amended three times since it came into force in May 1999.

The Nigerian federation made up of three tiers of Government: the Federal Government (“FGN”), State Governments and Local Governments (together, the “Federation”) and six geopolitical zones. There are currently 774 constitutionally recognized local government areas and area councils in Nigeria.

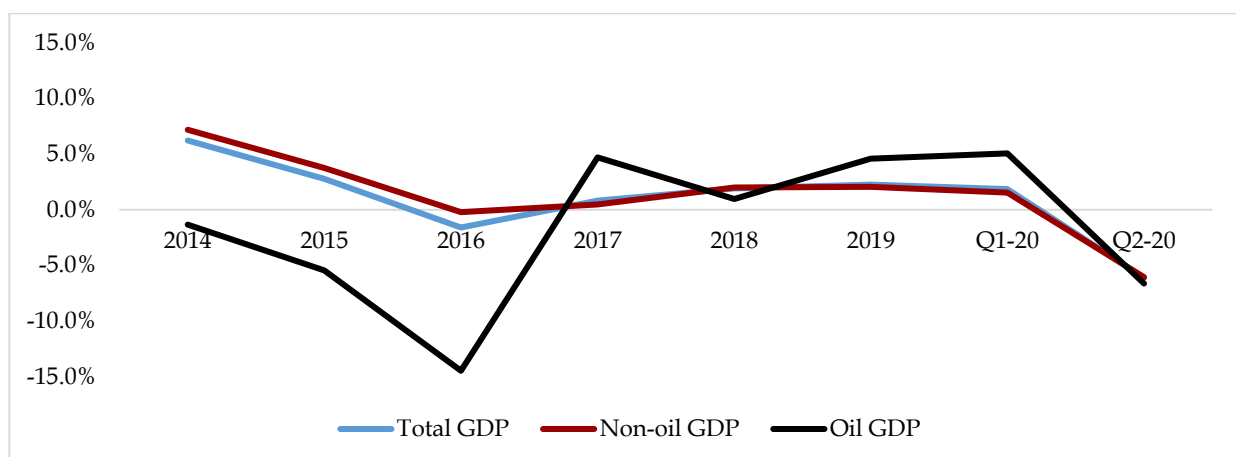
**Economic Overview**

**Gross Domestic Product (GDP)**

Nigeria enjoyed a sustained high single-digit economic growth from 2005 to 2015, averaging a growth rate of 5.73%. The economy is highly dependent on the oil and gas sector for revenues and export earnings as the sector accounts for a significant portion of the FGN revenue. Dependence on oil and gas revenue makes the economy vulnerable to oil price fluctuations. Hence, in the wake of the oil shock, growth slowed sharply in 2015 and the economy experienced an outright contraction in 2016 (officially resulting in a recession after two consecutive quarters of negative growth). After contracting for five consecutive quarters, the economy returned to positive growth in the second quarter of 2017.

Data from the NBS show that Nigeria recorded real GDP growth rates of 2.8% in 2015, -1.58% in 2016, 0.83% in 2017, 1.91% in 2018 and 2.27% in 2019. The economy of Nigeria advanced 2.55 percent year-on-year in the fourth quarter of 2019 compared to a 2.28 percent rise in the previous period. Overall, economic growth in 2019 was 2.27%. The growth in GDP was supported by a 2.26 percent increased growth in the non-oil sector. The growth in non-oil sector was driven by improvement in output from the real sectors with the most contribution from the Information and Communications sector. On the other hand, growth in the oil-sector moderated slightly by 13bps to 6.36% y/y from 6.49% y/y in Q4-2019. In Q1 2020, the economic growth rate slowed to 1.87% and contracted by 6.10% largely due to the negative impacts caused by COVID-19 and the fall in the crude oil price.

*Table 1: GDP Growth Rate*



Source: NBS

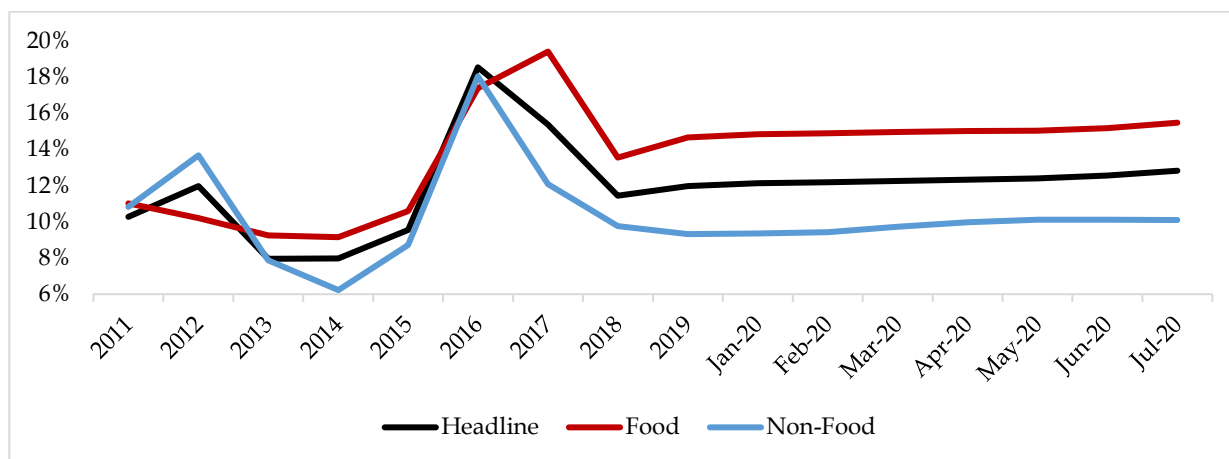
The FGN made deliberate efforts to increase government revenue and the performance of the economy. Some of these efforts include the signing of the African Continental Free Trade Agreement (AfCFTA); development of initiatives such as ‘TraderMoni’ to support small businesses and the N-Power’ for unemployed graduates; closure of the Nigerian border to protect domestic industries; and increase in the minimum wage. It is expected that the federal government would continue to embark on projects and initiatives that would serve to increase the GDP of the country.

Nigeria’s Gross Domestic Product (GDP) declined by 6.10% (year-on-year) in real terms in Q2 2020. The performance recorded in Q2 2020 represented a drop of 8.22% points year- on- year and 7.97% points decline compared to Q1 2020 (1.87%). This reflected the effects of disruption caused by Covid-19 pandemic and crash in oil price. According to the International Monetary Fund, Nigeria is growth rate is expected to fall to (3.4%) in 2020 and the country is expected to enter into another recession.

**Inflation**

Inflation is calculated using the Consumer Price Index (“CPI”). The CPI measures the average change over time in prices of goods and services consumed by people for day-to-day. According to the NBS, the inflation rate increased to 12.40% in May. The latest figures indicated the highest inflation figures in over two years. Increase in inflation was triggered by higher prices of food items such as Potatoes, Yam and other tubers, Bread and cereals, Fish, Oils and fats, Meat, Fruits and Vegetables. For July 2020, food inflation was as high as 15.48%.

*Table 2: Inflation Rate*

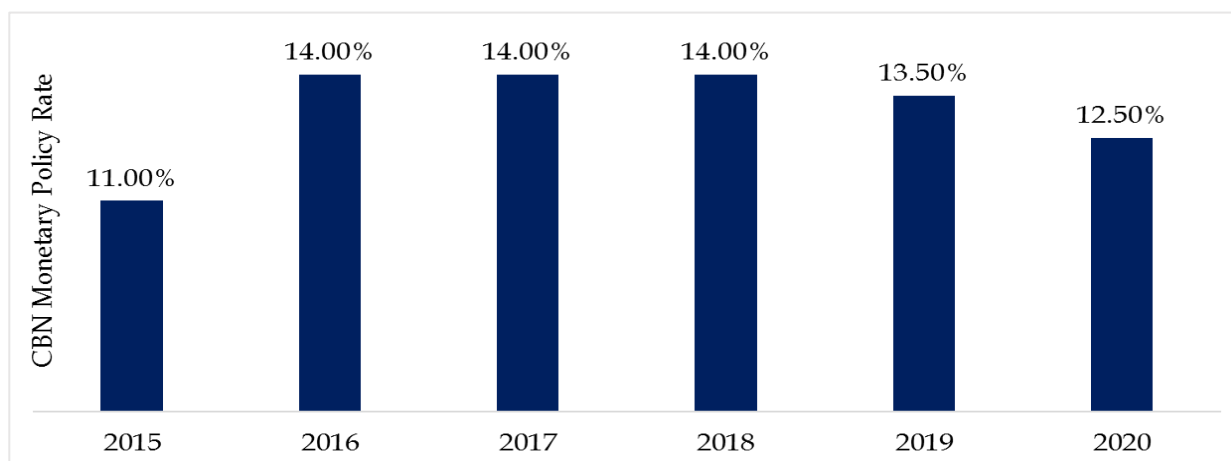


Source: NBS

**Interest Rate**

Decisions on interest rate policy are taken by the CBN’s Monetary Policy Committee (MPC) through a moderation of the Monetary Policy Rate (MPR) to control money supply in the economy and ensure price stability. The CBN was able to achieve its target of a single digit inflation rate for 3 years straight from January 2013 to November 2015. The interest rate, which was held at 14% by the MPC for about 33 months since July 2016, coupled with the introduction of the Investors & Exporters FX window in April 2017, among other reforms, drove stability in general price level with the headline inflation moderating downward to a low of 11.31% in March 2019. However, in view of price stability hitherto achieved as well as the aim to boost the level of economic activities, the MPC in its March 2019 meeting decided to cut interest rate by 50bps to 13.50% while holding other monetary policy rates constant. In October 2019, the CBN decided to prohibit the sales of Open Market Operation (OMO) bills to non-banks corporates and individuals in the domestic economic as means of driving market interest rate lower while compelling banks to maintain a minimum loan to deposit ratio of 65% to boost the provision of credit to the private sector. In May 2020, the MPC further reduced the MPR by 100bps to 12.50% in response to the negative impact of COVID-19 on the economy.

Table 3: Interest Rate



Source: CBN

### Exchange Rate

Rising crude oil prices typically result in current account surpluses and appreciation of the Naira. Despite the fluctuations in the price of crude oil in 2019, the naira remained largely stable at ₦360/USD due to the activities of the CBN in defending the naira. Partly due to this action, the country’s external reserves dipped in 2019. One of the objectives of the CBN is to maintain stability of the naira vis-a-vis foreign currencies. In addition, the CBN adopted some other policies to keep the naira stable. For instance, the CBN restricted the sale of foreign exchange for the importation of certain food items in Nigeria. This helped to ease the demand of foreign exchange. It also helped to boost local production of some of these items in the country. However, following the outbreak of the COVID-19 pandemic in China in December 2019, the global economy was faced with demand, supply, and financial shocks which negatively affected the crude oil market. The low demand for crude oil affected Nigeria’s foreign earnings and led to a devaluation of the naira vis-à-vis the United States dollar from ₦ 307/USD to ₦ 360/USD. In June 2020, the CBN further devalued the Naira by 5.3% to ₦ 380/USD with the currency trading at ₦ 460/USD in the parallel market.

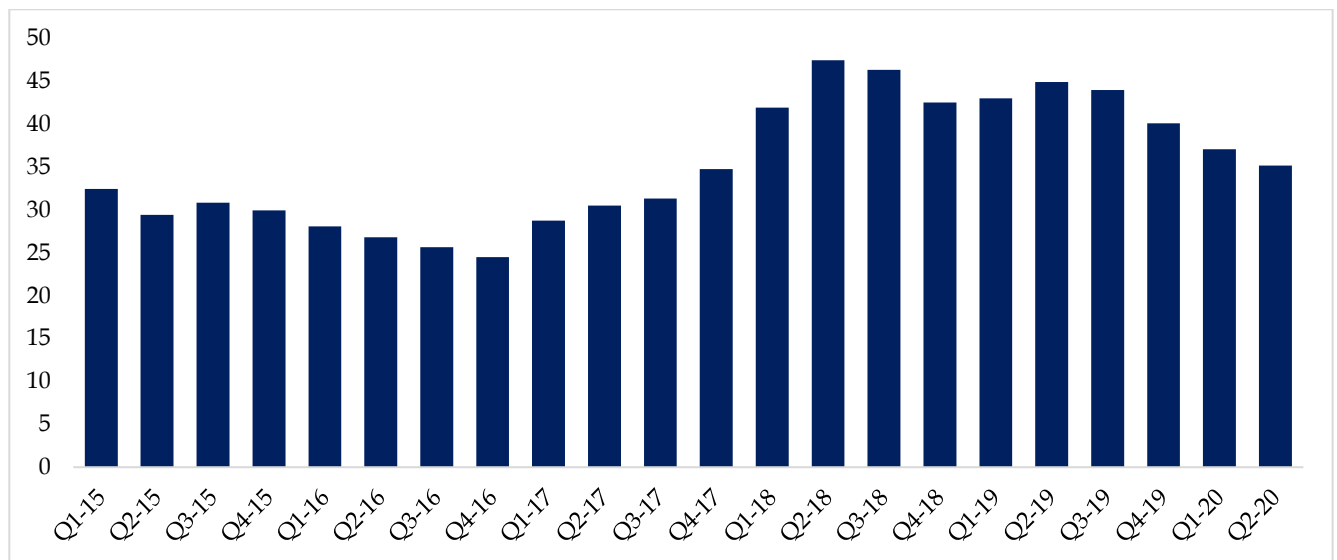
### External Reserves

Nigeria’s external reserves is derived mainly from the proceeds of crude oil production and sales, which hinges on both the crude oil production level and the crude oil price. Nigeria produces approximately 2million barrels per day of crude oil in joint venture with some international oil companies. The major categories of revenue from crude oil production and sales include direct sales (NNPC), Petroleum Profit Tax (Oil Companies), royalties, penalty for gas flaring and rentals.

At the start of 2019, the external reserves balances stood at US\$43.1 billion. The value fell by nearly 12% to close at US\$38.6 billion in December 2019, losing about US\$4.5 billion during the year. Following the outbreak of the COVID 19 pandemic, the CBN continued to defend the naira and led the external reserves to further decline by nearly US\$5 billion in the first four months of 2020.

In addition to the foreign exchange market interventions by the CBN, the decline in the external reserves was also due to the low crude oil prices and production level during the year, Nigeria’s external debt service payments and foreign exchange outflows and other direct payments. As at June 2020, the country’s external reserves stood at US\$36.19 billion.

Table 4: Gross External Reserves (USD 'bn)



Source: CBN

**Credit Rating**

A credit rating is used by sovereign wealth funds, pension funds and other investors to gauge the credit worthiness of Nigeria and thus has significant impact on the country's borrowing costs. Standard & poor's global ratings release showed that Nigeria's sovereign credit rating sank to 'B-' due to crashing international oil prices following lower oil demand tied to the coronavirus pandemic. Moody's credit rating for Nigeria was last set at B2 with negative outlook while Fitch's credit rating for Nigeria was last reported at B+ with a negative outlook.

### 1. Overview

The banking industry is a sub-sector of the financial services sector, the latter consisting of Deposit Money Banks (DMBs) and non-bank financial institutions - comprised of asset management firms, stockbroking firms, insurance companies, mortgage institutions, discount houses, merchant banks, microfinance banks and other finance companies. The Nigerian banking industry has evolved significantly in the past decade to fit with the changing realities of the domestic and global economic, social and political environments. Traditional banking in Nigeria is giving way to the utilization of digital technologies to offer both core banking and non-core banking products and services. Banks have employed the use of digital innovations in the Nigerian market, which remains very dynamic, in order to keep pace with sophisticated customer demands. The use of technology has helped to improve efficiency, reduce costs and increased revenues for the banks. The Nigerian banking industry is currently made up of 29 banks. In 2018, there was a merger between Access Bank PLC and Diamond Bank PLC. Of these institutions, twenty-two (22) are commercial banks, five (5) are merchant banks, and two (2) is a non-interest bank.

Commercial banks are the major players in the industry accounting for about 80% of the industry's total assets. As at 31 December 2018, the total assets and liabilities of commercial banks stood at ₦38.1 trillion, which represents a 10% increase from December 2017. The funds were sourced, mainly, from core banking operations, and interest from fixed-income assets. The funds were used to increase claims on the central bank and the private sector, acquire foreign assets, increase accretion to reserves and reduce unclassified liabilities.

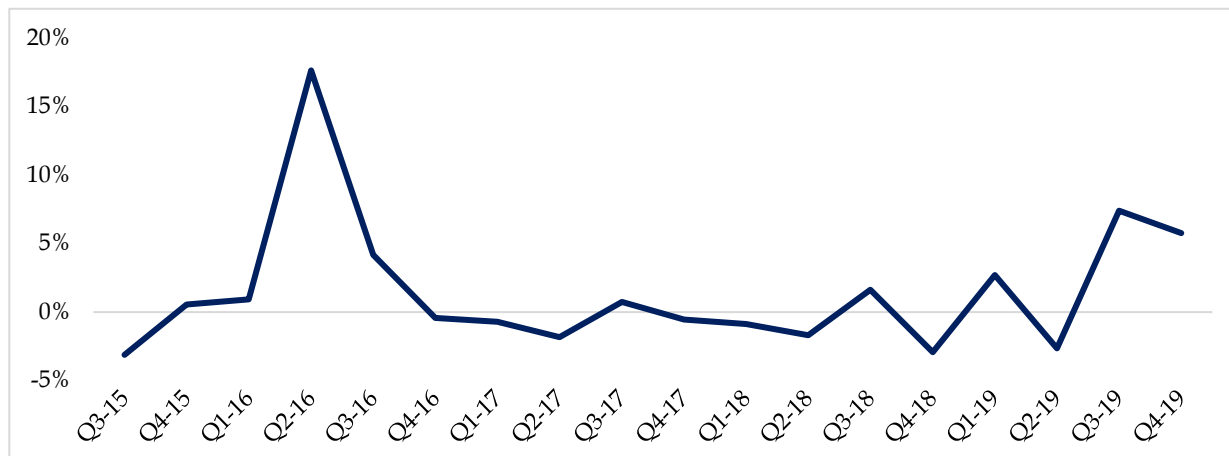
### Major Players

In an effort to strengthen the largest and most interconnected banks operating in the country, the CBN has implemented stricter standards for the country's most important banks. The six largest banks operating in Nigeria are Access Bank, Ecobank Nigeria, First Bank of Nigeria, Guaranty Trust Bank, United Bank for Africa, and Zenith Bank. These banks are generally classified as Systemically Important Banks (SIBs). Among the stricter standards for SIBs, Tier-2 capital may only account for 25% of qualifying capital, with Tier-1 capital accounting for the remaining 75%. The Tier-2 capital limit for other banks is 50%. Additionally, the minimum liquidity for SIBs stands at 35%, higher than the 30% required from other banks. Implementation of this rule was scheduled for July 2016, but was delayed indefinitely amidst general weakness in the economy.

### Credit Growth

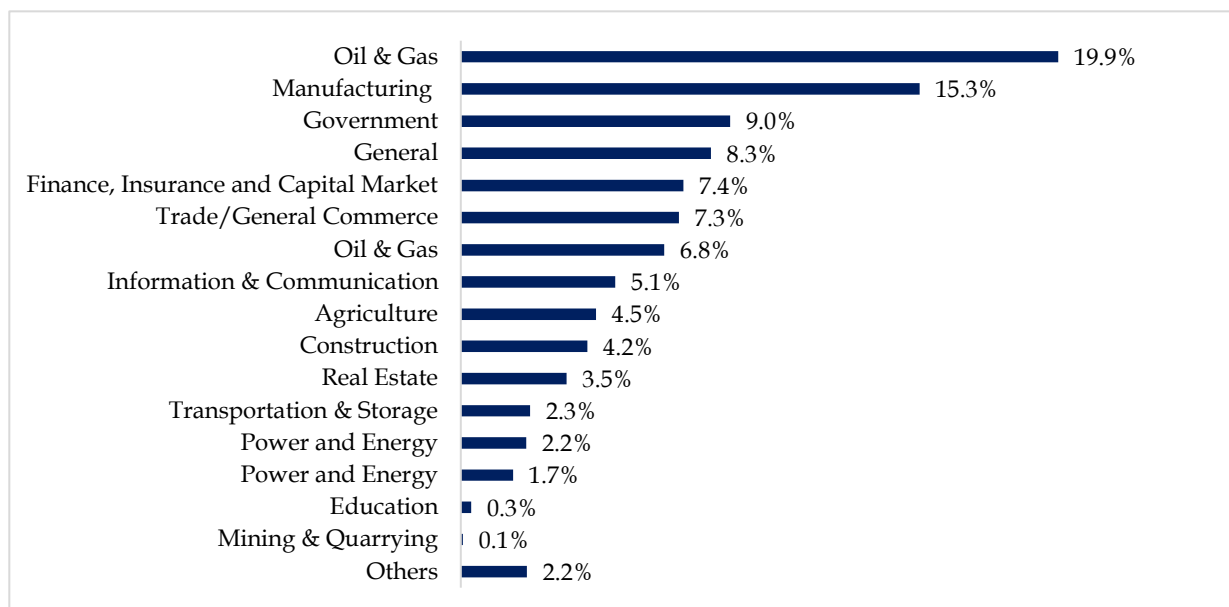
Following the recession in 2016, several businesses suffered and some had to cease operation activities. Demand was weak, and top-line and bottom line revenues for businesses were low. As a result, businesses were able to deliver positive returns to shareholders and other investors. The banking industry also witnessed reduced business activities in the wake of the recession. Customers' deposits reduced, loans given out reduced and this adversely affected businesses' operations. Banks turned to investing in government treasuries to secure their returns on investment. In a bid to stimulate the weak growth of the Nigerian economy, the CBN adopted several initiatives aimed at promoting the availability of credit to the private sector. Some of these initiatives include the increase of the Loan-to-Deposit Ratio (LDR) of banks to 65%, restriction of the sale of open market operation (OMO) bills to individuals and local corporates, and the creation of low-rates funds such as the creative industry financing initiative. In July 2019, the CBN demanded all Depository Money Banks to maintain a minimum LDR of 60% by September 30, 2019 in order to ramp up growth of the Nigerian Economy. The CBN revealed that in Q4 2019, the banking sector credit to the private sector increased by 5.76%, down from the 7.39% that was recorded in the preceding quarter. In recent times the CBN has initiated some policies to stimulate the extension of credit to the private sectors by the banks.

Table 5: Growth in Banking Sector Credit to the Private Sector



Source: NBS

Table 6: Sectoral Distribution of Banking Sector Credit to the Private Sector (Q4 2019)

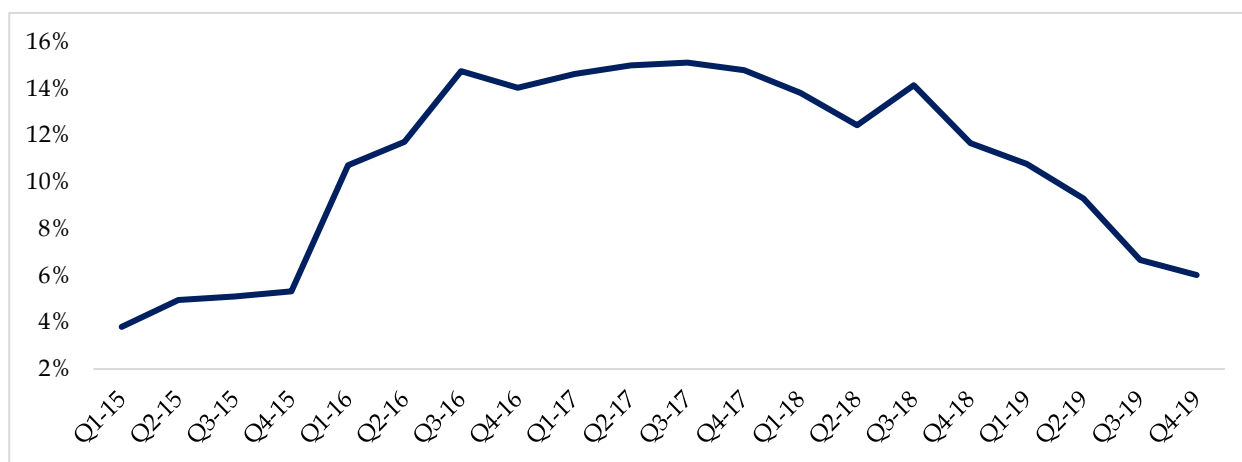


Source: NBS

**Non-Performing Loans**

In Q4 2019, the Banking Industry’s non-performing loans (NPL) ratio stood at 6.03%, a reduction from 6.67% in the preceding quarter. The major sources of the NPLs are the oil and gas, general commerce, manufacturing, construction, and information and communication sectors. These sectors were responsible for 60% of the NPLs during the period. Beyond the fall in oil prices, banks have also been affected by other forms of macroeconomic turbulence.

*Table 7: Non-Performing Loans Ratio*



Source: NBS

**2. Trends and Developments in the Nigerian Banking Industry**

**ICT deepening & Digital solutions**

In the banking industry, there has been the introduction of technology-based innovation to increase profits, satisfy customer needs and gain competitive edge. Information and Communications Technology (ICT) based tools such as Automated Teller Machines (ATMs), Point-of-Sale (POS) terminals, mobile applications and other interbank platforms are now employed in customer acquisition and market penetration. Digitalisation has enabled banks to increase interface with their customers and enhance integration among their branches. In addition, banks have commenced the utilization of robotics and automation processes in their business operations. This has helped in driving financial inclusion in the country. Digitalisation has been cited to be a critical driver for the promotion of financial inclusion which the CBN predicts that, by 2020, the number of adult Nigerians with access to payment services will increase to around 70%.h

**Cashless Policy**

The Central Bank of Nigeria introduced the cashless policy which stipulates a cash handling charge on daily cash withdrawals or cash deposits that exceed ₦500,000 for individuals and ₦3,000,000 for corporate entities. This policy is aimed at reducing the amount of physical cash circulating within the economy and encouraging more electronic based transactions. The policy started on March 30, 2012 in Lagos and was introduced in other states of the Federation in 2015. The result has been as follows;

- Modernization of the payment systems in line with Nigeria’s 2020 goal of being amongst the top 20 economies by the year 2020;
- Reduction in the cost of banking services;
- Improvements in the effectiveness of monetary policy in managing inflation and driving economic growth

### **CBN Revised Charges by Banks**

In December 2019, the CBN issued new directives contained in its new Guide to Bank Charges where the apex bank revised some of the fees that banks charge on their products, services and platforms. Specifically, in the new directive, the fee charge for the use of other banks' Automated Teller Machines (ATM) was reduced to ₦35, from ₦65. Also, card maintenance fee was reviewed to ₦50 every three months (quarterly), from the initial ₦50 monthly charge. Charges on foreign currency denominated debit and credit cards were reduced to \$10 per annum, from \$20 per annum. The directives in the new Guide took effect from 1 January 2020 and penalties were established for breaches.

### **New Entrants**

The CBN issued merchant banking licenses to Coronation Merchant Bank Limited and Nova Merchant Bank Limited in 2015 and 2018 respectively. In addition to these, Titan Trust and Globus Bank acquired commercial banking license, while TAJ Bank acquired a non-interest banking license. These new entrants have helped to increase the competition amongst banks in the industry. This competition has led to improved business processes and operations, improved customer relations and innovation.

### **Foreign Exchange Market**

In 2017, the Central Bank of Nigeria (CBN) introduced the Investors' & Exporters' (I&E) FX Window, which allowed portfolio investors, export banks and the regulator(CBN) to trade US dollars at a rate determined on the forces of demand and supply. The aim is to allow currency to be traded more freely, making the sector more attractive for foreign investments.

## **3. Supervision and Regulation of Banks in Nigeria**

The major regulators of Nigeria's financial sector are the CBN and NDIC. Since January 1999, the CBN has acted autonomously from the Nigerian Federal Ministry of Finance ("FMF") (which formerly supervised the CBN) and now has the power to formulate and implement monetary and exchange rate policies. The principal governing body of the CBN is its board of directors which consists of the Governor of the CBN, who acts as Chairman, four Deputy Governors, the Permanent Secretary of the FMF, the Accountant General of the Federation and five directors who are appointed by the President and confirmed by the Senate. Each Deputy Governor overlooks one directorate of the CBN. The directorates are Operations, Corporate Services, Financial System Stability, Governors and Economic Policy.

There are four departments under the remit of the Financial System Stability Directorate: banking supervision, financial policy and regulation, development finance and other financial institutions supervision. The functions of the Financial System Stability Directorate include supervision of banks, which involves amongst others, onsite examination of banks, especially in relation to their financial condition, internal control systems, reliability of information provided and compliance with corporate governance codes. The CBN also monitors trends in the banking sector, generates industry reports on a monthly and quarterly basis, evaluates the development of the finance sector and monitors other financial institutions. Activities such as changes of auditors, announcements of audited financial statements, opening and closure of branches, and changes in control and appointments of directors by banks are subject to the prior approval of the CBN.

Central to the post-crisis restructuring was the CBN's ring-fencing of deposit-taking institutions from other financial services businesses, such as investment banks and insurance companies. Barred from the universal banking model that characterized the post-2004 era, investors could either incorporate holding

companies for these activities or sell off auxiliary activities. The CBN also segmented capital requirements according to four types of licenses, offering different Capital Adequacy Ratios (“CARs”) and prices depending on the category of bank: national commercial banks; banks operating internationally barred from recapitalizing foreign subsidiaries from Nigeria; merchant banks barred from taking deposits; and specialized banks and regional banks, including sharia-compliant ones.

## DESCRIPTION OF FSDH FUNDING SPV PLC

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### 1. INTRODUCTION

FSDH Funding SPV PLC (the “Issuer”) was incorporated in Nigeria on June 13, 2013 (registered number 1123160) as a PLC under the name of FSDH Funding SPV PLC. The registered office of the Issuer is at UAC House, 1-5 Odunlami Street, Lagos Island, Lagos State. The Issuer has no subsidiaries or affiliates. The Issuer has been established as a SPV for issuing securities to fund working capital, enhance liquidity and enhance the capital base of the Sponsor.

The principal objective of the Issuer is set out in clause 3 of its Memorandum and Articles of Association which amongst other things, is to raise and borrow money for the Sponsor and other companies within the FSDH group of companies through the issuance of bonds, debenture, debenture stock, other securities or perpetual annuities and to purchase Notes from FSDH Merchant Bank Limited. Neither the Sponsor nor any associated body of the Sponsor owns directly or indirectly any of the shares in the share capital of the Share Trustee or the Issuer.

The authorised share capital of the Issuer is ~~N~~500,000 divided into 1,000,000 ordinary shares of 50k each. The issued share capital of the Issuer is ~~N~~250,000 divided into 500,000 ordinary shares of 50k each, and are held through its nominees; 249,999 shares are held by FBNQuest Trustees Limited (the “Share Trustee”) under the terms of a declaration of trust (the “Share Trust Deed”) dated 11 October 2013, and made by the Share Trustee for the benefit of the Bondholders of the Issuer (as to the exercise of voting rights attaching to such shares) and for the benefit of certain charitable purposes. One (1) share is held by FBN Securities Limited (“FBN Sec”) as nominee pursuant to the deed of trust made by the nominee shareholder of the Share Trustee in respect of such share. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Shares.

In 2013, the Issuer established a ~~N~~100 Billion Bond Issuance Programme on behalf of the Sponsor, following which ~~N~~5.53 Billion was raised through a Series 1 Bond Issue. The Bond Issuance Programme expired on October 25, 2015 (two years from the signing of the shelf prospectus) and the ~~N~~5.53 Billion Series 1 Bond matured on October 25, 2016.

### 2. PRINCIPAL ACTIVITIES

The principal activity of the Issuer is to raise and borrow money for the Sponsor and other companies within the FSDH group of companies through the issue of bonds, debenture, debenture stock, other securities or perpetual annuities.

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to its incorporation and registration as a public company, the authorisation and issue of the securities and of the other documents and matters referred to or contemplated in this document to which it is or will be a party and matters which are incidental or ancillary to the foregoing.

The Issuer’s activities are restricted by its Memorandum and Articles of Association and the terms of the Trust Deed, and other related documents.

## DESCRIPTION OF FSDH FUNDING SPV PLC

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### 3. DIRECTORS AND SECRETARY

The directors of the Issuer and their respective business addresses are set forth below:

**Director 1**

Name: Taiwo Okeowo<sup>3</sup>  
Address: 16, Keffi Street  
South West Ikoyi  
Lagos

**Director 2**

Name: Adekunle Awojobi  
Address: 16, Keffi Street  
South West Ikoyi  
Lagos

**Director 3**

Name: Patrick Mgbenwelu  
Address: 16, Keffi Street  
South West Ikoyi  
Lagos

**Company Secretary**

Name: Tolulope Adetugbo  
Address: 16, Keffi Street  
South West Ikoyi  
Lagos

#### 3.1. DIRECTORS' INTERESTS

No director has any interest in the promotion of the Issuer and/or the Notes to be purchased, or proposed to be purchased by, the Issuer.

### 4. EMPLOYEES

The Issuer has no employees. The directors are directors of the Share Trustees. The Company Secretary of the Issuer is the Company Secretary of the Share Trustees.

### 5. INDEBTEDNESS

The Issuer has no indebtedness as at the date of this Shelf Prospectus other than that which the Issuer has incurred or shall incur in relation to the transactions contemplated herein.

### 6. MATERIAL CONTRACTS

Apart from the Transaction Documents to which it is a party, the Issuer has not entered into any material contracts other than in the ordinary course of its business.

### 7. NO MATERIAL ADVERSE CHANGE

Since the date of the Issuer's incorporation, there has been no material adverse change, or any development reasonably likely to involve any material adverse change, in the condition (financial or otherwise) of the Issuer.

### 8. FINANCIAL INFORMATION

Since the date of incorporation, the Issuer has no financial statements have been compiled or published as at the date of this Shelf Prospectus.

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<sup>3</sup> Mr. Taiwo Okeowo resigned from the board of directors of FSDH Funding SPV PLC – effective 01 February 2021

**9. LITIGATION**

The Issuer is not and has not been since its incorporation engaged in any litigation or arbitration proceedings.

**10. PREMISES**

The FSDH SPV is registered at UAC House, 1/5 Odunlami Street, Lagos Island, Lagos. It has no additional offices.

## DESCRIPTION OF FSDH MERCHANT BANK LIMITED

### 1. HISTORY AND INTRODUCTION

FSDH Merchant Bank Limited (“FSDH MB”, the “Sponsor” or the “Bank”) (Registered Number 199528), formerly First Securities Discount House Limited, was one of the first merchant banks to be awarded a merchant banking licence in Nigeria following the repeal of Universal Banking in 2010. First Securities Discount House Limited was incorporated in 1992 as the first discount house in Nigeria and it commenced operations in 1993 having as its core competence, the issuance and trading of Financial Securities.

In November 2012, FSDH MB obtained approval by the CBN to operate as a merchant bank and officially changed its name from First Securities Discount House Limited to FSDH Merchant Bank Limited in December 2012. FSDH MB commenced its merchant banking operations in January 2013.

In July 2019, FSDH MB underwent a corporate restructure to adopt a holding company structure. FSDH Holding Company (a non-operating company) was established to directly hold FSDH Merchant Bank and its subsidiaries.

### 2. BUSINESSES

FSDH MB is a one-stop shop for financial services in Nigeria as it offers services offered by commercial banks and services that can only be offered by merchant banks in line with the CBN’s regulations on commercial banks and merchant banks. Below is a summary of the activities the Sponsor (being a merchant bank) can undertake in comparison with a commercial bank.

	Commercial Banks	Merchant Banks
Provide Finance and Credit Facilities	✓	✓
Provision of Foreign Exchange Services	✓	✓
Treasury Management Services	✓	✓
Fixed Income Trading	✓	✓
Invest in non-convertible debt instruments & enter into derivatives transaction	✓	✓
Fund/Portfolio Management		✓
Underwriting		✓
Financial Advisory/ Issuing House Services		✓
Proprietary Trading		✓

In line with its Merchant Banking License, FSDH MB offers the following services to its clients:

1. Fixed Income Trading;
2. Treasury & International Banking Services;
3. Wealth Management;
4. Financial Institution Services; and
5. Corporate Banking Services

### **Fixed Income Trading**

The Sponsor is a leading player in the fixed income market and a licenced primary dealer and market maker in both the FGN bonds and Nigerian treasury bills markets. The Sponsor has a vibrant and dynamic trading desk, with experienced dealers who have in-depth understanding of the market.

The Sponsor is able to leverage on this expertise to maintain a leading position in fixed income origination, distribution and trading. The Sponsor's fixed income products and services include:

- Outright sale/purchase of FGN bonds, Nigerian treasury bills/certificates, sub national/corporate bonds.
- Rediscounting of treasury bills/certificates and other zero-coupon instruments.
- Offering two-way-quotes on OTC traded Fixed Income instruments

### **Treasury and International Banking**

The treasury and international banking function at FSDH MB comprises of a team of experienced and specialised traders, analysts and sales managers, who have the responsibility of delivering innovative and value-adding treasury products and services, with emphasis on sales, trading, portfolio management and financial solutions. The Sponsor's robust research and outstanding IT infrastructure gives support to its business and helps in the execution of trades with respect to local and foreign instruments targeted at both off-shore and on-shore clients. Services performed under this function include:

- Foreign Currency Trading – This involves the provision of a range of international banking services which include spot and forward trades in various currencies as well as investments in foreign currency denominated instruments;
- Treasury Sales – The Sponsor's sales unit is actively involved in the sale and distribution of fixed income products as well as FX related transactions with non-bank clients; and
- Interest Rate Trading – This involves the creation of short-term assets and liabilities to enhance clients' yields.

### **Wealth Management**

FSDH MB offers wealth management services tailored towards investment management and financial advisory services to High Net-Worth Investors ("HNIs"). FSDH MB's mission under this function is to be the foremost manager of wealth in Nigeria by providing innovative and bespoke services to HNIs.

### **Financial Institutions**

FSDH MB manages relationships with Banking and Non-Banking Institutions ("NBIs"), in Nigeria. The unit generates large volume liabilities (funding) from its target clients such as: Banks, PFAs, trustees, registrars, insurance companies, stockbrokers, micro-finance banks, schools, churches, law firms, engineering firms, estate agencies and other non-bank corporate bodies. FSDH MB further offers to its clients a wide range of products and services such as: local currency ("LCY") and foreign currency ("FCY") call deposits, LCY and FCY fixed deposits, Eurobonds, FGN bonds and treasury bills.

### **Corporate Banking**

The Sponsor's Corporate Banking unit offers bespoke corporate banking solutions to middle and large tiered corporates and structured businesses. Through dedicated relationship teams, industry

specialists and product experts, the Corporate Banking department serves a wide range of clients including some of the Nigeria's largest businesses across different industries.

The Sponsor's relationship managers, through years of industry and banking experience, have a comprehensive understanding of a wide range of complex financial challenges facing client's businesses. Combined with a strong knowledge of the broad set of services offered by the Sponsor, this understanding allows the department to effectively deliver custom-made, value-adding and innovative solutions to the Bank's discerning clientele. FSDH MB's corporate banking unit provides corporate banking solutions which include:

- Short, medium and long-term debt facilities;
- Quasi-equity and equity solutions; and
- Trade Finance and foreign exchange services.

### 3. FSDH HOLDING COMPANY

FSDH Holding Company ("FSDH HoldCo") is a non-operational holding company responsible for overseeing the FSDH Group and the provision of financial services in Nigeria through the subsidiaries in the Group (i.e. FSDH Merchant Bank Limited, FSDH Asset Management Limited, FSDH Capital Limited and PAL Pensions Limited). The FSDH Group through the subsidiaries offers services, which include investment banking, corporate banking, wealth management, asset management, fixed income and foreign currency trading, equities trading, and pension management services amongst others. A summary of the subsidiaries in the FSDH Group and their service offerings can be seen below:

#### **FSDH Asset Management Limited**

FSDH Asset Management Limited ("FSDH AM") is the manager for three unit trust schemes - the Treasury Bills Fund, the Coral Growth Fund and the Coral Income Fund, with memorandum listings on the Nigerian Stock Exchange. FSDH AM is also the manager of the UPDC REIT which is the only pure equity REIT in Nigeria with assets under management (AUM) in excess of ₦30 Billion. The REIT which was listed in July 2013 has recently made its fifth distribution of income to unit holders. FSDH AM also manages private portfolios for a number of corporate clients as well as a number of specialized pooled investment schemes. FSDH AM's total AUM stood at ₦66 Billion as end of December 2019.

#### **FSDH Capital Limited**

FSDH Capital Limited ("FSDH Capital"), previously known as FSDH Securities Limited up until January 2020, is a wholly owned subsidiary of FSDH Holding Company). FSDH Capital commenced operations in 1995 as Counters Trust Securities Limited ("CTSL") before a name change to FSDH Securities Limited in 2006. FSDH Capital is the investment banking and stockbroking arm of FSDH Holding Company, providing issuing house, financial advisory, capital raising and stockbroking services.

FSDH Capital deals on behalf of clients on the floor of the NSE for a commission. Issuing House and Stockbroking services in Nigeria are regulated by the SEC through its rules and regulations (2013); Investment and Securities Act (2007); Money Laundering (Prohibition) Act (2011) and the NSE rules and regulations for dealing members.

#### **Pension Alliance Limited**

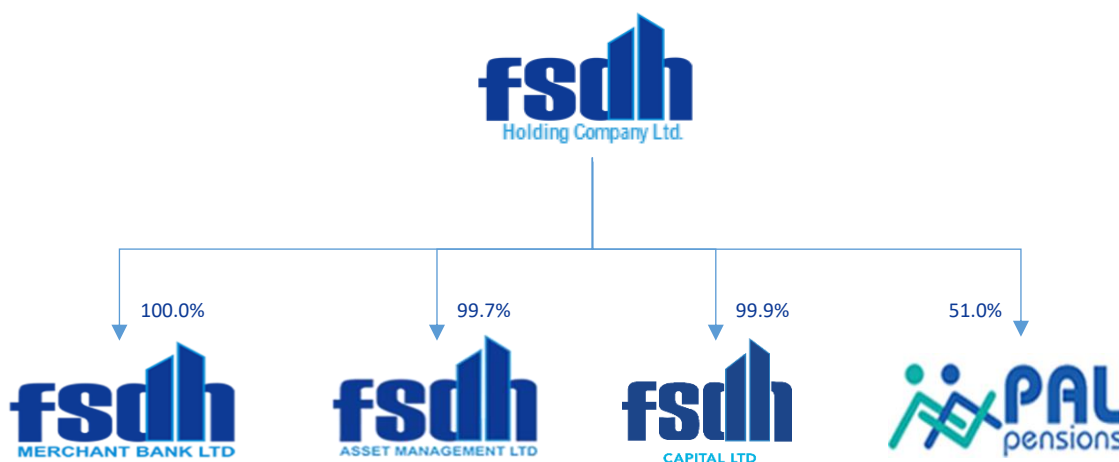
Pensions Alliance Limited ("PAL Pensions") is a licenced Pension Fund Administrator (PFA) regulated

by the National Pension Commission (“PenCom”) to provide pension fund management and administration services under the Pensions Act 2014.

PAL Pensions was incorporated in 2005 and is co-owned by FSDH Merchant Bank and African Alliance Insurance PLC with 51% and 49% shareholdings respectively. The primary responsibilities of PAL Pensions include the enrolment of clients, management of pension assets, benefit payments to clients, contribution upload from employers, managing client enquiries and complaints and sensitizing clients on the changes in the pensions industry amongst others.

PAL Pensions operates from 45 branches in Nigeria including the Federal Capital Territory.

Below is a diagram depicting the ownership structure of FSDH Holding Company and its subsidiaries (referred to as the “FSDH Group”)



#### 4. ACHIEVEMENTS

Some of the achievements of FSDH MB to date are listed below:

- Started trading in bonds as far back as 1997 with investments in Federal Government Development Stocks under the book entry arrangement that existed at that time;
- Consummated the first secondary market Federal Government of Nigeria “FGN” bond trade recorded on the floor of the Stock Exchange through the CSCS in August 2004;
- Pioneered the Open Buy-Back product in the Nigerian Financial Markets in 1993;
- Broker/Dealer for the first Open Market Operation of the Central Bank of Nigeria in 1993;
- Arranged the first secondary market transaction recorded for the 2nd FGN bond series between Guaranty Trust Bank PLC and Access Bank PLC in April 2005;
- Consummated the first repo and outright sale transactions amongst the primary dealer and market makers with UBA in July 2006;
- Consistently ranked by the DMO in the top five in secondary market FGN bond trading;
- Received the final approval from the CBN to exchange its discount house license for a merchant banking license in December 2012;
- Commenced transition from a discount house to a merchant bank in January 2013;
- Established a ₦100 billion debt issuance programme and successfully launched ₦5.53 billion Series 1 bonds (through the FSDH SPV) to fund the Bank’s operations;
- Established a ₦30Bn Commercial Paper (CP) Programme and raised N15Bn Series 1 and 2 CP Notes in 2016
- Raised US\$50Mn AfDB Trade Finance Line of Credit

- Advised the Federal Government of Nigeria on the triple-tranche USD 2.87 Billion Eurobond in 2018
- Restructuring of FSDH Merchant Bank resulting in it becoming a subsidiary of FSDH Holding Company Limited in 2019
- Raised ₦23.60Bn in Series 1 CP Notes in 2020

### 5. VISION AND STRATEGY

The Sponsor's vision is to position itself as one of the top 3 banks in Nigeria in 2024 by becoming the preferred partner of its customers and delivering timely solutions. FSDH MB also aims to partner with its clients to provide innovative financial solutions and create value for its shareholders. Towards achieving this vision, the Sponsor has set strategic objectives that would be the driving force behind the Sponsor's strategy during the next four years:

- Generate and consistently grow diversified earnings;
- Provide customers with accessible, timely, reliable and secured digital and non-digital services;
- Enhance brand and position the Sponsor to be top of mind for target customers

With these goals as the driving force behind the Sponsor's activities, the Board of Directors and Management team of the Sponsor are convinced the Sponsor can achieve these goals and effectively create value for all the Sponsor's stakeholders.

### 6. OUR PEOPLE

#### Profiles of Board of Directors

##### **Mr. Olufemi Agbaje - Chairman**

Mr. Femi Agbaje holds the position of Chairman of FSDH Merchant Bank Ltd. He is also on the board of Notore Chemical Industries PLC and Member of The Institute of Chartered Accountants of Nigeria. He was the former Chief Financial Officer of Notore Chemical Industries PLC. He served in this capacity from 2007 until his retirement in 2018.

Mr Agbaje is a Chartered Accountant with over 30 years of experience in Audit and Banking. He is a 1990 Fellow of the Chartered Association of Certified Accountants, United Kingdom. He obtained a degree in B.A History & Political Science from the University of Ife in 1979.

He started his working career as a consultant with Peat Marwick Casselton Elliot & Co., Lagos in 1979 as an Audit Trainee and began his career in the Financial Services Industry with the Nigeria - American Merchant Bank in 1986 as an Assistant Manager, Corporate Banking. He was the Managing Director of Industrial & Capital Markets Development at Midas Merchant Bank between 1993 to 1996 and 2002 to 2006 respectively.

##### **Mrs. Hamda Ambah - Managing Director**

Mrs. Ambah began her banking career at the International Merchant Bank (IMB) and later moved on to work at Reuters Limited until she joined FSDH in 1993. She rose to become Executive Director and was appointed to the boards of three subsidiaries of FSDH Group.

Mrs. Ambah holds an MSc in Management Science from the Imperial College of Science and Technology (1982) and a Bachelor's degree in Computer Science from the University of Lagos, Nigeria

(1980). She is a member of the Nigerian Chartered Institute of Stockbrokers and was awarded the 1999 IBTC award for the best examination candidate in Corporate Finance. Mrs. Ambah is an alumnus of the Advanced Management Program at Insead, France and has attended a Senior Management Programme at the Wits Business School in South Africa.

### **Alhaji Bello Garba - Non-Executive Director**

Mr. Garba began his career with the New Nigerian Development Company Limited, Kaduna, (a Development Financial Institution) as Assistant Financial Executive between 1978 and 1979. Prior to joining the Kaduna North branch of United Bank for Africa PLC in 1983, he worked with the NTA Kaduna Zone D Zonal Headquarters from 1980 to 1983. Due to his outstanding performance at UBA, Mr. Garba rose to the position of Acting Managing Director/Chief Executive in 2005. Prior to this time, he was the Executive Director, Wholesale Bank Group, Retail Bank Group and Head North Bank in 2003, 2004 and 2005 respectively. He was actively involved in all the turnaround activities in UBA from 1995 up to the time of his voluntary retirement.

He started his academic pursuit with the Kaduna Polytechnic where he obtained a Diploma Certificate in Accounting in 1978. He also holds a Masters Degree in Banking and Finance from the Nnamdi Azikiwe University (2002). He is a Professional Accountant and Chartered Banker with over 35 years of working experience. He is also an alumnus of INSEAD, Fontainebleau, Paris where he holds a Certificate in Strategic Management in Banking (2004) and Harvard Business School in Boston, USA where he holds an Advanced Management Programme Certificate (2006).

### **Mr. Kelechi Okoro - Non-Executive Director**

Kelechi Okoro holds an MBA from Lagos Business School, and a B.Sc. in Human Physiology from the University of Ibadan. He is a Partner at AFIG Funds and is responsible for sourcing, executing and managing investments for the funds under management. Prior to joining AFIG in 2013, he worked at Argentil Capital Partners where he originated and executed infrastructure transactions. He also has also worked in the Infrastructure and Natural Resources Group of the International Finance Corporation (“IFC”) and at ARM Investment Managers.

### **Mr. Tosayee Ogbomo - Non-Executive Director**

Mr. Ogbomo is the Chief Executive Officer at FSDH Holding Company. He is a senior finance expert with over 27 years of international and local finance and investment experience. He graduated with a Bachelor’s degree in Accountancy from the University of Benin in 1988, he also holds an M.Sc. in Finance from Bentley College Graduate School in 1993 and an MBA from Harvard Business School in 1997.

He worked as a senior associate at PricewaterhouseCoopers in 1993 and then as a Director at Merrill Lynch and as a Managing Director, Investment Banking at Goldman Sachs from 2004 to 2011. He is a Partner at Vine Capital Partners, a private equity firm focused on investing in key sectors in Nigeria and Sub-Saharan Africa.

He also serves as a director on the boards of FSDH Asset Management Limited and FSDH Capital Limited.

### **Mr. Patrice Backer - Non-Executive Director**

Mr. Backer is the Chief Investment Officer of AFIG Funds and has been with the Fund since its inception in 2006. He leads all aspects of the investment process and is a member of the Fund's Investment Committee. Prior to AFIG Funds, Mr. Backer was the Managing Director of PromoCapital, and prior to that was with JPMorgan's Emerging Markets Sales and Trading and Latin America M&A groups. Mr. Backer graduated from Harvard College with a bachelor's degree in Engineering in 1988. He holds an MBA from the Wharton School of Business, and an MA in International Studies from the University of Pennsylvania's Lauder Institute, both earned in 1993.

### **Mr. Godwin Ize-Iyamu - Non-Executive Director**

Mr. Ize-Iyamu has over thirty years of professional experience spanning the Audit, Oil and Gas, and Banking Industries after qualification as a Certified Public Accountant. He started his banking career in Citibank Nigeria where he worked in Operations and Corporate Banking Sectors. He later joined United Bank for Africa PLC where he worked in Commercial Banking, Corporate Banking and Institutional Banking Sectors over fourteen years and served on the board as an Executive Director for five years. He is currently an Independent Director on the Board of FSDH Merchant Bank Limited.

### **Ms. Olufunsho Olusanya - Executive Director**

Ms. Olusanya is the Executive Director in charge of the Global Markets Division. She has over 20 years banking experience in diverse areas of Treasury, Securities Trading, Asset & Liability management, Retail Banking, Cash Management, Product Development, Management Control, and Research.

Prior to re-joining FSDH MB, Ms. Olusanya was the Group Treasurer of UBA PLC where she was responsible for developing an Integrated Treasury which was responsive to the Group's needs, profitability, focused on cost optimization with enhanced liquidity and good risk management practices (Basle II compliant). She was also responsible for formulating trading strategies, coordinating effective trading in the various domestic markets, seeking new markets and business opportunities, managing a portfolio of over \$19 Billion assets and institutionalizing the modalities for providing quality treasury services to the institution's diverse customers. She was also instrumental to the successful raising of over \$300 million tier II Capital for the Bank.

Ms. Olusanya holds a Bachelor of Science degree from the University of Lagos in 1988, Masters in Business Administration majoring in Banking and Finance from Ogun State University in 2000, and a Master of Science Degree (M.Sc.) in Corporate Governance from Leeds Metropolitan University, United Kingdom in 2009. She is an alumnus of London Business School at the executive education level.

### **Mr. Taiwo Otiti - Executive Director**

Mr. Otiti is the Executive Director in charge of Operations and Information Technology (IT) Division. He is responsible for formulating and implementing strategies that will promote efficiencies, and to enhance customers' experience with the FSDH Group, leveraging on modern IT tools.

Mr. Otiti is an accomplished Technology & Banking Executive with 25 years of experience in change management & transformation. Prior to joining FSDH Merchant Bank, he was the General Manager and Divisional Head, Operations and Information Technology of Central Securities Clearing Systems PLC (CSCS) where he oversaw Operations Department and the Information Technology Department. He had worked in the following institutions before he joined CSCS: IBM West Africa, Mainstreet Bank (formerly Afribank of Nigeria), First Bank of Nigeria, Citibank Nigeria Limited, Lagos, Nigeria amongst others.

He has a wealth of experience and record of accomplishment in the local financial services sector spanning Capital Market, Banking and Payments. Mr. Otiti has been instrumental to enhancing and deepening the technology and operational capabilities of the Nigerian Banking industry with the implementation of several core banking and payment solutions. He has also supported product development and service automation.

Mr. Otiti holds a Master's Degree in Computer Science from the Loughborough University of Technology England and a bachelor's degree in Physics from Carleton University Canada. He is also an Associate Member, Computer Association of Nigeria, Chartered Institute of Bankers, Institute of Directors and Institute of Credit Administration.

### **Profile of Key Management Team**

#### **Ms. Stella-Marie Omogbai – Group Head, Corporate Banking and Branches**

Ms. Omogbai heads the Corporate Banking Group and Branches of FSDH Merchant Bank Limited. Prior to this, she was the Head Energy Group and deputized for the Head, Corporate Bank at Keystone Bank Limited (previously Bank PHB).

She had oversight functions over key corporate relationships in Energy, Power, Aviation and Transportation sectors. She holds a Bachelor of Laws from the University of Benin (1989), a Bachelor of Laws from the Nigerian Law School (1990), a Diploma in German Language from Goethe Institut - German Cultural Centre, Lagos (1993), and a Masters in Business Administration from the University of Wales (Holborn College), United Kingdom (2005). Prior to joining FSDH MB, Ms. Omogbai worked in several financial institutions including Magnum Trust Bank Limited (Sterling Bank), Access Bank, Lead Merchant Bank, UBA, Ecobank, Bank PHB /Keystone Bank with the latter 5 in Senior Management positions. Ms. Omogbai has over 21 years banking experience.

#### **Mr. Richard C. Osuagwu – Chief Risk and Compliance Officer**

Mr. Osuagwu heads the Risk Management Department of FSDH MB. He is a Chartered Accountant and a graduate of IESE (Spain) Executive MBA programme of the Lagos Business School. He holds a Masters in Business Administration from the IESE Business School (1998), University of Barcelona and a Masters of Finance from the University of London (2013). He joined FSDH MB in 1994 and has worked in both Operations and Financial Control Departments of the company. He was the Financial Controller prior to his appointment to head the Internal Audit Department. Before joining FSDH MB he worked as a Senior Accountant at SCOA Nigeria PLC (Equip Division).

#### **Mr. Babatunde Obidare - Group Head, Operations**

Mr. Obidare is the head of the Sponsor's Operations department. Before joining FSDH MB, he garnered extensive experience in banking operations, process improvements and Internal Controls at Citibank Nigeria, Stanbic IBTC Bank and Standard Bank of South Africa. He is an alumnus of the University of Benin, a Chartered Accountant, Certified Information Systems Auditor (CISA) and Certified Documentary Credit Specialist. He has degree in Business Administration and a career background in Reconciliation and Trade Services. Mr. Obidare also attended the Senior Leadership Programme (SLP) of the Standard Bank Global Leadership Centre, anchored by the Gordon Institute of Business Science (GIBS) of the University of Pretoria and has participated in several senior management courses both locally and internationally.

**Ms. Tolulope Obadagbonyi – Treasurer**

Ms. Obadagbonyi is the Treasurer of FSDH Merchant Bank Limited. Prior to joining FSDH MB she worked with United Bank for Africa PLC (UBA) and also served as the chief dealer at FBN Merchant Bank Ltd (Formerly Kakawa Discount House Ltd). She has a Masters in Finance and Management from Cranfield University, United Kingdom and a Masters in Business Administration – MBA, from the University of Lagos Nigeria. She is an alumnus of the Lagos Business School

**Employees**

As at 31 December 2019, the Bank employed an average of 126 persons comprising 3 Directors, 72 management staff and 51 non-management staff.

**7. PREMISES**

The Sponsor currently operates from its main office at 5th – 8th Floors, UAC House, 1/5 Odunlami Street, Lagos Island, Lagos. (Telephone number: +234-1-2702880, email address: [info@fsdhgroup.com](mailto:info@fsdhgroup.com) and website address: [www.fsdhgroup.com](http://www.fsdhgroup.com)). It also has liaison offices in Abuja and Port-Harcourt. Details of the company’s premises are provided below:

S	Office	Address	State
1.	Lagos (Head Office)	UAC House (5th – 8th Floors, 1/5 Odunlami Street, Lagos Island	Lagos
2.	Abuja (Liaison Office)	Leadway House, Plot 1061, Herbert Macaulay Way, Central Business District	Federal Capital
3.	Port-Harcourt (Liaison Office)	2nd Floor, Mainstreet Bank Building, 5 Trans Amadi Road, Port-Harcourt	Rivers

**8. CORPORATE GOVERNANCE IN FSDH MERCHANT BANK**

Corporate governance in FSDH MB is based on the philosophy of building a structured organisation, anchored on core values, with well-defined systems and processes that are adaptive to changes in the environment and resilient enough to cope with succession at all levels. This philosophy has been the guidepost in navigating the organisation through its various phases of growth. It has ensured stability for the Sponsor, even as the economy as a whole and the financial services industry, in particular, went through various cycles of boom and burst.

FSDH MB believes that corporate governance is not just about adopting national and international codes of best practices - it should be rooted in shared values and a culture that aims to bring out the best in the Sponsor’s staff members. This culture is well articulated in a “**Culture Wheel**” and well known to all members of staff. The culture wheel defines who the FSDH MB person is in terms of personal attributes and relationship with stakeholders, especially the customer. It is anchored on five pillars which are High Performance, Customer Orientation, Learning, Collaboration, and Image Building. The interplay of these five pillars defines the Sponsor and its way of doing business. It is reinforced by the Sponsor’s Code of Conduct, the policies and procedures in place in the Sponsor, the examples set at the top by the Board and senior management, and the reward system.

The FSDH MB Culture serves as a powerful tool in shaping the Sponsor’s control and risk management environment and has continued to play an important role in improving the governance system in the organisation. It is the glue that binds all the stakeholders together and has resulted in the alignment of

the external and the internal environments towards a common objective which is meeting and exceeding the needs of its customers. The Sponsor's unique ownership structure has combined with a responsive board and has produced a highly empowered management and staff, resulting in a governance structure that promotes accountability and transparency throughout the whole organisation.

### **Composition of the Board**

FSDH MB's Board is composed of experienced and knowledgeable professionals who have made their mark in key sectors of the economy. The position of the Chairman of the Board is separate from the position of the Chief Executive Officer. The board is composed of the Chairman, the Managing Director, 2 Executive Directors, 2 independent non-executive directors (who do not represent the interest of any shareholder), and 3 non-executive directors representing the interests of various shareholders. Every year, an External Consultant, in line with the CBN's Code of Corporate Governance, performs an evaluation of the effectiveness of the board. PricewaterhouseCoopers was appointed as FSDH MB's external consultant for the performance appraisals of the Board of Directors from 2008 to 2010. In 2010, following the appointment of KPMG Professional Services ("KPMG") as the Sponsor's external Auditors, KPMG replaced PricewaterhouseCoopers as the external consultant for FSDH MB's Board of Directors' performance appraisals. The board has continued to receive good ratings on its effectiveness in the performance of its duties.

The Board has three standing committees – the Board Audit Committee, the Board Risk Committee, and the Governance and Nominations Committee. Together with the three committees, the Board provides effective oversight over the operations of the Sponsor. The duties of the Board are spelt out in the Board Charter. They include:

- Determination of the Sponsor's strategic direction and business objectives necessary to ensure long term growth and sustained creation of value for customers;
- Ensuring the existence of plans and policies for the achievement of the Sponsor's strategic business objectives;
- The establishment of an effective risk management framework to identify, measure, and manage risks in the Sponsor;
- The establishment of a good system of internal controls to ensure the integrity of financial reporting and compliance with laws and regulations;
- Fostering a culture of responsibility, transparency, and accountability through good corporate governance and adherence to high ethical values;
- Selection, compensation and monitoring of senior management staff and ensuring the existence of a good system of succession planning; and
- Approval of major capital expenditure, changes to the Sponsor's capital structure, annual budgets, changes to accounting policies and dividend policy.

### **The Board Committees**

The CBN's Code of Corporate Governance (2014) requires every bank to have at least three Standing Committees namely the Audit Committee, the Risk Management Committee, and the Credit Committee. Accordingly, FSDH MB has constituted the three Committees. Each Board Committee has a charter approved by the CBN. The duties and responsibilities of the Board Committees are summarized below.

### **The Board Audit Committee**

This is a statutory Committee and its duties are contained in section 359(6) of CAMA namely:

- Ensuring the establishment of effective systems and processes for the preparation of the Sponsor's financial statements;
- Ensuring the existence of good system of internal controls in the Sponsor;
- Ensuring the existence of a good internal audit function to monitor the activities of the Sponsor to ensure that the Sponsor's governance process is working properly, that risks are properly managed and that applicable laws are being complied with;
- Reviewing and monitoring the performance of external auditors and recommending to the Board on the appointment and discharge of external auditors;
- Ensuring that there is an effective system of monitoring compliance with laws and regulations and all licensing requirements and the results of management's investigation and follow-up (including disciplinary action) of any instance of non-compliance Reviewing the scope and planning of the external audit;

The Audit Committee is expected to have a minimum of 3 members and meets at least once every quarter. The Internal Audit Department, which is independent of management, reports directly to the Audit Committee.

### **The Board Risk Committee**

The Committee comprises a minimum of 6 members and its duties are:

- To approve and review the Enterprise Wide Risk Management Framework;
- The management of market risk in the Sponsor covering price risk, interest rate risk in the banking book and foreign exchange risk;
- The management of credit risk covering:
  - Credit risk strategy and policy formulation;
  - Credit approval;
  - Loan review and credit performance monitoring;
  - Credit risk compliance;
- Management of operational risk;
- Management of the Internal Capital Adequacy Process;
- Management of other risks which includes:
  - Liquidity risk;
  - Reputational risk;
  - Regulatory compliance risk;
  - Concentration risk;
  - Downgrade risk;
  - Business risk;

The Risk Management Department, which is independent of the operating departments, presents regular reports to the Risk Management Committee.

### **The Governance and Nominations Committee**

The Governance and Nominations Committee is made of 4 members. The Committee's duties include:

- Regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared with its present position and make recommendations to the Board on any changes the Committee may deem necessary;
- Give full consideration to succession planning for directors and top management in the course of its work, taking into account the challenges and opportunities facing the Sponsor, and what skills and expertise are needed on the Board in the future;
- Be responsible, subject to the Sponsor's Memorandum and Articles of Association, for identifying and nominating for approval of the Board, candidates to fill Board vacancies as and when they arise;
- Make recommendations to the Board on matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of the Sponsor subject to the provisions of the law and their service contract;
- Make recommendations to the Chairman on the membership of other Board Committees, taking into consideration the skills, knowledge and experience required to function effectively in those Committees;
- Make recommendations to the Board for appointments and promotions of staff from the position of Assistant General Manager and above;
- Determine and agree with the Board, the framework or broad policy for the remuneration of the Sponsor's Executive Directors and Chairman. (To avoid conflict of interest, the remuneration for non-executive Directors shall be determined by the Chairman and the Executive Directors);
- Determine and agree with the Board the policy for the terms of employment of the Executive Directors;
- Review and approve the remuneration structure for the Sponsor;
- Review the ongoing appropriateness and relevance of the Sponsor's Remuneration policies;
- Review annually the remuneration trends across the Sponsor and the industry in which the Sponsor operates with a view to ensuring that the Sponsor remains competitive in order to retain and attract the right talents;
- Determine and agree on the policy for the reimbursement of the expenses of the Chairman and the Executive Directors;
- Ensure that the disclosures in the audited accounts regarding directors' remuneration are adequate and consistent with the requirements of the law; and
- Review and approve the design and structure of all retirement benefit schemes.

### **Management**

The management is charged with the day-to-day running of the Sponsor. The Sponsor's management team is headed by the Managing Director, who also acts as the CEO. She is supported by two Executive Directors and heads of department. In addition, the Sponsor makes use of standing committees in the performance of certain key functions whose processes cut across different departments. The standing committees are as follows:

### **The Executive Committee**

The committee is made up of the Managing Director, the Executive Directors and all the Heads of Departments. This is the principal decision making organ Management and the committee meets on a monthly basis.

### **The Asset and Liability Management Committee (ALCO)**

The ALCO meets monthly and is composed of all the Heads of Departments and key officers of the Business Units, Financial Control and Risk Management. The Committee makes decision on the

structure and composition of the Sponsor's assets and liabilities and also sets the guidelines on interest rates.

### **The Management Risk Committee**

The Management Risk Committee is responsible for identifying, quantifying and managing the risks inherent in the Sponsor's operations. The membership of the Committee is constituted by Heads of Departments and key officers in the business units. The Committee is also responsible for approving new credits and reviewing existing credits for performance and classification.

### **The IT Steering Committee**

The IT Steering Committee is responsible for making recommendations to Executive Management on the formulation of IT strategies and the identification of systems needed to support the Sponsor's business. It is also in charge of implementing these systems. The Committee is constituted by the CEO and Heads of Departments.

### **The Sustainable Banking Committee**

The Committee is charged with the responsibility of ensuring that the Sponsor conducts its operations in a way that will ensure protection for the environment, enhance social harmony and ensure sustainable development. The Committee ensures that social and environmental risks in all areas of the Sponsor's operations are identified and dimensioned; and develops policies and controls to ensure that the risks are properly managed.

## FSDH MERCHANT BANK LIMITED

### Rating Assigned:

**A**

**Outlook:** Stable

**Issue Date:** 29 June 2020

**Expiry Date:** 30 June 2021

**Previous Ratings:** A

**Industry:** Banking

**Analysts:**

**Tolulope Obideyi**

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*A financial institution of good financial condition and ability to meet its obligations as and when they fall due.*

### RATING RATIONALE

The rating assigned to FSDH Merchant Bank Limited ('FSDH' or 'the Bank') reflects the Bank's good capitalisation which provides buffer during these times of heightened economic risk, acceptable profitability levels and an experienced and conservative management team. However, the rating is constrained by the accentuated economic risks elicited by the COVID-19 pandemic, and a high degree of concentration risk in the loan book.

FSDH Merchant Bank Limited is the second largest merchant bank in Nigeria based on total assets and contingents which stood at ₦172.8 billion as at 31 December 2019. During the year, the Bank took up a Holding Company (HoldCo) structure and FSDH Holding Company Limited, a non-operating legal entity, was formed which owned 99.9% of the Bank's equity as at FYE2019. The objective of the restructuring is to optimise synergies with other affiliates within the HoldCo and strengthen overall performance going forward. One of such synergies is with the asset management subsidiary which acts as the retail hub of the Group, generating relatively lower cost funds for the Bank, largely from high net worth individuals.

In 2019, FSDH's deposit liabilities (excluding interbank takings) grew by 20.6% to ₦56.3 billion and translated to a weighted average cost of funds of 8.6% (FY2018: 9.3%). FSDH Merchant Bank is a collection bank for a few of its corporate entities which supports deposits liability generation and lowers funding costs. During the review year, FSDH was appointed as the collection bank for the Nigerian Customs Service. Subsequent to the review period, the Bank was also appointed as a collection Bank for the Lagos State Government. We believe these collections could moderate the Bank's funding cost in the near term.

Supporting the Bank's activities during the year was its core capital which stood at ₦26.8 billion as at FYE2019, lower than the prior-year by 8.7% due to the restructuring exercise. Nonetheless, core capital was above the regulatory minimum for merchant banks operating in Nigeria. As at the same

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## EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

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### LETTER FROM THE REPORTING ACCOUNTANTS



13 August 2020

**The Managing Director**  
FSDH Merchant Bank Limited  
UAC House, 6th floor  
1-5 Odunlami Street  
PMB 12913  
Lagos State, Nigeria

Dear Sir

Reporting Accountants' Report on the audited financial statements of FSDH Merchant Bank Limited for the five years ended 31 December 2019 in respect of the proposed ₦30bn (Thirty Billion Naira) Bond Issuance Programme

The financial statements for the years ended 31 December 2015, 2016, 2017, 2018 and 2019 were audited by Messrs. PricewaterhouseCoopers ("PwC"). The financial statements comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity, a summary of significant accounting policies, and other explanatory notes.

We have reviewed the audited financial statements for the years ended 31 December 2015, 2016, 2017, 2018 and 2019 in respect of which, the auditors issued clean audit opinions, and have considered the applicable International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB).

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards, and for such internal controls as Management determines is necessary to enable preparation of financial statements that are free from misstatements, whether due to fraud and error.

Our examination of the audited financial statements was conducted in accordance with the "International Standard on Review Engagements (ISRE) 2400 (Revised) – Engagements to Review Historical Financial Statements". This Standard requires that we plan and perform our examination to obtain moderate assurance that the audited financial statements are free from material misstatements. Such moderate assurance provides less assurance than an audit and does not require us to issue an audit opinion. Our examination was based on our review of the auditors' work papers, the evidence obtained, and the analytical procedures applied by the auditors in respect of financial data.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects, the financial position of FSDH Merchant Bank Limited as at 31 December 2015, 2016, 2017, 2018 and 2019, and its financial performance and cash flows for the years then ended, in accordance with the International Financial Reporting Standards.

Please note that the Directors of FSDH Merchant Bank Limited are responsible for the contents of the prospectus in which this report is included.

Yours faithfully  
For: Deloitte & Touche

Temitope Odukoya  
Partner  
FRC/2012/ICAN/00000000422

## EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

FSDH Merchant Bank Limited  
Reporting Accountants' Report for the five  
year period ended 31 December 2019

### Statement of Comprehensive Income

		31 December 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
	Notes	N'000	N'000	N'000	N'000	N'000
Interest income		16,495,503	15,086,916	19,895,750	12,547,415	13,900,314
Interest income on financial assets fair value through profit and loss	5(a)	892,370	937,520	964,337	-	-
Interest income on financial assets through other comprehensive income	5(b)	6,940,266	6,822,762	8,661,043	-	-
Interest income on financial assets at amortised cost	5(c)	8,662,868	7,326,634	10,270,370	-	-
Interest expense	6	(11,009,079)	(10,320,248)	(12,946,751)	(9,162,759)	(10,126,140)
<b>Net interest income</b>		<b>5,486,424</b>	<b>4,766,668</b>	<b>6,948,999</b>	<b>3,384,656</b>	<b>3,774,174</b>
Impairment write back/(charge) for credit loss	8	400,568	1,396,641	(2,261,359)	(419,539)	(570,304)
<b>Net interest income after impairment on financial and non-financial instruments</b>		<b>5,886,992</b>	<b>6,163,309</b>	<b>4,687,640</b>	<b>2,965,117</b>	<b>3,203,870</b>
Fees and commission income	7	694,972	798,801	1,151,310	510,041	457,051
Net gains on financial instruments held for trading	9	595,325	650,677	880,876	164,276	1,581,483
Net gains on financial instruments classified as fair value through OCI	10	1,794,398	787,459	-	-	-
Net gains on financial instruments classified as available for sale	10	-	-	511,024	680,183	563,590
Other income	11	1,242,144	1,201,737	1,109,231	2,028,595	713,884
Operating expense	12	(5,031,002)	(4,415,538)	(4,479,755)	(3,399,829)	(3,142,301)
<b>Profit before income tax</b>		<b>5,182,829</b>	<b>5,186,445</b>	<b>3,860,326</b>	<b>2,948,383</b>	<b>3,377,577</b>
Income tax expense	13	(1,572,426)	(775,054)	(174,086)	(105,729)	1,659
<b>Profit for the period</b>		<b>3,610,403</b>	<b>4,411,392</b>	<b>3,686,240</b>	<b>2,842,654</b>	<b>3,379,236</b>
<b>Other comprehensive income</b>						
<b>Items that may be subsequently reclassified to profit or loss:</b>						
Net change in fair value on FVOCI financial assets		399,723	(176,948)	2,526,877	(2,982,637)	2,104,980
		<b>399,723</b>	<b>(176,948)</b>	<b>2,526,877</b>	<b>(2,982,637)</b>	<b>2,104,980</b>
<b>Items that will not be reclassified to the income statement:</b>						
Fair value changes on equity investments designated at FVOCI		-	-	(69,805)	73,613	(123,904)
		-	-	<b>(69,805)</b>	<b>73,613</b>	<b>(123,904)</b>
<b>Other comprehensive income / (loss) for the period, net of tax</b>		<b>399,723</b>	<b>(176,948)</b>	<b>2,457,072</b>	<b>(2,909,024)</b>	<b>1,981,076</b>
<b>Total comprehensive income / (loss) for the period</b>		<b>4,010,126</b>	<b>4,234,444</b>	<b>6,143,312</b>	<b>(66,370)</b>	<b>5,360,312</b>
<b>Profit for the period attributable to:</b>						
Owners of Parent		3,610,403	4,411,392	3,686,240	2,842,654	3,379,236
<b>Profit for the period</b>		<b>3,610,403</b>	<b>4,411,392</b>	<b>3,686,240</b>	<b>2,842,654</b>	<b>3,379,236</b>
<b>Total comprehensive income / (loss) attributable to:</b>						
Owners of Parent		4,010,126	4,234,444	6,143,312	(66,370)	5,360,312
<b>Total comprehensive income / (loss) for the period</b>		<b>4,010,126</b>	<b>4,234,444</b>	<b>6,143,312</b>	<b>(66,370)</b>	<b>5,360,312</b>
<b>Total comprehensive income attributable to equity shareholders arises from:</b>						
- Continuing operations		4,010,126	4,234,444	6,143,312	(66,370)	5,360,312
- Discontinued operations		-	-	-	-	-
<b>Total comprehensive income / (loss) for the period</b>		<b>4,010,126</b>	<b>4,234,444</b>	<b>6,143,312</b>	<b>(66,370)</b>	<b>5,360,312</b>
<b>Earnings per share attributable to owners of the parent</b>						
Basic and diluted earnings per share (Kobo)	43	197	158	132	102	121

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

## EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

**FSDH Merchant Bank Limited**  
Reporting Accountants' Report for the five  
year period ended 31 December 2019

### Statement of Financial Position

		31 December 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
	Notes	N'000	N'000	N'000	N'000	N'000
<b>ASSETS:</b>						
Cash and bank balances	14	16,161,374	11,186,984	15,536,837	19,085,255	20,615,426
Loans and advances to banks	15	9,817,336	17,057,637	16,793,701	11,166,282	10,525,606
Financial assets at fair value through profit or loss	16	2,704,105	1,473,271	7,653,645	10,626,858	2,844,336
Derivative financial instruments	17	414,929	607,076	70,037	-	15,918
Loans and advances to customers	18	45,496,340	40,536,858	37,376,991	35,351,414	39,677,039
Investment securities	19	43,447,218	34,026,860	51,787,647	32,195,528	21,713,417
Pledged assets	20	33,105,752	8,894,229	10,201,862	21,807,050	10,764,082
Right of use assets	21	119,964	-	-	-	-
Other assets	22	776,778	852,999	622,233	607,145	447,575
Investment in subsidiaries	23	-	961,377	961,377	961,377	787,010
Retirement benefit asset		-	-	-	380,109	87,950
Deferred tax asset	24	2,888,150	3,223,982	3,551,132	3,629,720	3,633,002
Intangible assets	25	425,629	212,588	217,263	45,157	110,426
Property and equipment	26	636,494	604,044	528,239	402,498	335,317
Assets classified as held for sale		-	-	48,450	-	-
<b>TOTAL ASSETS</b>		<b>155,994,069</b>	<b>119,637,905</b>	<b>145,349,414</b>	<b>136,258,393</b>	<b>111,557,104</b>
<b>LIABILITIES</b>						
Due to banks and other financial institutions	27	27,684,828	4,744,992	19,877,963	22,158,574	16,250,311
Due to customers	28	56,340,436	46,719,361	55,186,445	55,006,019	52,661,649
Derivative financial instruments	17	395,283	590,903	54,106	-	1,382
Company income tax liability	13	461,942	241,710	413,161	375,705	920,152
Lease liabilities	21	54,509	-	-	-	-
Other liabilities	29	11,463,788	4,754,722	8,583,434	6,102,615	6,661,732
Debt securities issued	30	14,086,009	14,524,709	12,077,787	13,074,816	5,630,676
Other borrowed funds	31	18,737,312	18,725,951	20,201,819	16,729,278	3,948,697
<b>TOTAL LIABILITIES</b>		<b>129,224,107</b>	<b>90,302,348</b>	<b>116,394,715</b>	<b>113,447,007</b>	<b>86,074,599</b>
<b>EQUITY</b>						
Share capital	32	1,833,417	2,794,794	2,794,794	2,794,794	2,794,794
Share premium	33	539,587	1,539,587	1,539,587	1,539,587	1,539,587
Retained earnings	33	17,561,798	18,950,260	19,291,689	15,632,019	15,344,788
Statutory reserve	33	6,833,550	6,291,990	5,630,281	5,077,345	4,650,947
Fair value reserve	33	1,610	(398,113)	(301,652)	(2,828,529)	154,108
Credit risk reserve	34	-	157,039	-	596,170	998,281
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		<b>26,769,963</b>	<b>29,335,557</b>	<b>28,954,699</b>	<b>22,811,386</b>	<b>25,482,505</b>
<b>TOTAL EQUITY</b>		<b>26,769,963</b>	<b>29,335,557</b>	<b>28,954,699</b>	<b>22,811,386</b>	<b>25,482,505</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>155,994,069</b>	<b>119,637,905</b>	<b>145,349,414</b>	<b>136,258,393</b>	<b>111,557,104</b>

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

FSDH Merchant Bank Limited  
Reporting Accountants' Report for the five  
year period ended 31 December 2019

## Statement of Changes in Equity

In thousands of Nigerian Naira	Attributable to Owners of the Bank								Total
	Share capital	Share Premium	Retained earnings	Statutory reserve	Available for sale reserve	Fair value reserve	Credit risk reserve	AGMEIS reserve	
<b>At 1 January 2019</b>	2,794,794	1,539,587	18,950,260	6,291,990	-	(398,113)	157,039	-	29,335,557
Profit after tax for the year	-	-	3,610,403	-	-	-	-	-	3,610,403
Actuarial loss on defined gratuity scheme (net of tax)	-	-	-	-	-	-	-	-	-
Unrealised net gains arising during the year on FVOCI financial assets	-	-	-	-	-	407,887	-	-	407,887
Net reclassification adjustments for realised loss on FVOCI financial assets	-	-	-	-	-	223,750	-	-	223,750
Net change in impairment of FVOCI financial assets	-	-	-	-	-	(231,914)	-	-	(231,914)
<b>Total comprehensive income for the period</b>	-	-	3,610,403	-	-	399,723	-	-	4,010,126
Transfer between reserves	-	-	-	-	-	-	-	-	-
<b>Transactions with owners</b>	-	-	-	-	-	-	-	-	-
Dividends provided for during the year	-	-	(4,614,343)	-	-	-	-	-	(4,614,343)
Transfer to statutory reserves	-	-	(541,560)	541,560	-	-	-	-	-
Transfer to credit risk reserves	-	-	157,039	-	-	-	(157,039)	-	-
Transfer resulting from business restructuring	(961,377)	(1,000,000)	-	-	-	-	-	-	(1,961,377)
<b>Balance at 31 December 2019</b>	1,833,417	539,587	17,561,798	6,833,550	-	1,610	-	-	26,769,963

In thousands of Nigerian Naira	Attributable to Owners of the Bank								Total
	Share capital	Share Premium	Retained earnings	Statutory reserve	Available for sale reserve	Fair value reserve	Credit risk reserve	AGMEIS reserve	
<b>At 1 January 2018</b>	2,794,794	1,539,587	19,291,689	5,630,281	(301,652)	-	-	-	28,954,699
IFRS 9 remeasurement	-	-	-	-	301,652	(301,652)	-	-	-
IFRS 9 impairment transaction adjustment	-	-	(1,726,186)	-	-	650,469	-	-	(1,075,717)
<b>Restated balance as at 1 January 2018</b>	2,794,794	1,539,587	17,565,503	5,630,281	-	348,817	-	-	27,878,982
Profit after tax for the year	-	-	4,411,392	-	-	-	-	-	4,411,392
Actuarial loss on defined gratuity scheme (net of tax)	-	-	-	-	-	-	-	-	-
Unrealised net gains arising during the year on FVOCI financial assets	-	-	-	-	-	(930,616)	-	-	(930,616)
Net reclassification adjustments for realised loss on FVOCI financial assets	-	-	-	-	-	468,677	-	-	468,677
Net change in impairment of FVOCI financial assets	-	-	-	-	-	(284,991)	-	-	(284,991)
<b>Total comprehensive income for the period</b>	-	-	4,411,392	-	-	(746,930)	-	-	3,664,462
Transfer between reserves	-	-	-	-	-	-	-	-	-
<b>Transactions with owners</b>	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	(2,207,887)	661,709	-	-	-	-	(1,546,178)
Transfer to statutory reserves	-	-	(661,709)	-	-	-	157,039	-	(504,670)
Transfer to credit risk reserves	-	-	(157,039)	-	-	-	-	-	(157,039)
<b>Balance at 31 December 2018</b>	2,794,794	1,539,587	18,950,260	6,291,990	-	(398,113)	157,039	-	29,335,557

In millions of Nigerian Naira	Attributable to Owners of the Bank								Total
	Share capital	Share Premium	Retained earnings	Statutory reserve	Available for sale reserve	Fair value reserve	Credit risk reserve	AGMEIS reserve	
<b>At 1 January 2017</b>	2,794,794	1,539,587	15,632,019	5,077,345	(2,828,529)	-	596,170	-	22,811,386
Prior period adjustment	-	-	-	-	-	-	-	-	-
<b>Restated balance at 1 January 2017</b>	2,794,794	1,539,587	15,632,019	5,077,345	(2,828,529)	-	596,170	-	22,811,386
Profit for the year	-	-	3,686,241	-	-	-	-	-	3,686,241
Actuarial loss on defined gratuity scheme (net of tax)	-	-	(69,805)	-	-	-	-	-	(69,805)
Unrealised net gains arising during the year on Available for sale financial assets	-	-	-	-	1,658,897	-	-	-	1,658,897
Net reclassification adjustments for realised loss on available for sale financial assets	-	-	-	-	867,980	-	-	-	867,980
Net change in impairment of FVOCI financial assets	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income for the period</b>	-	-	3,616,436	-	2,526,877	-	-	-	6,143,313
Transfer between reserves	-	-	-	-	-	-	-	-	-
<b>Transactions with owners</b>	-	-	-	-	-	-	-	-	-
Transfer to statutory reserves	-	-	(552,936)	552,936	-	-	-	-	-
Transfer to credit risk reserves	-	-	596,170	-	-	-	(596,170)	-	-
<b>Balance at 31 December 2017 (IAS 39)</b>	2,794,794	1,539,587	19,291,689	5,630,281	(301,652)	-	-	-	28,954,699

In millions of Nigerian Naira	Attributable to Owners of the Bank								Total
	Share capital	Share Premium	Retained earnings	Statutory reserve	Available for sale reserve	Fair value reserve	Credit risk reserve	AGMEIS reserve	
<b>At 1 January 2016</b>	2,794,794	1,539,587	15,344,788	4,650,947	154,108	-	998,281	-	25,482,505
Profit for the period	-	-	2,842,653	-	-	-	-	-	2,842,653
Actuarial loss on defined gratuity scheme (net of tax)	-	-	73,613	-	-	-	-	-	73,613
Unrealised net gains arising during the year on Available for sale financial assets	-	-	-	-	(3,583,605)	-	-	-	(3,583,605)
Net reclassification adjustments for realised loss on available for sale financial assets	-	-	-	-	600,968	-	-	-	600,968
Net change in impairment of FVOCI financial assets	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income for the period</b>	-	-	2,916,266	-	(2,982,637)	-	-	-	(66,371)
Transfer between reserves	-	-	-	-	-	-	-	-	-
<b>Transactions with owners</b>	-	-	-	-	-	-	-	-	-
Dividends provided for during the year	-	-	(2,604,748)	-	-	-	-	-	(2,604,748)
Transfer to statutory reserves	-	-	(426,398)	426,398	-	-	-	-	-
Transfer to credit risk reserves	-	-	402,111	-	-	-	(402,111)	-	-
<b>Balance at 31 December 2016</b>	2,794,794	1,539,587	15,632,019	5,077,345	(2,828,529)	-	596,170	-	22,811,386

In millions of Nigerian Naira	Attributable to Owners of the Bank								Total
	Share capital	Share Premium	Retained earnings	Statutory reserve	Available for sale reserve	Fair value reserve	Credit risk reserve	AGMEIS reserve	
<b>At 1 January 2015</b>	2,794,794	1,539,587	14,088,083	4,144,062	(1,950,872)	-	254,147	-	20,869,801
Profit for the period	-	-	3,379,236	-	-	-	-	-	3,379,236
Actuarial loss on defined gratuity scheme (net of tax)	-	-	(123,904)	-	-	-	-	-	(123,904)
Unrealised net gains arising during the year on Available for sale financial assets	-	-	-	-	1,414,839	-	-	-	1,414,839
Net reclassification adjustments for realised loss on available for sale financial assets	-	-	-	-	690,141	-	-	-	690,141
Net change in impairment of FVOCI financial assets	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income for the period</b>	-	-	3,255,332	-	2,104,980	-	-	-	5,360,312
Transfer between reserves	-	-	-	-	-	-	-	-	-
<b>Transactions with owners</b>	-	-	-	-	-	-	-	-	-
Dividends provided for during the year	-	-	(747,608)	-	-	-	-	-	(747,608)
Transfer to statutory reserves	-	-	(506,885)	506,885	-	-	-	-	-
Transfer to credit risk reserves	-	-	(744,134)	-	-	-	744,134	-	-
<b>Balance at 31 December 2015</b>	2,794,794	1,539,587	15,344,788	4,650,947	154,108	-	998,281	-	25,482,505

## EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

FSDH Merchant Bank Limited  
Reporting Accountants' Report for the five  
year period ended 31 December 2019

### Statement of Cash Flows

		31 December 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
	Notes	N'000	N'000	N'000	N'000	N'000
<b>Cash flows from operating activities</b>						
Cash generated from operations	36	7,177,603	(16,243,563)	1,869,203	(5,830,533)	(6,956,076)
Interest received		17,928,414	13,737,480	19,671,503	15,347,063	13,361,830
interest paid		(7,345,506)	(11,029,874)	(9,666,407)	(7,583,613)	(8,694,088)
Income taxes paid	13	(922,258)	(619,354)	(133,969)	(678,442)	(335,376)
Retirement benefit - contribution by employer during the year		-	-	(209,673)	(200,000)	-
<b>Net cash from operating activities</b>		<b>16,838,253</b>	<b>(14,155,311)</b>	<b>11,530,657</b>	<b>1,054,475</b>	<b>(2,623,710)</b>
<b>Cash flows from investing activities</b>						
Purchase of investment securities		(94,861,519)	(29,960,099)	(58,132,032)	(16,364,091)	15,991,789
Redemption and proceeds from disposal of investment securities		86,611,926	47,316,416	41,392,977	-	-
Additions to property, plant and equipment	26	(382,426)	(334,075)	(334,676)	(233,426)	(148,890)
Additions to intangible assets	25	(330,354)	(111,666)	(210,214)	(41,503)	(52,732)
Proceeds from sale of property, plant and equipment		60,747	25,443	28,188	2,294	4,595
Acquisition of subsidiary		-	-	-	(174,367)	-
Dividends received		846,760	909,623	644,338	667,938	545,613
<b>Net cash (used in)/generated from investing activities</b>		<b>(8,054,865)</b>	<b>17,845,642</b>	<b>(16,611,419)</b>	<b>(16,143,155)</b>	<b>16,340,375</b>
<b>Cash flows from financing activities</b>						
Dividends paid to owners		(3,074,273)	(2,207,887)	-	(2,604,748)	(747,607)
Principal elements of lease payments		(119,964)	-	-	-	-
Long term borrowing		(1,655,760)	(3,170,315)	4,942,500	10,675,000	1,990,333
Repayment of long term borrowing		15,174,078	30,852,181	(3,282,250)	-	-
Proceeds from debt instrument issued		(17,755,059)	(30,962,709)	12,440,002	12,988,352	-
Capital transfer to the parent company		(1,000,000)	-	-	-	-
Repayment of debt instrument		-	-	(16,174,357)	(6,344,121)	-
Interest paid on long term debt securities		-	-	-	(788,025)	(788,025)
<b>Net cash used in financing activities</b>		<b>(8,430,978)</b>	<b>(5,488,730)</b>	<b>(2,074,105)</b>	<b>13,926,458</b>	<b>454,701</b>
Cash and cash equivalents at start of the year		20,769,543	22,085,386	28,799,195	29,961,417	15,790,051
Exchange difference on cash held		(6,961,272)	525,179	441,058	-	-
Net increase/(decrease) in cash and cash equivalents		352,409	(1,798,399)	(7,154,867)	(1,162,222)	14,171,366
<b>Cash and cash equivalents at end of the year</b>		<b>14,160,681</b>	<b>20,769,543</b>	<b>22,085,386</b>	<b>28,799,195</b>	<b>29,961,417</b>
<b>Cash and cash equivalents</b>	37	<b>14,160,981</b>	<b>20,769,543</b>	<b>22,085,386</b>	<b>28,799,195</b>	<b>29,961,417</b>

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

FSDH Merchant Bank Limited  
Reporting Accountants' Report for the five  
year period ended 31 December 2019

## Notes to the Financial Statements

### 1 General Information

FSDH Merchant Bank Limited ("the Bank") was incorporated on 23 June 1992 as a private limited liability company under the Companies and Allied Matters Act (1990). It started operations on 1 July 1992 and was granted license to carry on discount house business on 10 February 1993. The Bank commenced operations as a Merchant Bank on 15 January 2013.

During the year, there was a business restructuring within the Bank, which resulted in the adoption of the holding company model. Thus, FSDH Holding Company Limited was set up as a non-operating legal entity domiciled in Nigeria, and regulated by the Central Bank of Nigeria as an "other financial institution". See note 38 for detailed disclosure on the impact of the Business restructuring.

These financial statements are the financial statements of the Bank.

### 2 Summary of significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the following accounting policies newly adopted as described in note 2.2.

#### 2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB, the requirements of the Companies and Allied Matters Act, Banks and Other Financial Institutions Act and the Financial Reporting Council of Nigeria Act. Additional information required by National regulations is included where appropriate. The financial statements have been prepared in accordance with the going concern principle under the historical cost convention as modified by the measurement of certain financial assets held at fair value. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements, therefore, present the financial position and results fairly.

The Bank presents its statement of financial position in order of liquidity and analysis regarding recovery or settlement within 12 months after reporting date (current) and more than 12 months (non-current) is presented in the respective related notes in the financial statements. The accounting policies adopted are consistent with those of the previous financial period except for the adoption of a new Standard - IFRS 16.

#### a Functional and presentation currency

These financial statements are presented in Nigerian Naira, which is the Bank's functional currency. Except where indicated, financial information presented in Naira has been rounded to the nearest thousand.

#### b Basis of measurement

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

- Derivative financial instruments which are measured at fair value.
- Financial assets measured at fair value through profit or loss.
- Financial instruments measured at fair value through other comprehensive income.

#### c Use of estimates and judgements

The preparation of the financial statements in conformity with International Financial Reporting Standards (IFRS) requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant estimates and judgements are in relation to the following as they affect the 2019 financial statements:

- i. Impairment of financial instruments: key assumptions used in estimating recoverable cash flows.
- ii. Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.
- iii. Recognition and measurement of provisions and contingencies: Key assumptions about the likelihood and magnitude of an outflow of resources.
- iv. Determination of the fair value of financial instruments with unobservable inputs.
- v. Impairment of non-financial assets.

More details are provided in notes 3.0 to 3.2.

#### 2.2 New and amended standards and interpretations adopted by the Bank

A number of new or amended standards became applicable for the year, and the Bank had to change its accounting policies as a result of adopting IFRS 16 Leases.

The impact of the adoption of the leasing standard is disclosed in note 3.2 below. The other standards did not have any impact on the Bank's accounting policies.

#### Standards and interpretations effective during the reporting period

Amendments to the following standard(s) became effective in the annual period starting from 1st January 2019. The new reporting requirements as a result of the amendments and/or clarifications have been evaluated and their impact or otherwise are noted below:

##### IFRS 16 – Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The standard does not significantly change the accounting for leases for lessors. However, it requires lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss. IFRS 16 became effective 1 January 2019.

The Bank has appropriately disclosed its lease in line with the requirements of the amendment.

##### Amendments to IAS 19

This amendment was issued 7 February 2018 and became effective 1 January 2019. It prescribes the accounting for all types of employee benefits except share-based payment, to which IFRS 2 applies. Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 requires an entity to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when the entity consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits.

## Notes to the Financial Statements

### New and amended standards and interpretations adopted by the Bank - continued

#### Amendments to IAS 19 - continued

The amendments clarify that:

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

#### IFRIC 23 – Uncertainty over Income Tax Treatments

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

### 2.3 Impact of adoption of IFRS 16 - Leases on the Bank

The Bank primarily leases buildings for use as office space. Lease terms are negotiated on an individual basis and contain different terms and conditions, including extension and termination options. The lease terms range from 2 years to 4 years. The lease agreements do not impose any covenants - however, leased assets may not be used as security for borrowing purposes.

Contracts may contain both lease and non-lease components. The Bank has elected to separate lease and non-lease components and treat them accordingly.

Until the 2018 financial year, leases of property were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

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

#### Lease liabilities

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by 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 expenses 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.

The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

#### Right of use assets

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

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

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

#### Impact of adoption of IFRS 16

The Bank adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are, therefore, recognised in the opening balance of equity on 1 January 2019. The new accounting policies are disclosed in note 21.

#### Practical expedients applied

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

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

#### a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 15.97%.

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

FSDH Merchant Bank Limited  
Reporting Accountants' Report for the five  
year period ended 31 December 2019

## Notes to the Financial Statements

### 2.3 Impact of adoption of IFRS 16 - Leases on the Bank - continued

#### Right of use asset - continued

	N'000
Operating lease commitments disclosed as at 31 December 2018	-
Add: adjustments as a result of a different treatment of extension and termination options	131,097
Lease liabilities recognised as at 1 January 2019	<u>131,097</u>
Of which are	
Current lease liabilities	76,588
Non-current lease liabilities	54,509
	<u>131,097</u>

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

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

	31 December 2019	1 January 2019
	N'000	N'000
Buildings - Office space	119,964	137,843
<b>Total Right-of-use assets</b>	<u>119,964</u>	<u>137,843</u>

The following table summarises the impact of the transition to IFRS 16 on the statement of financial position as at 1 January 2019 for each affected individual line item. Line items that were not affected by the changes have not been included. The adoption of IFRS 16 had a nil impact on opening equity as at 1 January 2019.

	As at 31 December 2018	Impact of IFRS 16		As at 1 January 2019
		Reclassification	Remeasurement	
	N'000	N'000	N'000	N'000
<b>Assets</b>				
Right-of-use assets	-	6,746	131,097	137,843
Prepayment	6,746	(6,746)	-	-
<b>Liabilities</b>				
<b>Non-current</b>				
Lease liabilities	-	-	54,509	54,509
<b>Current</b>				
Lease liabilities	-	-	76,588	76,588

#### (i) Impact on segment disclosures and earnings per share

Segment assets and segment liabilities for December 2019 increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities. The following segments were affected by the change in policy.

	Segment assets	Segment liabilities
	N'000	N'000
Buildings - Office space	119,964	54,509

Earnings per share decreased for the 12 months to 31 December 2019 as a result of the adoption of IFRS 16.

#### b) The Bank's leasing activities and how these are accounted for

The Bank leases its various office spaces. Rental contracts are typically made for fixed periods of one to three years but may have extension options as described in (ii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. 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.

Assets and liabilities arising from a lease are initially measured on a present value basis. 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 lessee 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 lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

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

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

#### Extension and termination options - determining the lease terms

Extension and termination options are included in a number of property and equipment leases across the Bank. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Bank and not by the respective lessor. All the lease payments made in 2019 were optional.

## Notes to the Financial Statements

### Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

### Standards and interpretations issued/amended but not yet effective

The Bank has not early adopted the following new standard(s) in preparing these condensed interim financial statements as it plans to adopt these standards at their respective effective dates if applicable.

### Definition of Material – Amendments to IAS 1 and IAS 8 (effective for annual reporting periods beginning on or after 1 January 2020)

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

These standards are not expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

### Revised Conceptual Framework for Financial Reporting (effective for annual reporting periods beginning on or after 1 January 2020)

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

The Bank will perform an assessment to show that its accounting policies are still appropriate under the revised Framework.

## 2.4 Revenue recognition

The Bank recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Bank's activities as described below. The Bank bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

It is also the Bank's policy to recognise revenue from a contract when it has been approved by both parties, rights have been clearly identified, payment terms have been defined, the contract has commercial substance, and collectability has been ascertained as probable. Revenue is recognised when control of goods or services have been transferred. Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits (potential cash inflows or savings in cash outflows) associated with the asset.

The following are the income lines of the Bank and how income is recognised:

- **Credit related fees:** This includes processing, administrative and commitment fees. These are fees charged for administration and advisory services to the customer up to the customer's acceptance of the offer letter. These fees are not integral to the loan, therefore, they are not considered in determining the effective interest rate. The fees noted here are based on negotiation and as such are deemed to be point in time.
- **Commission on trade related transactions:** These are commission earned on trade-related transactions. The rates are agreed ahead and income is based on the value of the transactions and thus, are satisfied at a point in time.
- **Financial advisory and issuing house activities fees:** These are agreed upfront and based on financial advisory services rendered to clients. These include capital market service related fees, brokerage and advisory fees. The fees are either earned at point in time or over time dependent on the terms of the contract.
- **Other commissions:** These include electronic banking charges, account transaction fee, custody fees among others. The fees are earned at a point in time.

## 2.5 Sale and repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The counterparty liability received is recognised in the statement of financial position as a liability and classified as due to banks or from customers with an obligation to return it, including accrued interest. The financial assets are used as collateral on securities lent and repurchase agreement, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate. When the counterparty has the right to sell or re-pledge the securities, the Bank reclassifies those securities in its statement of financial position to 'pledged assets' as

Securities purchased under agreements to resell (reverse repos) are recorded as due from banks and measured at amortised cost. The securities pledged under such agreements are not included in the statement of financial position.

Securities repossessed under a reverse repo transaction are recognised in the books of the Bank. The instruments are classified in the financial statements according to their nature and purpose.

## Notes to the Financial Statements

### 2.6 Financial assets and liabilities

#### Measurement methods

##### Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

##### Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- (a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- (b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

##### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date basis.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in note 2.10, which results in an accounting loss being recognised in the income statement when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Bank recognises the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

##### Financial assets

##### Classification and subsequent measurement

The Bank has applied IFRS 9 and classified its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

##### Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

- (i) the Bank's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

##### (a) Financial assets measured at amortised cost

These represent assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

##### (b) Financial assets measured at FVOCI

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through Other comprehensive income (OCI), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in the income statement.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in income. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

##### (c) Financial assets measured at FVTPL

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and presented in the income statement within 'Net gains on financial instruments held for trading' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in income. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

##### Business model assessment

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

## Notes to the Financial Statements

### Business model assessment - continued

#### SPPI Test

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

#### d) Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in the income statement as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the "Net gains on financial instruments held for trading" line in the income statement.

### 2.7 Derivative instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in fair values are recognised immediately in the income statement. The Bank's derivative transactions consist of foreign exchange forward transactions as at the balance sheet date.

### 2.8 Modifications of financial assets

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return, that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

#### Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either

- (i) the Bank transfers substantially all the risks and rewards of ownership, or
- (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and no control is retained.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest.

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### 2.9 Financial liabilities

#### Classification and measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: This classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in the income statement;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments.

#### Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Category (as defined by IFRS 9)		Classes as determined by the Bank	Subclasses
Financial assets	Financial assets held for trading	Debt securities	Treasury Bills Federal Government of Nigeria Bonds
		Derivative financial instruments	Foreign exchange forward contracts Convertible loans
		Equity Securities	Quoted Equity Securities
		Mutual fund	Listed mutual funds
	Financial assets fair valued through other comprehensive income (FVOCI)	Debt securities	Treasury Bills Federal Government of Nigeria Bonds Corporate Bonds Unquoted equities
		Investment Securities	Treasury bills
	Amortised Cost	Cash and bank balances	Cash Operating balances with Central Bank of Nigeria Balances with banks in Nigeria Balances with banks outside Nigeria
		Loans and advances to Banks	Placements with banks and discount houses Placements with other financial institutions
		Loans and advances to customers	Term loans, overdrafts and commercial bills Margin facilities Promissory notes
		Derivative financial instrument liabilities	Foreign exchange forward contracts
Financial liabilities	Financial liabilities at fair value through profit or loss	Derivative financial instrument liabilities	Foreign exchange forward contracts
		Due to banks	Call borrowings Secured borrowings and liabilities under repurchase agreement
	Financial liabilities at amortised cost	Due to Customers	Liabilities under repurchase agreement Demand deposits Term deposits Customer accounts for foreign trade
		Other liabilities	Account Payable Sundry accounts
		Short term debt instruments	FSDH Commercial Papers
		Other Borrowed funds	Trade and credit lines

## Notes to the Financial Statements

### 2.10 Impairment

The Bank assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instrument assets carried at amortised cost and fair value through other comprehensive income and with the exposure arising from loan commitments and financial guarantee contracts. 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.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- 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.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

#### Significant increase in credit risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by:

- identifying the rating classification at initial recognition i.e. investment grade or speculative grade
- comparing the initial rating as at initial recognition with the current rating
- four notches downward movement in a twenty-five notches scale is considered significant
- for loans initially recognized as investment grade, a drop to speculative grade is considered significant
- for corporate debt issue, two notches downgrade of the issuer rating is considered significant
- for all facilities an upward reclassification of rating to the rating captured at its initial recognition or higher is considered a significant reduction in credit risk and a probationary period of 30 days is triggered.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative and qualitative factors. Using its expert credit judgement and where possible relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. There is a rebuttable presumption that the credit risk has increased significantly if contractual payments are more than 30 days past due; this presumption is applied unless the bank has reasonable and supportable information demonstrating that the credit risk has not increased significantly since initial recognition. The number of days past due is determined by counting the number of days since the date the full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

#### Qualitative criteria:

For large portfolios, if the borrower is on the Watch list and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans

The assessment of SICR incorporates forward-looking information. In relation to corporate and treasury financial instruments, where a Watch list is used to monitor credit risk, this assessment is performed at the counterparty level. The criteria used to identify SICR are monitored and reviewed annually for appropriateness by the Risk Management Team.

#### Backstop

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Bank has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2019.

#### Definition of default and credit-impaired assets

The Bank defines default as the failure of counterparties to meet the financial and legal obligations including a deviation from the conditions associated with the transaction.

Credit risk default arises from the failure of an obligor of the Bank to repay principal or interest at the stipulated time or failure otherwise to perform as agreed. This risk is compounded if the assigned collateral only partly covers the claims made to the borrower, or if its valuation is exposed to frequent changes due to changing market conditions (i.e. market risk).

This definition is fully aligned with the definition of credit-impaired and is triggered 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.

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### Qualitative criteria

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding. In assessing whether a borrower is in default, the Bank considers indicators that are:
  - qualitative – e.g. breaches of covenant;
  - quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
  - based on data developed internally and obtained from external sources. Inputs into the assessment of whether a financial instrument is in default and the significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. This is based on advice from the Bank's Risk Management Department.

The Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, some international organizations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a 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. On an annual basis, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

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 and credit risk and credit losses.

The factors the Bank considers are as shown below:

Stages	Applicable ECL	Criteria (Quantitative)	Criteria (Qualitative)
<b>Stage 1</b>	12 Month ECL	<ul style="list-style-type: none"> <li>• Less than 30 days past due</li> </ul>	<ul style="list-style-type: none"> <li>• All loans upon initial recognition</li> </ul>
<b>Stage 2</b>	Lifetime ECL - Loans that have witnessed significant increase in credit risk	<ul style="list-style-type: none"> <li>• Internal / external rating downgrade of loans from investment grade to non-investment grade</li> </ul>	<ul style="list-style-type: none"> <li>• Forbearance by CBN</li> </ul>
		<ul style="list-style-type: none"> <li>• Four notches downward movement in a twenty-five notches scale in rating.</li> </ul>	<ul style="list-style-type: none"> <li>• Negative modification / restructure to the original loan agreement e.g. for easing the cash-flow burden on the obligor</li> </ul>
		<ul style="list-style-type: none"> <li>• One notch internal / external rating downgrade of loans for non-investment grade loans</li> </ul>	<ul style="list-style-type: none"> <li>• Verified poor credit risk status from the credit bureau</li> </ul>
		<ul style="list-style-type: none"> <li>• Obligation with past due exceeding 30 days</li> </ul>	<ul style="list-style-type: none"> <li>• Changes in regulatory, economic, or business of the borrower that results in a significant change in the borrower's ability to meet its debt obligations (e.g. a decline in the demand for the borrower's sales product because of a shift in technology)</li> </ul>
		<ul style="list-style-type: none"> <li>• Increase of more than 300bps in yield spread over corresponding Federal Government instrument for corporate debt issue</li> <li>• For corporate debt issue, three notches downgrade of the issuer rating</li> </ul>	<ul style="list-style-type: none"> <li>• Overdue status and non payment on another obligation of the same issuer to the Bank</li> </ul>
<b>Stage 3</b>	Lifetime ECL - Loans that have objective evidence of impairment or in default	<ul style="list-style-type: none"> <li>• Obligation with past due exceeding 90 days.</li> </ul>	<ul style="list-style-type: none"> <li>• Force majeure leading to loss of borrower's primary asset</li> </ul>
		<ul style="list-style-type: none"> <li>• Internal and external rating downgrade to "C" rating</li> </ul>	

The days past due default definition used by the Bank as criteria in the credit classification for loan loss provisioning is consistent with the nature and observable trends in the credit of the Bank.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on an annual basis.

### Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Bank's Economics team on a quarterly basis 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 PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Banks Research team 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 Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded.

### Notes to the Financial Statements

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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). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

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 nonlinearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

#### **ESTIMATION OF MULTI-YEAR EXPOSURE AT DEFAULT**

Exposure at Default (EAD) is an estimate of the Bank's exposure to its counterparty at the time of default. This estimation (EAD) relates to payment terms, tenure of exposure and the point in time at which default is expected, or actually occurs. For defaulted accounts, the Bank uses the principal amount outstanding and the accrued interest at the point of default as the EAD.

Prepayment is primarily an option to borrower to make bulk payment (full or partial) for the availed facility ahead of its scheduled time. The model has the capacity to compute prepayment rate per sector using prepayment historical data.

#### **EAD ESTIMATION FOR CERTAIN EXPOSURE FACILITIES**

Under this category, future exposure to the facility is known, as the counterparty cannot increase its exposure beyond contractual drawdown schedule. All forms of term loans including amortizing loans, step-up/step-down loans, bullet loans fall under this category, provided there is no prepayment option.

Periodic and Daily amortization schedule are generated using both contractual and computed effective interest rate (EIR).

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### ESTIMATION OF MULTI-YEAR LOSS GIVEN DEFAULT

#### Definition of LGD Parameters

Loss Given Default (LGD) parameter is defined as a percentage of exposure that the Bank expects not to collect if default occurs on the contract. It is the complement of the Recovery Rate which is the percentage of exposure that the Bank expects to recover in the event that there is a default.

Collateral: This is a property or other asset that a borrower offers as a way for a lender to secure the loan. Since collateral offers some security to the lender should the borrower fail to pay back the loan, loans that are secured by collateral typically have lower credit risk spreads than unsecured loans.

Haircut: The amount of the haircut reflects the lender's perceived risk of loss from the asset falling in value or being sold in a forced sale. Haircut is expressed as a percentage of the collateral's market value.

DR: Discount rate is the rate used to discount all estimated recovered cash flows from the period of collection to the period of default. The contractual interest rate is used as DR for stage 3 facilities, while the EIR is used for other stages. Effective interest rate (EIR) is defined as the rate that exactly discounts future contractual cash payments through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

#### 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 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 Bank 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 Bank 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 (LGD) represents the Bank'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 12-month 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 and projected collateral values, 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.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD.

#### Qualitative Criteria

PDs are assigned by grouping facilities based on a shared risk characteristic, i.e. homogeneous group. The FSDH internal rating of the obligor was used as the relevant shared characteristic for the purpose of this grouping.

CREDIT RATING	DESCRIPTION	INVESTMENT DECISION
AAA	Exceptional Credit Quality	Investment Grade
AA+	Very High Credit Quality	
AA		
AA-		
A+		
A	High Credit Quality	
A-		
A		
BBB+	Good Asset Quality	
BBB		
BBB-		
BB+	Satisfactory Asset Quality	
BB		
BB-		
B+		
B	Asset Quality with limited capacity	
B-		
CCC+		
CCC		
CCC-	Asset Quality with signs of deterioration	
CC+		
CC		
CC-	Asset Quality with probability of partial loss	
C+		
C		
C-	Default	Default Grade

## Notes to the Financial Statements

### Qualitative Criteria - continued

#### The Top-Down Approach

The impact of macro-economic variables on non-performance is determined by the model and applied on ECL level. Factors considered include:

- Gross Domestic Product (GDP) growth rate
- Inflation Rate
- Foreign exchange rate

Data consideration included values from current year (2019) and forecast for 2020 and 2021.

#### PROBABILITY-WEIGHTED ECL COMPUTATION

A key aspect of IFRS 9 is the introduction of forward-looking estimates into the impairment calculation.

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. This is based on advice from the Bank's Risk Management Department and Research Department

The Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, some international organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a 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. On an annual basis, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

### 2.11 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 on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- 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. 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 or 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 separately identify the expected credit losses on the undrawn commitment component 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.

### 2.12 Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

### 2.13 Offsetting financial instruments

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

The financial assets and liabilities are presented on a gross basis.

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

### 2.14 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

### 2.15 Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the sale or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised ratably over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

### 2.16 Dividend income

Dividend income is recognised in the statement of comprehensive income when the entity's right to receive payment is established.

### 2.17 Impairment of non-financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 2.18 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.19 Property and equipment

#### (i) Recognition and measurement

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance costs are charged to the income statement during the reporting period in which they are incurred.

An asset's net book value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with net book values. These are included in the income statement.

## Notes to the Financial Statements

### 2.19 Property and equipment - continued

#### (ii) Depreciation

Depreciation is recognised in the statement of comprehensive income on a straight-line basis to write down the cost of each asset, to their residual values over the estimated useful life of each part of an item of property and equipment. Leased assets under finance lease are depreciated over the shorter of the lease term and their useful lives.

Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with IFRS 5. A non-current asset or disposal group is not depreciated while it is classified as held for sale.

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

Leasehold improvements over the shorter of the useful life of the item or lease term. Land is not depreciated.

- Leasehold improvements	25% or over the lease period
- Office equipment	20%
- Computer equipment	33%
- Office Furniture and fittings	12.5% - 25%
- Motor vehicles	25%
- Work in progress	0%

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

#### (iii) De-recognition

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

### 2.20 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. Assets classified as held for sale are measured at fair value, gain or loss arising from a change in the fair value of the asset held for sale is recognised in income statement for the period in which it arise.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated in the financial statements of the Bank.

### 2.21 Intangible assets

Costs associated with maintaining software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use. The Bank chooses to use the cost model for the measurement after initial recognition. Prior to deployment for usage, such assets are classified under work in progress and are not subjected to amortization.

Amortisation is calculated over 3 years on a straight line basis.

### 2.22 Income tax

#### (a) Current income tax

Income tax payable is calculated on the basis of the tax law in Nigeria and is recognised as an expense (income) for the period except to the extent that the current tax relates to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity (for example, current tax on equity instruments for which the entity has elected to present gains and losses in other comprehensive income).

Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the statement of financial position.

The Bank does not offset current income tax liabilities and current income tax assets.

#### (b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities, provisions for gratuity and carry-forwards. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

The tax effects of carry-forwards of unused losses, unused tax credits and other deferred tax assets are recognised when it is probable that future taxable profit will be available against which these losses and other temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value re-measurement of available for sale instruments, which are recognised in other comprehensive income, is also recognised in other comprehensive income and subsequently in the income statement together with the deferred gain or loss.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.23 Employee benefits

The Bank in addition to its defined contribution scheme under the Pension Reform Act, also sponsors a postemployment plan under which entities within the Bank contribute a percentage of employees' basic salary to a fund manager in favour of the employees. The amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by the company to the post-employment benefit plan, together with investment returns arising from the contributions. Thus, actuarial risk (that benefits will be less than expected) and investment risk fall on the employee.

#### (a) Pension costs

Company contribute 6% and 12% respectively of the employee's basic salary, transport and rent allowances. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### (b) Post-employment defined contribution plan

The Bank in addition to its defined contribution scheme under the Pension Reform Act, also sponsors a post-employment plan under which entities contribute a percentage of employees' basic salary to a fund manager in favour of the employees. The amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by the company to the post-employment benefit plan, together with investment returns arising from the contributions. Thus, actuarial risk (that benefits will be less than expected) and investment risk fall on the employee.

## Notes to the Financial Statements

### 2.24 Provisions, contingent liabilities and assets

Provisions are liabilities that are uncertain in amount and timing. Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

A contingent liability is a possible obligation that arises from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank or the Bank has a present obligation as a result of a past event. It is not recognised because it is not likely that an outflow of resources will be required to settle the obligation or the amount cannot be reliably estimated. Contingent liabilities normally comprise of legal claims under arbitration or court process in respect of which a liability is not likely to occur.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent assets are not recognised as assets in the statement of financial position but is disclosed if they are likely to eventuate.

### 2.25 Share capital

#### (a) Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

#### (b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the date of the statement of financial position are dealt with in the subsequent events note. Dividends proposed by the Directors' but not yet approved by members are disclosed in the financial statements in accordance with the requirements of the Company and Allied Matters Act 1990 (CAMA).

#### (c) Treasury shares

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

#### (d) Statutory Reserve

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 Institutions Act of 1991 (Amended), 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.

#### (e) Credit Risk Reserve

In compliance with the Prudential Guidelines for Licensed Banks, the Bank assesses qualifying financial assets using the guidance under the Prudential Guidelines. These apply objective and subjective criteria towards providing for losses in risk assets. Assets are classified as performing or non-performing. Non-performing assets are further classed as Substandard, Doubtful or Lost with attendants provision as per the table below based on objective criteria.

Classification	Basis	Percentage provided
Substandard	Interest and/or principal overdue by 90 days but less than 180 days.	10%
Doubtful	Interest and/or principal overdue by more than 180 days but less than 365 days.	50%
Lost	Interest and/or principal overdue by more than 365 days.	100%

A more accelerated provision may be done using the subjective criteria. A 1% provision is taken on all risk assets not specifically provisioned.

The results of the application of Prudential Guidelines and the impairment determined for these assets under IFRS 9 are compared. The IFRS 9 determined impairment charge is always included in the income statement. Where the Prudential Guidelines provision is greater, the difference is appropriated from Retained Earnings and included in a non-distributable reserve called "Credit Risk Reserve". Where the IFRS 9 impairment is greater, no appropriation is made and the amount of the IFRS 9 impairment is recognised in the Statement of Comprehensive Income.

All provisions determined under Prudential Guidelines are compared with that of IFRS in line with the CBN guidelines.

### 2.26 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit after tax attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period excluding treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

### 2.27 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where IAS 8 applies, comparative figures have been adjusted to conform to changes in presentation in the current year.

#### Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousands of naira unless otherwise stated.

## 3.0 Enterprise Risk Management Review

Management is fully aware that every financial, operational or strategic decision made may either adversely affect or strengthen our ability to meet the Bank's organizational objectives. Management is also aware of the need to balance the contradictory pressures of greater entrepreneurialism with losses from downside risks. Thus, risk is seen as the level of exposure – opportunity, threat, and uncertainty that must be identified, understood, measured and effectively managed, as the Bank's executes its strategies to achieve its business objectives and create value.

The risks associated with the Bank's businesses include - financial risks (which consist of credit, market, and liquidity risk), operational risk, concentration risk, reputational risk, interest rate risk, downgrade risk, business risk, regulatory compliance risk and environment and social risk.

For the Bank to achieve long term success, it must manage all chosen opportunities and identified threats effectively within the Bank's risk appetite.

The risk management philosophy and culture are the set of shared beliefs, values, attitudes and practices that govern how Management considers the risks inherent in the Bank's business activities, from strategy development and implementation to day-to-day activities.

Management's risk philosophy is conservative. We believe that a sound risk management system is the foundation for building a vibrant and viable financial institution. Therefore, an enterprise-wide approach to risk management has been adopted, wherein key risks, financial and non-financial, from all areas of the business are managed within the context of the Bank's risk appetite.

Consequent upon its risk management philosophy, the Bank strives to embed the following guiding principles of its risk culture into its daily practices:

- The Bank insists on a robust risk management governance structure that enables it to manage all major aspects of its activities through an integrated planning and review process that includes strategic, financial, customer and risk planning.
- Our Board and Senior Management insists on and promotes a strong culture of adherence to limits in managing risk exposure.
- Risk management in the Bank is governed by formally documented and defined policies and procedures, which are clearly communicated to all.
- The Bank avoids products, businesses and markets that it does not fully understand or for which management cannot reasonably and objectively measure and manage the associated risks.
- The Bank strives to maintain a balance between risk/opportunity and revenue consideration with its risk appetite. Thus, risk-related issues are considered in all our business decisions.
- The Bank creates and evaluates business units and enterprise risk profiles to consider what is best for its individual business units and the Bank as a whole.
- The Bank's risk officers are empowered to perform their duties professionally and independently within clearly defined authorities.
- Staff are encouraged to disclose inherent risks and actual losses openly, fully, honestly and quickly.
- The Bank creates a process for institutionalising the lessons learned from risk events and penalises negligent recurrence.
- The Bank has zero tolerance for breach of laws and regulations.
- The Bank has zero appetite for associating with disreputable individuals and organisations.

## Notes to the Financial Statements

### 3.0 Enterprise Risk Management Review - continued

Our risk management objectives are as follows:

- a. To identify our material risks and ensure that our business plans are consistent with our risk appetite.
- b. To ensure that our business growth plans are properly supported by an effective and efficient risk management function.
- c. To manage our risk profile, ensuring that specific financial deliverables remain possible under a range of possible business conditions.
- d. To optimise our risk and return trade-off by ensuring that our business units act as primary risk managers while establishing strong and independent review and challenge structures.
- e. To protect the Bank against unexpected losses and reduce the volatility of our earnings.
- f. To maximise risk-adjusted opportunities, earnings potential and ultimately our stakeholder value.
- g. To help Management improve the control and coordination of risk-taking across the Bank.
- h. To build a risk-smart workforce and environment that allows for innovation and responsible risk-taking by our staff while ensuring cost-effective and legitimate precautions are taken to protect the shareholders' interest.
- i. The Bank's risk appetite articulates the quantum of residual risk it is prepared to accept or tolerate in pursuit of its strategic business objectives.

The Risk Management department periodically recommends specific measures relating to these parameters to the Board for approval. The risk appetite guides in setting the parameters listed below:

#### Financial

- a. Financial and prudential ratios are set to meet the minimum statutory requirements
- b. Capital-at-risk driven by the Bank's shareholder value creation objectives.
- c. Capital adequacy is set to exceed the minimum regulatory limits.

#### Credit

- a. Asset quality, measured by the ratio of non-performing loans to total loans.
- b. Maximum credit exposure per industry, product, obligor.
- c. Zero tolerance for undisciplined lending.

#### Reputational

- a. Favourable reports from external auditors and rating agencies.
- b. Zero tolerance for any utterance (by directors or employees) that may impact negatively on the Bank's operations.
- c. Zero appetite for association with disreputable individuals and organisations.
- d. Zero appetite for unethical or illegal and/or unprofessional conduct by our directors, executive management and staff.

#### Ratings

The Bank aims to achieve consistently good ratings issued by domestic or internationally recognised rating agencies. The ratings must reflect sound financial asset quality, strong liquidity position, strong capital adequacy level, strategic positioning in the fundamentals, excellent economy and potential for superior earnings.

#### Customer Service

- a. Acceptable customer attrition level as defined by the Board.
- b. Minimum acceptable percentage of satisfied customers from feedback surveys.
- c. Acceptable complaints volume.

#### Regulatory

- a. Zero amount or number of sanctions by the CBN and other regulatory agencies.
- b. Zero tolerance for infractions and non-compliance with laws.

#### Market Risk

The following are the objectives for managing market risk in the Bank:

- Maintaining market risk within limits in line with the Bank's risk appetite;
- Identifying and accurately measuring our market risk exposure to aid efficient decision making; and
- Mitigating and monitoring our market risk exposures effectively.

The Bank in managing market risk tracks the following limits:

- a. Trading limit
- b. Stop loss limits
- c. Interest rate gap limits

#### Liquidity Risk

The Bank tracks the following limits in compliance with regulatory requirements and/or to conform to leading practices in liquidity risk management:

- a. Liquidity ratio set to exceed minimum regulatory limits
- b. Total deposits to total assets
- c. Duration of liquid assets
- d. Large fund provider to total deposits
- e. Capital adequacy
- f. Total loans to total deposits
- g. Total earning assets to total assets
- h. Aggregate large credit to shareholders funds

Senior management proposes a well articulated risk appetite framework and recommends it to the Board for approval annually. It also establishes a process for allocating the appetite among the business units and subsidiaries and reporting against these limits.

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

FSDH Merchant Bank Limited  
Reporting Accountants' Report for the five  
year period ended 31 December 2019

## Notes to the Financial Statements

### 3.1 Financial instruments

31 December 2019 In thousands of Nigerian Naira	Financial Assets			Financial Liabilities	
	At fair value through profit or loss	FVOCI	Amortised cost	At fair value through profit or loss	Amortised cost
<b>Financial assets:</b>					
<b>Cash</b>	-	-	85	-	-
<b>Balances with other banks</b>	-	-	-	-	-
- Operating balance with Central Bank of Nigeria	-	-	3,907,089	-	-
- Balances with banks in Nigeria	-	-	263,277	-	-
- Balances with banks outside Nigeria	-	-	4,779,983	-	-
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	7,210,940	-	-
<b>Loans to banks</b>	-	-	-	-	-
- Placements with banks	-	-	9,817,413	-	-
<b>Financial instruments Held For Trading</b>	-	-	-	-	-
- Nigerian Treasury Bills	2,704,105	-	-	-	-
<b>Loans and advances</b>	-	-	-	-	-
- Loans and advances (net of impairment)	-	-	45,496,340	-	-
<b>Investment securities</b>	-	-	-	-	-
- Equity securities	-	563,043	-	-	-
- Nigerian Treasury Bills	-	17,242,594	-	-	-
- Promissory Notes and Commercial Bills	-	2,676,133	-	-	-
- Federal Government of Nigeria bonds	-	6,255,000	-	-	-
- Corporate bonds	-	16,710,447	-	-	-
<b>Derivative financial instruments</b>	414,929	-	-	-	-
<b>Pledged assets</b>	-	-	-	-	-
- Nigerian Treasury Bills	-	31,958,201	-	-	-
- Federal Government of Nigeria bonds	-	1,147,552	-	-	-
- Corporate bonds	-	-	-	-	-
<b>Other assets</b>	-	-	-	-	-
- Receivables (net impairment)	-	-	294,822	-	-
<b>Financial liabilities:</b>	-	-	-	-	-
- Secured borrowings	-	-	-	-	27,681,910
- Other Balances	-	-	-	-	2,918
<b>Derivatives</b>	-	-	-	-	-
- FX forward contracts	-	-	-	395,283	-
<b>Due to customers</b>	-	-	-	-	-
- Demand	-	-	-	-	9,670,569
- Term	-	-	-	-	37,393,996
- Client investments under repurchase	-	-	-	-	9,275,871
<b>Other liabilities</b>	-	-	-	-	-
- Customers' deposit for foreign trade	-	-	-	-	4,606,865
- Amounts held on behalf of third parties	-	-	-	-	4,547,095
- Unclaimed third party deposits	-	-	-	-	11,923
- Sundry creditors	-	-	-	-	88,568
- Accruals	-	-	-	-	164,416
- Stale cheques and other payable	-	-	-	-	1,956,934
<b>Lease Liabilities</b>	-	-	-	-	54,509
<b>Debt securities</b>	-	-	-	-	-
- FSDH Commercial Papers	-	-	-	-	14,086,009
<b>Other borrowed funds</b>	-	-	-	-	-
- Due to AfDB	-	-	-	-	18,737,312
	<b>3,119,034</b>	<b>76,552,970</b>	<b>71,769,949</b>	<b>395,283</b>	<b>128,278,895</b>

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

FSDH Merchant Bank Limited  
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## Notes to the Financial Statements

### 3.1 Financial instruments

31 December 2018 In thousands of Nigerian Naira	Financial Assets			Financial Liabilities		
	At fair value through profit or loss	FVOCI	Amortised cost	At fair value through profit or loss	Amortised cost	
Financial assets:						
<b>Cash</b>	-	-	37	-	-	-
<b>Balances with other banks</b>	-	-	-	-	-	-
- Operating balance with Central Bank of Nigeria	-	-	1,324,916	-	-	-
- Balances with banks in Nigeria	-	-	657,634	-	-	-
- Balances with banks outside Nigeria	-	-	5,008,095	-	-	-
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	4,196,302	-	-	-
<b>Loans to banks</b>	-	-	-	-	-	-
- Placements with banks	-	-	17,057,637	-	-	-
- Placements with other financial institutions	-	-	-	-	-	-
<b>Financial instruments Held For Trading</b>	-	-	-	-	-	-
- Nigerian Treasury Bills	344,516	-	-	-	-	-
- Corporate bond	1,128,755	-	-	-	-	-
<b>Loans and advances</b>	-	-	-	-	-	-
- Loans and advances (net of impairment)	-	-	40,536,858	-	-	-
<b>Investment securities</b>	-	-	-	-	-	-
- Equity securities	-	342,473	-	-	-	-
- Nigerian Treasury Bills	-	24,524,054	4,693,596	-	-	-
- Promissory Notes and Commercial Bills	-	-	-	-	-	-
- Federal Government of Nigeria bonds	-	325,631	-	-	-	-
- Corporate bonds	-	4,141,106	-	-	-	-
Derivative financial instruments	607,076	-	-	-	-	-
Pledged assets	-	-	-	-	-	-
- Nigerian Treasury Bills	-	3,830,738	-	-	-	-
- Federal Government of Nigeria bonds	-	5,063,491	-	-	-	-
- Corporate bonds	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
- Receivables (net impairment)	-	-	252,081	-	-	-
Financial liabilities:						
- Current account - local	-	-	-	-	-	705,274
- Current account - foreign	-	-	-	-	-	3,620,314
- Secured borrowings	-	-	-	-	-	416,260
- Trade related obligations to local banks	-	-	-	-	-	3,144
Derivatives	-	-	-	-	-	-
- FX forward contracts	-	-	-	590,903	-	-
Due to customers	-	-	-	-	-	-
- Demand	-	-	-	-	-	9,269,590
- Term	-	-	-	-	-	31,245,455
- Client investments under repurchase	-	-	-	-	-	6,204,316
Other liabilities	-	-	-	-	-	-
- Customers' deposit for foreign trade	-	-	-	-	-	3,278,776
- Amounts held on behalf of third parties	-	-	-	-	-	848,356
- Unclaimed third party deposits	-	-	-	-	-	5,505
- Sundry creditors	-	-	-	-	-	82,226
- Accruals	-	-	-	-	-	-
- Stale cheques and other payable	-	-	-	-	-	335,693
Lease Liabilities	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
- FSDH Commercial Papers	-	-	-	-	-	14,524,709
Other borrowed funds	-	-	-	-	-	305,686
- Due to AfDB	-	-	-	-	-	18,420,265
	<b>2,080,347</b>	<b>38,227,493</b>	<b>73,727,156</b>	<b>590,903</b>	-	<b>89,265,569</b>

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

FSDH Merchant Bank Limited  
Reporting Accountants' Report for the five  
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## Notes to the Financial Statements

### 3.1.1 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Bank's loans and advances to customers and other banks, and investment in debt securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor risk, country risk and sector risk).

### 3.1.2 Settlement Risk

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

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

The FSDH Merchant Bank's Enterprise Risk Management (ERM) Framework and Credit Policy Manual define the overall principles under which FSDH Merchant Bank is prepared to assume credit risk. The standard sets out the overall framework for the consistent and unified governance, identification, measurement, management and reporting of credit risk in FSDH.

These policies provide a comprehensive framework within which all credit risk emanating from the operations of FSDH are legally executed, properly monitored and controlled to minimise the risk of financial loss; and assure consistency of approach in the treatment of regulatory compliance requirements.

The Management Risk Committee is mandated to provide high level centralized management of credit risk for the Bank. The purpose of the Management Risk Committee is to assist the Board Risk Committee in fulfilling its oversight responsibility in exercising diligence, due care and skill to oversee, direct and review the management of credit risk within the Bank. Specifically, the roles and responsibilities of the Committee include the following:

- Credit strategy and policy formulation
- Credit approval
- Credit monitoring
- Credit risk compliance

### 3.1.3 Principal Credit Policies

The principal credit policies guiding the Bank shields the Bank against inherent and concentration risks through all the credit levels of selection, underwriting, administration and control.

#### Some of the policies are:

- Credit will only be extended to suitable and well identified customers
- Exposures to any industry or customer will be determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines.
- Credit will not be extended to customers where the source of repayment is unknown or speculative and also where the destination of the funds is unknown. There must be a clear and verifiable purpose for the use of funds.
- A pricing model that reflects variations in the risk profile of various credit facilities to ensure that higher risks are compensated with higher returns.

#### Corporate bonds

- The primary source of repayment for all credits must be from identifiable cash flows from the counterparty's normal business operations or other financial arrangements. The realization of security remains a fall back option.
- A pricing model that reflects variations in the risk profile of various credit facilities to ensure that higher risks are compensated with higher returns.
- All conflict of interest situations must be avoided.

### 3.1.4 Credit Risk Measurement

Over the years, the Bank has expanded its operational scope and enhanced its suite of financial advisory services to its clientele. The product offerings of the Bank include buying and selling of securities, term loans, invoice discounting, overdraft, commercial facilities, asset backed notes, LPO/Contract financing, trade finance, foreign exchange, bonds and guarantees, loan syndications, project finance, structured finance, corporate finance and financial advisory services (debt & equity).

Credit risk represents the loss that the Bank would incur if a counterparty (such as a bank, corporate, individual or sovereign) or an issuer of securities (or other instruments the Bank holds) fails to perform its contractual obligations or upon deterioration in the credit quality of third parties whose securities or other instruments it holds.

Over the years, the Bank has devoted resources and harnessed its credit data into developing models to improve the determination of economic and financial threats due to credit risk. As a result, some key factors are considered in credit risk measurement:

- 1) Adherence to strict credit selection criteria which includes a defined target market, credit history, capacity and character of the customers.
- 2) The possibility of failure to pay over the period stipulated in the contract.
- 3) The size of the facility in case default occurs.
- 4) Estimated rate of recovery which is a measure of the portion of debt that can be regained through freezing of assets and collateral should default transpire.

#### Methodology for Risk Rating

For loans & receivables and placement with banks, the Bank utilises Obligor Risk Rating and Facility Risk Rating models to assign ratings to obligor and facilities in line with the Bank's Credit Policy. The Obligor Risk Rating models include the Bank Risk Rating and Corporates Risk Rating models. The Bank utilises the Bank Rating model and the Corporate Rating model to rate Bank and corporate organisations respectively. Each rating model considers qualitative and quantitative conditions of the obligor. For the quantitative analysis, a three year history of financial position is required to adequately appraise the customer and the financial performance is benchmarked against industry averages. The qualitative section covers corporate governance issues, industry and business considerations to give a perception of the customer.

Ratings are assigned to individuals who seek margin facilities from the Bank. These ratings are assigned to customers depending on the ability to repay and the quality of the collateral pledged.

In summary, the key factors considered while doing an appraisal of the customer include:

- A measure of the financial and non financial risks of the borrower. In order to properly evaluate the non financial risks of the borrower, a thorough industry analysis is carried out by a dedicated team in Risk Management. This is used as a benchmark for the obligor.
- Obligor rating considers the financial condition, management and ownership structure, industry and other qualitative factors of the customer.
- Facility rating recognises the risk mitigation and facility structuring as features of the credit facility. Considerations here include the nature and quality of collateral, the structure of the loan, and the nature and purpose of the loan, among others.

Ratings are assigned to customer for a period of one year. The exception to the foregoing is if the facility is project finance. Project finance facilities are monitored after the initial rating for any sign(s) of distress.

All ratings are reviewed annually. More frequent reviews are occasioned by unexpected developments such as policy and market changes. Changes to the obligor's status and/or capability will also trigger a review. The Bank generally avoids high risk obligors that will warrant frequent reviews and management.

The Bank maintains the under listed rating grade which is applicable to both new and existing customers. A self explanatory rating grid showing how ratings are assigned is illustrated below:

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

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## Notes to the Financial Statements

### 3.1.4 Credit Risk Measurement - continued

SCORE	RATING	EXPLANATION
70 and above	Aaa	The financial condition and ability to meet obligations is excellent.
65 to 69	Aa	The financial condition and capacity to meet financial obligations are considered very good.
60 to 64	A	Good financial condition and capacity to meet obligations.
55 to 59	Bbb	Financial condition and ability to meet obligations are considered satisfactory but needs a fair amount of external financial support in the form of refinancing; ability to obtain same is assured.
50 to 54	Bb	The financial condition is satisfactory but the company is highly dependent on external financing. Collateral or a reliable corporate guarantee may be required.
45 to 49	B	Weak financial Condition. Highly dependent on external financial support, but its business strategies are progressive. Credit to these issuers should be on a transaction basis with adequate security and repayment structure tied to source of repayment.
Below 45	C	Financial condition is very weak. Net worth is likely to be negative and obligations may already be in default.

#### Methodology for Risk Rating

A "+" (plus) or "-" (minus) sign may be assigned to ratings from Aa to C to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

### 3.1.5 Risk limit and control mitigation policies

The medium by which limits for banks and issuers are created is the credit appraisal (CA). A signed CA must evidence all types of credit lines being considered for the client. The Board of Directors of the Bank set up a Board Risk Committee (BRC) with the authority to approve credit facilities on behalf of the Board. The Board also gave the authority to grant credit approval to the Management Risk Committee (MRC).

All credits in the Bank are rated using the Bank's internal rating model. As part of the credit appraisal process, such rating is compared and evaluated against published ratings of external rating agencies.

These ratings, apart from determining values of credit to be advanced to an obligor, also guides Management and the Board on authorisation limits for approving credit facilities.

This laid down authority governs credit extension. The limits set by the Board are as indicated below:

Approving Authorities	Approved Volume	Ratings
*Management Risk Committee	Up to N10.5bn	Aa - Aaa
Board Risk Committee (BRC)	Up to N6bn	Aa - Aaa
Board Risk Committee (BRC)	Up to N3.7bn	Bbb- - A
Full Board	Up to N1.26bn	Bb+ - B-
Full Board	Up to N0.75bn	C

The Management Risk Committee shall comprise the officers specified below, signing jointly:

- Chief Risk Officer
- Executive Directors
- Managing Director/CEO

It is pertinent to state that these limits are reviewed from time to time as the circumstances demand.

#### Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2019 and 31 December 2018 are set out below.

31 December 2019		2020	2020	2022	2023
Real GDP Growth Rate - Year on Year	Base case	2.80%	2.52%	2.73%	2.61%
	Best case	2.46%	2.48%	2.73%	2.61%
	Worst case	2.20%	2.40%	2.73%	2.61%
Exchange Rate (N/US\$)	Base case	381.08	406.08	439.02	479.20
	Best case	385.06	410.83	445.00	486.98
	Worst case	386.67	412.84	447.60	490.57
Inflation Rate	Base case	9.00%	10.82%	10.49%	10.12%
	Best case	11.57%	11.26%	11.06%	10.75%
	Worst case	13.00%	11.50%	11.40%	11.14%

31 December 2018		2020	2020	2022	2023
Real GDP Growth Rate - Year on Year	Base case	2.48%	3.00%	2.80%	2.71%
	Best case	2.71%	2.77%	2.57%	2.48%
	Worst case	1.83%	2.35%	2.14%	2.06%
Exchange Rate (N/US\$)	Base case	375.00	390.00	390.00	390.00
	Best case	365.00	365.00	365.00	365.00
	Worst case	400.00	400.00	410.00	410.00
Inflation Rate	Base case	11.49%	11.11%	11.24%	10.81%
	Best case	9.89%	9.51%	9.64%	9.21%
	Worst case	13.39%	13.01%	13.14%	12.71%

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

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## Notes to the Financial Statements

### SENSITIVITY ANALYSIS

The most significant assumptions affecting the ECL allowance are as follows:

- (i) GDP, given the significant impact on companies' performance and collateral valuations; and
- (ii) Inflation, given its impact on interest rates and companies' likelihood of default.

Set out below are the changes to the ECL as at 31 December 2019 and 31 December 2018 that would result from reasonably possible changes in this parameter from the actual assumptions used in the Bank's economic variable assumptions (for example, the impact on ECL of increasing the estimated inflation rate by a specified percentage)

	+2%	No change	+3%
Inflation	1,325,186	1,299,202	1,338,178
December 2019	-2.30%	No change	-3.3%
GDP	1,269,320	1,299,202	1,256,328
December 2018	-1%	No change	+1%
Inflation	1,824,352	1,824,668	1,824,984
	-1%	No change	+1%
GDP	1,824,367	1,824,668	1,824,969

### 3.1.6 Collateral Policies

To minimise the risk of loss by the Bank in the event of a decline in quality or delinquency, the Bank ensures that credit exposures have appropriate collateral. Security documents are reviewed to ensure their continuous enforceability. Also, securities held against exposures are reviewed regularly to ensure realisability and value. Where diminution in value has occurred, appropriate steps are taken to shore up such positions.

This is done throughout the life of the credit exposure.

Collateral securities pledged to the Bank must be in negotiable form and its types include the following:

- Real estate, plant and equipment collateral (usually all asset or mortgage debenture or charge) which have to be registered and enforceable under Nigerian law.
- Collateral consisting of inventory, account receivables, floating debenture, etc., which have to be registered and, must be enforceable in Nigeria and under Nigerian law.
- Stocks and shares of publicly quoted companies.
- Domiciliation of payment on contracts.
- Letters of Lien.

Currently, the various types of collateral held are against our Commercial Bills and Margin facilities. They consist of stocks and shares of publicly quoted companies, real estate, letters of lien, domiciliation of payment contracts and charge on assets.

FSDH shall track, value and give or receive collateral during the eligible or applicable life of every credit transaction. General tasks on a day to day basis shall include:

- Managing collateral movement – record details of collateral, monitor customer exposure and collateral received or posted.
- Mark-to-market situation or position where applicable and call for margins as may be required.
- Deal with disagreements and disputes over exposure calculations and collateral valuations.
- Provide custody, clearing and settlement (depending on how the legal relationship is structured).
- Manage collateral inflows and outflows.
- Do regular valuations (quarterly at the minimum) of all securities. Depending on security type (equity or fixed income), valuation can be done on an end of day (EOD) basis.
- Deal with requests for collateral substitution where required.

To ensure ease of realisation of collateral in the event of non-performance, all credit documentation requirements shall be met before a credit facility is availed and where there are waivers, relationship officers and Risk Management Department must ensure that such waivers are resolved within the approved period. As a matter of good business practice, adequate security ought to be taken from a customer, whose financial standing and track record do not justify lending on a clean basis.

Clean lending situations may arise where it makes economic sense to do so based on perceived client's credit risk.

Therefore, depending on counterparty obligor/facility rating, collateral security may be waived as a pre-condition for granting the facility. Consequently, obligors with ratings below investment grade must, as a necessity, provide acceptable security before approval can be granted. Obligors with Investment Grade credit ratings may be allowed clean facility, depending on their financial standing. Accordingly, such decisions shall be taken by Management and/or the Board Risk Committee where necessary. For placements with financial institutions which consist of mainly banks, the amount of credit extended is based on the strength of the institution as shown by the Bank's internal rating model.

### 3.1.7 Maximum exposure to credit risk before collateral held or other credit enhancements

The table below shows the maximum exposure of financial assets to credit risk as of the balance sheet date:

	Dec 2019 N'000	Dec 2018 N'000	Dec 2017 N'000	Dec 2016 N'000	Dec 2015 N'000
Cash and bank balances					
Balances with other banks					
- Operating balance with Central Bank of Nigeria	3,907,089	1,324,916	634,011	1,628,487	2,402,340
- Balances with banks in Nigeria	263,277	657,634	630,262	637,900	252,564
- Balances with banks outside Nigeria	4,779,983	5,008,095	12,377,991	15,712,954	16,858,352
- Mandatory reserve deposit with Central Bank of Nigeria	7,210,940	4,196,302	2,120,526	1,452,342	1,179,615
Loans to banks					
- Placements with banks	9,817,413	17,057,637	17,476,837	12,194,336	11,810,069
- Placements with other financial institutions	-	-	171	281	733,065
Financial instruments held for trading/fair value through profit or loss					
- Nigerian Treasury Bills	2,704,105	344,516	5,925,953	10,013,540	2,844,336
- Corporate Bonds	-	1,128,755	-	-	-
- Federal Government of Nigeria Bonds	-	-	1,732,803	617,780	-
Derivative financial instruments					
- Foreign exchange forward contract	414,929	607,076	70,037	-	2,532
- Convertible loan	-	-	-	-	13,386
Loans and advances to customers					
- Loans and advances (net of impairment)	45,496,340	40,536,858	38,025,050	35,483,765	39,896,010
- Margin facilities	-	-	-	291,913	368,868
Investment securities through FVOCI					
- Nigerian Treasury Bills	17,242,594	29,217,650	48,079,183	23,720,311	4,319,737
- Federal Government of Nigeria bonds	6,255,000	325,631	1,921,806	2,796,063	5,526,699
- Corporate bonds	16,710,447	4,141,106	4,655,472	7,657,434	12,253,509
- Promissory Notes & Commercial Bills	2,676,133	-	-	-	-
Pledged assets					
- Nigerian Treasury Bills	31,958,201	3,830,738	5,672,232	12,290,406	4,680,279
- Federal Government of Nigeria bonds	1,147,552	5,063,491	4,529,630	4,256,007	2,639,406
- Corporate bonds	-	-	-	5,260,637	3,444,398
Other assets					
Receivables	294,822	252,081	618,744	396,040	422,614
	150,878,825	113,692,486	144,470,708	134,410,196	109,647,779
Credit related commitments					
- Letters of Credit	13,795,747	21,044,590	6,831,213	219,072	4,126,077
- Performance bonds and guarantees	3,005,132	132,598	-	-	-
- Loan commitments	35,620,897	20,346,805	12,969,297	16,879,353	15,402,968
	52,421,776	41,523,993	19,800,510	17,098,425	19,529,045



# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

## Notes to the Financial Statements

### 3.1.8 Concentration of Credit Risk (continued)

#### Bank

31 December 2023

In thousands of Nigerian Naira	Chemical and Allied Product	Government	Finance and Insurance	Manufacturing	Oil & Gas Upstream	Oil & Gas Downstream	Real Estate	Telecoms	Wholesale and Retail Trade	General - Logistics	Others	Total
<b>Financial assets</b>												
<b>Cash and bank balances:</b>												
- Balances with other banks												
- Operating balance with Central Bank of Nigeria		1,828,487										1,828,487
- Balances with banks in Nigeria			265,008									265,008
- Balances with banks outside Nigeria			18,712,884									18,712,884
- Mandatory reserve deposit with Central Bank of Nigeria		1,492,340										1,492,340
- Loans to banks												
- Placements with banks			11,188,242									11,188,242
- Placements with other financial institutions												
<b>Financial instruments held at fair value through profit or loss</b>												
- Nigerian Treasury bills		10,018,940										10,018,940
- Federal Government of Nigeria Bonds		413,318										413,318
- Corporate Bonds												
<b>Derivative Financial Instruments</b>												
- Foreign exchange forward contracts												
- Loans and advances to customers												
- Loans and advances (net of impairment)			3,648,327	258,873	18,087,808	1,793,265	3,897,835	5,428,841	9,035	1,341,173	248,159	30,291,414
- Margin facilities (net of impairment)												
<b>Investment securities</b>												
- Nigerian Treasury bill		21,894,888										21,894,888
- Federal Government of Nigeria bonds		3,892,218										3,892,218
- State Government and Corporate bonds		8,217,200	1,028,814	265,880								7,882,947
- Promissory Notes & Commercial bills												
<b>Placed asset:</b>												
- Nigerian Treasury bills		12,290,408										12,290,408
- Federal Government of Nigeria Bonds		4,298,837										4,298,837
- Corporate Bonds			5,280,837									5,280,837
<b>Other assets</b>												
- Receivables			38,882									38,882
<b>Total</b>		<b>81,148,214</b>	<b>39,885,112</b>	<b>812,946</b>	<b>18,087,808</b>	<b>1,793,265</b>	<b>3,897,835</b>	<b>5,428,841</b>	<b>9,035</b>	<b>1,341,173</b>	<b>248,159</b>	<b>130,275,241</b>
	Chemical and Allied Product	Government	Finance and Insurance	Manufacturing	Oil & Gas Upstream	Oil & Gas Downstream	Real Estate	Telecoms	Wholesale and Retail Trade	General - Logistics	Others	Total
- Letters of credits				214,072								214,072
- Performance bonds and guarantees												
- Loan commitments		2,355,475		74,058		3,181,145	175,000	3,455,029		4,745,018	1,452,029	16,878,363
<b>Total</b>		<b>2,355,475</b>		<b>297,131</b>		<b>3,181,145</b>	<b>175,000</b>	<b>3,455,029</b>		<b>4,745,018</b>	<b>1,452,029</b>	<b>17,896,433</b>

#### Bank

31 December 2023

In thousands of Nigerian Naira	Conglomerate	Government	Finance and Insurance	Manufacturing	Oil & Gas Upstream	Oil & Gas Downstream	Real Estate	Telecoms	Wholesale & Retail Trade	General - Logistics	Others	Total
<b>Financial assets</b>												
<b>Cash and bank balances:</b>												
- Balances with other banks		2,402,840										2,402,840
- Operating balance with Central Bank of Nigeria			174,928									174,928
- Balances with banks in Nigeria			14,854,952									14,854,952
- Balances with banks outside Nigeria												
- Mandatory reserve deposit with Central Bank of Nigeria		1,178,815										1,178,815
- Loans to banks			9,465,540									9,465,540
- Placements with banks			620,078									620,078
- Placements with other financial institutions												
<b>Financial instruments held at fair value through profit or loss</b>												
- Nigerian Treasury bills		2,864,886										2,864,886
- Federal Government of Nigeria Bonds												
- Corporate Bonds												
<b>Derivative Financial Instruments</b>												
- Convertible loans					13,388							13,388
- Foreign exchange forward contracts			3,582									3,582
- Loans and advances to customers			4,657,923	284,142	12,433,725	8,875,186	8,775,718	897,812	4,572,833			39,675,329
- Loans and advances (net of impairment)												
- Margin facilities (net of impairment)												
<b>Investment securities</b>												
- Nigerian Treasury bill		4,034,837										4,034,837
- Federal Government of Nigeria bonds		5,524,480										5,524,480
- State Government and Corporate bonds	78,700	7,572,747	4,081,863	422,423								12,153,913
- Promissory Notes & Commercial bills												
<b>Placed asset:</b>												
- Nigerian Treasury bills		4,982,279										4,982,279
- Federal Government of Nigeria Bonds		2,838,408										2,838,408
- State Government and Corporate bonds			3,644,398									3,644,398
<b>Other assets</b>												
- Receivables			87,827									87,827
<b>Total</b>	<b>78,700</b>	<b>30,877,960</b>	<b>39,813,929</b>	<b>714,946</b>	<b>12,847,111</b>		<b>8,875,186</b>	<b>8,775,718</b>	<b>897,812</b>	<b>4,872,833</b>		<b>106,242,984</b>
	Conglomerate	Government	Finance and Insurance	Manufacturing	Oil & Gas Upstream	Oil & Gas Downstream	Real Estate	Telecoms	Wholesale & Retail Trade	General - Logistics	Others	Total
- Letters of credits					4,128,077							4,128,077
- Performance bonds and guarantees												
- Loan commitments		3,628,428		105,086	617,003		822,755	6,706,364	132,189	2,846,781		15,652,967
<b>Total</b>		<b>3,628,428</b>		<b>105,086</b>	<b>617,003</b>		<b>822,755</b>	<b>6,706,364</b>	<b>132,189</b>	<b>2,846,781</b>		<b>15,652,964</b>

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

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## Notes to the Financial Statements

### 3.1.9 Credit Quality

The following table breaks down the Bank's credit exposure and their carrying amounts (without taking into account any collateral held or other credit support) categorised by credit quality:

31 December 2019

In thousands of Nigerian Naira	Stage 1 Assets	Stage 2 Assets	Stage 3 Assets	Gross	Impairment allowance	Net
<b>Financial assets:</b>						
<b>Cash</b>						
Balances with other banks						
-Operating balance with Central Bank of Nigeria	3,907,089	-	-	3,907,089		3,907,089
-Balances with banks in Nigeria	263,277			263,277		263,277
-Balances with banks outside Nigeria	4,779,983			4,779,983		4,779,983
-Mandatory reserve deposit with Central Bank of Nigeria	7,210,940			7,210,940		7,210,940
<b>Loans to banks</b>						
-Placements with banks	9,817,413			9,817,413	77	9,817,336
<b>Financial instruments held as fair value through profit or loss</b>						
-Nigerian Treasury Bills	2,704,105			2,704,105		2,704,105
<b>Derivative financial instruments</b>						
-Foreign exchange forward contract	414,929			414,929		414,929
<b>Loans and advances</b>						
-Loans and advances	44,512,784		2,240,831	46,753,615	1,257,275	45,496,340
<b>Investment securities</b>						
-Nigerian Treasury Bills	17,242,594			17,242,594		17,242,594
-Federal Government of Nigeria bonds	6,255,000			6,255,000		6,255,000
-Corporate bonds	16,710,447			16,710,447		16,710,447
Promissory Notes and Commercial Bills	2,676,133			2,676,133		2,676,133
<b>Pledged assets</b>						
-Nigerian Treasury Bills	31,958,201			31,958,201		31,958,201
-Federal Government of Nigeria bonds	1,147,552			1,147,552		1,147,552
<b>Other assets</b>						
-Receivables	294,822	252,081		546,903		546,903
<b>Total</b>	<b>149,895,269</b>	<b>252,081</b>	<b>2,240,831</b>	<b>152,388,181</b>	<b>1,257,352</b>	<b>151,130,829</b>
<b>Off balance sheet financial assets</b>						
-Letters of Credit	13,795,747			13,795,747	5,941	13,789,806
-Performance bonds and guarantees	3,005,132			3,005,132	4,024	3,001,108
-Loans commitments	35,620,897			35,620,897	31,884	35,589,013
<b>Total</b>	<b>52,421,776</b>	<b>-</b>	<b>-</b>	<b>52,421,776</b>	<b>41,849</b>	<b>52,379,927</b>

31 December 2018

In thousands of Nigerian Naira	Stage 1 Assets	Stage 2 Assets	Stage 3 Assets	Gross	Impairment allowance	Net
<b>Financial assets:</b>						
<b>Cash</b>						
Balances with other banks						
-Operating balance with Central Bank of Nigeria	1,324,916	-	-	1,324,916	-	1,324,916
-Balances with banks in Nigeria	657,634	-	-	657,634	-	657,634
-Balances with banks outside Nigeria	5,008,095	-	-	5,008,095	-	5,008,095
-Mandatory reserve deposit with Central Bank of Nigeria	4,196,302	-	-	4,196,302	-	4,196,302
<b>Loans to banks</b>						
-Placements with banks	17,057,637	-	-	17,057,637	-	17,057,637
<b>Financial instruments held as fair value through profit or loss</b>						
-Nigerian Treasury Bills	344,516	-	-	344,516	-	344,516
-Federal Government of Nigeria bonds	-	-	-	-	-	-
-Corporate bonds	1,128,755	-	-	1,128,755	-	1,128,755
<b>Derivative financial instruments</b>						
-Foreign exchange forward contract	607,076	-	-	607,076	-	607,076
<b>Loans and advances</b>						
-Loans and advances	39,606,238	-	2,229,389	41,835,627	1,298,769	40,536,858
<b>Investment securities</b>						
-Nigerian Treasury Bills	29,274,882	-	-	29,274,882	57,232	29,217,650
-Federal Government of Nigeria bonds	325,631	-	-	325,631	-	325,631
-Corporate bonds	4,141,106	-	-	4,141,106	-	4,141,106
<b>Pledged assets</b>						
-Nigerian Treasury Bills	3,830,738	-	-	3,830,738	-	3,830,738
-Federal Government of Nigeria bonds	5,063,491	-	-	5,063,491	-	5,063,491
<b>Total</b>	<b>112,567,017</b>	<b>-</b>	<b>2,229,389</b>	<b>114,796,406</b>	<b>1,356,001</b>	<b>113,440,405</b>
<b>Off balance sheet financial assets</b>						
-Letters of Credit	21,044,590			21,044,590	11,136	21,033,454
-Performance bonds and guarantees	132,598			132,598	313	132,285
-Loans commitments	20,346,805			20,346,805	92,086	20,254,719
<b>Total</b>	<b>41,523,993</b>	<b>-</b>	<b>-</b>	<b>41,523,993</b>	<b>103,535</b>	<b>41,420,458</b>

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

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## Notes to the Financial Statements

31 December 2017

In thousands of Nigerian Naira	Stage 1 Assets	Stage 2 Assets	Stage 3 Assets	Gross	Impairment allowance	Net
Financial assets:						
Cash						
Balances with other banks						
-Operating balance with Central Bank of Nigeria	633,584	-	-	633,584	-	633,584
-Balances with banks in Nigeria	404,578	-	-	404,578	-	404,578
-Balances with banks outside Nigeria	12,377,991	-	-	12,377,991	-	12,377,991
-Mandatory reserve deposit with Central Bank of Nigeria	2,120,526	-	-	2,120,526	-	2,120,526
Loans to banks						
-Placements with banks and discount houses	16,793,701	-	-	16,793,701	-	16,793,701
Financial instruments held for trading						
-Nigerian Treasury Bills	5,925,953	-	-	5,925,953	-	5,925,953
-Federal Government of Nigeria bonds	1,727,692	-	-	1,727,692	-	1,727,692
Derivative financial instruments						
-Foreign exchange forward contract	70,037	-	-	70,037	-	70,037
Loans and advances						
-Loans and advances	35,295,736	-	5,482,577	40,778,313	3,401,322	37,376,991
Investment securities						
-Nigerian Treasury Bills	45,400,838	-	-	45,400,838	-	45,400,838
-Federal Government of Nigeria bonds	1,746,606	-	-	1,746,606	-	1,746,606
-Corporate bonds	4,482,404	-	-	4,482,404	-	4,482,404
Pledged assets						
-Nigerian Treasury Bills	5,672,232	-	-	5,672,232	-	5,672,232
-Federal Government of Nigeria bonds	4,529,630	-	-	4,529,630	-	4,529,630
Other assets						
-Receivables	169,542	-	-	169,542	-	169,542
<b>Total</b>	<b>137,351,050</b>	<b>-</b>	<b>5,482,577</b>	<b>142,833,627</b>	<b>3,401,322</b>	<b>139,432,305</b>

31 December 2016

In thousands of Nigerian Naira	Stage 1 Assets	Stage 2 Assets	Stage 3 Assets	Gross	Impairment allowance	Net
Financial assets:						
Cash						
Balances with other banks						
-Operating balance with Central Bank of Nigeria	1,628,487	-	-	1,628,487	-	1,628,487
-Balances with banks in Nigeria	291,436	-	-	291,436	-	291,436
-Balances with banks outside Nigeria	15,712,954	-	-	15,712,954	-	15,712,954
-Mandatory reserve deposit with Central Bank of Nigeria	1,452,342	-	-	1,452,342	-	1,452,342
Loans to banks						
-Placements with banks and discount houses	11,166,282	-	-	11,166,282	-	11,166,282
Financial instruments held for trading						
-Nigerian Treasury Bills	10,013,540	-	-	10,013,540	-	10,013,540
-Federal Government of Nigeria bonds	613,318	-	-	613,318	-	613,318
Derivative financial instruments						
-Foreign exchange forward contract	-	-	-	-	-	-
Loans and advances						
-Loans and advances	24,310,420	11,429,223	758,984	36,498,627	1,147,213	35,351,414
Investment securities						
-Nigerian Treasury Bills	21,994,698	-	-	21,994,698	-	21,994,698
-Federal Government of Nigeria bonds	2,682,216	-	-	2,682,216	-	2,682,216
-Corporate bonds	7,502,948	-	-	7,502,948	-	7,502,948
Pledged assets						
-Nigerian Treasury Bills	12,290,406	-	-	12,290,406	-	12,290,406
-Federal Government of Nigeria bonds	4,256,007	-	-	4,256,007	-	4,256,007
-Corporate bonds	5,260,637	-	-	5,260,637	-	5,260,637
Other assets						
-Receivables	58,662	-	-	58,662	-	58,662
<b>Total</b>	<b>119,234,353</b>	<b>11,429,223</b>	<b>758,984</b>	<b>131,422,560</b>	<b>1,147,213</b>	<b>130,275,347</b>

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31 December 2015

In thousands of Nigerian Naira	Stage 1 Assets	Stage 2 Assets	Stage 3 Assets	Gross	Impairment allowance	Net
Financial assets:						
Cash						
Balances with other banks						
-Operating balance with Central Bank of Nigeria	2,402,340	-	-	2,402,340	-	2,402,340
-Balances with banks in Nigeria	174,928	-	-	174,928	-	174,928
-Balances with banks outside Nigeria	16,858,352	-	-	16,858,352	-	16,858,352
-Mandatory reserve deposit with Central Bank of Nigeria	1,179,615	-	-	1,179,615	-	1,179,615
Loans to banks						
-Placements with banks and discount houses	9,905,530	-	-	9,905,530	-	9,905,530
-Placements with other financial institutions	620,076	-	-	620,076	-	620,076
Financial instruments held for trading						
-Quoted equity securities	-	-	-	-	-	-
-Nigerian Treasury Bills	2,844,336	-	-	2,844,336	-	2,844,336
-Federal Government of Nigeria bonds	-	-	-	-	-	-
Derivative financial instruments						
-Convertible loan	13,386	-	-	13,386	-	13,386
-Foreign exchange forward contract	2,532	-	-	2,532	-	2,532
Loans and advances						
-Loans and advances	38,901,735	169,385	133,594	39,204,714	727,675	(727,675)
Investment securities						
-Nigerian Treasury Bills	5,524,400	-	-	5,524,400	-	5,524,400
-Federal Government of Nigeria bonds	4,034,837	-	-	4,034,837	-	4,034,837
-Corporate bonds	12,153,513	-	-	12,153,513	-	12,153,513
Pledged assets						
-Nigerian Treasury Bills	4,680,279	-	-	4,680,279	-	4,680,279
-Federal Government of Nigeria bonds	2,639,406	-	-	2,639,406	-	2,639,406
-State Government and Corporate bonds	3,444,398	-	-	3,444,398	-	3,444,398
Other assets						
-Receivables	87,627	-	-	87,627	-	87,627
<b>Total</b>	<b>105,467,290</b>	<b>169,385</b>	<b>133,594</b>	<b>105,770,269</b>	<b>1,874,888</b>	<b>103,895,381</b>

### 3.1.10 Collaterals

The Bank holds collateral and other credit enhancements against certain of its credit exposures.

### 3.1.11 Ratings

The credit quality of the portfolio of financial assets in stages 1 and stages 2 per IFRS 9 ("Neither past due nor impaired" and "Past due but not limited" per IAS 39) based on the internal rating system or rating agency adopted by the Bank are as follows:

31 December 2019

In thousands of Nigerian Naira	Aaa to Aa-	A+ to A-	Bbb+ to Bb-	Below Bb-	Unrated	Total
Financial assets:						
Cash						
Balances with other banks						
-Operating balance with Central Bank of Nigeria	3,907,089	-	-	-	-	3,907,089
-Balances with banks in Nigeria	80,884	12,272	170,121	-	-	263,277
-Balances with banks outside Nigeria	972,405	3,589,307	218,159	111	-	4,779,982
-Mandatory reserve deposit with Central Bank of Nigeria	7,210,940	-	-	-	-	7,210,940
Loans to banks						
-Placements with banks	2,000,472	2,335,145	5,481,796	-	-	9,817,413
Financial instruments held for trading						
-Nigerian Treasury Bills	2,704,105	-	-	-	-	2,704,105
Loans and advances						
-Loans and advances	19,744,794	3,706,161	19,325,610	490,386	-	43,266,951
Derivative financial instruments						
-Foreign exchange forward contract	-	-	-	-	414,929	414,929
Investment securities						
-Federal Government of Nigeria bonds	6,255,000	-	-	-	-	6,255,000
-Nigerian Treasury Bills	17,242,594	-	-	-	-	17,242,594
-Corporate bonds	-	8,287,382	65,271	8,357,794	-	16,710,447
-Promissory Notes & Commercial Bills	109,180	2,566,953	-	-	-	2,676,133
Pledged assets						
-Nigerian Treasury Bills	31,958,201	-	-	-	-	31,958,201
-Federal Government of Nigeria bonds	1,147,552	-	-	-	-	1,147,552
Other assets						
-Receivables	-	-	-	-	294,822	294,822
<b>Total</b>	<b>93,333,216</b>	<b>20,497,220</b>	<b>25,260,957</b>	<b>8,848,291</b>	<b>709,751</b>	<b>148,649,435</b>

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31 December 2018

In thousands of Nigerian Naira	Aaa to Aa-	A+ to A-	Bbb+ to Bb-	Below Bb-	Unrated	Total
Financial assets:						
Cash						
Balances with other banks						
-Operating balance with Central Bank of Nigeria	1,324,916	-	-	-	-	1,324,916
-Balances with banks in Nigeria	-	657,607	27	-	-	657,634
-Balances with banks outside Nigeria	2,734,354	1,013,459	637,779	622,504	-	5,008,096
-Mandatory reserve deposit with Central Bank of Nigeria	4,196,302	-	-	-	-	4,196,302
Loans to banks						
-Placements with banks	17,057,637	-	-	-	-	17,057,637
Financial instruments held for trading						
-Nigerian Treasury Bills	344,516	-	-	-	-	344,516
-Corporate bonds	-	-	1,128,755	-	-	1,128,755
Loans and advances						
-Loans and advances	9,582,218	15,148,466	14,875,553	-	-	39,606,237
Derivative financial instruments						
-Foreign exchange forward contract	-	-	-	-	607,076	607,076
Investment securities						
-Federal Government of Nigeria bonds	325,631	-	-	-	-	325,631
-Nigerian Treasury Bills	29,217,650	-	-	-	-	29,217,650
-Corporate bonds	-	-	644,440	3,496,666	-	4,141,106
Pledged assets						
-Nigerian Treasury Bills	3,830,738	-	-	-	-	3,830,738
-Federal Government of Nigeria bonds	5,063,491	-	-	-	-	5,063,491
Other assets						
-Receivables	-	107,551	-	-	144,530	252,081
	<b>73,677,453</b>	<b>16,927,083</b>	<b>17,286,554</b>	<b>4,119,170</b>	<b>751,606</b>	<b>112,761,866</b>

31 December 2017

In thousands of Nigerian Naira	Aaa to Aa-	A+ to A-	Bbb+ to Bb-	Below Bb-	Unrated	Total
Financial assets:						
Cash						
Balances with other banks						
-Operating balance with Central Bank of Nigeria	-	-	-	-	633,584	633,584
-Balances with banks in Nigeria	-	402,142	2,436	-	-	404,578
-Balances with banks outside Nigeria	-	6,439,020	1,095,490	1,023,932	3,819,549	12,377,991
-Mandatory reserve deposit with Central Bank of Nigeria	-	-	-	-	2,120,526	2,120,526
Loans to banks						
-Placements with banks	-	1,658,342	13,133,880	-	2,001,479	16,793,701
Financial instruments held for trading						
-Nigerian Treasury Bills	5,925,953	-	-	-	-	5,925,953
-Corporate bonds	1,727,692	-	-	-	-	1,727,692
Loans and advances						
-Loans and advances	4,435,929	5,151,681	25,506,592	-	201,534	35,295,736
-Margin facilities	-	-	-	-	-	-
Derivative financial instruments						
-Foreign exchange forward contract	-	-	-	-	70,037	70,037
Investment securities						
-Nigerian Treasury Bills	-	-	-	-	45,400,838	45,400,838
-Federal Government of Nigeria bonds	-	-	-	-	1,746,606	1,746,606
-Corporate bonds	-	2,767,414	1,714,990	-	-	4,482,404
Pledged assets						
-Nigerian Treasury Bills	-	-	-	-	5,672,232	5,672,232
-Federal Government of Nigeria bonds	-	-	-	-	4,529,630	4,529,630
Other assets						
-Receivables	-	-	100,618	-	68,924	169,542
	<b>12,089,574</b>	<b>16,418,599</b>	<b>41,554,006</b>	<b>1,023,932</b>	<b>66,264,939</b>	<b>137,351,050</b>

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31 December 2016

In thousands of Nigerian Naira	Aaa to Aa-	A+ to A-	Bbb+ to Bb-	Below Bb-	Unrated	Total
Financial assets:						
Cash						
Balances with other banks						
-Operating balance with Central Bank of Nigeria	-	-	-	-	1,628,487	1,628,487
-Balances with banks in Nigeria	346,464	287,517	3,919	-	-	637,900
-Balances with banks outside Nigeria	-	13,920,162	1,157,094	-	635,698	15,712,954
-Mandatory reserve deposit with Central Bank of Nigeria	-	-	-	-	1,452,342	1,452,342
Loans to banks						
-Placements with banks	125,347	650,122	6,216,310	-	5,202,557	12,194,336
-Placements with other financial institutions	-	-	-	-	281	281
Financial instruments held for trading						
-Nigerian Treasury Bills	-	-	-	-	10,013,540	10,013,540
-Corporate bonds	-	-	-	-	617,780	617,780
Loans and advances						
-Loans and advances	3,887,177	3,074,952	17,146,958	-	333,564	24,442,651
-Margin facilities	-	-	292,213	-	-	292,213
Investment securities						
-Nigerian Treasury Bills	-	-	-	-	23,720,311	23,720,311
-Federal Government of Nigeria bonds	-	-	-	-	2,796,063	2,796,063
-Corporate bonds	-	1,345	1,438,889	-	6,217,200	7,657,434
Pledged assets						
-Nigerian Treasury Bills	-	-	-	-	12,290,406	12,290,406
-Federal Government of Nigeria bonds	-	-	-	-	4,256,007	4,256,007
-Corporate bonds	-	-	5,260,637	-	-	5,260,637
Other assets						
-Receivables	-	-	-	-	396,040	396,040
	<b>4,358,988</b>	<b>17,934,098</b>	<b>31,516,020</b>	<b>-</b>	<b>69,560,276</b>	<b>123,369,382</b>

31 December 2015

In thousands of Nigerian Naira	Aaa to Aa-	A+ to A-	Bbb+ to Bb-	Below Bb-	Unrated	Total
Financial assets:						
Cash						
Balances with other banks						
-Operating balance with Central Bank of Nigeria	2,402,340	-	-	-	-	2,402,340
-Balances with banks in Nigeria	91,132	84,447	651	-	-	176,230
-Balances with banks outside Nigeria	-	14,948,877	734,485	-	1,174,990	16,858,352
-Mandatory reserve deposit with Central Bank of Nigeria	1,179,615	-	-	-	-	1,179,615
Loans to banks						
-Placements with banks	9,905,530	-	-	-	-	9,905,530
-Placements with other financial institutions	620,075	-	-	-	-	620,075
Financial instruments held for trading						
-Nigerian Treasury Bills	-	-	-	-	2,844,336	2,844,336
-Federal Government of Nigeria bonds	-	-	-	-	-	-
Loans and advances						
-Loans and advances	4,631,132	8,974,904	24,853,759	-	441,940	38,901,735
-Margin facilities	-	-	-	-	-	-
Derivative financial instruments						
-Convertible loan	-	-	13,386	-	-	13,386
-Foreign exchange forward contract	-	-	-	2,532	-	2,532
Investment securities						
-Federal Government of Nigeria bonds	-	-	-	-	5,524,400	5,524,400
-Nigerian Treasury Bills	-	-	-	-	4,034,837	4,034,837
-State government and Corporate bonds	-	3,579,078	1,001,688	-	7,572,747	12,153,513
Pledged assets						
-Nigerian Treasury Bills	-	-	-	-	4,680,279	4,680,279
-Federal Government of Nigeria bonds	-	-	-	-	2,639,406	2,639,406
-State government and Corporate bonds	-	-	-	3,444,398	-	3,444,398
Other assets						
-Receivables	-	-	-	-	87,627	87,627
	<b>18,829,824</b>	<b>27,587,306</b>	<b>26,603,969</b>	<b>3,446,930</b>	<b>29,000,562</b>	<b>105,468,591</b>

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### 3.1.12 Financial Assets individually impaired

Significant loans are examined for any sign of impairment triggers. The triggers for impairments include:

1. significant financial difficulty of the issuer or obligor;
2. a breach of contract (such as a default or delinquency in interest or principal repayments);
3. granting to the borrower a concession that FSDH would not otherwise consider due to the borrower's financial difficulties;
4. becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and
5. the disappearance of an active market for that financial asset because of financial difficulties.

IFRS 9 requires an entity to test a financial instrument for impairment at the end of the reporting period.

If there is objective evidence that an impairment significant loans has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's effective interest rate computed at initial recognition.

At 31 Dec 2019	
	<b>Loans to customers at amortised cost</b>
	<b>N,000</b>
Gross amount	2,240,831
Stage III impairment	1,000,621
<b>Net amount</b>	<b>1,240,210</b>
Fair value of collateral	-
At 31 Dec 2018	
	<b>Loans to customers at amortised cost</b>
	<b>N,000</b>
Gross amount	4,520,390
Stage III impairment	2,818,027
<b>Net amount</b>	<b>1,702,363</b>
Fair value of collateral	9,163,374

At 31 Dec 2017	
	<b>Loans to customers at amortised cost</b>
	<b>N,000</b>
Gross amount	3,401,323
Stage III impairment	2,799,688
<b>Net amount</b>	<b>601,635</b>
Fair value of collateral	-

At 31 Dec 2016	
	<b>Loans to customers at amortised cost</b>
	<b>N,000</b>
Gross amount	758,983
Stage III impairment	650,182
<b>Net amount</b>	<b>108,801</b>
Fair value of collateral	-

At 31 Dec 2015	
	<b>Loans to customers at amortised cost</b>
	<b>N,000</b>
Gross amount	1,333,594
Stage III impairment	525,461
<b>Net amount</b>	<b>808,133</b>
Fair value of collateral	-

In thousands of Naira	Loans and advances to Customers			Loans and advances to Banks		
	<u>December</u>	<u>December</u>	<u>December</u>	<u>December</u>	<u>December</u>	<u>December</u>
	2019	2018	2017	2019	2018	2017
Property	486,948	1,160,082	4,293,437	-	-	-
Cash	5,263,419	8,588,400	1,700,666	-	-	-
Pledged goods/receivables	-	1,450,372	-	-	-	-
FGN Securities	11,664,712	-	-	5,994,615	-	-
All Asset / Debentures	4,892,225	-	-	-	-	-
Others	65,526	250,000	2,800,000	-	-	1,500,822
<b>Total</b>	<b>22,372,830</b>	<b>11,448,854</b>	<b>8,794,103</b>	<b>5,994,615</b>	<b>-</b>	<b>1,500,822</b>

In thousands of Naira	Loans and advances to Customers		Loans and advances to Banks	
	<u>December</u>	<u>December</u>	<u>December</u>	<u>December</u>
	2016	2015	2016	2015
Property	4,754,184	5,170,000	-	-
Cash	2,109,190	3,015,000	-	-
Pledged goods/receivables	-	-	-	-
FGN Securities	-	-	-	-
All Asset / Debentures	-	-	-	-
Others	2,300,000	4,039,608	1,000,000	6,520,000
<b>Total</b>	<b>9,163,374</b>	<b>12,224,608</b>	<b>1,000,000</b>	<b>6,520,000</b>

## Notes to the Financial Statements

### 3.2 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises both currency risk and price risk. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Price risk is the earnings risk from changes in interest rates, foreign exchange rates, and equity and commodity prices. Price risk arises in non-trading portfolios, as well as in trading portfolios. The objective of market risk management is to manage and control market risk exposure within acceptable parameters while optimising the return on risk.

#### 3.2.1 Management of market risk

The Risk Management unit is mandated to assess, monitor and manage market risk for the Bank. The primary objective of the Risk Management unit is to establish a comprehensive and independent market risk control framework.

The Bank's market risk objectives, policies and processes are aimed at instituting a model that objectively identifies, measures and manages market risk in the Bank and ensure that:

- The individuals who take or manage risk clearly understand it
- The Bank's risk exposure is within established limits
- Risk taking decisions are in line with business strategy and objectives set by the Board of Directors
- The expected payoffs compensate for the risks taken
- Sufficient capital, as a buffer, is available to take risk

#### 3.2.2 Market risk measurement

The Bank currently applies Non-Value at Risk measures in the measurement and management of market risks. The techniques currently used to measure and control market risk include:

##### Position Limit

The Board of Directors with the input of Risk Management unit sets limits on the aggregate trading portfolio for overnight positions. This limit, which is a product of our model tracking factor sensitivity, is reviewed frequently depending on market volatility.

##### Trading Limit

Risk Management unit has put in place trading limit for all securities traders. Limits have been set based on experience and hierarchy, as it would be risky for traders to have equal ability to commit the Bank. Limits are reviewed annually.

##### Mark-to-Market

The Risk management unit, independent of the Treasury Unit, does the mark-to-market process. Daily market quotes are obtained transparently and the unrealized profit or losses are computed. The results are presented to management daily.

##### Other market risk measures

Other market risk measures specific to individual business units include permissible instruments, concentration of exposures, gap limits, issuer limits, maximum tenor and stop loss triggers. In addition, only approved products that can be independently priced and properly processed are permitted to be traded.

Pricing models and risk metrics used in production systems, whether these systems are off-the-shelf or in-house developed, are independently validated by the Risk Management unit before their use and periodically thereafter to confirm the continued applicability of the models. In addition, the Risk Management unit assesses the daily liquid closing price inputs (used to value instruments) and performs a review of less liquid prices from a reasonableness perspective at least monthly. Where differences are significant, mark-to-market adjustments are made.

##### Annual net interest income at risk

A dynamic forward-looking annual net interest income forecast is used to quantify the Bank's anticipated interest rate exposure. This approach involves the forecasting of both changing balance sheet structures and interest rate scenario, to determine the effect these changes may have on future earnings. The analysis is completed under both normal market conditions as well as stressed market conditions.

##### Stress tests

Stress testing provides an indication of the potential losses that could occur in extreme market conditions and is carried out to augment other risk measures that are used by the Bank, such as market risk factor sensitivities. These stress scenarios are typically used to highlight exposures that may not be explicitly incorporated by specific sensitivity calculations (such as basis, price and correlation) that can be the source of large losses when abnormally large market movements occur. Stress testing also attempts to indicate the size of the loss provoked by any of a number of unlikely but possible shock events given current positions held. The stress tests carried out include individual market risk factor testing and combinations of market factors on individual asset classes and across different asset classes. Stress tests include a combination of historical and hypothetical simulations.

#### 3.2.3 Foreign Exchange Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows, primarily with respect to the US dollar. The Bank is exposed to foreign exchange risk primarily through its assets, managing customers' deposits and through acting as an intermediary in foreign exchange transactions.

The Bank has a robust risk management system that identifies, measures and mitigates the foreign currency exchange rate risk on its financial position and cash flows. Apart from regulatory imposed limits such as the net open position limit (OPL), which is set at 0.5% of Shareholders' funds that helps to limit these exposures, the Bank has market risk limits, such as:

- Daily mark-to-market mechanism that revalues all currency positions daily, ensuring that foreign currency positions are valued at current market price and not at cost.
- An Open Position Limit that is more stringent than the regulatory limit.
- A Bank wide limit on the maximum volume of foreign currency denominated securities to invest in.
- Aggregate position limits for individual currency positions, which limits exchange rate risk in all currencies that the Bank has exposures.

**Notes to the Financial Statements**

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**3.2.3 Foreign Exchange Risk - continued**

The bank mitigates the changes in fair value attributable to foreign-exchange rate movements in certain transactions. Typically, entering into a forward foreign exchange contract is used as a preferred hedging mechanism. In addition, the Bank enters into currency swaps to hedge against foreign exchange risk.

In the year 2014, the CBN issued a policy stating that the Net Open Position (long or short) of the overall foreign currency assets and liabilities taking into cognizance both those on and off balance sheet should not exceed 10% of shareholders' funds unimpaired by losses using the Gross Aggregate Method.

The Bank does a daily monitoring of its foreign currency balance sheet to ensure that Open positions do not exceed regulatory prescribed limit.

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

FSDH Merchant Bank Limited  
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## Notes to the Financial Statements

### 3.2.4 Interest rate risk - continued

The table below indicates the earliest time the Bank can vary the terms of the underlying financial asset or liabilities. The Bank's interest rate risk exposure on assets and liabilities are categorised by the re-pricing dates.

At 31 December 2019 (N'000)	Up to 1 month N'000	1 - 3 months N'000	3 - 6 months N'000	6-12 months N'000	1-5 years N'000	Above 5 years N'000	Non-interest Bearing N'000	Total N'000
<b>Financial Assets</b>								
Cash and bank balances	-	-	-	-	-	-	16,161,374	16,161,374
Loans and receivables to banks	9,817,336	-	-	-	-	-	-	9,817,336
Financial assets held for banking	5,011	1,968,791	730,303	-	-	-	-	2,704,105
Derivative financial instruments	106,051	141,721	134,756	32,402	-	-	-	414,930
Loans and receivables to customers	4,739,613	11,842,286	1,918,780	6,450,586	14,329,264	6,215,811	-	45,496,340
Investment securities	9,611,655	6,577,443	9,922,018	6,104,633	5,764,440	4,903,986	563,043	43,447,218
Pledged assets	-	5,435,372	1,915,274	24,607,555	788,748	358,804	-	33,105,753
Right of use assets	-	-	-	-	-	-	119,964	119,964
Other assets	-	-	-	-	-	-	294,822	294,822
<b>Total financial assets (contractual maturity)</b>	<b>24,279,666</b>	<b>25,965,613</b>	<b>14,621,131</b>	<b>37,195,176</b>	<b>20,882,452</b>	<b>11,478,601</b>	<b>17,139,203</b>	<b>151,561,842</b>

At 31 December 2019 (N'000)	Up to 1 month N'000	1 - 3 months N'000	3 - 6 months N'000	6-12 months N'000	1-5 years N'000	Above 5 years N'000	Non-interest Bearing N'000	Total N'000
<b>Financial liabilities</b>								
Due to banks	24,001,479	-	3,680,431	-	-	-	2,917	27,684,827
Due to customers	30,055,563	12,698,128	2,864,015	1,052,161	-	-	9,670,569	56,340,436
Derivative financial instruments	101,865	137,144	112,251	14,299	-	-	-	365,559
Lease liabilities	-	-	-	-	-	-	44,816	44,816
Other liabilities	-	-	-	-	-	-	11,363,993	11,363,993
Debt securities issued	-	14,086,009	-	-	-	-	-	14,086,009
Other borrowed funds	-	18,737,312	-	-	-	-	-	18,737,312
<b>Total financial liabilities (contractual maturity)</b>	<b>54,158,907</b>	<b>45,658,593</b>	<b>6,656,697</b>	<b>1,066,460</b>	<b>-</b>	<b>-</b>	<b>21,082,295</b>	<b>128,622,952</b>
<b>Liabilities Commitments</b>								
-Letters of Credit	5,362,030	4,100,782	393,378	3,939,554	-	-	-	13,795,744
-Performance bonds and guarantees	-	-	-	-	-	-	3,005,132	3,005,132
-Loan commitments	7,795,657	8,093,276	2,019,952	16,803,046	908,965	-	-	35,620,896
<b>Total</b>	<b>13,157,687</b>	<b>12,194,058</b>	<b>2,413,330</b>	<b>20,742,600</b>	<b>908,965</b>	<b>-</b>	<b>3,005,132</b>	<b>52,421,772</b>
<b>Interest Rate GAP</b>	<b>(29,879,241)</b>	<b>(19,692,980)</b>	<b>7,964,434</b>	<b>36,128,716</b>	<b>20,882,452</b>	<b>11,478,601</b>	<b>(3,943,092)</b>	<b>22,938,890</b>

At 31 December 2018 (N'000)	Up to 1 month N'000	1 - 3 months N'000	3 - 6 months N'000	6-12 months N'000	1-5 years N'000	Above 5 years N'000	Non-interest Bearing N'000	Total N'000
<b>Financial Assets</b>								
Cash and bank balances	-	-	-	-	-	-	11,186,984	11,186,984
Loans and receivables to banks	17,057,637	-	-	-	-	-	-	17,057,637
Financial assets held for banking	249,689	94,827	-	-	-	1,128,755	-	1,473,271
Derivative financial instruments	99,814	491,050	15,469	743	-	-	-	607,076
Loans and receivables to customers	3,889,897	13,871,058	6,662,039	13,551,571	369,557	1,881,554	339,169	40,564,845
Investment securities	3,171,384	9,161,504	1,283	12,598,225	3,528,356	808,288	15,666	29,284,706
Pledged assets	-	1,008,189	-	7,562,004	2,371,391	2,002,513	-	12,944,097
Other assets	-	-	-	-	-	-	578,704	578,704
<b>Total financial assets (contractual maturity)</b>	<b>24,468,421</b>	<b>24,626,628</b>	<b>6,678,791</b>	<b>33,712,543</b>	<b>6,269,304</b>	<b>5,821,110</b>	<b>12,120,523</b>	<b>113,697,320</b>

At 31 December 2018 (N'000)	Up to 1 month N'000	1 - 3 months N'000	3 - 6 months N'000	6-12 months N'000	1-5 years N'000	Above 5 years N'000	Non-interest Bearing N'000	Total N'000
<b>Financial liabilities</b>								
Due to banks	219,637	773,808	159,365	3,620,191	-	-	-	4,773,001
Due to customers	23,327,106	10,812,541	6,739,326	5,779,768	60,619	-	-	46,719,360
Derivative financial instruments	97,264	481,340	12,299	-	-	-	-	590,903
Lease liabilities	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	4,550,556	4,550,556
Debt securities issued	-	256,716	14,267,993	-	-	-	-	14,524,709
Other borrowed funds	-	18,725,952	-	-	-	-	-	18,725,952
<b>Total financial liabilities (contractual maturity)</b>	<b>23,644,007</b>	<b>31,050,357</b>	<b>21,178,983</b>	<b>9,399,959</b>	<b>60,619</b>	<b>-</b>	<b>4,550,556</b>	<b>89,884,481</b>
<b>Liabilities Commitments</b>								
-Letters of Credit	-	21,044,590	-	-	-	-	-	21,044,590
-Performance bonds and guarantees	-	-	-	-	-	-	-	-
-Loan commitments	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>21,044,590</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,044,590</b>
<b>Interest Rate GAP</b>	<b>824,414</b>	<b>(27,468,319)</b>	<b>(14,500,192)</b>	<b>24,312,584</b>	<b>6,208,685</b>	<b>5,821,110</b>	<b>7,569,967</b>	<b>2,768,248</b>

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

FSDH Merchant Bank Limited  
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## Notes to the Financial Statements

### 3.2.4 Interest rate risk - continued

At 31 December 2017 ( ₦'000)	Up to 1 month ₦'000	1 - 3 months ₦'000	3 - 6 months ₦'000	6-12 months ₦'000	1-5 years ₦'000	Above 5 years ₦'000	Non-interest Bearing ₦'000	Total ₦'000
<b>Financial Assets</b>								
Cash and bank balances	-	-	-	-	-	-	15,536,837	15,536,837
Loans and receivables to banks	13,479,086	3,314,615	-	-	-	-	-	16,793,701
Financial assets held for banking	-	5,925,953	-	-	108,178	1,619,513	-	7,653,644
Derivative financial instruments	44,942	22,963	-	2,133	-	-	-	70,038
Loans and receivables to customers	7,149,959	18,709,196	583,986	196,528	1,273,797	9,463,524	-	37,376,990
Investment securities	69,024	3,911,108	26,874,637	14,681,375	5,296,158	797,547	157,799	51,787,648
Pledged assets	-	97,981	6,224,786	-	2,567,538	1,311,547	-	10,201,852
Other assets	-	-	-	-	-	-	169,539	169,539
<b>Total financial assets (contractual maturity)</b>	<b>20,743,011</b>	<b>31,981,816</b>	<b>33,683,409</b>	<b>14,880,036</b>	<b>9,245,671</b>	<b>13,192,131</b>	<b>15,864,175</b>	<b>139,590,249</b>
At 31 December 2017 ( ₦'000)	Up to 1 month ₦'000	1 - 3 months ₦'000	3 - 6 months ₦'000	6-12 months ₦'000	1-5 years ₦'000	Above 5 years ₦'000	Non-interest Bearing ₦'000	Total ₦'000
<b>Financial liabilities</b>								
Due to banks	9,868,770	3,309,828	3,356,760	3,342,605	-	-	-	19,877,963
Due to customers	29,375,089	16,394,115	2,824,964	6,592,279	-	-	-	55,186,447
Derivative financial instruments	33,363	20,742	-	-	-	-	-	54,105
Lease liabilities	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	8,428,481	8,428,481
Debt securities issued	-	12,077,787	-	-	-	-	-	12,077,787
Other borrowed funds	-	20,201,819	-	-	-	-	-	20,201,819
<b>Total financial liabilities (contractual)</b>	<b>39,277,222</b>	<b>52,004,291</b>	<b>6,181,724</b>	<b>9,934,884</b>	<b>-</b>	<b>-</b>	<b>8,428,481</b>	<b>115,826,602</b>
<b>Liabilities Commitments</b>								
-Letters of Credit	6,831,213	-	-	-	-	-	-	6,831,213
-Performance bonds and guarantees	-	-	-	-	-	-	-	-
-Loan commitments	-	-	-	-	-	-	-	-
<b>Total</b>	<b>6,831,213</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,831,213</b>
<b>Interest Rate GAP</b>	<b>(25,365,424)</b>	<b>(20,022,475)</b>	<b>27,501,685</b>	<b>4,945,152</b>	<b>9,245,671</b>	<b>13,192,131</b>	<b>7,435,694</b>	<b>16,932,434</b>
At 31 December 2016 ( ₦'000)	Up to 1 month ₦'000	1 - 3 months ₦'000	3 - 6 months ₦'000	6-12 months ₦'000	1-5 years ₦'000	Above 5 years ₦'000	Non-interest Bearing ₦'000	Total ₦'000
<b>Financial Assets</b>								
Cash and bank balances	-	-	-	-	-	-	19,085,255	19,085,255
Loans and receivables to banks	11,166,282	-	-	-	-	-	-	11,166,282
Financial assets held for banking	-	-	10,013,540	-	524,721	88,597	-	10,626,858
Derivative financial instruments	-	-	-	-	-	-	-	-
Loans and receivables to customers	8,026,197	25,244,362	339,899	1,560,805	46,095	134,055	-	35,351,413
Investment securities	297,664	2,008,334	5,649,717	21,177,241	1,539,838	1,507,068	15,666	32,195,528
Pledged assets	-	-	3,167,667	9,122,739	7,317,423	2,199,221	-	21,807,050
Other assets	-	-	-	-	-	-	58,662	58,662
<b>Total financial assets (contractual maturity)</b>	<b>19,490,143</b>	<b>27,252,696</b>	<b>19,170,823</b>	<b>31,860,785</b>	<b>9,428,077</b>	<b>3,928,941</b>	<b>19,159,583</b>	<b>130,291,048</b>
At 31 December 2016 ( ₦'000)	Up to 1 month ₦'000	1 - 3 months ₦'000	3 - 6 months ₦'000	6-12 months ₦'000	1-5 years ₦'000	Above 5 years ₦'000	Non-interest Bearing ₦'000	Total ₦'000
<b>Financial liabilities</b>								
Due to banks	12,763,961	3,140,087	3,089,901	3,089,900	-	-	74,725	22,158,574
Due to customers	32,779,019	20,394,036	909,747	923,217	-	-	-	55,006,019
Derivative financial instruments	-	-	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	6,017,052	6,017,052
Debt securities issued	-	-	13,074,816	-	-	-	-	13,074,816
Other borrowed funds	-	3,124,273	13,605,005	-	-	-	-	16,729,278
<b>Total financial liabilities (contractual)</b>	<b>45,542,980</b>	<b>26,658,396</b>	<b>30,679,469</b>	<b>4,013,117</b>	<b>-</b>	<b>-</b>	<b>6,091,777</b>	<b>112,985,739</b>
<b>Liabilities Commitments</b>								
-Letters of Credit	219,072	-	-	-	-	-	-	219,072
-Performance bonds and guarantees	-	-	-	-	-	-	-	-
-Loan commitments	-	-	-	-	-	-	-	-
<b>Total</b>	<b>219,072</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>219,072</b>
<b>Interest Rate GAP</b>	<b>(26,271,909)</b>	<b>594,300</b>	<b>(11,508,646)</b>	<b>27,847,668</b>	<b>9,428,077</b>	<b>3,928,941</b>	<b>13,067,806</b>	<b>17,305,309</b>
At 31 December 2015 ( ₦'000)	Up to 1 month ₦'000	1 - 3 months ₦'000	3 - 6 months ₦'000	6-12 months ₦'000	1-5 years ₦'000	Above 5 years ₦'000	Non-interest Bearing ₦'000	Total ₦'000
<b>Financial Assets</b>								
Cash and bank balances	-	-	-	-	-	-	20,615,425	20,615,425
Loans and receivables to banks	10,525,606	-	-	-	-	-	-	10,525,606
Financial assets held for banking	-	-	-	2,844,336	-	-	-	2,844,336
Derivative financial instruments	-	-	-	-	-	-	15,918	15,918
Loans and receivables to customers	3,966,554	27,474,491	-	1,215,880	7,020,114	-	-	39,677,039
Investment securities	76,700	1,115	244,865	4,518,354	9,472,941	7,398,776	666	21,713,417
Pledged assets	-	-	-	4,680,278	3,451,970	2,631,834	-	10,764,082
Other assets	-	-	-	-	-	-	87,627	87,627
<b>Total financial assets (contractual maturity)</b>	<b>14,568,860</b>	<b>27,475,606</b>	<b>244,865</b>	<b>13,258,848</b>	<b>19,945,025</b>	<b>10,030,610</b>	<b>20,719,636</b>	<b>106,243,450</b>

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

FSDH Merchant Bank Limited  
Reporting Accountants' Report for the five  
year period ended 31 December 2019

## Notes to the Financial Statements

### 3.2.4 Interest rate risk - continued

The Management of interest rate risk against interest rate limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to specific interest rate scenarios. The sensitivity analysis is the effect of the assumed changes in interest rates on the profit or loss for the period, based on the floating rate non-trading financial assets & liabilities and trading financial assets held as at 31 December 2019. The sensitivity analysis on both the trading & non-trading portfolio measures the change in value of the portfolio due to a 100 basis point parallel move in the interest rates.

The table below shows the impact on the Bank's profit before tax if interest rates on financial instruments (trading and non-trading) held at amortised cost and at fair value had increased by 100 points, with all other variables held constant:

	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
Effect of 100 basis points movements on profit before tax & equity	(1,019,256)	(784,617)	(903,031)	(903,031)	(979,292)

### 3.2.5 Price Risk

Price risk is the risk that the fair value of future cash flows of a financial statement will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

The bank is exposed to price risk through its equity contribution to the NGN547.38 Agricultural Small and Medium Enterprises Investment Scheme (AGSMEIS), investment in FMDQ QTC exchange and investment in the Nigeria Inter-bank Settlement Scheme (NIBSS). These investments were made based on regulatory directives rather than with a view to profit on a subsequent sale. The securities are all unquoted.

All investments are carried at historical cost. Given the nature of the investments, the Bank estimates that the exposure to price risk is low.

### 3.2.6 Liquidity Risk

Liquidity risks is one of the key risks we contend with at the Bank. This is the risk that securities or assets held by the Bank cannot be traded quickly enough to meet obligations as they become due. It occurs when the cushion provided by liquid assets is not sufficient to meet outstanding obligations. Liquidity risk does not occur in isolation; it is often triggered by consequences of other financial risks like credit risk and market risks such as interest rate risk, foreign exchange risk and security price risk.

For Merchant Banks, the regulatory liquidity requirement is 20% while the regulatory minimum for Commercial Banks is 30%. As at 31 December 2019, the Bank's liquidity ratio stood at 109.95%.

#### 1.2.6.1 Managing Liquidity Risk

The Bank's board of directors sets the Bank's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to the Assets & Liability Committee (ALCO). ALCO approves the Bank's liquidity policies and procedures. The Assets and Liabilities Management (ALM) Desk manages the Bank's liquidity position on a day to day basis and reviews daily reports covering the liquidity position of both the Bank and Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficiently liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or rising damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of liquid assets, diversified by currency and maturity.
- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Bank's liquidity position.

Liquidity limits establish boundaries for market access in business as-usual conditions and are monitored against the liquidity position on a daily basis. The survival horizon of the Bank has been set to 14 days. To ensure this is the case, the Bank intends to hold enough liquid assets to cover for any negative GAP over the next 14 days.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account both Bank specific events (e.g. a rating downgrade) and market-related events (e.g. prolonged market illiquidity, reduced flexibility of currencies, natural disasters or other catastrophes). The Bank has in place contingency funding lines with Nigerian financial institutions.

#### 1.2.6.2 Funding approach

Our sources of liquidity are regularly reviewed by ALCO and ALM Desk in order to avoid reliance on large individual investors and ensure that a satisfactory overall funding mix is maintained at all times. The funding strategy is geared towards ensuring effective diversification in sources and tenor of funding.

The tables below analyse the Bank's financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

- all non-derivative financial assets and liabilities, and
- net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2019 ( N'000)	No Contractual								Total
	Maturity	Up to 1 month	1 - 3 months	3 - 6 months	6-12 months	1-5 years	Above 5 years		
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial Assets</b>									
Cash and bank balances	16,068,098	-	-	-	-	-	-	-	16,068,098
Loans and receivables to banks	-	9,862,829	-	-	-	-	-	-	9,862,829
Financial assets held for banking	-	5,027	2,004,309	754,000	-	-	-	-	2,763,336
Derivative financial instruments	-	1,443,932	1,471,150	623,594	37,091	-	-	-	3,575,767
Loans and receivables to customers	-	4,740,629	11,847,890	1,921,282	6,604,804	14,530,248	7,108,762	-	46,753,615
Investment securities	563,043	7,366,707	7,446,556	3,840,356	7,314,374	9,200,430	8,545,556	-	44,277,022
Pledged assets	-	-	5,586,467	2,022,500	27,870,070	1,227,990	300,000	-	37,007,027
Other assets	294,822	-	-	-	-	-	-	-	294,822
<b>Total financial assets (contractual maturity)</b>	<b>16,925,963</b>	<b>23,419,124</b>	<b>28,356,372</b>	<b>9,161,732</b>	<b>41,826,339</b>	<b>24,958,668</b>	<b>15,954,318</b>	<b>-</b>	<b>160,602,516</b>
At 31 December 2019 ( N'000)	No Contractual								Total
	Maturity	Up to 1 month	1 - 3 months	3 - 6 months	6-12 months	1-5 years	Above 5 years		
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial liabilities</b>									
Due to banks	-	24,004,146	-	3,757,018	-	-	-	-	27,761,164
Due to customers	9,670,569	30,116,635	12,816,048	2,935,811	1,103,367	-	-	-	56,642,430
Derivative financial instruments	-	1,443,932	1,469,896	618,318	28,574	-	-	-	3,560,720
Lease liabilities	54,509	-	-	-	-	-	-	-	54,509
Other liabilities	11,375,801	-	-	-	-	-	-	-	11,375,801
Debt securities issued	-	-	14,270,675	-	-	-	-	-	14,270,675
Other borrowed funds	-	-	9,427,972	9,663,542	-	-	-	-	19,091,514
<b>Total financial liabilities (contractual maturity)</b>	<b>21,100,879</b>	<b>55,564,713</b>	<b>37,984,591</b>	<b>16,974,689</b>	<b>1,131,941</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>132,756,813</b>
<b>Liabilities Commitments</b>									
-Letters of Credit	-	5,362,030	4,100,783	393,379	3,939,554	-	-	-	13,795,746
-Performance bonds and guarantees	-	1,914,697	970,048	-	83,200	37,187	-	-	3,005,132
-Loan commitments	-	7,795,658	8,093,276	2,019,952	16,803,046	908,965	-	-	35,620,897
<b>Total</b>	<b>-</b>	<b>15,072,385</b>	<b>13,164,107</b>	<b>2,413,331</b>	<b>20,825,800</b>	<b>946,152</b>	<b>-</b>	<b>-</b>	<b>52,421,775</b>
<b>GAP</b>	<b>(4,174,916)</b>	<b>(32,145,589)</b>	<b>(9,628,219)</b>	<b>(7,812,957)</b>	<b>40,694,398</b>	<b>24,958,668</b>	<b>15,954,318</b>	<b>-</b>	<b>27,845,703</b>

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

FSDH Merchant Bank Limited  
Reporting Accountants' Report for the five  
year period ended 31 December 2019

## Notes to the Financial Statements

### 1.2.6.2 Funding approach - continued

At 31 December 2018 ( N'000)	No Contractual Maturity	Up to 1 month	1 - 3 months	3 - 6 months	6-12 months	1-5 years	Above 5 years	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial Assets</b>								
Cash and bank balances	11,186,984	-	-	-	-	-	-	11,186,984
Loans and receivables to banks	-	17,074,618	-	-	-	-	-	17,074,618
Financial assets held for banking	-	250,447	96,638	55	501	4,739	1,150,964	1,503,344
Derivative financial instruments	-	99,814	491,050	15,469	743	-	-	607,076
Loans and receivables to customers	-	3,095,244	15,262,305	8,816,203	2,127,579	16,419,705	3,302,740	49,023,776
Investment securities	15,666	3,304,061	9,455,832	23,790	14,871,388	4,759,404	1,263,954	33,694,095
Pledged assets	-	104,206	1,122,960	21,373	8,149,758	4,715,028	1,128,708	15,242,033
Other assets	578,704	-	-	-	-	-	-	578,704
<b>Total financial assets (contractual maturity)</b>	<b>11,781,354</b>	<b>23,928,390</b>	<b>26,428,785</b>	<b>8,876,890</b>	<b>25,149,969</b>	<b>25,898,876</b>	<b>6,846,366</b>	<b>128,910,630</b>
At 31 December 2018 ( N'000)	No Contractual Maturity	Up to 1 month	1 - 3 months	3 - 6 months	6-12 months	1-5 years	Above 5 years	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial liabilities</b>								
Due to banks	-	219,802	782,016	162,251	3,805,566	-	-	4,969,635
Due to customers	9,269,590	14,102,220	10,970,072	7,001,917	6,329,536	70,014	-	47,743,349
Derivative financial instruments	-	97,264	481,340	12,299	-	-	-	590,903
Lease liabilities	-	-	-	-	-	-	-	-
Other liabilities	4,550,556	-	-	-	-	-	-	4,550,556
Debt securities issued	-	-	262,575	15,077,407	-	-	-	15,339,982
Other borrowed funds	-	-	643,669	-	633,175	19,079,914	-	20,356,758
<b>Total financial liabilities (contractual)</b>	<b>13,820,146</b>	<b>14,419,286</b>	<b>13,139,672</b>	<b>22,253,874</b>	<b>10,768,277</b>	<b>19,149,928</b>	<b>-</b>	<b>93,551,183</b>
<b>Liabilities Commitments</b>								
-Letters of Credit	-	21,044,590	-	-	-	-	-	21,044,590
-Loan commitments	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>21,044,590</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,044,590</b>
<b>GAP</b>	<b>(2,038,792)</b>	<b>(11,535,486)</b>	<b>13,289,113</b>	<b>(13,376,984)</b>	<b>14,381,692</b>	<b>6,748,948</b>	<b>6,846,366</b>	<b>14,314,857</b>
At 31 December 2017 ( N'000)	No Contractual Maturity	Up to 1 month	1 - 3 months	3 - 6 months	6-12 months	1-5 years	Above 5 years	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial Assets</b>								
Cash and bank balances	15,536,837	-	-	-	-	-	-	15,536,837
Loans and receivables to banks	-	13,532,788	3,357,633	-	-	-	-	16,890,421
Financial assets held for banking	-	7,250	6,114,019	-	121,269	1,283,688	2,198,132	9,724,358
Loans and receivables to customers	-	7,889,847	7,651,802	2,109,660	3,074,775	24,501,046	5,375,186	50,602,316
Investment securities	157,799	229,568	4,114,004	28,505,215	16,529,629	7,144,059	1,374,916	58,055,190
Pledged assets	-	81,950	226,060	6,582,725	255,960	4,125,030	1,576,400	12,848,125
Other assets	169,539	-	-	-	-	-	-	169,539
<b>Total financial assets (contractual maturity)</b>	<b>15,864,175</b>	<b>21,741,403</b>	<b>21,463,518</b>	<b>37,197,600</b>	<b>19,981,633</b>	<b>37,053,823</b>	<b>10,524,634</b>	<b>163,826,786</b>
<b>Financial liabilities</b>								
Due to banks	-	9,902,974	3,474,108	3,436,041	3,424,505	-	-	20,237,628
Due to customers	6,778,586	22,685,886	16,879,662	3,008,633	7,163,007	-	-	56,515,774
Other liabilities	8,428,481	-	-	-	-	-	-	8,428,481
Debt securities issued	-	-	12,397,054	-	-	-	-	12,397,054
Other borrowed funds	-	-	947,320	-	1,002,096	21,498,696	-	23,448,112
<b>Total financial liabilities (contractual)</b>	<b>15,207,067</b>	<b>32,588,860</b>	<b>33,698,144</b>	<b>6,444,674</b>	<b>11,589,608</b>	<b>21,498,696</b>	<b>-</b>	<b>121,027,049</b>
<b>Liabilities Commitments</b>								
-Letters of Credit	-	6,831,213	-	-	-	-	-	6,831,213
-Loan commitments	-	151,916	10,322,618	188,026	2,283,706	3,933,087	-	16,879,353
<b>Total</b>	<b>-</b>	<b>6,983,129</b>	<b>10,322,618</b>	<b>188,026</b>	<b>2,283,706</b>	<b>3,933,087</b>	<b>-</b>	<b>23,710,566</b>
<b>GAP</b>	<b>657,108</b>	<b>(17,830,586)</b>	<b>(22,557,244)</b>	<b>30,564,900</b>	<b>6,108,319</b>	<b>11,622,040</b>	<b>10,524,634</b>	<b>19,089,171</b>
At 31 December 2016 ( N'000)	No Contractual Maturity	Up to 1 month	1 - 3 months	3 - 6 months	6-12 months	1-5 years	Above 5 years	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial Assets</b>								
Cash and bank balances	19,085,255	-	-	-	-	-	-	19,085,255
Loans and receivables to banks	-	11,166,282	-	-	-	-	-	11,166,282
Financial assets held for banking	-	6,250	38,850	10,013,540	45,100	680,121	188,597	10,972,458
Loans and receivables to customers	-	2,384,481	3,412,548	1,655,933	4,441,706	37,557,949	176,452	49,629,069
Investment securities	15,666	826,943	2,078,977	5,788,891	21,835,436	1,871,474	6,247,577	38,664,964
Pledged assets	-	153,034	184,557	3,349,886	9,642,549	8,577,405	8,341,406	30,248,837
Other assets	58,662	-	-	-	-	-	-	58,662
<b>Total financial assets (contractual maturity)</b>	<b>19,159,583</b>	<b>14,536,990</b>	<b>5,714,932</b>	<b>20,808,250</b>	<b>35,964,791</b>	<b>48,686,949</b>	<b>14,954,032</b>	<b>159,825,527</b>
<b>Financial liabilities</b>								
Due to banks	74,725	12,763,961	3,140,087	3,289,506	3,235,580	-	-	22,503,859
Due to customers	10,425,913	22,459,481	20,865,284	954,477	995,254	-	-	55,700,409
Other liabilities	6,017,052	-	-	-	-	-	-	6,017,052
Debt securities issued	-	-	-	14,166,391	-	-	-	14,166,391
Other borrowed funds	-	-	22,626	362,288	3,553,492	16,256,300	-	20,194,705
<b>Total financial liabilities (contractual)</b>	<b>16,517,690</b>	<b>35,223,442</b>	<b>24,027,997</b>	<b>18,772,662</b>	<b>7,784,326</b>	<b>16,256,300</b>	<b>-</b>	<b>118,582,416</b>
<b>Liabilities Commitments</b>								
-Letters of Credit	-	-	219,072	-	-	-	-	219,072
-Loan commitments	-	151,916	10,322,618	188,026	2,283,706	3,933,087	-	16,879,353
<b>Total</b>	<b>-</b>	<b>151,916</b>	<b>10,541,690</b>	<b>188,026</b>	<b>2,283,706</b>	<b>3,933,087</b>	<b>-</b>	<b>17,098,425</b>
<b>GAP</b>	<b>2,641,893</b>	<b>(20,838,368)</b>	<b>(28,854,754)</b>	<b>1,847,562</b>	<b>25,896,759</b>	<b>28,497,562</b>	<b>14,954,032</b>	<b>24,144,687</b>

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

FSDH Merchant Bank Limited  
Reporting Accountants' Report for the five  
year period ended 31 December 2019

## Notes to the Financial Statements

### 1.2.6.2 Funding approach - continued

At 31 December 2016 ( N'000)	No Contractual Maturity	Up to 1 month	1 - 3 months	3 - 6 months	6-12 months	1-5 years	Above 5 years	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial Assets</b>								
Cash and bank balances	20,615,425	-	-	-	-	-	-	20,615,425
Loans and receivables to banks	-	10,525,606	-	-	-	-	-	10,525,606
Financial assets held for banking	-	2,700	245	250,000	2,734,744	-	-	2,987,689
Derivative financial instruments	-	2,532	-	-	-	13,386	-	15,918
Loans and receivables to customers	-	1,150,058	4,346,614	2,076,650	5,166,416	31,818,940	11,945,217	56,503,895
Investment securities	666	593,873	165,597	469,187	6,334,861	13,479,412	8,139,845	29,183,441
Pledged assets	-	171,813	27,771	101,947	5,081,531	5,924,171	3,147,020	14,454,253
Other assets	87,627	-	-	-	-	-	-	87,627
<b>Total financial assets (contractual maturity)</b>	<b>20,703,718</b>	<b>12,446,582</b>	<b>4,540,227</b>	<b>2,897,784</b>	<b>19,317,552</b>	<b>51,235,909</b>	<b>23,232,082</b>	<b>134,373,854</b>

At 31 December 2016 ( N'000)	No Contractual Maturity	Up to 1 month	1 - 3 months	3 - 6 months	6-12 months	1-5 years	Above 5 years	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial liabilities</b>								
Due to banks	-	10,217,731	4,064,682	2,055,618	-	-	-	16,338,031
Due to customers	5,601,191	24,651,841	21,686,365	844,563	18,704	311,823	-	53,114,487
Derivative financial instruments	-	1,382	-	-	-	-	-	1,382
Other liabilities	6,543,460	-	-	-	-	-	-	6,543,460
Debt securities issued	-	-	-	394,013	6,024,689	-	-	6,418,702
Other borrowed funds	-	-	-	2,118,712	83,267	672,053	2,150,042	5,024,074
<b>Total financial liabilities (contractual)</b>	<b>12,144,651</b>	<b>34,870,954</b>	<b>25,751,047</b>	<b>5,412,906</b>	<b>6,126,660</b>	<b>983,876</b>	<b>2,150,042</b>	<b>87,440,136</b>

<b>Liabilities Commitments</b>								
-Letters of Credit	-	-	4,126,077	-	-	-	-	4,126,077
-Loan commitments	-	2,040,112	-	-	4,852,871	6,936,870	1,573,114	15,402,967
<b>Total</b>	<b>-</b>	<b>2,040,112</b>	<b>4,126,077</b>	<b>-</b>	<b>4,852,871</b>	<b>6,936,870</b>	<b>1,573,114</b>	<b>19,529,044</b>

<b>GAP</b>	<b>8,559,067</b>	<b>(24,464,484)</b>	<b>(25,336,897)</b>	<b>(2,515,122)</b>	<b>8,338,021</b>	<b>43,315,163</b>	<b>19,508,926</b>	<b>27,404,674</b>
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At 31 December 2019	No Contractual Maturity	Up to 1 month	1 - 3 months	3 - 6 months	6-12 months	1-5 years	Total	Carry amount (assets /liabilities)
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Contractual maturities of financial assets</b>								
<b>Derivatives</b>								
Trading derivatives	-	-	1,226	8,986	6,464	-	16,676	16,676
Gross settled (forward foreign exchange contracts -cash flow hedges)								
-(inflow)	-	(106,051)	(141,721)	(134,756)	(32,402)	-	(414,930)	(414,930)
-outflow	-	104,501	138,420	128,486	23,875	-	395,282	395,282

At 31 December 2018	No Contractual Maturity	Up to 1 month	1 - 3 months	3 - 6 months	6-12 months	1-5 years	Total	Carry amount (assets /liabilities)
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Contractual maturities of financial assets</b>								
<b>Derivatives</b>								
Trading derivatives	-	1,457	3,170	676	-	-	5,303	5,303
Gross settled (forward foreign exchange contracts -cash flow hedges)								
-(inflow)	-	(99,814)	(491,050)	(15,469)	(743)	-	(607,076)	(607,076)
-outflow	-	97,264	481,340	12,299	-	-	590,903	590,903

At 31 December 2017	No Contractual Maturity	Up to 1 month	1 - 3 months	3 - 6 months	6-12 months	1-5 years	Total	Carry amount (assets /liabilities)
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Contractual maturities of financial assets</b>								
<b>Derivatives</b>								
Trading derivatives	-	-	-	-	2,133	-	2,133	2,133
Gross settled (forward foreign exchange contracts -cash flow hedges)								
-(inflow)	-	(2,236,061)	(515,711)	-	-	-	(2,751,772)	70,037
-outflow	-	3,661,718	792,532	-	-	-	4,454,250	54,106

### 3.3 Fair Value

Financial instruments measured at fair value

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflects market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1: Quoted prices (unadjusted in active for identical assets or liabilities).

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices): This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly from market data.

Level 3: Valuation techniques using significant unobservable inputs: This category includes all instruments where the valuation technique includes inputs based on observable data and the observable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the difference between the instruments.

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### 3.3 Fair value - continued

The Bank uses the following procedures to determine the fair value of financial assets and liabilities:

#### Trading / investment securities

Where available, the Bank uses the quoted market prices to determine the fair value of trading assets and such items are classified as level 1 of the fair value hierarchy. Quoted market prices are gotten from the website of the Financial Market Dealers Quotations (FMDQ).

Investment securities classified as fair value through other comprehensive income are measured at fair value by reference to quoted market prices when available and, therefore, are classified as Level 1.

Where there are securities that are not actively traded, the Bank uses internal valuation techniques which are based on observable inputs obtained from the quoted market prices of similar actively traded securities. In this instance, these are classified as level 2.

#### Derivative instruments

The fair value of financial instruments including forward foreign exchange contracts traded inactive markets is based on quoted market prices at the closing date. Known calculation techniques, such as estimated discounted cash flows, are used to determine fair value of interest rate and currency financial instruments.

The Bank bases the calculation on existing market conditions at each closing date. Financial instruments used in FSDH are standardised products that are either cleared via exchanges or traded in the Market. Forward foreign exchange markets are entered into with creditworthy financial institutions and with corporates, which have posted sufficient margins prior to executing the contract.

#### Unquoted equity

If quoted market prices are not available, the fair values are estimated based on internal valuation techniques or the last traded price on an OTC exchange. The key inputs depend upon the type of equity and the nature of inputs to the valuation techniques. The item is placed in either Level 2 or Level 3 depending on the type of investment and valuation techniques used.

The unquoted equity balance relates to the Bank's equity investment in the AGSMEIS fund. There is sufficient more recent information available to measure fair value. Cost is deemed to be an appropriate estimate of fair value.

There was no transfer within fair value hierarchies during the period.

The table below shows the classification of financial instruments held at fair value into valuation hierarchy set out below as at 31 December 2019:

At 31 December 2019	Level 1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial assets</b>				
<b>Held for trading</b>				
-Treasury bills	2,704,105	-	-	2,704,105
-Federal Government of Nigeria Bonds	-	-	-	-
	2,704,105	-	-	2,704,105
<b>Derivative financial instrument</b>				
-Convertible bonds	-	-	-	-
-FX forward contract	-	414,929	-	414,929
	-	414,929	-	414,929
<b>Investment securities classified as fair value through other comprehensive income</b>				
-Treasury bills	17,242,594	-	-	17,242,594
-Federal Government of Nigeria Bonds	6,255,000	-	-	6,255,000
-Corporate bonds	2,738,087	13,972,360	-	16,710,447
-Promissory notes and Commercial bills	-	2,676,133	-	2,676,133
-Unquoted Equity	-	414,929	563,043	977,972
	26,235,681	17,063,422	563,043	43,862,146
<b>Pledged securities</b>				
<b>Held for Trading</b>				
-Treasury bills	-	-	-	-
-Federal Government of Nigeria Bonds	-	-	-	-
<b>Fair value through other comprehensive income</b>				
-Treasury bills	31,958,201	-	-	31,958,201
-Federal Government of Nigeria Bonds	1,147,552	-	-	1,147,552
-State Government bonds and corporate bonds	-	-	-	-
	33,105,753	-	-	33,105,753
<b>At 31 December 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
<b>Financial assets</b>				
<b>Held for trading</b>				
-Treasury bills	344,516	-	-	344,516
-Federal Government of Nigeria Bonds	-	-	-	-
-Corporate bonds	-	1,128,755	-	1,128,755
	344,516	1,128,755	-	1,473,271
<b>Derivative financial instrument</b>				
-FX forward contract	-	607,076	-	607,076
	-	607,076	-	607,076
<b>Investment securities classified as fair value through other comprehensive income</b>				
-Treasury bills	24,956,046	-	-	24,956,046
-Federal Government of Nigeria Bonds	171,888	-	-	171,888
-Corporate bonds	-	4,141,106	-	4,141,106
-Quoted equity securities	-	-	-	-
-Unquoted Equity	-	342,473	-	342,473
	25,127,934	4,483,579	-	29,611,513

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	Level 1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Pledged securities</b>				
Held for Trading				
-Treasury bills	3,800,151	-	-	3,800,151
-Federal Government of Nigeria Bonds	5,004,584	-	-	5,004,584
Fair value through other comprehensive income				
-Treasury bills	4,139,363	-	-	4,139,363
-Federal Government of Nigeria Bonds	-	-	-	-
-State Government bonds and corporate bonds	-	-	-	-
	12,944,098	-	-	12,944,098
<b>At 31 December 2017</b>				
	Level 1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial assets</b>				
<b>Held for trading</b>				
-Treasury bills	5,925,953	-	-	5,925,953
-Federal Government of Nigeria Bonds	1,727,692	-	-	1,727,692
	7,653,645	-	-	7,653,645
<b>Derivative financial instrument</b>				
-Convertible bonds	-	-	-	-
-FX forward contract	-	70,037	-	70,037
	-	70,037	-	70,037
<b>Investment securities classified as fair value through other comprehensive income</b>				
-Treasury bills	45,400,838	-	-	45,400,838
-Federal Government of Nigeria Bonds	1,746,606	-	-	1,746,606
-State Government bonds and corporate bonds	-	4,482,404	-	4,482,404
-Unquoted Equity	-	15,666	142,133	157,799
	47,147,444	4,498,070	142,133	51,787,647
<b>Pledged securities</b>				
Held for Trading				
-Treasury bills	-	-	-	-
-Federal Government of Nigeria Bonds	-	-	-	-
Fair value through other comprehensive income				
-Treasury bills	5,672,232	-	-	5,672,232
-Federal Government of Nigeria Bonds	4,426,917	-	-	4,426,917
-State Government bonds and corporate bonds	-	-	-	-
	10,099,149	-	-	10,099,149
<b>At 31 December 2016</b>				
	Level 1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial assets</b>				
<b>Held for trading</b>				
-Treasury bills	10,013,540	-	-	10,013,540
-Federal Government of Nigeria Bonds	613,318	-	-	613,318
	10,626,858	-	-	10,626,858
<b>Investment securities classified as fair value through other comprehensive income</b>				
-Treasury bills	21,994,698	-	-	21,994,698
-Federal Government of Nigeria Bonds	2,682,216	-	-	2,682,216
-Quoted equity securities	-	7,502,948	-	7,502,948
-State Government bonds and corporate bonds	-	-	-	-
-Unquoted Equity	-	15,666	-	15,666
	24,676,914	7,518,614	-	32,195,528
<b>Pledged securities</b>				
Held for Trading				
-Treasury bills	-	-	-	-
-Federal Government of Nigeria Bonds	-	-	-	-
Available for sale				
-Treasury bills	12,290,406	-	-	12,290,406
-Federal Government of Nigeria Bonds	4,149,119	-	-	4,149,119
-State Government bonds and corporate bonds	-	5,260,637	-	5,260,637
	16,439,525	5,260,637	-	21,700,162
<b>At 31 December 2015</b>				
	Level 1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial assets</b>				
<b>Held for trading</b>				
-Treasury bills	2,844,336	-	-	2,844,336
-Quoted equity securities	-	-	-	-
	2,844,336	-	-	2,844,336
<b>Derivative financial instrument</b>				
-Convertible bonds	-	-	13,386	13,386
-FX forward contract	-	2,532	-	2,532
	-	2,532	13,386	15,918
<b>Investment securities classified as fair value through other comprehensive income</b>				
-Treasury bills	4,034,837	-	-	4,034,837
-Federal Government of Nigeria Bonds	5,413,574	-	-	5,413,574
-State Government bonds and corporate bonds	-	12,153,513	-	12,153,513
-Quoted equity securities	-	-	-	-
-Unquoted Equity	-	666	-	666
	9,448,411	12,154,179	-	21,602,590

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	Level 1	Level 2	Level 3	Total
	₦'000	₦'000	₦'000	₦'000
<b>Pledged securities</b>				
Held for Trading				
-Treasury bills	3,975,072	-	-	3,975,072
-Federal Government of Nigeria Bonds	-	-	-	-
Fair value through other comprehensive income				
-Treasury bills	705,207	-	-	705,207
-Federal Government of Nigeria Bonds	2,639,406	-	-	2,639,406
-State Government bonds and corporate bonds	-	3,444,398	-	3,444,398
	7,319,685	3,444,398	-	10,764,083

The following table represents changes in level 3 instruments:

	₦'000
At 1 January 2018	142,133
Additions during the year	200,340
At 31 December 2018	342,473
Additions during the year	220,570
At 31 December 2019	563,043

### 3.4 Fair value of financial assets and liabilities not measured at fair value

The fair value of loans have been estimated using Discounted Cash Flow (DCF) valuation models (level 3).

Inputs into this valuation technique include: expected cash flows, expected losses, tenor and interest rates. The expected cash flows (estimated recoverable amount from receivables, collateral and otherwise) are this discounted to obtain the fair value of the loans.

Investment securities have been fair valued market prices and is within level 1 of the fair value hierarchy.

The carrying value of the following financial assets and liabilities for the Bank approximate their fair values - cash and bank balances, loans and advances to customers and other assets

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values:

	At 31 December 2019		At 31 December 2018		At 31 December 2017	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>						
Cash and bank balances	16,161,374	16,161,374	11,186,984	11,186,984	15,536,837	15,536,837
Loans and advances to banks	9,817,336	9,817,336	17,057,637	17,057,637	16,793,701	16,793,701
Loans and advances to customers	45,496,340	45,496,340	40,536,858	40,536,858	37,376,991	37,376,991
Investment securities	-	-	4,693,596	4,762,784	-	-
Pledged assets	-	-	-	-	102,713	99,566
Other assets	301,428	301,428	252,081	252,081	169,539	169,539
	71,776,478	71,776,478	73,727,156	73,796,344	69,979,781	69,976,634
<b>Financial liabilities</b>						
Due to banks	27,684,828	27,684,828	4,744,992	4,744,992	19,877,963	19,877,963
Due to customers	56,340,436	56,340,436	46,719,361	46,719,361	55,186,445	55,186,445
Other liabilities	11,375,801	11,375,801	4,550,050	4,550,050	8,428,481	8,428,481
Debt securities issued	14,086,009	14,181,057	14,524,709	14,465,870	12,077,787	12,202,751
Other borrowed funds	18,737,312	18,737,312	18,725,951	18,725,951	20,201,819	20,201,819
	128,224,386	128,319,434	89,265,063	89,206,224	115,772,495	115,897,459

	At 31 December 2016		At 31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Cash and bank balances	19,085,255	19,085,255	20,615,425	20,615,425
Loans and advances to banks	11,166,282	11,166,282	10,525,606	10,525,606
Loans and advances to customers	35,351,414	35,351,414	40,404,714	39,677,039
Investment securities	-	-	108,638	110,826
Pledged assets	106,888	91,026	-	-
Other assets	58,662	58,662	87,627	87,627
	65,768,501	65,752,639	71,742,010	71,016,523
<b>Financial liabilities</b>				
Due to banks	22,158,574	22,158,574	16,250,311	16,250,311
Due to customers	55,006,019	55,006,019	52,661,649	52,661,649
Other liabilities	6,017,052	6,017,052	6,543,460	6,543,460
Debt securities issued	13,074,816	13,137,639	5,676,810	5,630,676
Other borrowed funds	16,729,278	16,729,278	3,948,697	3,948,697
	112,985,739	113,048,562	85,080,927	85,034,793

Fair value Hierarchy for Financial Assets not measured at fair value

At 31 December 2019 ( ₦'000)	Level 1	Level 2	Level 3	Total
Financial liabilities	₦'000	₦'000	₦'000	₦'000
Debt securities issued	-	14,181,057	-	14,181,057
	-	14,181,057	-	14,181,057

At 31 December 2018 ( ₦'000)	Level 1	Level 2	Level 3	Total
Financial asset	₦'000	₦'000	₦'000	₦'000
Investment securities	-	-	4,762,784	4,762,784
	-	-	4,762,784	4,762,784

At 31 December 2018 ( ₦'000)	Level 1	Level 2	Level 3	Total
Financial liabilities	₦'000	₦'000	₦'000	₦'000
Debt securities issued	-	-	14,524,709	14,524,709
	-	-	14,524,709	14,524,709

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### At 31 December 2017 ( N'000)

	Level1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial asset</b>				
Cash and bank balances	-	-	15,536,837	15,536,837
Loans and advances to banks	-	-	16,793,701	16,793,701
Loans and advances to customers	-	-	37,376,991	37,376,991
Investment securities				
-Held to maturity	-	-	-	-
Pledged assets	99,566	-	-	99,566
Other assets	-	-	169,539	169,539
	99,566	-	69,877,068	69,707,529

### At 31 December 2017 ( N'000)

	Level1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial liabilities</b>				
Due to banks	-	-	19,877,963	19,877,963
Due to customers	-	-	55,186,445	55,186,445
Other liabilities	-	-	8,428,481	8,428,481
Debt securities issued	-	-	12,202,751	12,202,751
Other borrowed funds	-	-	20,201,819	20,201,819
	-	-	115,897,459	115,897,459

### At 31 December 2016 ( N'000)

	Level1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial asset</b>				
Cash and bank balances	-	-	19,085,255	19,085,255
Loans and advances to banks	-	-	11,166,282	11,166,282
Loans and advances to customers	-	-	35,351,414	35,351,414
Investment securities				
-Held to maturity	-	-	-	-
Pledged assets	91,026	-	-	91,026
Other assets	-	-	58,662	58,662
	91,026	-	65,661,613	65,602,951

### At 31 December 2016 ( N'000)

	Level1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial liabilities</b>				
Due to banks	-	-	22,158,574	22,158,574
Due to customers	-	-	55,006,019	55,006,019
Other liabilities	-	-	6,017,052	6,017,052
Debt securities issued	-	-	13,137,639	13,137,639
Other borrowed funds	-	-	16,729,278	16,729,278
	-	-	113,048,562	113,048,562

### At 31 December 2015 ( N'000)

	Level1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial asset</b>				
Cash and bank balances	-	-	20,615,425	20,615,425
Loans and advances to banks	-	-	10,525,606	10,525,606
Loans and advances to customers	-	-	39,677,039	39,677,039
Investment securities				
-Held to maturity	110,826	-	-	110,826
Pledged assets	-	-	-	-
Other assets	-	-	87,627	87,627
	110,826	-	70,905,697	70,818,070

### At 31 December 2015 ( N'000)

	Level1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial liabilities</b>				
Due to banks	-	-	16,250,311	16,250,311
Due to customers	-	-	52,661,649	52,661,649
Other liabilities	-	-	6,543,460	6,543,460
Debt securities issued	-	-	5,630,676	5,630,676
Other borrowed funds	-	-	3,948,697	3,948,697
	-	-	85,034,793	85,034,793

### 3.5 Capital Management

The Bank's objectives in managing Capital are:

- To comply with the regulatory requirements of the Central Bank of Nigeria.
- To ensure that the Bank continues as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders by ensuring that capital deployed meets our RAAC (Risk Asset Acceptance Criteria).

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Central Bank of Nigeria ("CBN"), for supervisory purposes.

In line with the CBN circular BSD/DIR/GR/GEN/LAB/06053 regarding Regulatory Capital Measurement for the Nigerian Banking System for the implementation of Basel II/III in Nigeria, Capital adequacy is measured daily and reported monthly to the Central Bank of Nigeria in line with Basel II set principles, which measures Credit, Market and Operational Risks.

The ratios on the next page summarises the compulsion of regulatory capital and the ratios of the Bank for the period ended 31 December 2019. Over the period, the Bank complied with all the externally imposed capital requirements to which it was and is subject.

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### 3.5 Capital Management - continued

CONSTITUENTS OF ELIGIBLE CAPITAL	Amounts				
	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
Paid-up ordinary shares	1,833,417	2,794,794	2,794,794	2,794,794	2,794,794
Share premium	539,587	1,539,587	1,539,587	1,539,587	1,539,587
Retained profits	17,255,901	19,419,275	19,291,688	15,632,019	15,328,104
IFRS 9 Transitional Adjustment	690,474	1,035,711			
Statutory reserve	6,779,571	5,630,282	5,077,345	5,077,345	4,650,947
Monthly interests (only for consolidated accounts)	-	326,807		596,170	998,281
<b>TIER 1 SUBTOTAL</b>	<b>27,098,950</b>	<b>30,746,456</b>	<b>28,703,414</b>	<b>25,639,915</b>	<b>25,311,713</b>
<b>LESS</b>					
Deferred tax assets	2,521,983	3,200,940	3,551,132	3,629,720	3,633,002
Other intangible assets 2	425,629	212,588	217,263	45,157	110,426
Credit Risk Reserve	-	-	-	596,170	998,281
50% of investments in unconsolidated banking and financial subsidiary/associate company	-	480,689	480,689	480,689	393,505
<b>NET-TOTAL TIER 1 CAPITAL</b>	<b>24,151,338</b>	<b>26,852,239</b>	<b>24,454,330</b>	<b>20,888,179</b>	<b>20,176,499</b>
Eligible subordinated term debt (limited to 25% of total Tier 1 capital)	(417,519)	(763,591)	(301,651)	(2,828,529)	154,108
Fair value reserves	-	-	-	-	-
<b>TIER 2 SUBTOTAL</b>	<b>(417,519)</b>	<b>(763,591)</b>	<b>(301,651)</b>	<b>(2,828,529)</b>	<b>154,108</b>
<b>LESS</b>					
50% of investments in unconsolidated banking and financial subsidiary/associate company	-	-	480,689	480,689	393,505
<b>NET-TOTAL TIER 2 CAPITAL</b>	<b>(417,519)</b>	<b>(763,591)</b>	<b>(782,340)</b>	<b>(3,309,218)</b>	<b>(239,397)</b>
<b>TOTAL QUALIFYING CAPITAL</b>	<b>23,733,819</b>	<b>26,088,648</b>	<b>23,671,990</b>	<b>17,578,961</b>	<b>19,937,102</b>
	<b>31 December 2019 N'000</b>	<b>31 December 2018 N'000</b>	<b>31 December 2017 N'000</b>	<b>31 December 2016 N'000</b>	<b>31 December 2015 N'000</b>
Total risk weighted amount for credit Risk	59,053,597	62,280,612	60,656,642	57,202,678	61,365,877
Risk-weighted amount for operational risk	16,196,428	14,698,517	14,175,216	11,150,912	10,047,699
Risk-weighted amount for market risk	3,326,716	16,668,589	5,239,273	2,494,732	5,079,306
<b>AGGREGATE RISK-WEIGHTED ASSETS</b>	<b>78,576,741</b>	<b>93,647,718</b>	<b>80,071,131</b>	<b>70,848,322</b>	<b>76,492,882</b>
<b>TOTAL RISK-WEIGHTED CAPITAL RATIO</b>	<b>30.20%</b>	<b>27.86%</b>	<b>29.56%</b>	<b>24.81%</b>	<b>26.06%</b>
<b>TIER 1 RISK-BASED CAPITAL RATIO</b>	<b>30.74%</b>	<b>28.67%</b>	<b>30.54%</b>	<b>29.48%</b>	<b>26.38%</b>

As a Merchant Bank, the Central Bank of Nigeria regulatory requirements are as follows:

- Hold the minimum level of the regulatory capital of N15 billion;
- Maintain a ratio of total regulatory to the risk-weighted asset at or above the minimum of 10%; and
- Maintain a liquidity ratio minimum of 20%

As at 31 December 2019, the Bank had eligible risk capital of NGN23.6 billion, which was in excess of the regulatory minimum. In addition, liquidity ratio stood at 109.95% and our capital adequacy ratio stood at 30.20%. The risk weighted assets are measured using the Central Bank of Nigeria's interpretation and ranking of the risk assets.

Currently, the Bank's capital and regulatory ratios are in excess of the CBN regulatory minimum.

### 3.6 Critical accounting estimates and judgements

The Bank's financial statements and its financial result are influenced by accounting policies, assumptions estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis and are based on experience and other factors, including expectations with regards to future events.

Accounting policies and management's judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.

#### (a) Impairment losses on financial assets

The Bank reviews its loan portfolio to assess impairment on a quarterly basis. Sequel to the implementation of IFRS 9 on 1 January 2018, the Bank has updated its credit assessment methodology in line with the standard. IFRS 9 replaces the existing 'incurred loss' impairment approach with an Expected Credit Loss ("ECL") model, resulting in earlier recognition of credit losses compared with IAS 39. Expected credit losses are the unbiased probability weighted average credit losses determined by evaluating a range of possible outcomes and future economic conditions.

The Bank has set policies to guide staging criteria in determining significant increase in credit risk. The Bank has also adopted the capability to model a number of economic scenarios and capture the impact on credit losses to ensure the overall ECL represents a reasonable distribution of economic outcomes. Appropriate governance and oversight has been established around the process.

The methodology and assumptions used for estimating probability of default, loss given default, discount factor, exposure at default, forward looking macro-economic factors and timing of future cash flows are reviewed regularly as the Bank builds historical data in computation of its expected credit loss.

#### (b) Fair value of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market prices requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Fair valuation techniques and assumptions

##### I. Bonds

The fair values for illiquid bonds are gotten from an independent source. The source's bond prices are model prices derived from a modelled yield. The modelled yield is calculated by adding a risk premium to the valuation yield (corresponding Tenor to Maturity (TTM) yield interpolated off the FGN bond theoretical spot rate curve). This is used to calculate the bond bid price.

Risk premiums are derived by 2 methods described below:

- Apply risk spread on latest acceptable trade for the respective bonds i.e. determine the spread between the bond yield on the latest acceptable trade and the FGN bond spot rate of comparable TTM
- Apply risk spread of issuance i.e. determine the spread between the bond yield at issuance and the FGN bond spot rate of comparable TTM. However, where the risk spread at issuance is less than 1% (100 basis points), a base risk premium of 100 basis points is applied.

The fair value of quoted equity securities are determined by reference to quoted prices (unadjusted) from the Nigerian Stock Exchange.

However, fair value of unquoted equity investments have been derived from the last OTC (over the counter) transaction.

##### II. Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative fair value is recognised as a financial liability.

The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Derivatives are presented as financial assets or financial liabilities. Derivative assets and liabilities are only offset if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle on a net basis.

The fair value of financial instruments is based on quoted market prices at the closing date. Known calculation techniques, such as estimated discounted cash flows, are used to determine fair value of interest rate and money financial instruments. The fair value of forward foreign exchange contracts is determined using the forward exchange market rate at the closing date.

##### 4 Segment

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments. The bank operates only one line of business, which is merchant banking business. The bank does not consider it necessary to report its operations by both business and geographical segment.

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	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
<b>5 Interest income</b>					
5 (a) Financial assets measured at fair value through profit or loss					
- Debt securities	892,370	937,520	964,337	-	-
	<b>892,370</b>	<b>937,520</b>	<b>964,337</b>	-	-
5 (b) Financial assets measured at fair value through other comprehensive income					
- Debt securities	6,940,266	6,822,762	8,661,043	-	-
	<b>6,940,266</b>	<b>6,822,762</b>	<b>8,661,043</b>	-	-
5 (c) Financial assets measured at amortised cost					
- Debt securities	1,183,769	58,919	7,121	-	-
- Loans to banks and other financial institutions	1,084,278	1,830,478	3,470,909	-	-
- Loans and advances to customers	6,056,052	4,970,662	6,620,151	-	-
- Correspondent credit lines	338,769	466,575	164,491	-	-
- Others	-	-	7,698	-	-
	<b>8,662,868</b>	<b>7,326,634</b>	<b>10,270,370</b>	-	-
5 (d) Prior Years' Classifications					
Bonds	-	-	-	2,472,613	3,613,953
Treasury bills	-	-	-	2,980,122	2,269,589
Placements and investment income	-	-	-	1,623,238	1,854,161
Loans and advances to customers	-	-	-	5,252,681	5,983,378
Financial guarantee contracts	-	-	-	211,012	176,355
Others	-	-	-	7,749	2,878
	-	-	-	<b>12,547,415</b>	<b>13,900,314</b>
<b>Interest income - Total</b>	<b>16,495,503</b>	<b>15,086,916</b>	<b>19,895,750</b>	<b>12,547,415</b>	<b>13,900,314</b>

Interest income on loans and advances to customers does not include interest income on impaired loans. Interest income on stage III impaired loans for the year ended 31 December 2019 was Nil (December 2018: Nil; December 2017: ₦960.65m; December 2016: ₦125.68m; December 2015: ₦146.88m).

	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
<b>6 Interest and similar expenses</b>					
Customer deposits	5,133,498	4,761,200	6,651,521	5,545,410	6,720,937
Interbank call borrowings	1,219,767	1,244,982	1,565,690	1,066,149	1,108,038
Discount on issued commercial papers	2,142,281	2,557,450	2,737,326	1,646,583	837,652
Interest on other borrowed funds	1,357,687	1,429,925	1,904,676	757,120	1,357,173
Correspondent credit lines	269,379	222,686	87,538	147,497	102,340
Clients' investment fund	873,244	104,005	-	-	-
Interest on leases	13,223	-	-	-	-
	<b>11,009,079</b>	<b>10,320,248</b>	<b>12,946,751</b>	<b>9,162,759</b>	<b>10,126,140</b>
<b>7 Fee and commission income</b>					
Credit related fees	315,092	161,366	406,452	68,899	131,748
Commission on trade related transactions	125,046	245,743	480,868	-	-
Financial advisory and issuing house activities' fees	67,385	206,384	128,512	20,639	249,241
Other commissions, fees and charges	187,449	185,308	135,478	420,503	76,062
	<b>694,972</b>	<b>798,801</b>	<b>1,151,310</b>	<b>510,041</b>	<b>457,051</b>

Other commissions, fees and charges include brokerage commission, current account maintenance charge, funds transfer charge, penalties and charges.

The fees and commission income can be further analysed as below in line with IFRS 15:

	N'000	N'000			
Point in time	312,495	430,991			
Over time fees	382,477	367,810			
	<b>694,972</b>	<b>798,801</b>			
<b>8 Impairment (write-back) / charge for credit losses</b>					
Impairment (write-back) / charge for credit loss on loans and advances	(41,494)	(2,145,177)	2,254,109	419,539	572,956
Impairment (write-back) / charge on credit loss on other financial assets	(359,074)	(202,130)	-	-	-
Uncollectable amounts written off	-	950,666	7,250	-	-
Reversal of specific impairment	-	-	-	-	(2,652)
	<b>(400,568)</b>	<b>(1,396,641)</b>	<b>2,261,359</b>	<b>419,539</b>	<b>570,304</b>

The write back on impairment charges is attributable to the resolution of the Bank's credit impaired facility coupled with matured obligations, pay-downs and general improvement on credit quality during the year.

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	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
<b>9 Net gains on financial instruments held for trading</b>					
Bonds	187,634	95,821	111,388	203,087	364,519
Treasury bills	204,510	160,323	289,625	62,555	744,745
Promissory notes	-	1,960	-	-	-
Foreign exchange	181,539	57,386	75,245	(98,859)	469,830
Derivatives	21,642	335,187	404,618	(2,507)	2,389
	<b>595,325</b>	<b>650,677</b>	<b>880,876</b>	<b>164,276</b>	<b>1,581,483</b>
<b>10 Net gains on debt instruments classified as fair value through other comprehensive income</b>					
Bonds	111,220	45,020	-	-	-
Treasury bills	919,163	742,439	-	-	-
Promissory notes	764,015	-	-	-	-
	<b>1,794,398</b>	<b>787,459</b>	-	-	-
<b>Net gains on financial instruments classified as available for sale</b>					
Bonds	-	-	14,562	430,918	433,525
Treasury bills	-	-	496,462	249,265	130,065
	-	-	<b>511,024</b>	<b>680,183</b>	<b>563,590</b>
<b>11 Other income</b>					
Technical service fees	52,155	63,037	65,639	55,449	59,984
Profit on disposal of property and equipment	3,643	18,929	7,420	2,132	2,296
Dividend income	940,864	909,623	644,338	667,938	545,613
Foreign currency translation	83,141	130,813	364,837	1,270,139	98,029
Gratuity plan	-	-	-	-	6,588
Other sundry income	162,341	79,335	26,997	32,937	1,374
	<b>1,242,144</b>	<b>1,201,737</b>	<b>1,109,231</b>	<b>2,028,595</b>	<b>713,884</b>
<b>12 Operating expenses</b>					
Staff related expenses (Note (i) below)	2,296,859	2,193,606	2,372,867	1,463,079	1,432,846
Depreciation on assets (Note 28)	292,947	244,435	188,166	166,243	143,419
Depreciation on leased assets (Note 23)	47,733	-	-	-	-
Amortisation (Note 27)	117,310	106,261	38,107	106,772	101,535
Auditors' remuneration	55,000	42,750	36,028	32,025	32,025
Directors' fees and sitting allowance	275,616	176,800	149,675	329,110	265,472
Other directors' expenses	231,692	-	-	-	-
Deposit Insurance	152,345	194,047	201,643	183,483	168,025
Occupancy costs	78,503	140,127	151,583	161,215	-
Information technology and related expenses	498,132	447,812	486,103	266,438	-
Provision for doubtful receivables	9,535	-	-	-	-
Operating expenses (Note (ii) below)	975,330	869,700	855,583	691,464	998,979
	<b>5,031,002</b>	<b>4,415,538</b>	<b>4,479,755</b>	<b>3,399,829</b>	<b>3,142,301</b>
(i) Staff related costs, excluding executive directors, during the period amounted to:					
	N'000	N'000	N'000	N'000	N'000
Wages, salaries and staff costs	2,088,489	2,002,485	1,651,709	1,344,505	1,333,182
Pension costs - Defined contribution plan	143,237	141,039	106,434	105,572	99,664
Post employment costs - Defined contribution plan	65,133	50,082	18,818	-	-
Gratuity costs - Defined benefit plan	-	-	595,906	13,002	-
	<b>2,296,859</b>	<b>2,193,606</b>	<b>2,372,867</b>	<b>1,463,079</b>	<b>1,432,846</b>
The average number of persons employed by the Bank during the period was as follows:					
Executive	3	3	2	3	3
Management staff	24	30	28	34	24
Non management staff	99	101	102	88	87
	<b>126</b>	<b>134</b>	<b>132</b>	<b>125</b>	<b>114</b>

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### Operating expenses (continued)

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

Below ₦3,000,000	26	33	33	37	25
₦3,000,001 - ₦5,000,000	21	19	19	16	22
₦5,000,001 - ₦7,000,000	19	23	23	18	23
Above ₦7,000,000	60	59	57	54	44
	<b>126</b>	<b>134</b>	<b>132</b>	<b>125</b>	<b>114</b>

	31 December 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
	₦'000	₦'000	₦'000	₦'000	₦'000
<b>Directors' remuneration paid during the period:</b>					
Fees and sitting allowances	275,616	176,800	149,675	135,100	89,850
Retirement benefit expense	120,813	-	-	-	-
Executive compensation	216,443	169,514	130,550	194,010	175,622
	<b>612,872</b>	<b>346,314</b>	<b>280,225</b>	<b>329,110</b>	<b>265,472</b>

The directors' remuneration shown above (excluding pension and other benefits) includes:

Chairman	<b>41,500</b>	<b>11,625</b>	<b>22,175</b>	<b>24,500</b>	<b>10,250</b>
Highest paid director	<b>89,589</b>	<b>79,171</b>	<b>67,773</b>	<b>82,250</b>	<b>68,901</b>

(ii) Included in the administrative expenses is the sum of ₦10.12m (2018: ₦16.80m; 2017: ₦1.58m; 2016: ₦1.05m; 2015: ₦7.35m) paid to PricewaterhouseCoopers for non-audit services provided during the year.

The breakdown of the non-audit services for the period are as follows:

	<b>₦'000</b>
Training cost	147
Quality assurance review	4,725
Independent review of the compliance function	5,250
	<b>10,122</b>

	31 December 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
	₦'000	₦'000	₦'000	₦'000	₦'000
<b>13 Income tax expense</b>					
(i) Tax charge for the year comprises:					
a) Income Tax Charge					
Income tax	1,142,490	447,903	171,425	133,995	670,332
Withholding tax on dividend	94,104	-	-	-	-
<b>Total current tax charge</b>	<b>1,236,594</b>	<b>447,903</b>	<b>171,425</b>	<b>133,995</b>	<b>670,332</b>
b) Deferred tax					
Recognised in income statement:					
Origination and reversal of temporary differences	335,832	327,150	2,660	(28,266)	(9,143)
Amount of unused tax losses	-	-	-	-	(662,848)
Recognised in other comprehensive income	-	-	-	-	(53,102)
<b>Total deferred tax charge/(credit)</b>	<b>335,832</b>	<b>327,150</b>	<b>2,660</b>	<b>(28,266)</b>	<b>(725,093)</b>
<b>Income tax expense</b>	<b>1,572,426</b>	<b>775,053</b>	<b>174,085</b>	<b>105,729</b>	<b>(54,761)</b>
(ii) Reconciliation of effective tax					
Profit before income tax	<b>5,182,829</b>	<b>5,186,445</b>	<b>3,860,326</b>	<b>2,948,383</b>	<b>3,377,577</b>
Effective tax as per accounts:					
Income tax using the companies income tax rate at 30%	1,554,849	1,555,934	1,158,098	884,515	-
Non-deductible expenses	148,020	131,738	301,337	174,401	-
Tax exempt income	(1,414,395)	(2,930,745)	(3,531,860)	(2,536,348)	-
Tax loss unutilised	1,142,490	1,243,074	2,072,426	1,449,166	-
Minimum tax	-	-	171,425	133,995	-
Tax effect of unrelieved losses	(288,474)	753,323	-	-	-
Tax over-provision	-	(305,420)	-	-	(111,093)
WHT on dividend	94,104	-	-	-	-
Dividend tax	-	-	-	-	781,425
Effect of deferred tax	335,832	327,150	2,660	-	(671,991)
<b>Income tax</b>	<b>1,572,426</b>	<b>775,054</b>	<b>174,086</b>	<b>105,729</b>	<b>(1,659)</b>
Effective tax rate	30.34%	14.94%	4.51%	3.59%	-0.05%

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#### Income tax expense (Continued)

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 years 2019 and 2018 was based on dividend tax rule. The corporate income tax charge for the years 2017 to 2015 was based on minimum tax rule.

Tax exempt income include incomes such as dividend income, income on Federal Government of Nigeria, municipal and corporate bonds and the Nigerian Treasury Bills (Exemption of Bonds and Short Term Government Securities Order 2011) which are exempt from income tax and other applicable taxes as gazetted by the Federal Government of Nigeria.

In 2017, tax provisions based on the minimum tax rule in prior periods were released as the Bank applied for the exemption from the minimum tax rule on account of its percentage foreign shareholding.

	31 December 2019 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2016 ₦'000	31 December 2015 ₦'000
The movement in the current income tax liability is as follows:					
At start of the year	241,710	413,161	375,705	920,152	585,196
Tax paid	(1,016,362)	(619,354)	(133,969)	(678,442)	(335,376)
Prior period over provision	-	(305,420)	-	-	(111,093)
Income tax charge	1,236,594	753,323	171,425	133,995	781,425
At end of the year	<u>461,942</u>	<u>241,710</u>	<u>413,161</u>	<u>375,705</u>	<u>920,152</u>
Current	<u>461,942</u>	<u>241,710</u>	<u>413,161</u>	<u>375,705</u>	<u>920,152</u>

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	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
<b>14 Cash and bank balances</b>					
Cash in hand	85	37	158	36	191
Balances held with other banks:					
Operating balance with Central Bank of Nigeria	3,907,089	1,324,916	633,584	1,628,487	2,402,340
Balances with banks in Nigeria	263,277	657,634	404,578	291,436	174,928
Balances with banks outside Nigeria	4,779,983	5,008,095	12,377,991	15,712,954	16,858,352
Cash on hand and balances with banks	8,950,433	6,990,682	13,416,311	17,632,913	19,435,811
Mandatory reserve deposit with Central Bank of Nigeria	7,210,940	4,196,302	2,120,526	1,452,342	1,179,615
	<b>16,161,374</b>	<b>11,186,984</b>	<b>15,536,837</b>	<b>19,085,255</b>	<b>20,615,426</b>
Current	8,950,433	6,990,682	13,416,311	17,632,913	19,435,811
Non-Current	7,210,940	4,196,302	2,120,526	1,452,342	1,179,615
	<b>16,161,374</b>	<b>11,186,984</b>	<b>15,536,837</b>	<b>19,085,255</b>	<b>20,615,426</b>

Included in cash on hand and balances with banks is an amount of ₦4.61billion (31 Dec 2018: ₦3.28billion; 31 Dec 2017: ₦8.12billion; 31 Dec 2016: ₦5.51billion) representing the Naira value of foreign currencies 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 31).

Mandatory reserve deposits with the Central Bank of Nigeria represents a percentage of customers' deposits (prescribed from time to time by the Central Bank) which is not available for daily use. For purpose of statement of cash flows, these mandatory reserve deposits are excluded from cash and cash equivalents.

	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
<b>15 Loans to banks and other financial institutions</b>					
Placements with banks	9,817,413	17,057,637	16,793,701	11,166,282	9,905,530
Placements with other financial institutions	-	-	-	-	620,076
	<b>9,817,413</b>	<b>17,057,637</b>	<b>16,793,701</b>	<b>11,166,282</b>	<b>10,525,606</b>
Impairment on investment securities at amortised cost:					
Stage 1 ECL provision	(77)	-	-	-	-
	<b>(77)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Loans to banks and other financial institutions net of impairment	<b>9,817,336</b>	<b>17,057,637</b>	<b>16,793,701</b>	<b>11,166,282</b>	<b>10,525,606</b>
Current	<b>9,817,336</b>	<b>17,057,637</b>	<b>16,793,701</b>	<b>11,166,282</b>	<b>10,525,606</b>
<b>16 Financial instruments held for trading</b>					
Nigerian Treasury Bills	2,704,105	344,516	5,925,953	10,013,540	2,844,336
Federal Government of Nigeria Bonds	-	-	1,727,692	613,318	-
Corporate bonds	-	1,128,755	-	-	-
	<b>2,704,105</b>	<b>1,473,271</b>	<b>7,653,645</b>	<b>10,626,858</b>	<b>2,844,336</b>
Current	2,704,105	344,516	5,925,953	10,013,540	2,844,336
Non-Current	-	1,128,755	1,727,692	613,318	-
	<b>2,704,105</b>	<b>1,473,271</b>	<b>7,653,645</b>	<b>10,626,858</b>	<b>2,844,336</b>

Assets under this class are all trading-related. Gains or losses are recognised in the income statement under 'Net gains on financial instruments held for trading'.

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<b>17 Derivative financial instruments</b>					
Assets:					
Convertible loan (note (i))	-	-	-	-	13,386
FX Forward Contracts (note (ii))	414,929	607,076	70,037	-	2,532
	<u>414,929</u>	<u>607,076</u>	<u>70,037</u>	<u>-</u>	<u>15,918</u>
Liabilities:					
FX Forward Contracts	395,283	590,903	54,106	-	1,382
	<u>395,283</u>	<u>590,903</u>	<u>54,106</u>	<u>-</u>	<u>1,382</u>
Notional principal					
FX forward contracts (Assets)	<u>18,665,228</u>	<u>11,945,983</u>	<u>6,713,535</u>	<u>-</u>	<u>3,483,083</u>

(i) The option component of the convertible loan is equity indexed, which results in no closely related risks inherent in the host contract. The Bank, therefore, separated the option from the loan contract. The option was valued using the binomial distribution methodology. Fair value changes are recognised in the statement of comprehensive income. See note 3.6 on critical accounting estimates for sensitivity to valuation inputs/assumptions.

(ii) This represents the notional principal amounts, the positive (assets) and negative (liabilities) fair values of the Bank's FX forward contracts. Fair value changes are recognised in the statement of comprehensive income. All derivative financial instruments are current.

	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
<b>18 Loans and advances to customers</b>					
Loans and advances at amortised cost	46,753,615	41,835,627	40,778,314	36,498,627	40,404,714
Allowance for impairment (see note (i))	(1,257,275)	(1,298,769)	(3,401,323)	(1,147,213)	(727,675)
	<u>45,496,340</u>	<u>40,536,858</u>	<u>37,376,991</u>	<u>35,351,414</u>	<u>39,677,039</u>
Current	24,933,147	37,906,104	7,041,593	14,719,414	19,045,039
Non-Current	20,563,193	2,630,754	30,335,398	20,632,000	20,632,000
	<u>45,496,340</u>	<u>40,536,858</u>	<u>37,376,991</u>	<u>35,351,414</u>	<u>39,677,039</u>

(i) The reconciliation of the allowance account for losses on loans and advances to customers:

	2019 N'000	2018 N'000	2017 N'000	2016 N'000	2015 N'000
Balance at 1 January	1,298,769	3,401,323	1,147,213	727,675	157,371
Increase in specific impairment	-	-	2,142,257	124,717	521,603
Increase in collective impairment	-	-	111,853	294,821	51,353
Reversal of specific impairment	-	-	-	-	(2,652)
IFRS 9 opening remeasurement adjustment	-	993,009	-	-	-
Write-off of provisions	-	(950,386)	-	-	-
Decrease in loan provision for the year	(41,494)	(2,145,177)	-	-	-
At 31 December	<u>1,257,275</u>	<u>1,298,769</u>	<u>3,401,323</u>	<u>1,147,213</u>	<u>727,675</u>
Analysis of impairment as at 31 December:					
Stage 1 impairment on loans and advances	250,867	292,361			
Stage 3 impairment on loans and advances	1,006,408	1,006,408			
	<u>1,257,275</u>	<u>1,298,769</u>			

	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
<b>19 Investment securities</b>					
Analysis of investment securities					
Debt securities (Note (i))	42,884,175	33,684,387	51,629,848	32,179,862	21,712,751
Equity securities (Note (ii))	563,043	342,473	157,799	15,666	666
	<u>43,447,218</u>	<u>34,026,860</u>	<u>51,787,647</u>	<u>32,195,528</u>	<u>21,713,417</u>
Current	32,215,749	29,245,644	45,536,143	28,938,982	806,196
Non-Current	11,231,469	4,781,216	6,251,504	3,256,546	20,907,221
	<u>43,447,218</u>	<u>34,026,860</u>	<u>51,787,647</u>	<u>32,195,528</u>	<u>21,713,417</u>

(i) Debt securities

*Classified as fair value through other comprehensive income*

Nigerian Treasury Bills	17,242,594	24,524,054	-	-	-
Federal Government of Nigeria bonds	6,255,000	325,631	-	-	-
Corporate bonds	16,710,447	4,141,106	-	-	-
Promissory notes and Commercial bills	2,676,133	-	-	-	-
<b>Debt securities at FVOCI</b>	<u>42,884,175</u>	<u>28,990,791</u>	<u>-</u>	<u>-</u>	<u>-</u>

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	31 December 2019 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2016 ₦'000	31 December 2015 ₦'000
<b>Investment securities (Continued)</b>					
<i>Classified as amortised cost</i>					
Nigerian Treasury Bills	-	4,750,828			
Corporate bonds	-	-			
	<u>-</u>	<u>4,750,828</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Classified as available for sale:</i>					
Nigerian Treasury Bills	-	-	45,400,838	21,994,698	4,034,837
Federal Government of Nigeria bonds	-	-	1,746,606	2,682,216	5,413,574
Corporate bonds	-	-	4,482,404	7,502,948	12,153,514
	<u>-</u>	<u>-</u>	<u>51,629,848</u>	<u>32,179,862</u>	<u>21,601,925</u>
<i>Classified as held to maturity:</i>					
Nigerian Treasury Bills	-	-	-	-	-
Federal Government of Nigeria bonds	-	-	-	-	110,826
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>110,826</u>
<i>Impairment on investment securities at amortised cost</i>					
Stage 1 ECL provision	-	57,232			
	<u>-</u>	<u>57,232</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net debt securities at amortised cost</b>	<u>-</u>	<u>4,693,596</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total debt securities</b>	<u>42,884,175</u>	<u>33,684,387</u>	<u>51,629,848</u>	<u>32,179,862</u>	<u>21,712,751</u>
The reconciliation of the impairment allowance on debt securities is as below:					
	2019 ₦'000	2018 ₦'000			
Balance at 1 January	57,232	-			
IFRS 9 opening remeasurement adjustment	-	14,898			
(Write back) / Increase in provision for the year	(57,232)	42,334			
At 31 December	<u>-</u>	<u>57,232</u>			
	31 December 2019 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2016 ₦'000	31 December 2015 ₦'000
<b>(ii) Equity securities</b>					
<i>Classified as fair value through other comprehensive income</i>					
Unquoted equity securities (see a.(i))	563,043	342,473	-	-	-
	<u>563,043</u>	<u>342,473</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Classified as available for sale</i>					
Unquoted equity securities	-	-	157,799	15,666	666
	<u>-</u>	<u>-</u>	<u>157,799</u>	<u>15,666</u>	<u>666</u>
<b>Total equity securities</b>	<u>563,043</u>	<u>342,473</u>	<u>157,799</u>	<u>15,666</u>	<u>666</u>

a.(i) Investment in equity securities represents equity contribution to the Agricultural/Small and Medium Enterprises Investment Scheme (AGSMEIS), investment in FMDQ OTC exchange and investment in the Nigeria Inter-bank Settlement Scheme (NIBSS). Total dividend of ₦0.06M was received as dividend from NIBSS during the year (2018: ₦0.05M). The Bank chose this presentation alternative because these investments were made based on regulatory directives rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

a.(ii) The Bank has made an irrevocable election to classify all its unquoted equity investment at FVOCI.

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	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
<b>20 Pledged assets</b>					
<i>Classified as fair value through other comprehensive income</i>					
Nigerian treasury bills	31,958,201	3,830,738	-	-	-
Federal Government of Nigeria bonds	1,147,552	5,063,491	-	-	-
	<b>33,105,752</b>	<b>8,894,229</b>	-	-	-
<i>Classified as held for trading</i>					
Nigerian treasury bills	-	-	-	-	3,975,072
	-	-	-	-	<b>3,975,072</b>
<i>Classified as available for sale</i>					
Nigerian treasury bills	-	-	5,672,232	12,290,406	705,207
Federal Government of Nigeria bonds	-	-	4,426,917	4,149,119	2,639,406
Corporate bonds	-	-	-	5,260,637	3,444,397
	-	-	<b>10,099,149</b>	<b>21,700,162</b>	<b>6,789,010</b>
<i>Classified as held to maturity</i>					
Federal Government of Nigeria bonds	-	-	102,713	106,888	-
	-	-	<b>102,713</b>	<b>106,888</b>	-
<b>Total net pledged assets</b>	<b>33,105,752</b>	<b>8,894,229</b>	<b>10,201,862</b>	<b>21,807,050</b>	<b>10,764,082</b>
Current	31,958,201	3,830,738	6,322,777	12,290,406	4,680,278
Non-Current	1,147,552	5,063,491	3,879,085	9,516,644	6,083,804
	<b>33,105,753</b>	<b>8,894,229</b>	<b>10,201,862</b>	<b>21,807,050</b>	<b>10,764,082</b>

Debt securities are pledged for purpose of providing collateral to secure liabilities with counterparties. The disclosure above includes any transferred assets associated with secured borrowing as disclosed in Notes 29.

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<b>21</b>	<b>Leases</b>				
<b>i</b>	Right-of-use assets		<b>Building</b>	<b>Total</b>	
			<b>N'000</b>	<b>N'000</b>	
	Opening balance as at 1 January 2019		137,843	137,843	
	Additions during the year		29,854	29,854	
	Closing balance as at 31 December 2019		167,697	167,697	
	<b>Depreciation</b>				
	Opening balance as at 1 January 2019		-	-	
	Charge for the year		47,733	47,733	
	Closing balance as at 31 December 2019		47,733	47,733	
	Net book value as at 31 December 2019		119,964	119,964	
<b>ii</b>	Lease liabilities				<b>N'000</b>
	Opening balance as at 1 January 2019				131,097
	Additions				29,667
	Interest expense				13,223
	Payments made during the period				(119,478)
	Closing balance as at 31 December 2019				54,509
	Current lease liabilities				13,022
	Non-current lease liabilities				41,487
					54,509
<b>iii</b>	Amounts recognised in the statement of profit or loss		<b>Building</b>	<b>Total</b>	
			<b>N'000</b>	<b>N'000</b>	
	Depreciation charge of right-of-use assets		47,733	47,733	
	Interest expense		13,223	13,223	
	Lease modification gain		(187)	(187)	
<b>iv</b>	<b>Liquidity risk (maturity analysis of lease liabilities)</b>				
			<b>0-3 months</b>	<b>3-12 months</b>	<b>1-2 years</b>
					<b>Above 2 years</b>
	Lease liability		12,330	8,643	42,380
					-
<b>22</b>	<b>Other assets</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>
		<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
		<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
	<b>Financial assets</b>				
	Fee receivables	294,822	109,078	100,118	58,662
	Other receivables	-	147,804	69,423	-
	Gross other financial assets	294,822	256,882	169,541	58,662
	Credit impairment on other financial assets - receivables	-	(4,801)	-	-
	Net other financial assets	294,822	252,081	169,541	58,662
	<b>Non financial assets</b>				
	Prepayments	420,442	470,532	442,107	532,807
	Withholding tax receivable (WHT)	71,049	129,692	10,016	15,135
	Others	-	694	568	541
	Gross non-financial assets	491,491	600,918	452,691	548,483
	Provision for doubtful receivables - WHT	(9,535)	-	-	-
		481,956	600,918	452,691	548,483
		776,778	852,999	622,233	607,145
	Current	642,083	307,088	405,416	176,737
	Non-current	134,695	545,911	216,817	430,408
		776,778	852,999	622,233	607,145
<b>23</b>	<b>Investment in subsidiaries</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>
		<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
		<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
	FSDH Asset Management Limited	-	200,000	200,000	200,000
	Pensions Alliance Limited	-	587,010	587,010	587,010
	FSDH Securities Limited	-	174,367	174,367	174,367
		-	961,377	961,377	961,377
		-	961,377	961,377	787,010

See narrative disclosures in Note 39 of this financial statements.

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

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### 24 Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using a statutory tax rate of 30% (2018: 30%).  
Movements in temporary differences during the year:

	1 January 2019	Recognised in P&L	31 December 2019
	N'000	N'000	N'000
Accelerated tax depreciation	3,322	(107,906)	(104,584)
Foreign exchange translation	(39,294)	14,352	(24,942)
Credit impairment	(1,199)	1,199	-
Tax loss carry forward	3,261,153	(243,477)	3,017,676
	<u>3,223,982</u>	<u>(335,832)</u>	<u>2,888,150</u>

	1 January 2018	Recognised in P&L	31 December 2018
	N'000	N'000	N'000
Accelerated tax depreciation	(42,352)	45,675	3,322
Foreign exchange translation	(109,451)	70,157	(39,294)
Credit impairment	91,593	(92,792)	(1,199)
Tax loss carry forward	3,611,342	(350,189)	3,261,153
	<u>3,551,132</u>	<u>(327,150)</u>	<u>3,223,982</u>

	1 January 2017	Recognised in P&L	Recognised in OCI	31 December 2017
	N'000	N'000	N'000	N'000
Accelerated tax depreciation	(8,311)	(34,041)	-	(42,352)
Credit impairment	60,211	31,381	-	91,593
Tax loss carry forward	3,501,891	-	-	3,501,891
Gratuity post retirement benefit	75,929	-	(75,929)	-
	<u>3,629,720</u>	<u>(2,660)</u>	<u>(75,929)</u>	<u>3,551,132</u>

### 24 Deferred tax - continued

	1 January 2016	Recognised in P&L	Recognised in OCI	31 December 2016
	N'000	N'000	N'000	N'000
Accelerated tax depreciation	(19,084)	10,772	-	(8,312)
Credit impairment	42,718	17,493	-	60,211
Tax loss carry forward	3,501,891	-	-	3,501,891
Gratuity post retirement benefit	107,478	-	(31,548)	75,930
	<u>3,633,003</u>	<u>28,265</u>	<u>(31,548)</u>	<u>3,629,720</u>

	1 January 2015	Recognised in P&L	Recognised in OCI	31 December 2015
	N'000	N'000	N'000	N'000
Accelerated tax depreciation	(20,262)	1,178	-	(19,084)
Credit impairment	34,753	7,965	-	42,718
Tax loss carry forward	2,839,043	662,848	-	3,501,891
Gratuity post retirement benefit	54,375	-	53,102	107,477
	<u>2,907,909</u>	<u>671,991</u>	<u>53,102</u>	<u>3,633,002</u>

The bank has assessed that based on its profit forecast, it is probable that there will be future taxable profits against which the tax losses, from which deferred tax asset has been recognised, can be utilised. The value of unrecognized deferred tax asset as at 31 December 2019 was N7.20bn (2018: N7.80bn).

### 25 Intangible asset

	Computer Software	Work in progress	Total
	N'000	N'000	N'000
<b>Cost</b>			
At 1 January 2019	1,005,144	15,750	1,020,894
Additions	55,395	274,959	330,354
Transfers	15,750	(15,750)	-
At 31 December 2019	<u>1,076,289</u>	<u>274,959</u>	<u>1,351,248</u>
<b>Accumulated amortisation</b>			
At 1 January 2019	(808,306)	-	(808,306)
Charge for the period	(117,313)	-	(117,313)
At 31 December 2019	<u>(925,619)</u>	<u>-</u>	<u>(925,619)</u>
Net book amount at 1 January 2019	196,838	15,750	212,588
Net book amount at 31 December 2019	<u>150,670</u>	<u>274,959</u>	<u>425,629</u>

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

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### 25 Intangible asset - continued

<b>Intangible asset</b>	<b>Computer Software</b>	<b>Work in progress</b>	<b>Total</b>
<b>Cost</b>	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>
At 1 January 2018	819,508	99,800	919,308
Additions	95,916	15,750	111,666
Reclassifications	89,720	(89,720)	-
Transfers	-	(10,080)	(10,080)
At 31 December 2018	<u>1,005,144</u>	<u>15,750</u>	<u>1,020,894</u>
<b>Accumulated amortisation</b>			
At 1 January 2018	(702,045)	-	(702,045)
Charge for the year	(106,261)	-	(106,261)
	<u>(808,306)</u>	<u>-</u>	<u>(808,306)</u>
Net book amount at 1 January 2018	117,463	99,800	217,263
Net book amount at 31 December 2018	<u>196,838</u>	<u>15,750</u>	<u>212,588</u>
<b>Intangible asset</b>	<b>Computer Software</b>	<b>Work in progress</b>	<b>Total</b>
<b>Cost</b>	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>
At 1 January 2017	709,094	-	709,094
Additions	110,414	99,800	210,214
At 31 December 2017	<u>819,508</u>	<u>99,800</u>	<u>919,308</u>
<b>Accumulated amortisation</b>			
At 1 January 2017	(663,937)	-	(663,937)
Charge for the period	(38,108)	-	(38,108)
At 31 December 2017	<u>(702,045)</u>	<u>-</u>	<u>(702,045)</u>
Net book amount at 1 January 2017	45,157	-	45,157
Net book amount at 31 December 2017	<u>117,463</u>	<u>99,800</u>	<u>217,263</u>
<b>Intangible asset</b>	<b>Computer Software</b>	<b>Work in progress</b>	<b>Total</b>
<b>Cost</b>	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>
At 1 January 2016	667,591	-	667,591
Additions	41,503	-	41,503
Disposals	-	-	-
At 31 December 2016	<u>709,094</u>	<u>-</u>	<u>709,094</u>
<b>Accumulated amortisation</b>			
At 1 January 2016	(557,165)	-	(557,165)
Charge for the period	(106,772)	-	(106,772)
At 31 December 2016	<u>(663,937)</u>	<u>-</u>	<u>(663,937)</u>
Net book amount at 1 January 2016	110,426	-	110,426
Net book amount at 31 December 2016	<u>45,157</u>	<u>-</u>	<u>45,157</u>
<b>Intangible asset</b>	<b>Computer Software</b>	<b>Work in progress</b>	<b>Total</b>
<b>Cost</b>	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>
At 1 January 2015	614,859	-	614,859
Additions	52,732	-	52,732
At 31 December 2015	<u>667,591</u>	<u>-</u>	<u>667,591</u>
<b>Accumulated amortisation</b>			
At 1 January 2015	(455,630)	-	(455,630)
Charge for the period	(101,535)	-	(101,535)
At 31 December 2015	<u>(557,165)</u>	<u>-</u>	<u>(557,165)</u>
Net book amount at 1 January 2015	159,229	-	159,229
Net book amount at 31 December 2015	<u>110,426</u>	<u>-</u>	<u>110,426</u>

The software was not internally generated. The amortisation charge for the year is included within operating expenses.

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26	Property, plant and equipment	Leasehold	Office equipment	Computer	Furniture, fittings &	Motor vehicles	Work in progress	Total
		improvement		equipment	equipment			
		N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Cost</b>								
At 1 January 2019		160,819	112,236	334,206	121,748	750,268	-	1,479,277
Additions		-	6,672	75,794	6,309	268,651	25,000	382,426
Transfers		-	(737)	(17,704)	(86,223)	(199,013)	-	(303,677)
At 31 December 2019		160,819	118,171	392,296	41,834	819,906	25,000	1,558,026
<b>Accumulated depreciation</b>								
At 1 January 2019		(159,281)	(58,984)	(221,991)	(98,001)	(336,977)	-	(875,234)
Charge for the period		(1,537)	(14,045)	(69,587)	(4,872)	(202,906)	-	(292,947)
Disposals		-	684	17,603	86,158	142,204	-	246,649
At 31 December 2019		(160,818)	(72,345)	(273,975)	(16,715)	(397,679)	-	(921,532)
Net book amount at 1 January 2019		1,538	53,252	112,215	23,747	413,292	-	604,044
Net book amount at 31 December 2019		1	45,826	118,321	25,119	422,227	25,000	636,494
<b>Cost</b>								
At 1 January 2018		160,819	63,110	253,558	115,959	629,596	24,529	1,247,571
Additions		-	46,485	63,638	8,453	215,499	-	334,075
Reclassifications		-	2,641	17,010	(2,443)	-	(17,208)	-
Transfers		-	-	-	-	-	(7,321)	(7,321)
Disposals		-	-	-	(221)	(94,827)	-	(95,048)
At 31 December 2018		160,819	112,236	334,206	121,748	750,268	-	1,479,277
<b>Accumulated depreciation</b>								
At 1 January 2018		(152,292)	(48,979)	(164,640)	(93,761)	(259,661)	-	(719,333)
Charge for the period		(6,989)	(10,005)	(57,351)	(4,461)	(165,629)	-	(244,435)
Disposals		-	-	-	221	88,314	-	88,535
At 31 December 2018		(159,281)	(58,984)	(221,991)	(98,001)	(336,976)	-	(875,233)
Net book amount at 1 January 2018		8,527	14,131	88,918	22,198	369,935	24,529	528,238
Net book amount at 31 December 2018		1,538	53,252	112,215	23,747	413,292	-	604,044
<b>Cost</b>								
At 1 January 2017		160,819	59,469	175,725	113,016	584,726	7,875	1,101,630
Additions		-	3,641	85,776	3,040	225,565	24,529	342,551
Reclassifications		-	-	-	-	-	(7,875)	(7,875)
Disposals		-	-	(7,943)	(97)	(180,695)	-	(188,735)
At 31 December 2017		160,819	63,110	253,558	115,959	629,596	24,529	1,247,571
<b>Accumulated depreciation</b>								
At 1 January 2017		(132,615)	(43,780)	(139,642)	(92,464)	(290,632)	-	(699,133)
Charge for the period		(19,677)	(5,199)	(32,941)	(1,394)	(128,955)	-	(188,166)
Reclassifications		-	-	-	-	-	-	-
Disposals		-	-	7,943	97	159,927	-	167,967
At 31 December 2017		(152,292)	(48,979)	(164,640)	(93,761)	(259,660)	-	(719,332)
Net book amount at 1 January 2017		28,204	15,689	36,083	20,552	294,094	7,875	402,497
Net book amount at 31 December 2017		8,527	14,131	88,918	22,198	369,936	24,529	528,239
<b>Cost</b>								
At 1 January 2016		160,819	185,799	105,453	397,133	44,967	-	894,171
Additions		-	31,698	8,741	185,112	7,875	-	233,426
Reclassifications		-	17,697	-	27,270	(44,967)	-	-
Disposals		-	-	(1,178)	(24,789)	-	-	(25,967)
At 31 December 2016		160,819	235,194	113,016	584,726	7,875	-	1,101,630
<b>Accumulated depreciation</b>								
At 1 January 2016		(107,338)	(159,485)	(89,908)	(202,123)	-	-	(558,854)
Charge for the period		(25,277)	(23,937)	(3,734)	(113,295)	-	-	(166,243)
Disposals		-	-	1,178	24,787	-	-	25,965
At 31 December 2016		(132,615)	(183,422)	(92,464)	(290,631)	-	-	(699,132)
Net book amount at 1 January 2016		53,481	26,314	15,545	195,010	44,967	-	335,317
Net book amount at 31 December 2016		28,204	51,772	20,552	294,095	7,875	-	402,498
<b>Cost</b>								
At 1 January 2015		142,305	186,859	98,651	344,015	17,500	-	789,330
Additions		18,514	7,739	8,357	69,313	44,967	-	148,890
Reclassifications		-	-	-	17,500	(17,500)	-	-
Disposals		-	(8,799)	(1,555)	(33,695)	-	-	(44,049)
At 31 December 2015		160,819	185,799	105,453	397,133	44,967	-	894,171
<b>Accumulated amortisation</b>								
At 1 January 2015		(82,462)	(150,394)	(87,596)	(136,734)	-	-	(457,186)
Charge for the period		(24,876)	(17,890)	(3,867)	(96,786)	-	-	(143,419)
Disposals		-	8,799	1,555	31,398	-	-	41,752
At 31 December 2015		(107,338)	(159,485)	(89,908)	(202,123)	-	-	(558,854)
Net book amount at 1 January 2015		59,843	36,465	11,055	207,281	17,500	-	332,144
Net book amount at 31 December 2015		53,481	26,314	15,545	195,010	44,967	-	335,317

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### 27 Due to banks and other financial institution

	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
Call borrowings	-	705,274	13,178,598	6,260,819	3,699,945
Secured borrowings	27,681,910	3,620,314	6,699,365	12,682,943	4,500,541
Trade related obligations to foreign banks	-	416,260	-	3,140,087	4,036,455
Other balances	2,918	3,144	-	-	-
Current account - Local	-	-	-	74,725	4,013,370
	<u>27,684,828</u>	<u>4,744,992</u>	<u>19,877,963</u>	<u>22,158,574</u>	<u>16,250,311</u>
Current	<u>27,684,828</u>	<u>4,744,992</u>	<u>19,877,963</u>	<u>22,158,574</u>	<u>16,250,311</u>
	<u>27,684,828</u>	<u>4,744,992</u>	<u>19,877,963</u>	<u>22,158,574</u>	<u>16,250,311</u>

Secured borrowings represent various transactions in which financial assets are transferred in exchange for cash and a concurrent obligation to re-acquire the financial asset at a future date for a pre-determined consideration. The transferred asset have not been de-recognised in the books and form part of the financial assets in the statement of financial position disclosed as pledged assets (Note 22). Included in the secured borrowing are placements from other financial institutions amounting to \$10million.

### 28 Due to customers

	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
Demand	9,670,569	9,269,590	6,778,585	10,425,913	5,601,191
Term	37,393,996	31,245,455	48,407,860	44,580,106	47,060,458
Client investments fund	9,275,871	6,204,316	-	-	-
	<u>56,340,436</u>	<u>46,719,361</u>	<u>55,186,445</u>	<u>55,006,019</u>	<u>52,661,649</u>
Current	<u>56,340,436</u>	<u>46,719,361</u>	<u>55,186,445</u>	<u>55,006,019</u>	<u>52,661,649</u>
	<u>56,340,436</u>	<u>46,719,361</u>	<u>55,186,445</u>	<u>55,006,019</u>	<u>52,661,649</u>

### 29 Other liabilities

	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
<b>Financial liabilities:</b>					
Customers' deposit for foreign trade (Note (i))	4,606,865	3,278,776	8,124,626	5,513,775	6,353,457
Amounts held on behalf of third parties	4,547,095	848,356	-	389,976	43,895
Unclaimed third party deposits	11,923	5,505	5,268	5,239	4,223
Sundry creditors	88,568	82,226	68,440	2,496	-
Accruals	164,416	45,492	-	-	37,790
Stale cheques and other payables	1,956,935	335,695	230,147	105,566	104,095
	<u>11,375,802</u>	<u>4,596,050</u>	<u>8,428,481</u>	<u>6,017,052</u>	<u>6,543,460</u>
<b>Non financial liabilities:</b>					
VAT payable	6,546	8,655	14,286	-	-
WHT payable	39,590	46,482	54,416	-	-
Impairment on off balance sheet financial assets (Note (ii))	41,850	103,535	86,251	-	-
Accrued expenses and payables	-	-	-	85,563	118,272
	<u>87,986</u>	<u>158,672</u>	<u>154,953</u>	<u>85,563</u>	<u>118,272</u>
	<u>11,463,788</u>	<u>4,754,722</u>	<u>8,583,434</u>	<u>6,102,615</u>	<u>6,661,732</u>
Current	<u>11,463,788</u>	<u>4,754,722</u>	<u>8,583,434</u>	<u>5,991,810</u>	<u>6,661,732</u>
Non-current	<u>-</u>	<u>-</u>	<u>-</u>	<u>110,805</u>	<u>-</u>
	<u>11,463,788</u>	<u>4,754,722</u>	<u>8,583,434</u>	<u>6,102,615</u>	<u>6,661,732</u>

(i) This represents the naira value of foreign currencies held on behalf of customer(s) to cover letters of credit transactions.

(ii) This represents IFRS 9 ECL impairment provisions on off-balance sheet financial assets such as loan commitments and financial guarantee contracts - letters of credits.

### 30 Debt instruments issued

#### Debt instrument at amortised cost:

FSDH Commercial Papers	14,086,009	14,524,709	12,077,787	13,074,816	5,630,676
	<u>14,086,009</u>	<u>14,524,709</u>	<u>12,077,787</u>	<u>13,074,816</u>	<u>5,630,676</u>
Current	<u>14,086,009</u>	<u>14,524,709</u>	<u>12,077,787</u>	<u>13,074,816</u>	<u>5,630,676</u>
	<u>14,086,009</u>	<u>14,524,709</u>	<u>12,077,787</u>	<u>13,074,816</u>	<u>5,630,676</u>

This represent the outstanding FSDH CP Notes that were issued during the year. The face value of the CP Notes as at the 31 December 2019 was ₦14.27billion and listed on the FMDQ OTC Securities Exchange. The discount rate on the ₦14.27billion holding is 13.12%.

#### Movement in debt securities for the year:

Opening position	14,524,709	12,077,787	13,074,816	5,630,676	-
Net discounted value of notes issued	15,174,078	30,852,181	12,440,002	12,988,352	-
Redemptions during the year	(17,755,059)	(30,962,709)	(16,174,357)	(6,344,121)	-
Interest expense	2,142,281	2,557,450	2,737,326	799,909	-
Closing position	<u>14,086,009</u>	<u>14,524,709</u>	<u>12,077,787</u>	<u>13,074,816</u>	<u>5,630,676</u>

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### 31 Other borrowed funds

	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
Due to Shelter Afrique (i)	-	305,686	3,402,772	3,124,273	1,967,801
Due to AfDB (ii)	18,737,312	18,420,265	16,799,047	10,582,919	-
Due to Afrexim	-	-	-	3,022,086	1,980,896
	<u>18,737,312</u>	<u>18,725,951</u>	<u>20,201,819</u>	<u>16,729,278</u>	<u>3,948,697</u>
Current	18,737,312	840,911	465,922	3,022,086	1,980,896
Non-current	-	17,885,040	19,735,897	13,707,192	1,967,801
	<u>18,737,312</u>	<u>18,725,951</u>	<u>20,201,819</u>	<u>16,729,278</u>	<u>3,948,697</u>

(i) The balance of ₦0.31billion as at 31 December 2018 (face value of \$0.89million) which represented the outstanding balance on a lending facility of \$10million granted to the Bank by Shelter-Afrique (The Company for Habitat and Housing in Africa), Kenya at an interest rate of Libor + 7.5% p.a. was settled in January 2019.

(ii) The ₦18.74billion (face value of \$50million) represents disbursements in two tranche on a \$50million Line of Credit granted to the Bank by African Development Bank, Abidjan, Cote d'Ivoire (AfDB). The first tranche of \$35million dollars is at an interest rate of Libor + 4.5% p.a. effective 20 December 2016 while the second tranche of \$15million (also at same rate of Libor + 4.5%) effective 7 November 2017 and to both mature on same date of 22 June 2020. Interest is payable semi-annually. The liability is carried at amortised cost.

	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
<i>Movement in debt securities for the year:</i>					
Opening position	18,725,951	20,201,819	16,729,278	3,948,697	-
Additions	-	-	4,942,500	10,675,000	-
Interest expense	1,357,687	1,413,201	1,159,362	149,941	-
Interest paid	(1,333,351)	(1,294,427)	(836,662)	(164,360)	-
Repayments	(322,409)	(3,170,315)	(3,282,250)	-	-
Exchange valuation	309,434	1,575,673	1,489,591	2,120,000	-
Closing position	<u>18,737,312</u>	<u>18,725,951</u>	<u>20,201,819</u>	<u>16,729,278</u>	<u>3,948,697</u>

### 32 Share capital

	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
<b>Authorised</b>					
3,100,000,000 Ordinary shares of ₦1 each	3,100,000	3,100,000	3,100,000	3,100,000	3,100,000
<b>Issued and fully paid</b>					
1,833,416,681 (Dec 2018 : 2,794,793,730) Ordinary shares of ₦1 each	<u>1,833,417</u>	<u>2,794,794</u>	<u>2,794,794</u>	<u>2,794,794</u>	<u>2,794,794</u>

### 33 Share premium and reserves

The nature and purpose of the reserves in equity are as follows:

(a) Share premium: Premiums from the issue of shares are reported in share premium.

(b) Retained earnings: Retained earnings comprise the undistributed profits from previous years, which have not been reclassified to the other reserves noted below.

(c) Statutory reserve: In accordance with the Banks and Other Financial Institutions Act of 1991 (Amended), 15% of profit after taxation has been transferred to statutory reserve.

(d) Fair value through other comprehensive income (FVOCI) reserve: The revaluation reserve shows the effects from the fair value measurement of financial instruments of the FVOCI 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.

(e) AGSMEIS reserve: In 2017, the Central Bank of Nigeria (CBN) issued guidelines to govern the operations of the Agricultural, Small and Medium Enterprises Scheme (AGSMEIS), which was established to support the Federal Government's efforts at achieving sustainable economic development and employment generation.

All Nigerian banks are required to set aside an amount equal to 5% of their annual Profits After Tax (PAT) towards the funding of the equity investments, which qualify under the AGSMIE Scheme.

During the year under review, the CBN debited the Bank for a total of NGN220.57million. Thus, no amount was appropriated from retained earnings.

### 34 Credit risk reserve

The credit (regulatory) risk reserve represents the difference between the impairment on loans and advances determined using the prudential guidelines issued by the Central Bank of Nigeria compared with the expected loss model used in determining the impairment loss under IFRSs.

Where the loan loss impairment determined using the prudential guidelines is greater than the loan loss impairment determined using the expected loss model under IFRSs, the difference is transferred to regulatory credit risk reserve and it is non-distributable to owners of the parent. When the prudential provisions is less than IFRS provisions, the excess charges resulting is transferred from the regulatory reserve to retained earnings to the extent of the non-distributable reserve previously recognised.

#### Movement in credit risk reserve

	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
Balance as at 1 January	157,039	-	596,170	998,281	254,147
Transfer from/(to) retained earnings	(157,039)	157,039	(596,170)	(402,111)	744,134
Balance as at 31 December	<u>-</u>	<u>157,039</u>	<u>-</u>	<u>596,170</u>	<u>998,281</u>

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35 Prudential adjustment	31 December	31 December	31 December	31 December	31 December
	2019	2018	2017	2016	2015
	N'000	N'000	N'000	N'000	N'000
Prudential guideline provision on loans & advances and off balance sheet exposure:					
- Specific provisions	20,642	5,787	721,301	689,756	-
- General provisions	1,182,510	1,450,021	923,918	1,053,627	-
	<u>1,203,152</u>	<u>1,455,808</u>	<u>1,645,219</u>	<u>1,743,383</u>	<u>-</u>
IFRS impairment provisions:					
- Impairment allowance on financial assets: loans & advances	1,257,275	1,298,769	3,401,323	1,147,213	-
	<u>1,257,275</u>	<u>1,298,769</u>	<u>3,401,323</u>	<u>1,147,213</u>	<u>-</u>
Difference in IFRS impairment over prudential guidelines accounted for in credit risk reserve	-	157,039	-	596,170	-

36 Reconciliation of profit before tax to cash generated from operations	31 December	31 December	31 December	31 December	31 December
	2019	2018	2017	2016	2015
	N'000	N'000	N'000	N'000	N'000
Profit before income tax	5,182,829	5,186,445	3,860,326	2,948,383	3,377,577
Adjustments for:					
- Amortisation (Note 25)	117,313	106,261	38,108	106,772	101,535
- Depreciation (Note 26)	292,947	244,435	188,166	166,243	143,419
- Depreciation on leased assets (Note 21)	47,733	-	-	-	-
- Foreign exchange revaluation	(83,141)	(130,813)	(364,837)	2,105,581	-
- Profit on disposal of property and equipment (Note 11)	(3,643)	(18,929)	(7,420)	(2,132)	(2,296)
- Benefit plan	-	-	595,906	13,002	(6,588)
- Net interest income	(5,492,568)	(4,766,668)	(6,948,999)	(3,384,656)	(3,774,174)
- Dividend income	(940,864)	(909,623)	(644,338)	(667,938)	(545,613)
- Fair value (gain) on financial instruments held for trading	(573,683)	(30,522)	(8,368)	-	-
- Fair value gain on derivative instruments held for trading	(21,642)	(16,173)	(15,931)	-	-
- Impairment (write-back)/charge on loans and advances (Note 8)	(41,494)	(2,145,177)	2,254,110	419,538	570,304
- Uncollectable amounts written off (Note 8)	-	950,666	7,250	-	-
- Impairment charge on other financial assets	(359,074)	(172,013)	8,101	-	-
<i>Changes in working capital:</i>					
- Balances with Central Bank (restricted cash)	(3,014,638)	(2,075,776)	(668,184)	(272,727)	(185,043)
- Balances with banks outside Nigeria (restricted cash)	(1,328,089)	4,845,850	(7,409,381)	-	-
- Loans to banks (restricted cash)	-	-	-	-	-
- Loans and receivables to customers	(547,487)	(525,328)	(2,080,971)	4,005,782	(621,555)
- Financial instruments held for trading	(626,721)	6,210,896	2,981,581	(7,782,522)	2,721,871
- Derivatives financial assets	213,789	(520,866)	(54,106)	15,918	62,331
- Pledged assets	(24,211,523)	1,307,633	11,127,611	(11,042,968)	(3,143,590)
- Other assets	70,187	(222,655)	(23,192)	(159,570)	212,779
- Assets held for sale	-	48,450	(48,450)	-	-
- Due to banks	22,578,655	(13,722,576)	(2,523,368)	6,004,403	(23,898,120)
- Due to customers	10,881,480	(6,491,629)	(214,090)	2,256,855	10,278,086
- Derivatives financial liabilities	(195,620)	536,797	54,106	(1,380)	(86,489)
- Other liabilities	5,232,858	(3,932,247)	1,765,573	(559,117)	5,881,126
- Other borrowings	-	-	-	-	1,958,364
<b>Cash generated/(used) from operations</b>	<u>7,177,603</u>	<u>(16,243,563)</u>	<u>1,869,203</u>	<u>(5,830,533)</u>	<u>(6,956,076)</u>

## 37 Cash and cash equivalents

For the purposes of statement of cash flow, cash and cash equivalents are balances that are held for the primary purpose of meeting short term cash commitments. This includes cash-on-hand, deposit held at call with banks and other short-term highly liquid investments which originally matures in three months or less from when the Bank became a party to the instrument.

	31 December	31 December	31 December	31 December	31 December
	2019	2018	2017	2016	2015
	N'000	N'000	N'000	N'000	N'000
Cash and Bank balances (Note 16)	16,161,374	11,186,984	5,291,685	17,632,913	19,435,811
Mandatory reserve with the Central bank	(7,210,940)	(4,196,302)	-	-	-
Customers' deposit for foreign trade (Note 31)	(4,606,865)	(3,278,776)	-	-	-
<b>Cash and bank balances included in the statement of cash flows</b>	<u>4,343,568</u>	<u>3,711,906</u>	<u>5,291,685</u>	<u>17,632,913</u>	<u>19,435,811</u>
Placements with banks and discount houses in Nigeria (Note 17)	9,817,413	17,057,637	16,793,701	11,166,282	10,525,606
	<u>14,160,981</u>	<u>20,769,543</u>	<u>22,085,386</u>	<u>28,799,195</u>	<u>29,961,417</u>

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### 38 Discontinued operations

#### Transfer of subsidiary resulting from business restructuring

During the year, the Bank implemented the Holding company structure which led to the reorganisation of the group reporting and business structure. On 1 July 2019, FSDH Holding Company Limited became the Parent company of the FSDH group. As a result of the reorganisation, FSDH Merchant Bank Limited transferred its interest in all its subsidiaries (listed in (a) below) to its ultimate parent company - FSDH Holding Company Limited. In line with the accounting policy on common control transactions, predecessor accounting was applied and the assets and liabilities of these entities were transferred at the existing book value. Thus, no gain or loss was recorded on the transfer of these subsidiaries to the Holding company.

### 39 Investment in subsidiary

#### a Subsidiary

	Type of holding	Principal line of business	Ownership interest	
			2019	2018
FSDH Asset Management Limited, incorporated in Nigeria	Direct	Fund & portfolio management	-	99.70%
Pensions Alliance Limited, incorporated in Nigeria	Direct	Pension fund administration	-	51.00%
FSDH Securities Limited, incorporated in Nigeria	Direct	Stockbroking	-	99.90%

b The result of the subsidiaries transferred to FSDH Holding Company Limited Plc for the 6 months to July 2019 and their full year result for prior year is as shown below:

	6 months to 1 July 2019 N'000	12 months to 31 December 2018 N'000
<b>Income</b>		
Interest similar income	365,570	640,999
Fee and commission income	2,293,322	4,859,917
Net gains on financial instruments	46,682	113,377
Dividend Income	8,579	9,158
Other income	50,974	105,920
	<u>2,765,127</u>	<u>5,729,371</u>
<b>Expenses</b>		
Interest expense	(1,226)	(1,347)
Impairment write back/(charge) for credit losses	3,776	853
Operating expenses	(1,601,209)	(3,252,272)
	<u>(1,598,659)</u>	<u>(3,252,766)</u>
Profit before tax	1,166,468	2,476,605
Income tax expense	(330,114)	(667,717)
<b>Profit after tax</b>	<b>836,354</b>	<b>1,808,888</b>

c Assets and liabilities de-recognised as at date of transfer are shown below:

	6 months to 1 July 2019 N'000
<b>ASSETS</b>	
Cash and bank balances	294,027
Loans to banks	2,851,507
Financial instruments measured through profit or loss	27,640
Loans and advances to customers	664,418
Investment securities	1,505,153
Other assets	1,613,513
Intangible assets	41,140
Property and equipment	433,650
<b>Total assets</b>	<b>7,431,048</b>
<b>LIABILITIES</b>	
Due to banks	98,251
Due to customers	434,285
Current income tax liability	1,073,442
Other liabilities	762,383
<b>Total liabilities</b>	<b>2,368,361</b>
<b>EQUITY</b>	
Share capital	1,575,000
Share premium	51,000
Retained earnings	2,586,572
Statutory reserve	849,283
FVOCI reserve	832
<b>Total equity</b>	<b>5,062,687</b>
<b>Total equity and liabilities</b>	<b>7,431,048</b>

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

**FSDH Merchant Bank Limited**  
Reporting Accountants' Report for the five  
year period ended 31 December 2019

## Notes to the Financial Statements

### 40 Contingent liabilities and commitments

#### (a) Legal proceedings

The bank has litigation and claims which arose in the normal course of business and they are being contested by the Bank. The directors, having sought professional legal counsel, are of the opinion that no loss will eventuate, hence no provision has been made for them in these financial statements.

#### (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:

	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
Letters of Credit	13,795,747	21,044,590	6,831,213	219,072	4,126,077
Performance bonds and guarantees	3,005,132	132,598	-	-	-
Loan Commitments	35,620,897	20,346,805	12,969,297	16,879,353	15,402,967
	<u>52,421,776</u>	<u>41,523,993</u>	<u>19,800,510</u>	<u>17,098,425</u>	<u>19,529,044</u>

The total outstanding contractual amount of the undrawn credit lines which represents loan commitments does not necessarily represent future cash outflows, as these lines may expire or terminate without being drawn. Likewise, there are varying conditions to be met before such commitments can be drawn upon.

### 41 Related party transactions

A number of transactions are entered into with related parties in the normal course of business. These include advisory, investments and securities' transactions. In line with IAS 24, the Bank categorised its shareholders, directors, members of its executive management committee and their related entities or persons of influence with which the Bank had transactions for disclosure purposes.

#### (i) Key management personnel and their related entities

	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
<i>(a) Compensation</i>					
Wages and salaries	577,355	649,727	508,634	525,989	475,651
Pension costs	51,355	58,813	42,832	44,785	38,721
	<u>628,710</u>	<u>708,540</u>	<u>551,466</u>	<u>570,774</u>	<u>514,372</u>
<i>(b) Loans and advances</i>					
Loans outstanding	63,571	93,756	119,580	152,664	131,477
	<u>63,571</u>	<u>93,756</u>	<u>119,580</u>	<u>152,664</u>	<u>131,477</u>
Interest income	3,263	5,567	3,875	3,911	-
	<u>3,263</u>	<u>5,567</u>	<u>3,875</u>	<u>3,911</u>	<u>-</u>

Loans to key management personnel as disclosed above represent staff loans which are payable between 1 to 15 years depending on the loan type. The significant loan type is the mortgage loans advanced to qualifying staff in employ of the Bank for over 5 years. Mortgage loans are collateralised by the underlying property. None of the loans were classified as stage 3.

No loan was granted to any key management staff or employee outside their employment scheme of service.

#### *(c) Deposits*

Due to customers	318,243	413,389	187,706	251,978	344,900
	<u>318,243</u>	<u>413,389</u>	<u>187,706</u>	<u>251,978</u>	<u>344,900</u>

#### *(c) Deposits*

Interest expense	38,116	43,371	-	-	-
	<u>38,116</u>	<u>43,371</u>	<u>-</u>	<u>-</u>	<u>-</u>

Key management staff has been defined as members of the management executive committee of the Bank.

#### (ii) Directors and their related entities

##### *(a) Deposits*

Due to customers	2,332,902	426,507	1,695,200	1,909,261	2,633,005
	<u>2,332,902</u>	<u>426,507</u>	<u>1,695,200</u>	<u>1,909,261</u>	<u>2,633,005</u>

Interest expense	138,372	58,020	-	-	-
	<u>138,372</u>	<u>58,020</u>	<u>-</u>	<u>-</u>	<u>-</u>

##### *(b) Transactions*

The aggregate value of transactions of services rendered to directors and their related entities over which they have control or significant influence were as follows:

Expense paid*	42,000	44,000	44,000	44,000	36,750
	<u>42,000</u>	<u>44,000</u>	<u>44,000</u>	<u>44,000</u>	<u>36,750</u>

##### *(c) Loans and advances*

Interest income	110,979	224,108	1,542,766	1,228,944	3,094,971
	<u>110,979</u>	<u>224,108</u>	<u>1,542,766</u>	<u>1,228,944</u>	<u>3,094,971</u>

# EXTRACT FROM REPORTING ACCOUNTANTS' REPORT

**FSDH Merchant Bank Limited**  
Reporting Accountants' Report for the five  
year period ended 31 December 2019

## Notes to the Financial Statements

41	Related party transactions - continued	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
	<b>(iii) Shareholders and related entities</b>					
	<i>(a) Deposits</i>					
	Due to customers	277,675	262,935	715,914	354,598	513,579
		<u>277,675</u>	<u>262,935</u>	<u>715,914</u>	<u>354,598</u>	<u>513,579</u>
	Interest expense	318,788	45,275	-	-	-
		<u>318,788</u>	<u>45,275</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<i>(b) Cash and bank balances</i>					
	Bank balances	80,884	95,363	56,332	65,166	45,415
		<u>80,884</u>	<u>95,363</u>	<u>56,332</u>	<u>65,166</u>	<u>45,415</u>
	<b>(iv) Subsidiaries of a common parent</b>					
	<i>(a) Deposits</i>					
	Due to customers	1,356,174	393,262	815,822	472,025	884,696
		<u>1,356,174</u>	<u>393,262</u>	<u>815,822</u>	<u>472,025</u>	<u>884,696</u>
	Interest expense	53,896	36,159	40,667	63,896	60,111
		<u>53,896</u>	<u>36,159</u>	<u>40,667</u>	<u>63,896</u>	<u>60,111</u>
	This represents deposit balances of entities within the Bank.					
	<i>(b) Loans and advances to customer</i>					
	Interest income	839	1,342	-	-	-
		<u>839</u>	<u>1,342</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<i>(c) Transactions</i>					
	FSDH Asset Management Limited	40,419	47,472	47,363	41,980	42,961
	FSDH Securities Limited	22,783	18,733	21,558	16,241	17,023
		<u>40,419</u>	<u>47,472</u>	<u>47,363</u>	<u>41,980</u>	<u>42,961</u>
		<u>22,783</u>	<u>18,733</u>	<u>21,558</u>	<u>16,241</u>	<u>17,023</u>
	**The bank has a technical service agreement with FSDH Asset Management Limited and FSDH Securities Limited. The agreement provides for the provision of technical management assistance to both companies for a fee of 7.5% of total earnings (31 December 2018: 7.5% of earnings).					
42	<b>Insider related credits</b>					
	In line with the Central Bank of Nigeria circular BSD/1/2004, banks in Nigeria are required to disclose insider related credits. As at 31 December 2019, there were no insider-related credits in the books of the Bank.					
	Insider-related credits include transactions involving shareholders, employees, directors and their related interests; the term director being as defined in section 20(5) of BOFIA 1991 (as amended). Under the circular, credits to employees under their employment scheme of service and shareholders' whose shareholding and related interest are less than 5% of the Bank's paid up capital, are excluded.					
43	<b>Earnings per share</b>					
	<i>(i) Basic</i>					
	Basic earnings per share is calculated by dividing the net profit after tax attributable to the equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.					
		31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
	Profit after tax attributable to equity holders of the parent bank	3,610,403	4,411,392	3,686,241	2,842,653	3,379,236
	Weighted average number of ordinary shares	1,833,417	2,794,794	2,794,794	2,794,794	2,794,794
	Treasury shares	-	-	-	-	-
	Weighted average number of ordinary shares excluding treasury shares	1,833,417	2,794,794	2,794,794	2,794,794	2,794,794
	Basic earnings per share (in kobo per share)	197	158	132	102	121
	<i>(ii) Diluted</i>					
	The Bank does not have potential ordinary shares with convertible options and therefore there is no dilutive impact on the profit attributable to the equity holders (31 December 2018):					
44	<b>Dividend</b>	31 December 2019 N'000	31 December 2018 N'000	31 December 2017 N'000	31 December 2016 N'000	31 December 2015 N'000
	Final dividend ₦0.34 (2018: ₦1.10)	626,172	3,074,273	-	-	-
	Interim dividend ₦0.84 (2018: Nil)	1,540,070	-	-	-	-
	Proposed dividend 79kobo (2016: Nil)	-	-	2,207,887	-	-
	Proposed dividend at 93.20kobo (2014: 26.75kobo) per share	-	-	-	-	2,604,750
		<u>2,166,242</u>	<u>3,074,273</u>	<u>2,207,887</u>	<u>-</u>	<u>2,604,750</u>

During the year, the directors proposed an interim dividend of ₦0.84 per share amounting to a total of ₦1.54billion. A final dividend of ₦0.34 per share was proposed at year end.

These financial statements do not reflect this resolution which will be accounted as an appropriation of retained earnings.

### Notes to the Financial Statements

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#### 45 Compliance with banking regulations

During the year 2019, the Bank did not pay any amount in respect of any contravene of any section of the relevant CBN circulars and/or directive (2018 : ₦2million; 2017 : ₦6million; 2016 : ₦8million; 2015 : ₦8million).

#### 46 Events after statement of financial position date

a) The Finance Act was signed into law in January 2020 and formed the basis upon which the companies taxes were calculated.

b) The recent outbreak of the novel strain of coronavirus in Nigeria, which surfaced in China around mid-December 2019, has begun to cause some level of business disruptions and economic uncertainties. These level of uncertainties that have arisen as a result of this global pandemic (coupled with other macro-economic challenges, such as low production output, below budget oil price, rising inflation etc. which may worsen), are likely to negatively impact on the businesses of the Bank in relation to its projected revenues, credit loss estimates and other impairment assessment. The national government through its agencies and monetary authorities are putting in place various intervention schemes and palliatives to minimise impact on households and real sector of the economy. The impact of all these cannot be prematurely quantified at the moment.

The financial impact on the Bank's business and duration of these disruptions cannot be reasonably estimated at this point in time and the Bank consider this as a non-adjusting post balance sheet event.

However, it is reasonably possible that outcomes within the next financial year that are different from assumptions used for some estimates and judgement, could require a material adjustment to carrying amount of the asset or liability.

The various measures instituted by the government to contain the pandemic have not curtailed the Bank's ability to continue to operate and serve its customers and the directors are confident that the Bank will continue to operate in the foreseeable future.

Aside the above events, there were no other events subsequent to the financial position date which require adjustments to, or disclosure in these financial statements.

## TAX CONSIDERATIONS

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The Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order, 2011 (“Order”) and the PITA exempt income and interest earned by holders of bonds issued by corporate bodies from the imposition of income tax under the CITA and PITA respectively. The exemption granted under the Order is for a period of 10 years commencing from January 2, 2012 while there is no similar limitation in respect of the exemption under PITA. Thus, the Issuer will not be required by law to withhold tax on Coupon payments to the Bondholders in respect of the Bonds. In relation to Debt Securities with a maturity date later than January 2, 2022, the Issuer may be required by law to withhold tax on Coupon payments to the Holders that are corporate entities under the CITA while there may continue to be an exemption for Holders that are individuals under the PITA.

Furthermore, the proceeds from the disposal of the Debt Securities are exempt from tax imposed under the VAT Act by virtue of the Value Added Tax (Exemption of the Proceeds of the Disposal of Government and Corporate Securities) Order 2011, commencing from January 2, 2012. This exemption is also for a period of ten (10) years from the commencement date of this Order. Thus, VAT will not be payable upon a disposal of the Bonds during the subsistence of the Order. However, upon termination of the exemption period on 2 January 2022, where the Bonds remain outstanding, the proceeds of the disposal of the Bonds could be held by the FIRS to be subject to VAT.

In addition, the Value Added Tax (Exemption of Commissions on Stock Exchange Transactions) Order, 2014 exempts (a) commissions earned on traded value of the shares, and (b) commissions payable to the SEC, The NSE and the CSCS from VAT for a period of five years from the commencement date of the order i.e. 25th July, 2014. Accordingly, any commission payable to the CSCS, SEC or The NSE in connection with Debt Securities will be exempt from VAT for a period of five (5) years from the commencement date of this Order. i.e until 24th July, 2019. After this date, Holders may be required to pay VAT on any commission payable to the CSCS, SEC or The NSE in connection with Debt Securities. This exemption only applies to trading of securities on The NSE and does not extend to the FMDQ. Therefore, Holders may have to pay VAT on fees payable in connection with Debt Securities traded on the FMDQ.

There is a risk that gains derived from disposal of the Bonds will be liable to capital gains tax under the CGT Act. The CGT Act provides that any gain paid, used or enjoyed in or in any manner or form transmitted or brought to Nigeria shall be treated as being derived from Nigeria for the purposes of the CGT Act. In the case of an individual who is in Nigeria for a temporary purpose only and does not have any view or intent to establish his residence in Nigeria, such gain will be subject to capital gains tax if the period or sum of the periods for which he is present in Nigeria in that year of assessment exceeds 182 days.

*[The foregoing summary is not a comprehensive summary, and does not constitute advice, on tax to any actual or potential purchaser of Bonds issued under the Programme. In addition, it does not constitute a representation by the Issuer or its advisers on the tax consequences of a subscription or purchase of Bonds issued under the Programme. Any tax consideration that may be relevant to a decision of a person to acquire, hold or dispose of Bonds issued under the Programme and to each actual or potential purchaser of the Bonds may vary. Therefore, any actual or potential purchaser of the Bonds who intends to ascertain his/her tax position should seek professional advice from his/her preferred professional advisers as to the tax consequences arising from subscribing to or purchasing the Bonds. Neither the Issuer nor its advisers shall be liable to any subscriber or purchaser of the Bonds in any manner for placing reliance upon the contents of the above summary.]*

## RISK FACTORS

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*The following section does not describe all the risks (including those relating to each prospective investor's particular circumstances) with respect to an investment in the Bonds. The risks in the following section are provided as general information only. Before making any investment decision, prospective investors should carefully read this Shelf Prospectus in its entirety, including the risk factors set out below. **Investors should also seek professional advice before making investment decisions in respect of the bonds.***

*The Issuer and Sponsor disclaim any responsibility for advising prospective investors of such risks as they exist at the date of this Shelf Prospectus or as such risks may change from time to time. Prospective investors should consult their own financial and legal advisers about the risks associated with an investment in the Debt Securities.*

*An investment in the Debt Securities involves certain risks, most of which may or may not occur and neither the Issuer, Sponsor nor any of the Issuing Houses is in a position to express a view on the likelihood of any such contingency occurring. Accordingly, prospective investors should carefully consider, amongst other things, the following risk factors together with all of the other information included in this Shelf Prospectus and any Applicable Pricing Supplement before purchasing the Debt Securities.*

### **1. Risks Relating to Nigeria**

The debt instrument is issued in Nigeria and the performance of the Nigerian environment has significant impact on the industry in which the Sponsor operates. The following is a description of the risks facing Nigeria:

#### **Political risks**

These are risks related to political instability, security, religious differences and ethnicity in Nigeria. The Nigerian socio-political climate has been beset by several conflicts in the past few years which has led to increase in the number and frequency of continued criminal activity, unrest, political and religious conflicts in the country. The continued criminal activity, unrest, political and religious conflicts in the country may lead to lower oil production, deter investments in the country and lead to increased political instability that could have a material adverse effect on Nigeria's economy. Also, changes in government policies as affects the banking landscape could impact on the Bank's business.

#### **Emerging Markets Risk**

Emerging markets such as Nigeria are subject to greater risk than more developed markets and financial turmoil in any emerging market could cause the price of securities to decrease. Generally, investments in emerging markets are only suitable for sophisticated investors who better understand the instruments and fully appreciate the significance of the risks involved in, and are familiar with investing in emerging markets. Investors should also note that emerging markets, such as Nigeria, are subject to rapid change and that the information set forth in this Shelf Prospectus may become outdated relatively quickly.

#### **Overreliance on Oil**

The Nigerian economy is largely dependent on the oil industry as the receipts from crude oil make up a significant proportion of Nigeria's revenue. However, crude oil prices are highly volatile and are outside the control of the country as they are globally determined by the forces of demand and supply. The volatility of crude oil prices have adversely affected Nigeria's revenue and external reserves. Government's revenues are substantially dependent on revenue from oil sector, which includes the sale of crude oil and gas, royalties and taxes and fees. This development adversely affects the ability of the federal government to execute planned budgets. This has the ability to hamper the performance of the economy and the Nigerian financial market.

The decline in oil prices in 2020 resulted in a revision of the country's budget and the devaluation of the

## RISK FACTORS

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naira. In recent times, the federal government has made efforts to diversify the revenue-base of the economy away from crude oil. However, these efforts have not yielded substantial results.

### **Infrastructure Challenges**

Infrastructure is important in the economic development of any nation. Nigeria currently faces infrastructure deficits, which has hampered growth, innovation, and development. The conditions of roads, rail, airports, seaports, and power have adversely affected the operating environment of businesses in Nigeria. They have also contributed to the slow growth in many sectors of the economy which has, in turn, led to the poor performance of the economy. For instance, the power sector still faces challenges which relate to governance, funding, legal, regulatory and pricing issues across the value chain. Given the huge capital investment required to address this deficit, there have been calls for the private sector to play a key role in providing critical infrastructure, either directly or in collaboration with the FGN. However, challenges with pricing and funding continue to call to question the viability of private sector investment.

### **Risks Arising from the COVID-19 Pandemic**

The Corona Virus Disease (COVID-19) broke out in December 2019 in Wuhan, China. The disease spread to several countries and led to a decline in global economic activities. In Nigeria, the first case of COVID-19 was recorded on March 2020 in Lagos State, the commercial hub of Africa's largest economy and most populous country. In an effort to control the spread of the virus, the Nigerian government implemented some measures including the halting of local and international flights, halting of inter-state travels, suspension of social gatherings and physical business activities. It is forecasted that Nigeria would slip into a recession due to the negative impact of COVID-19 on the economy and on the Nigerian financial system.

## **2. Risks Relating to the Sponsor**

The ultimate obligor for the indebtedness arising from the issuance of these Bonds is FSDH Merchant Bank Limited. The Sponsor is exposed to commercial and market risks in its ordinary course of business. Whilst the Sponsor has implemented appropriate policies, systems and processes to control and mitigate these risks, Investors should note that any failure to control these risks adequately could have an adverse effect on the financial condition and reputation of the Sponsor. The following is a description of the risk factors that are material in respect of the financial situation of the Sponsor under the Programme.

### **Credit Risk**

Credit risk is the risk that the Bank may not be able to recover funds and suffer losses because a customer or counterparty is unable or unwilling to meet contractual obligations to the Bank when due. The Sponsor mitigates the risk of financial loss from defaults by dealing with creditworthy counterparties identified through rigorous credit analysis, stringent credit limits and approval reviews. In addition, the Sponsor's exposure and the credit ratings of its counterparties are continuously monitored.

### **Regulatory and Compliance Risk**

The banking industry in which the Sponsor operates is highly regulated. The Banks and Other Financial Institutions Act, 1991, various CBN Guidelines (including the CBN Prudential Guidelines), circulars and directives contain provisions which the Sponsor is required to adhere to, including the requirement to meet certain capital adequacy and cash reserve requirements. The Sponsor risks sanction(s) by the CBN or any other regulators if it fails to meet with regulatory requirements. In particular, non-compliance by the Sponsor with CBN directives may result in the revocation of the Sponsor's banking licence or the imposition of penalties on the Sponsor amongst other sanctions. Should the Sponsor lose its banking licence, it would be unable to meet its Bond obligations under the Programme. Similarly, any failure by the Sponsor to monitor, report and act on suspected financial crime and money laundering activities could expose the Sponsor to losses, penalties or reputation damage.

## RISK FACTORS

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### **Operational Risk**

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Sponsor's operational processes capture the following major types of losses: fraud (internal and external), fines, penalties or expenses incurred as a result of settlement delays and regulatory infractions, losses arising from litigation processes including out of court settlements, losses incurred as a result of damage to the Sponsor's assets and losses incurred as a result of system downtime, malfunction or disruption. The Sponsor recognises the significance of operational risk, which is inherent in all areas of the Sponsor's business. Any lapse due to operational risk that results in severe losses could affect the Sponsor's ability to meet its debt obligations.

### **Liquidity Risk**

Liquidity risk arises when there is a mismatch between the inflows and outflows of the Sponsor. This may be due to the inability of the Sponsor to liquidate certain assets at short notice due to market illiquidity and inability to access sufficient funds to meet payment obligations in a timely manner. The management of liquidity risk is very critical to the ongoing viability of the Sponsor.

### **Market Risk**

This is the risk of losses in on- or off-balance sheet positions that arise from movement in market prices. Changes in equity prices, interest rates, credit spreads, foreign-exchange rates, commodity prices, and other financial assets will impact the Sponsor's trading book. The Sponsor also faces this risk from the perspective of its business lines, whereby a downturn in the capital markets or other such unfavourable market developments may affect the profitability of the Sponsor. Although the Sponsor has implemented risk management methods to mitigate these market risks, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Sponsor's financial performance

### **Interest Rate Risk**

The principal risk to which the Bank's non-trading portfolios are exposed is the risk of loss arising from fluctuations in the future cash flow of fair values of financial instruments and risk assets because of a change in the market interest rate.

### **Foreign Exchange Risk**

Foreign Exchange risk is the risk that changes in foreign exchange rates and controls would affect the value of the financial assets and liabilities as well as off-balance sheet items of the Sponsor. These are risks of losing earnings and capital that arise from the change in price of one currency against another. The Sponsor undertakes transactions denominated in foreign currencies and unfavourable movements in exchange rates may affect the Sponsor's foreign currency transactions, affect the value of the Sponsor's foreign currency-denominated assets and liabilities and consequently have a negative impact on its financial condition.

### **Brand and Reputation Risk**

This is the risk of brand erosion and reputational loss as well as a change in the ability to deliver on brand promise. The Sponsor's products, systems and brand could be susceptible to counterfeiting and/or unauthorized access. The failure to understand, identify or subsequently manage developments could negatively impact the Sponsor's brand and its value. The Sponsor's reputation may also be affected by the corrupt behaviour of any of its employees or agents, hence affecting its shareholder's value and ability to retain and generate business.

### 3. Risks Relating to the Issuer

#### **The Issuer is a special purpose entity with no operations or significant assets**

The Issuer is a restricted purpose entity incorporated as a public limited liability company and domiciled in Nigeria. The Issuer has no operations, staff and no significant assets other than the Notes. The Issuer is a funding special purpose vehicle of FSDH Merchant Bank Limited with no business operations (or subsidiaries) of its own, other than borrowing, advancing funds to, and receiving funds from FSDH Merchant Bank Limited.

#### **Change in Law**

The Issuer is duly incorporated and established under Nigerian laws, which remains in effect as at the date of this Shelf Prospectus. Any changes in Nigerian law or the official application or interpretation of Nigerian law after the date of this Shelf Prospectus may have an impact on the Bonds.

#### **Repayment Risk**

There is likelihood that the Issuer may not be able to repay outstanding obligations on the Bonds on a given payment date arising from any challenges attributable to the Sponsor.

### 4. Risks relating to the Bonds

#### **Liquidity Risk**

A key risk to the Bonds is the lack of an active trading market. If the Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon the market for similar securities, general economic conditions and the financial condition and prospectus of the Sponsor. Although applications will be made for Bonds issued under the Programme to be admitted and traded on the FMDQ platform and/or the NSE, there is no assurance as to the development or liquidity of any trading market for any particular issue of the Bonds.

#### **Credit rating may not reflect all risks**

The Bonds will be assigned a rating by SEC-registered rating agencies or any independent rating agency that may decide to rate the Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agencies at any time.

#### **Early Redemption**

The Bonds may be subject to early redemption therefore Bondholders may face the risks that the Bonds will be redeemed before maturity in a falling interest rate environment, forcing the Bondholders to reinvest the proceeds at a lower rate of return.

## USE OF PROCEEDS

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The primary purpose of the establishment of the Programme is to provide a platform for FSDH Merchant Bank Limited (through the FSDH SPV) to access funding through the Nigerian Capital Markets as and when required.

## STATUTORY AND GENERAL INFORMATION

### 1. EXTRACT OF THE SPONSOR'S BOARD RESOLUTION AUTHORIZING THE PROGRAMME

At the meeting held on 11 August 2020, the Board of Directors of the Sponsor passed a resolution approving the establishment of the proposed ₦30 billion Debt Issuance Programme.

### 2. EXTRACT OF THE ISSUER'S BOARD RESOLUTION AUTHORIZING THE PROGRAMME

At the meeting held on 5 August 2020, the Board of Directors of the Issuer passed a resolution approving the establishment of the proposed ₦30 billion Debt Issuance Programme.

### 3. INCORPORATION AND SHARE CAPITAL OF THE SPONSOR

The Sponsor was incorporated on 23 June 1992 as a public limited liability company under the CAMA. It started operations on 1 July 1992 and was granted a licence to carry on discount house business on 10 February 1993. It was granted an approval to convert to a Merchant Bank on 22 November 2012 and officially changed its name to FSDH Merchant Bank Limited from First Securities Discount House Limited on 31 December 2012. The Sponsor ceased to operate as a discount house and commenced banking and financial services on 15 January 2013. The Sponsor's registration number is 199528.

The Sponsor's principal activity during the year ended December 31, 2015 was the provision of merchant banking services to its customers. Such services principally involve corporate finance, issuing house services, transactional services, provision and structuring of finance, money market activities and trading in and holding of marketable securities such as treasury bills, government bonds, commercial bills and other eligible instruments. As at December 31, 2019, FSDH MB had an authorised share capital of ₦2,138,622,951 and a paid up capital of ₦1,833,416,681. The changes to the Sponsor's authorised and paid up capital since it was incorporated are as follows:

Year	Authorised (₦)		Issued (₦)		Consideration
	Increase	Cumulative	Increase	Cumulative	
23/06/1992	175,000,000	175,000,000	162,750,000	162,750,000	₦1.00 each
14/10/1993	75,000,000	250,000,000	38,500,000	201,250,000	₦1.00 each
20/05/1998	350,000,000	600,000,000	301,875,002	503,125,002	Bonus shares
28/10/2004	1,000,000,000	1,600,000,000	1,006,250,004	1,509,375,000	Bonus shares
13/10/2005	500,000,000	2,100,000,000	503,125,002	2,012,500,008	Bonus shares
26/10/2006	1,000,000,000	3,100,000,000	782,293,722	2,794,793,730	₦3.00 each
03/06/2019	(961,377,049)	2,138,622,951	(961,377,049)	1,833,416,681	₦1.00 each

### 4. INCORPORATION AND SHARE CAPITAL OF THE ISSUER

The Issuer was incorporated in Nigeria on June 13, 2013 (registered number 1123160) as a PLC under the name of FSDH Funding SPV PLC. The registered office of the Issuer is at UAC House, 1-5 Odunlami Street, Lagos Island, Lagos State. The Issuer has no subsidiaries or affiliates. The Issuer has been established as an SPV for the purpose of issuing securities to fund working capital, enhance liquidity and enhance the capital base of the Sponsor.

The authorised share capital of the Issuer is ₦500,000 divided into 1,000,000 ordinary shares of 50k each. The issued share capital of the Issuer is ₦250,000 divided into 500,000 ordinary shares of 50k each, and are held through its nominees; 249,999 shares are held by FBNQuest Trustees Limited (the

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“Share Trustee”) under the terms of a declaration of trust (the “Share Trust Deed”) dated 11 October 2013, and made by the Share Trustee for the benefit of the Bondholders of the Issuer (as to the exercise of voting rights attaching to such shares) and for the benefit of certain charitable purposes. One (1) share is held by FBN Securities Limited (“FBN Sec”) as nominee pursuant to the deed of trust made by the nominee shareholder of the Share Trustee in respect of such share. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Shares. The changes to the Issuer’s authorised and paid up capital since it was incorporated are as follows:

Year	Authorised (₦)		Issued (₦)		Consideration
	Increase	Cumulative	Increase	Cumulative	
11/10/2013	500,000	1,000,000	125,000	125,000	₦0.50 each

### 5. SHAREHOLDING STRUCTURE OF THE SPONSOR

As at 31 December 2019, the shareholding structure of the Sponsor was as follows:

S/N	Shareholders	Holding	Percentage
1.	FSDH Holding Company Limited	1,833,416,680	99.99%
2.	Rilwan Belo-Osagie	1	0.01%

### 6. SHAREHOLDING STRUCTURE OF THE ISSUER

S/N	Shareholders	Holding	Percentage
1.	FIRST TRUSTEES NIGERIA LIMITED	249,999	99.9996%
2.	FBN SECURITIES LIMITED	1	0.0004%

### 7. DIRECTORS’ INTERESTS OF THE SPONSOR

The Directors of the Sponsor have no beneficial interest in the shares of FSDH Merchant Bank Limited.

### 8. DIRECTORS’ INTERESTS OF THE ISSUER

The Directors of the Issuer have no beneficial interest and the Share Trustees have no beneficial interest in the shares of the Issuer (other than any fees for acting as Share Trustees)

### 9. SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTMENTS OF THE SPONSOR

As at the date of this Shelf Prospectus, the Sponsor had the following associates:

S/N	Name	Classification
1.	Pension Alliance Limited	Associate
2.	FSDH Asset Management Limited	Associate
3.	FSDH Capital Limited	Associate

**10. SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTMENTS OF THE ISSUER**

As at the date of this Shelf Prospectus, the Issuer had no subsidiaries or affiliate companies.

**11. EXTRACTS FROM THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE SPONSOR**

**Borrowing Powers of the Board of Directors (Article 51.1 and 51.2)**

51.1. Subject to the provisions of BOFIA and the Guidelines, the Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital or any part thereof, and to issue debentures, debenture stock, and other securities, whether outright or as security for any debt, liability or obligation of the Company or of any third party provided that the aggregate amount for the time being remaining undischarged of monies borrowed or secured by the Company and all its subsidiaries (otherwise than inter se) and apart from temporary loans obtained in the ordinary course of business shall not, without the previous sanction of the Company in general meetings, exceed the limit prescribed by law. For the purpose of the said limit, the issue of debentures shall be deemed to constitute borrowing, notwithstanding that the same may be issued in whole or in part for a consideration other than cash.

51.2. No lender or other person dealing with the Company shall be concerned to see or enquire whether the said limit is observed. No debt incurred or security given in excess of such limit shall be invalid or ineffectual except in the case of express notice to the lender or the recipient of the security at any time when the debt was incurred or security given that the limit hereby imposed has been or was thereby exceeded.

**12. EXTRACTS FROM THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE ISSUER**

**Clause 3 of Memorandum of Association**

3. The objects for which the Company is established are:

- (a) To raise and borrow money for FSDH Merchant Bank Limited and other companies within the FSDH group of companies through the issue of bonds, debentures, debenture stock, other securities or perpetual annuities;
- (b) To engage in the business of investing in promissory notes, commercial papers and other securities issued by FSDH Merchant Bank Limited;
- (c) To engage in the provision of debt capital to FSDH Merchant Bank Limited and to other companies within the FSDH group of companies;
- (d) To do all such other things as are incidental or conducive to the attainment of the objectives and the exercise of the powers of the Company.

**13. EXTRACTS FROM THE PROGRAMME TRUST DEED**

The Programme Trust Deed contains inter alia, the following provisions:

**2.0 APPOINTMENT OF TRUSTEE AND DECLARATION OF TRUST**

2.1 The Issuer hereby appoints the Trustee to act on behalf of the Bondholders and the Trustee agree to act as the trustee for the Bondholders in accordance with the provisions of this Deed and will hold the benefit of the covenants and other obligations on the part of the Issuer herein contained in trust for the Bondholders and itself in accordance with the terms of this Deed.

- 2.2 Any sums received by the Trustee whether as principal or interest or otherwise from the Issuer shall be received by the Trustee and held in trust to apply same towards the payment of fees, indemnities, costs and charges which it incurs in accordance with this Deed and thereafter apply the remainder in accordance with the rights of each Bondholder as set out in this Deed and the relevant Series Trust Deed.
- 2.3 The Trustee hereby declares itself trustee for the benefit of itself and the Bondholders with effect from the date of this Deed and has accepted and agreed to enforce the powers and perform the duties and obligations of the Trustee specifically set forth herein and will hold the benefit of the covenants and other obligations of the Issuer herein contained in trust for the Bondholders subject to the terms of this Deed.
- 2.4 The trust created herein shall be a continuing obligation and shall be and remain in of full force and effect until terminated in accordance with the provisions of this Deed, the provisions of which shall be binding on the Issuer, the Trustee and the Bondholders and all persons claiming through them respectively as if such Bondholders and persons are parties to this Deed.

### 3.0 ACCEPTANCE OF TRUST

- 3.1 By execution hereof, the Trustee have accepted and agreed to be bound by the powers, duties and obligations of the Trustee specifically set forth herein or under the ISA, the SEC Rules, the Trustee Act and CAMA.
- 3.2 The Trustee shall have no duty, responsibility or obligation for the issuance of the Bonds or for the validity or exactness thereof, or of any document relating to such issuance except to the extent that such invalidity or inaccuracy is as a result of the fraud, negligence or willful misconduct of the Trustee.
- 3.3 The Trustee shall have no duty, responsibility or obligation for the payment of Bonds except in accordance with the terms and provisions hereof or any agreement to which the Trustee are a party.
- 3.4 Prior to an Event of Default and after the curing or waiving of all Events of Default which may have occurred, the Trustee shall not be liable except for the performance of such duties as specifically set down herein.
- 3.5 The Trustee shall have no liability for any act or omission to act hereunder, or under any other instrument or document executed pursuant hereto except where such act or omission is as a result of the Trustee' gross negligence, general breach of trust and/or willful misconduct.
- 3.6 The duties and obligations of the Trustee shall be determined solely by the express provisions hereof, and no implied powers, duties or obligations of the Trustee, save as mandated by the ISA, and the Trustee Act, shall be construed into this Deed.
- 3.7 Upon the occurrence of an Event of Default, the Trustee shall subject to the provisions of this Deed, exercise such rights and utilise such powers vested in the Trustee under this Deed and the ISA and shall use the required degree of care and skill in the exercise of its duties.
- 3.8 The Trustee shall not be required to expend or risk its own funds or otherwise incur any liability in the performance of its duties or in the exercise of its rights or powers as Trustee, except such liability as may result from the Trustee' gross negligence, general breach of trust and/or willful misconduct.
- 3.9 The Issuer shall pay to the Trustee any extra costs and expenses properly incurred in the negotiation, preparation and execution of this Deed and any other document relating to any of

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the foregoing or constituted by this Deed (in each case including stamp duties) and all value added tax and similar taxes charged or chargeable in respect thereof. Provided however, that such extra costs and expenses are receipted.

- 3.10 The Issuer shall indemnify the Trustee and keep them indemnified against all liabilities, and reasonable costs, claims, demands, charges and expenses (including in each case value-added tax and any similar tax charged or chargeable in respect of such costs, charges and expenses to which the Trustee become subject) incurred by reason of being the Trustee or properly incurred by the Trustee or by any person appointed by the Trustee in accordance with this Deed to whom any right may be delegated by the Trustee in the execution of the rights vested in the Trustee by this Deed and in respect of any matter or thing done or omitted in any way relating to this Deed except to the extent that any of the above are sustained or incurred as a result of the fraud, negligence or willful misconduct of the Trustee or any person appointed by the Trustee in accordance with the terms of this Deed.
- 3.11 Notwithstanding any other provisions hereof, the Trustee shall have no liability for: -
- (a) an error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee were fraudulent or negligent in ascertaining the pertinent facts; or
  - (b) any action taken or omitted to be taken by it in good faith in accordance with the lawful direction of the holders of not less than a majority in principal amount of the Outstanding Bonds.

### 4.0 OBLIGATIONS OF ISSUER

- 4.1 The Issuer may issue Bonds from time to time in one or more series in an aggregate nominal amount not exceeding the Programme Limit through public offering, book building, private placement or any other methods approved by the SEC. The specific terms of each Series will be supplemented where necessary with the Series Trust Deed and applicable pricing supplements.
- 4.2 It shall be an obligation of the Issuer to appoint a Registrar for the efficient administration of the Bond. Accordingly, the Issuer confirms that it has appointed First Registrars and Investor Services Limited as the Registrar for the purposes of the Bonds and the said appointment has been duly accepted by the Registrar.
- 4.3 The Issuer covenants and agrees that:
- 4.3.1 Until the Bonds shall have been fully redeemed, the Issuer shall pay to the Trustee in the Designated Account, for immediate direct credit to the Bondholders through the Registrar, the principal and Coupon as and when due on the outstanding balance of any Series at the rate and in the manner stipulated in the applicable Series Trust Deed.
- 4.3.2 Coupon shall be payable periodically in each year in which the Bonds remains outstanding. The Issuer shall ensure that all payments due to the Bondholders shall be paid as and when due in accordance with the applicable Series Trust Deed. It will ensure the fulfillment of its obligations in relation to Coupon payment and repayment of the principal to the Bondholders and every payment to the Bondholders shall in respect of the principal, coupon or premium (if any), on the Bond operate in satisfaction pro tanto of the covenants of the Issuer contained in this clause as they relate to the Bond.
- 4.3.3 Every payment of principal, Coupon or premium (if any), of and on the Bond shall be made free of all costs, commissions, charges, fees, or other payments or deductions, other than any tax on income which the Issuer may by prevailing Nigerian law be required to deduct.

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- 4.3.4 It shall faithfully perform at all times, any and all covenants, undertakings, stipulations, and provisions on its part to be performed as provided in this Deed and in the relevant Series Trust Deed for every issue of Bonds or Series executed and delivered hereunder and in all proceedings of the Issuer pertaining thereto.
- 4.3.5 It shall pay the Trustees such fees as may be agreed between the Parties in accordance with the relevant engagement letter, and reimburse the Trustees for all agreed reasonable and proper out of pocket costs and expenses as they may incur in connection with the performance of its duties under this Deed including the agreed costs for convening and holding meetings of Bondholders in accordance with the relevant engagement letter.
- 4.3.6 It shall advise the Trustee upon the occurrence of an event which it is aware constitutes a Force Majeure Event, the steps being taken and proposed to be taken in relation to such event and the date on which the Force Majeure Event impedes the Issuer's ability to discharge its obligations under this Deed or in relation to the Bonds.
- 4.3.7 So long as any of the Bonds remains outstanding, the Issuer shall:
- a. at all times carry on and conduct its affairs in a proper and diligent manner;
  - b. ensure that the rating of the Bonds is renewed annually by a rating agency duly registered with the SEC;
  - c. give or procure to the Trustee such opinions, certificates and information as they shall require and in such form as they shall reasonably require for the purpose of the discharge or exercise of the duties, trusts, powers, authorities and discretions vested in them under this Deed or by operation of law;
  - d. keep all books of account and allow the Trustee and any person appointed by the Trustee to whom the Issuer shall have no reasonable objection, free access to such books of account at all reasonable times during normal business hours;
  - e. send to the Trustee (in addition to any copies to which the Trustee may be entitled as holders of any securities of the Issuer) two copies of every report, circular and notice of general meeting and every other document issued or sent to its shareholders within 10 (ten) Business Days after the issue or publication thereof;
  - f. forthwith give notice in writing to the Trustee of the coming into existence of any security interest which would require the creation of a similar security interest in favour of the Trustee or trigger the occurrence of any Event of Default or any potential Event of Default;
  - g. send to the Trustee certified true copies of every financial report (including its annual accounts, semi-annual accounts and quarter accounts) sent to the Exchange and the SEC not later than one hundred and eighty (180) days after the end of each financial year and thirty (30) days after the end of each half year and financial quarter respectively;
  - h. at all times ensure that the Registrar maintains a Register in accordance with the Conditions;
  - i. use its best endeavours to obtain and maintain the quotation or listing on the relevant Stock Exchange of the Bonds and upon obtaining a quotation or listing of the Bonds enter into a trust deed supplemental to this Deed as the Trustee may require or as may be required to comply with the requirements of the NSE;
  - j. give notice to the Bondholders, the Trustee and the SEC of the appointment, resignation or removal of the Registrar (other than the appointment of the initial Registrar) at least thirty (30)

days prior to such event taking effect; provided always that so long as any of the Bonds remain outstanding in the case of the termination of the appointment of the Registrar, no such termination shall take effect until a new Registrar has been appointed by the Issuer on terms previously approved in writing by the Trustee;

- k. in order to enable the Trustee ascertain the nominal amount of the Bonds of each Series for the time being outstanding, deliver within ten (10) Business Days upon being so requested in writing by the Trustee, a certificate in writing signed by two (2) Directors setting out the total number and aggregate nominal amount of the Bonds of each Series or tranche issued:
  1. up to and including the date of such certificate have been purchased by the Issuer, any holding company of the Issuer or any other Subsidiary of such holding company;
  2. at the date of such certificate held by, for the benefit of, or on behalf of the Issuer, any Subsidiary of the Issuer, any holding company of the Issuer or any Subsidiary of such holding company.
- l. give prior notice to the Trustee of any proposed redemption and, if it has given notice to the Bondholders of its intention to redeem any Bonds, duly proceed to redeem the Bonds accordingly;

### 5.0 RANKING OF THE BONDS

- 5.1 The Programme is limited to the amount of ₦ 30,000,000,000 (Thirty Billion Naira), the Programme Limit, and the ranking of the Bonds as and when issued shall be as specified in the relevant Series Trust Deed.

### 6.0 TERMS OF THE BONDS

#### 6.1. Issuance

- 6.1.1 The Issuer may issue the Bonds from time to time in such tranches, series and at such amounts as the Issuer shall determine up to and not exceeding the Programme Limit in accordance with the Offer Documents and to the extent provided by the Memorandum and Articles of Association of the Issuer and the resolutions of the Shareholders and the Directors of the Issuer.

#### 6.2. Terms

##### 6.2.1 Amount of Bond

The aggregate principal amount of the Bond issued pursuant hereto is limited to the Programme Limit (comprising of 30,000,000 (Thirty Million) registered Bonds at a par value of ₦1, 000 (One Thousand Naira) each.

##### 6.2.2 Type of Bond

The Bonds may be non-convertible, secured, unsecured, redeemable, non-redeemable, coupon bearing, Zero Coupon Bonds, Fixed Rate, Floating Rate Bonds, or such other bonds as may be set out in the applicable Series Trust Deed.

##### 6.2.3 Status of Bonds:

The Bonds shall constitute direct, unconditional obligations of the Issuer and shall at all times rank *pari passu* (subject to any modifications in any Series Trust Deed) and without any preference among themselves. The payment obligations of the Issuer in respect of principal and interest thereon shall, save for such obligations as may be preferred by applicable legislation relating to creditor's rights, at all times rank equally with all other unsecured indebtedness and

monetary obligations of the Issuer, present and future. The Bonds shall bear the terms specified in this Deed and other Offer Documents.

### 6.2.4 Coupon Payment

Coupon on the Bond shall be payable on each Coupon Payment Date each year during the Tenor of the Bond which date shall be as specified in the Terms and Conditions of the Programme and in the relevant Series Trust Deed and/or Pricing Supplement.

### 6.3 Redemption

The Principal Amount and Coupon (accrued up to but unpaid as of the Maturity Date, if any) shall be paid as set out in the Terms and Conditions of the Programme and in the relevant Series Trust Deed and/or Pricing Supplement. The Principal Amount following redemption will be credited to the account designated by the Bondholder Trustee.

#### (a) Redemption by Instalments and Final Redemption

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, Bonds of a Series that provide for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified in respect of such Bonds. The outstanding nominal amount of such Bonds shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Bonds, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed (Early Redemption), purchased and cancelled as provided below, the Bonds shall be finally redeemed on the Maturity Date specified in the relevant Series Trust Deed and/or Pricing Supplement at its Final Redemption Amount (which, unless otherwise provided in respect of the Bonds, is its nominal amount) or, in the case of Bonds falling within paragraph (i) above, its final Instalment Amount.

#### (b) Early Redemption

##### (i) Zero Coupon Bonds:

- (A) The Early Redemption Amount payable in respect of Zero Coupon Bonds, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Bonds pursuant to Condition 5(c) or upon it becoming due and payable as provided in Condition 9 shall be the Amortised Face Amount of such Bonds unless otherwise specified in respect of the Bonds.
- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of such Bonds shall be the scheduled Final Redemption Amount of such Bonds on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is specified in respect of the Bonds, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Bonds if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Bonds upon its redemption pursuant to Condition 5(c) or upon it becoming due and payable as provided in Condition 9 is not paid when due, the Early Redemption Amount due and payable in respect of such Bond shall be the Amortised Face Amount of such Bond as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Bonds becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the

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Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Bonds on the Maturity Date together with any interest that may accrue in accordance with Condition 4(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the relevant Series Trust Deed and/or Pricing Supplement.

(ii) Other Bonds:

The Early Redemption Amount payable in respect of Bonds of a Series (other than Zero Coupon Bonds described in (i) above), upon redemption of such Bonds pursuant to Condition 5(c) or upon it becoming due and payable as provided in Condition 9, shall be the Final Redemption Amount unless otherwise specified in the Series Trust Deed and/or Pricing Supplement in respect of the Bonds.

(c) Redemption for Taxation Reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, on any Coupon Payment Date (if the Bonds are Floating Rate Bonds) on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 5(b) above) (together with the Coupon accrued to the date fixed for redemption), if:

- (i) the Issuer satisfies the Trustees and the SEC immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as a result of any change in, or amendment to, the laws or regulations of the Federal Republic of Nigeria or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the Series or Tranche of the Bonds; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustees and the SEC a certificate signed by two Directors stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

(d) Redemption at the Option of the Issuer (Issuer Call)

If an Issuer Call or call option is specified in the applicable Series Trust Deed and/or Pricing Supplement, the Issuer may, having given not less than 30 nor more than 45 days' irrevocable notice to the Bondholders (or such other notice period as may be specified in respect of the Bonds), redeem, all or, if so provided, some of the Bonds on any Optional Redemption Date. Any such redemption of Bonds shall be for an Optional Redemption Amount together with coupon accrued to the date fixed for redemption.

Any such redemption or exercise must relate to Bonds of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in respect of the Bonds and no greater than the Maximum Redemption Amount to be redeemed specified in respect of the Bonds. All Bonds in respect of which any such notice is given shall be redeemed on the date specified in such

notice in accordance with this Condition. In the case of a partial redemption, the Bonds that are to be redeemed will be selected on a pro rata basis.

### (e) Redemption at the Option of Bondholders (Investor Put)

If an Investor Put or put option is specified in the applicable Series Trust Deed and/or Pricing Supplement, the Issuer shall, at the option of the Bondholders, and upon the Holders of such Bonds giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in respect of the Bonds), redeem such Bonds on the Optional Redemption Date(s) at its Optional Redemption Amount together with Coupon (if any) accrued to the date fixed for redemption.

In order to exercise the put option, the Bondholder must deposit with the Issuer at its specified office (with a copy to the Trustees), a duly completed put option ("Exercise Notice") in the form obtainable from the Trustees within the notice period and give the Registrar such instructions as may be necessary to give effect to the exercise of the put option. Once such option has been exercised by the deposit of an Exercise Notice, it may not be withdrawn without the prior consent of the Issuer

### 6.4 Utilisation of Bond Proceeds

6.4.1 The Issuer shall apply the net proceeds of the Bond in furtherance of the purposes set out in Master Note Issuance Agreement.

6.4.2 The Trustee shall not be bound to enquire as to the application by the Issuer of the proceeds of the Issue nor shall the Trustee be responsible for such application or for the consequence of such application.

### 6.5 Form of the Bond

6.5.1 The Bond shall be issued in uncertificated dematerialised/book entry form at the depository and shall be credited to Bondholders' accounts at the depository. The Bonds may also be issued in certificated form whereupon a Certificate will be issued to the Bondholders in respect of their registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the applicable Certificate and in the Register. PROVIDED THAT joint Bondholders shall be entitled to only one (1) Certificate in respect of the Bonds jointly held by them which Certificate shall be delivered to that one of the joint Bondholders whose name stands first in the Register and the delivery of a Certificate to one of such persons shall be deemed to be sufficient delivery to all.

### 6.6 Currency, Medium and Place of Payment

- a. The Principal Amount, premium (if any), and Coupon on the Bond shall be payable in the official currency of the Federal Republic of Nigeria.
- b. Payment of the Principal Amount, premium and Coupon shall be made by the Trustee Issuer in the manner specified herein.
- c. Any payment made pursuant to (a) and (b) above shall be deemed valid and shall satisfy and discharge the Issuer of any obligation to make payment on such Bond to the extent of the amount paid.

### 6.7 Persons Deemed Owners

Except as may subsequently be agreed between the Parties in a Series Trust Deed, the Bondholder (or his legal representative) shall be deemed and regarded as the absolute owner of the Bonds

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registered in his name on the Register and, credited into his depository account for all purposes including but not limited to the payment of principal, premium (if any), and Coupon (if any).

### 6.8 Transfer of Bonds

- a. The Bonds shall be transferable in accordance with the Conditions, the applicable Offer Documents and the rules governing transfer of title in securities held by the depository.
- b. The Issuer shall cause the Register with respect to each Series of the Bond, to be maintained at the offices of the Registrar and the Registrar shall provide for the registration of any Bonds or its transfer as shown on the records of the depository.

### 8.0 PRIORITY OF PAYMENTS

8.1 All moneys received by the Trustee from the Issuer under this Deed shall, unless as otherwise provided for under the applicable Offer Document for any Series, be apportioned *pari passu* and rateably between the Bondholders of each Series of the Bonds, and all moneys received by the Trustee under this Deed from the Issuer shall be held by the Trustee upon trust to apply them in the following order of priority:

1. FIRSTLY, in payment or satisfaction of all costs, charges, expenses and liabilities incurred and payments made in, or about the execution of the trusts hereof, including all remuneration payable to the Trustee as approved by the Issuer; and
2. SECONDLY, in or towards payment *pari passu* and rateably of the Coupon, then due and unpaid in respect of the Bonds of that Series or tranche.
3. THIRDLY, in or towards payment *pari passu* and rateably of the aggregate Principal Amount and Coupon or return (as applicable), then due and unpaid in respect of the Bonds of other Series or Tranche
4. FOURTHLY, in payment of the balance (if any) to the Issuer (without prejudice to, or liability in respect of, any question as to how such payment to the Issuer shall be dealt with as between the Issuer and any other person).

### 9.0 EVIDENCE OF BONDHOLDING

- 9.1 Every Bondholder shall submit together with his application his depository account details, to which the Bond will be credited upon clearance of the basis of allotment by SEC. Legal title thereto shall be established by the book entries in the depository accounts.
- 9.2 The Issuer, the Trustee and the Registrar shall call for and, except in the case of manifest error, shall be at liberty to accept and place full reliance on (without liability) a certificate or letter of confirmation issued on behalf of the depository or any form of record made by any of them or such other form of evidence and/or information and/or certification as it shall, in its absolute discretion, think fit as sufficient evidence thereof to the effect that at any particular time or throughout any particular period any particular person is, was, or will be, shown in the Register as the holder of a particular nominal amount of Bonds and, if they do so rely, such letter of confirmation, form of record, evidence, information or certification shall be conclusive and binding on all concerned.

All Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of this Deed and the relevant Series Trust Deed.

### 11.0 REPAYMENT UNDERTAKING FOR BONDS

- 11.1 The Issuer has procured the Sponsor to enter into a Deed of Undertaking on or about the date of this Deed irrevocably and unconditionally, and notwithstanding the release of any other person

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under the terms of any composition or arrangement with any creditors of the Issuer or any of the Sponsor's other subsidiaries, guaranteed to the Trustee:

- 11.1.1 the due and punctual payment of the Principal Amount and Coupon on the Bond and together with any other amounts payable by the Issuer under these presents and
- 11.1.2 the due and punctual performance and observance by the Issuer of each of the other obligations of the Issuer under these presents.
- 11.2 The terms of the said Deed of Undertaking are hereby incorporated and form part of this Agreement to their full force, extent and effect.

### 12. NEGATIVE PLEDGE

- 12.1 So long as any Series remains outstanding, the Issuer hereby covenants that it shall not, except in the ordinary course of business or by operation of law, without the prior written consent of the Trustee (such consent not to be unreasonably withheld), secure any present or future indebtedness, or incur any financial indebtedness or commitments, that may jeopardise the payment of the Outstanding Bond.

Provided that the consent of the Trustee shall not be required for bonds issued by the Issuer for the sole purpose of purchasing debt securities issued by, or the making of any loan to, the Sponsor in accordance with the Master Note Issuance Agreement or under any other circumstances.

- 12.2 Where the consent of the Trustee is sought and obtained under Clause 12.1 above, the Issuer shall at the same time as the creation of such indebtedness grant to the Trustee (for the benefit of the Bondholders) the same or equivalent security as is granted in relation to the indebtedness. Any new charge, mortgage, lease, lien, pledge etc. created by or granted by the Issuer shall be subject also to prior SEC approval.

### 13.0 PAYMENTS

- (a) All payments due in respect of the Bonds shall be made in Naira and be credited to the bank account of the Bondholder as specified on the application form for the Bond. If a bank account is not provided for this purpose, the Trustee shall withhold payment until such an account has been provided. No additional Coupon will be paid on any amounts withheld. The Bondholder or his legal representative shall be the only person entitled to receive payments in respect of the Bond and the Issuer will be discharged by payment to, or to the order of, the Bondholder in respect of each amount so paid.
- (b) If the due date for payment of any amount in respect of the Bond is not a Business Day, then the Bondholder thereof shall not be entitled to payment of the amount due until the next following day unless the day falls in the next calendar month, in which case the due date will be the immediately preceding day that is a Business Day, and the Bondholder shall not be entitled to any further Coupon or other payment in respect of any such delay.

### 14.0 PAYMENT OF PRINCIPAL AND INTEREST

#### a. Covenant for Payment of Principal

The Issuer hereby acknowledges that, it is indebted to the Trustee in the aggregate Principal Amount, and each series shall be redeemed on its Redemption Date.

#### b. Covenant for payment of Interest

- i. Until all the payments due under all issued Bonds under any Series shall have been paid, the Issuer shall pay into the Designated Account(s), interest on the balance thereof for the time being outstanding, four Business Days before the date such interest falls due to be paid and in accordance with the Terms and Conditions of the Programme or as specified in the applicable Series Trust Deed or Pricing Supplement

- ii. Every payment to any Bondholder in respect of principal, or interest on the Bond held by him shall operate in satisfaction pro tanto of the covenant of the Issuer in this Clause contained.
  - iii. Every payment of principal, or interest of and on any Series of the Bond Programme shall be made free of all costs, commissions, charges, fees or other payments or deductions, other than any tax on income which the Issuer may by prevailing Nigerian Law be required to deduct.
  - iv. The Issuer shall ensure that all payments due to the Bondholders shall be paid to the Designated Account as provided hereunder.
- c. Appointment of Payment Bank

The Trustee shall appoint Guaranty Trust Bank Plc (the "Payment Bank") as the Payment Bank through which all interest, principal and other moneys due on the Bond in accordance with the provisions of this Deed shall be paid.

### 16.0 TAXATION

All payments of Principal, Coupon and any other sum due in respect of the Bonds shall pursuant to current legislation, be made free and clear of, and without withholding or deduction for, companies income tax, personal income tax, and value added tax. The Bonds also qualify for a waiver from capital gains tax by virtue of the 10-year waiver approved by the Federal Government in the Presidential Tax Policy Directive. Effective 2011, investors will benefit from the waiver with respect to capital gains tax. Order 1(iv) of the Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order, 2011 and Personal Income Tax (Amendment) Act, 2011 (Amendment to the Third Schedule) exempt interest earned by holders of bonds issued by corporate bodies from the imposition of companies income tax and personal income tax respectively. The exemption granted under the Companies Income Tax (Exemption of Bonds and Short-Term Government Securities) Order, 2011 is for a period of 10 years commencing from January 2, 2012. Further, the proceeds from the disposal of the Bonds are exempt from tax imposed under the Value Added Tax Act (Cap V1 LFN 2004) (as amended by the Value Added Tax (Amendment) Act No. 12 of 2007) by virtue of the Value Added Tax (Exemption of the Proceeds of the Disposal of Government and Corporate Securities) Order 2011, commencing from January 2, 2012. This exemption is for a period of ten (10) years from the date of the Order.

### 17.0 COVENANTS BY THE ISSUER

17.1 The Issuer hereby covenants with the Trustee that they shall:

17.1.1 duly perform and observe the obligations imposed upon it, including any covenants and undertakings on its part to be performed as provided by this Trust Deed, and the relevant Series Trust Deed for every issue of Bonds under the Programme;

17.1.2 as, and when the Bonds of any Series becomes due to be redeemed, or on such earlier date as the same or any part thereof may become due and repayable thereunder, unconditionally pay, or procure to be paid to, or to the order of the Trustee in the relevant currency in immediately available funds, the Principal Amount in respect of the Bonds of such Series or any amount becoming due for redemption on that date, and shall in the meantime and until redemption in full of the Bonds of such Series, unconditionally pay, or procure to be paid to or to the order of the Trustee as aforesaid, Coupon on the nominal amount of the Bonds outstanding of such Series at rates and/or in amounts calculated from time to time in accordance with, or specified in, and on the dates provided for in the relevant Pricing Supplement or Series Trust Deed.

17.1.3 carry on and conduct its business in a proficient manner;

17.1.4 ensure that the proceeds of the issue of the Bonds are exclusively channeled as stated in Clause 6.4 above;

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- 17.1.5 keep proper books of account and ensure that the said books shall at all reasonable times during office hours be open for the inspection of the Trustee or such person or persons as the Trustee shall from time to time in writing for that purpose appoint (not being such a person or persons to whom the Issuer may reasonably object), and allow the Trustee and any such person to examine books, accounts and documents relating to the Issuer's business or property and to investigate the affairs thereof and give to the Trustee or to such person(s) as aforesaid such information relating to said business or property or otherwise relating to the affairs thereof as they shall reasonably require;
- 17.1.6 give to the Trustee or to such person as aforesaid such information as to all matters relating to any property or otherwise to its affairs as they may reasonably require and furnish to the Trustee at the same time as the issue thereof to the Bondholders two (2) copies of every balance sheet, profit and loss account intended to be laid before the Issuer in general meeting and of every notice or circular relating to its general meetings;
- 17.1.7 pay the Trustee such fees as may be agreed, and reimburse the Trustee, for all agreed reasonable and proper out of pocket costs and expenses as they may incur in connection with the performance of its duties under this Deed including the agreed costs for convening and holding meetings of Bondholders.
- 17.1.8 supply to the Trustee all such documents and information as the Trustee may from time to time require relating to or in connection with the operation of and provisions regarding repayment of the Bond contained in the conditions thereof;
- 17.1.9 forthwith give notice in writing to the Trustee of any claims, or of the commencement of any proceedings which might materially affect the value of the Bond hereby constituted;
- 17.1.10 except to the extent that the Trustee may otherwise agree, maintain, apply for renewal of, and comply with conditions of all rights, powers, provisions, concessions, licenses at present or hereafter vested in it which are or may be reasonably necessary for the efficient conduct of its business and undertaking;
- 17.1.11 give notice to the Bondholders, the Trustee and the SEC of the appointment, resignation or removal of the Registrar (other than the appointment of the initial Registrar) at least thirty (30) days prior to such event taking effect; provided always that so long as any unit(s) of the Bonds remains outstanding in the case of the termination of the appointment of the Registrar, no such termination shall take effect until a new Registrar has been appointed by the Issuer on terms previously approved in writing by the Trustee;
- 17.1.12 give notice to the Trustee of any proposed redemption, and duly proceed to redeem Bonds accordingly.
- 17.1.13 utilise its best endeavours to ensure that the Registrar observes the requests and/or instructions of the Trustee as they relate to payments to the Bondholders;
- 17.1.14 upon the listing of the Bonds to use all reasonable endeavours to maintain the listing of the Bonds on the Exchange;
- 17.1.15 so far as permitted by Applicable Law, do such further things as may be necessary in the opinion of the Trustee to give effect to this Deed.

### **18.0 POWERS, RIGHTS, DUTIES, RELIEFS OF THE TRUSTEE**

- 18.1 The Trustee shall have all the rights and powers conferred upon Trustee by the Trustee Act, as amended from time to time as though same were expressly set out herein by way of supplement hereto, in addition to the other powers conferred on the Trustee and provisions for its protection herein. Not by way of limitation or derogation of anything contained in this Deed, nor of any statute limiting the liability of the Trustee, it is hereby declared as follows:

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- 18.2 The Trustee shall have the power to do any act in accordance with this Deed, the relevant Series Trust Deed, the ISA and any applicable law which shall be on behalf of and for the benefit of the Bondholders.
- 18.3 The Trustee may acting reasonably and in good faith rely on the opinion or advice of or any information obtained from any solicitor, valuer, surveyor, broker, auctioneer, accountant or other experts, whether procured by the Issuer, Sponsor or by the Trustee and shall not be responsible for any loss occasioned by so acting, provided however that the Trustee have exercised due care and diligence in relying on any such advice opinion or information; and any such advice, opinion or information may be obtained or sent by letter or e-mail.
- 18.4 In the absence of bad faith and negligence, the Trustee shall be at liberty to accept a certificate signed by the chief executive or any officer of the Issuer authorised to do so as to any fact or matter prima facie within the knowledge of the Issuer as sufficient evidence thereof provided that in the case of any such document specifically required to be furnished to the Trustee hereby, the Trustee shall be under a duty to examine the same to determine whether it conforms to the requirements thereof.
- 18.5 Without prejudice to the provisions of this Deed and to its obligations contained herein to the Bondholders and the Issuer, the Trustee shall not be bound to give notice to any person or persons of the execution hereof of any acts or deeds made or done by virtue of this Deed.
- 18.6 Save as herein otherwise expressly stated and provided it has acted reasonably, the Trustee shall as regards all trusts, powers, authorities and discretions hereby vested in them, have necessary discretion as to the exercise thereof and in the absence of fraud, bad faith, negligence and willful misconduct, shall in no way be responsible for any loss, costs, damages, expenses or inconvenience that may result from the exercise or non-exercise thereof and in particular it shall not be bound to act at the request or discretion of the Bondholders under any provision of this Deed, unless the Trustee shall first be indemnified to their satisfaction against all costs, charges, expenses and liabilities which may be incurred in complying with such request or discretion. The Trustee in the exercise of the powers and discretions vested in it pursuant to this Deed shall comply with the provisions of the ISA and any other applicable law.
- 18.7 The Trustee shall have the power to summon, as and when necessary, meetings of all Bondholders whereat a statement of affairs on the management of any funds standing to its credit on behalf of the Bondholders shall be presented, and or any other necessary business and or matter shall be presented and determined. A meeting shall be convened by the giving of at least twenty-eight (28) clear days' notice to all the Bondholders (specifying the agenda at the meeting) and the said notice shall also be published in at least two (2) national newspapers. The procedure of and regulations for such a meeting of the Bondholders shall be in accordance with Schedule 1 of this Deed.
- 18.8 Provided it has acted with due caution and without negligence, the Trustee shall not be responsible for having acted upon any resolution passed at a duly convened, properly constituted meeting of the Bondholders in respect whereof minutes have been made and signed, even though it may subsequently be found that there was some defect in the constitution of the meeting or the passing of the resolution with the effect that the resolution was not valid or binding upon the Bondholders except where the Trustee had knowledge of such defect; in which case the Trustee shall be liable for acting upon such resolution.
- 18.9 The duties and obligations of the Trustee shall be determined solely by the express provisions hereof, and no implied powers, duties or obligations of the Trustee, save as mandated by the ISA or any other applicable law, shall be construed into this Deed.
- 18.10 The Trustee shall not be required to expend or risk their own funds or otherwise incur any liability in the performance of their duties or in the exercise of its rights or powers as Trustee,

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except such liability as may result from their negligence, general breach of trust and/or misconduct.

- 18.11 The Trustee shall not be concerned and need not enquire as to whether or not any Bonds or Series thereof are issued in breach of the Programme Limit.
- 18.12 Without prejudice to the provisions of this Deed and the jurisdiction of any competent court, the Trustee shall have full power to determine all questions and doubts arising in relation to any of the provisions hereof, and every such determination bona fide and reasonably made (whether or not the same shall relate in whole or in part to the acts or proceedings of the Trustee hereunder) shall be conclusive and binding upon all interested parties hereunder.
- 18.13 The Trustee shall not be responsible for the monies subscribed by applicants for the Bond or be bound to know the application thereof PROVIDED nevertheless that nothing contained in this clause shall exempt the Trustee from or indemnify them against any liability for breach of trust where the Trustee fail to show the degree of care and diligence required of it, having regard to the provisions hereof conferring on it any powers, authorities or discretions.
- 18.14 Upon the occurrence of an Event of Default, the Trustee shall subject to the provisions of this Deed, exercise such rights and utilise such powers vested in them under this Deed and the ISA, and shall use the required degree of care and skill in the exercise of its duties.
- 18.15 The Trustee shall perform its fiduciary duties owed to the Bondholders in accordance with this Trust Deed and the relevant Laws, including:
- 18.15.1 to manage the trust property in a responsible and productive manner;
- 18.15.2 to act for the benefit of the Bondholders in the management of the trust property and not to let its duties and that owed of the Bondholders conflict;
- 18.15.3 to ensure that the trust property is vested according to the terms of the trust herein established;
- 18.15.4 not to commingle its funds with those of the trust;
- 18.15.5 to segregate its assets from trust property;
- 18.15.6 not to delegate its duties, except as permitted by this Trust Deed;
- 18.15.7 to act impartially and solely in the best interest of all Bondholders;
- 18.15.8 to manage the trust property in a prudent and business-like manner; and
- 18.15.9 to safeguard the rights of the Bondholders in respect of the Issuer's obligations under the Issuance.

### **19.0 TRUSTEE' DISCRETION AS TO ENFORCEMENT**

- 19.1 Except as herein otherwise expressly provided, the Trustee are hereby authorised to assume, without enquiry, in the absence of knowledge or express notice to it to the contrary, that the Issuer is duly performing and observing all the covenants and provisions herein contained and on its part to be performed and observed.

Notwithstanding knowledge by, or notice to the Trustee, of any breach of covenants or obligations by the Issuer, it shall be at the discretion of the Trustee whether or not to take action or proceedings, or to enforce the performance thereof, and the Trustee shall not be bound to declare the Bond immediately repayable or to take any steps to enforce payment thereof, or any of the provisions of these presents.

The Trustee shall not be bound to enforce the powers herein conferred, or by any other provisions of this Deed unless and until in any of such cases, the Trustee are required to do so by the Bondholders; and PROVIDED that provision shall have been made to the satisfaction

of the Trustee, for the costs, charges and expenses of the Trustee, or if incidental to the exercise of any such powers, or the taking of any such steps; and PROVIDED ALSO that the Trustee shall in any case, inform the Bondholders of the occurrence of any Events of Default that comes to its knowledge.

### **20.0 POWER OF TRUSTEE TO DELEGATE**

20.1 The Trustee being a body corporate may in the execution and exercise of all or any of the trusts, powers and discretions vested in it by this Deed act through its Responsible Officers and may also whenever it may think it expedient in the interest of Bondholders, delegate by power of attorney or otherwise to any person or persons who in its opinion are competent persons, any of the trusts, powers and discretions vested in it by this Deed, and such delegation may be made upon such terms and conditions and subject to such regulations including power to sub-delegate as the Trustee may in the interests of the Bondholder think fit; Provided that such delegation of duty shall not exempt the Trustee from any obligation or liability imposed on them under this Trust Deed for the acts or omissions of the Trustee or their agents.

### **21.0 POWER OF TRUSTEE TO EMPLOY AGENTS**

21.1 The Trustee may in the conduct of the trust business, where necessary or required by law, employ and pay an agent, being a lawyer, valuer, surveyor, broker, auctioneer, an accountant or other professional party, to transact or concur in transacting any business and to do or concur in doing such acts as may be required to be done by such professional party, including the receipt and payment of money. Any such agent being a lawyer, valuer, surveyor, broker, auctioneer, accountant or other person engaged in any profession or business shall be entitled to charge and be paid by the Issuer, all usual professional and other charges for business transacted and acts done by him or his firm in connection with the trust hereof, and also his reasonable charges in addition to disbursement for all other work and business done and all time spent by him or his firm in connection with matters arising in connection with this Deed; Provided however, that the Trustee shall seek the prior written approval of the Issuer before engaging such agent, and such consent or approval shall not be unreasonably withheld; provided that the employment of any such agents shall not exempt the Trustee from any obligation or liability imposed on them under this Trust Deed for the acts or omissions of the Trustee or their agents.

### **24.0 POWER TO RECOUP MONIES OWED TO TRUSTEE**

24.1 The Trustee may retain and pay to itself out of any monies in its hands upon the trusts of this Deed, all sums owing to it in accordance with the provisions of this Deed, in respect of remuneration, costs, charges, expenses or interest; or by virtue of any indemnity from the Issuer to which it is entitled hereunder, or by law or by virtue of any release or indemnity granted pursuant to the Terms and Conditions applicable to the Bonds of any Series as set out in the applicable Series Trust Deed and all such sums as aforesaid shall rank in priority to the claims of the Bondholders.

### **25.0 BREACH OF COVENANT BY THE ISSUER MAY BE WAIVED**

25.1 The Trustee may from time to time or at any time waive, on such terms and conditions as the Trustee shall deem expedient, any breach by the Issuer of any of the covenants and provisions contained in this Deed without prejudice to the rights of the Trustee in respect of any subsequent breach thereof, PROVIDED THAT such a waiver does not prejudice the interests of the Bondholders.

### **26.0 INDEMNITY OF TRUSTEE**

26.1 Without prejudice to the right of indemnity by law given to the Trustee, the Trustee and every lawyer, manager, agent or other person appointed pursuant hereto shall be entitled to be

indemnified by the Issuer in respect of all liabilities and expenses reasonably incurred by them or him in the execution of the powers and trusts hereof or of any powers, authorities or discretions vested in them or him pursuant to this Deed and against actions, proceedings, costs, damages, expenses, claims and demands in respect of any matter or thing done or omitted in anywise (provided that such liabilities, expenses, costs and damages are not occasioned by the gross negligence, default, fraud or willful misconduct of the Trustee and or such lawyer, manager, agent or other person); and provided the Trustee shall have notified the Issuer in advance, the Trustee may retain and pay out of any money in their hands upon the trusts of this Deed the amount of any such liabilities and expenses and of any other monies becoming payable to it or other persons under the foregoing indemnity and also the remuneration of the Trustee as herein provided.

### **27.0 DEALINGS WITH THE ISSUER**

Neither the Trustee nor any director or officer or holding company, subsidiary or associated company of a corporation acting as a trustee under this Deed shall by reason of its or his fiduciary position be in any way precluded from:

1. entering into or being interested in any contract or financial or other transaction or arrangement with the Issuer or any person or body corporate associated with the Issuer (including without limitation any contract, transaction or arrangement of a banking or insurance nature or any contract, transaction or arrangement in relation to the making of loans or the provision of financial facilities or financial advice to, or the purchase, placing or underwriting of or the subscribing or procuring subscriptions for or otherwise acquiring, holding or dealing with, or acting as paying agent in respect of, the Bonds or any other bonds, stocks, shares, debenture stock, debentures or other securities of the Issuer or any person or body corporate associated as aforesaid); or
2. accepting or holding the trusteeship of any other trust deed constituting or securing any other securities issued by or relating to the Issuer or any such person or body corporate so associated or any other office of profit under the Issuer or any such person or body corporate so associated;
3. Provided always that any contract or financial or other transaction contemplated in this Clause 25 shall not result in a conflict of interest.

### **29.0 EVENTS OF DEFAULT**

29.1 The Trustee may at their discretion and shall, upon the request in writing of the registered Bondholders of at least one-fifth (1/5) of the nominal amount of the Bond for the time being outstanding or upon being so directed by a Special Resolution of the Bondholders by notice in writing to the Issuer declare the Bond to have become immediately repayable, provided that one of the following Events of Default has occurred:

- 29.1.1 If the Issuer defaults for more than five (5) Business Days in the payment of any principal monies and Coupon owing on any Series, or any premium thereon and the Principal Amount payable under any provisions of this Deed. Provided however that the Issuer shall not be in default if during the five (5) Business Days' period, it satisfies the Trustee that such sums were not paid
  - (i) in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment, the Issuer, the Trustee or the relevant Bondholder or
  - (ii) in case of doubt as to the validity or applicability of any such law, regulation or order, in accordance with advice as to such validity or applicability given at any time during the said period of five(5) Business Days by independent legal advisers notified to the Trustee or

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- (iii) due to a Disruption Event provided that the Issuer shall show to the Trustee that it has taken all steps necessary to mitigate the effect of the Disruption Event; or
- (iv) its failure to pay is caused by an administrative or technical error, and payment is made within ten (10) Business Days of its due date; or
- (v) non-payment is due to a Force Majeure Event and the Trustee has in its discretion (after consultation with the Issuer) determined that such Force Majeure Event can be remedied within a reasonable period and extend the grace period;

29.1.2 If the Issuer does not comply with its other obligations hereunder or in respect of the Bonds of the relevant Series and, if the non-compliance can be remedied, does not remedy the non-compliance within [30] Days after written notice requiring such default to be remedied has been delivered to the Issuer by the Trustee;

29.1.3 If the Issuer is (or is deemed by law or a court of competent jurisdiction to be) insolvent or unable to pay its debts as they fall due; or stops payment of a substantial part of its debt as a result of financial difficulties;

29.1.4 If a distress, attachment, execution or other legal process is levied on, or enforced against the whole or any substantial part of the property, assets or revenues of the Issuer and is not discharged or stayed within 120 (One Hundred and Twenty) days thereof;

29.1.5 If there shall be any release of the Sponsor from its obligations under the Deed of Undertaking other than with the express written approval of the Trustee and a Special Resolution of the Bondholders, including any release by operation of law, or any failure by the Sponsor to make payment when demanded by the Trustee in accordance with the Deed of Undertaking aforesaid.

PROVIDED that on the happening of any event specified in sub-clauses 27.1.1 to 27.1.3, the Bonds shall not be declared immediately payable unless and until the Trustee shall have first served on the Issuer and the Sponsor a preliminary notice requiring the Issuer and/or the Sponsor as the case may be, to make the relevant payment in arrears, with interest or to remove, discharge or pay out to the satisfaction of the Trustee or to perform and observe the covenant or provisions the breach whereof has been committed or threatened and the Issuer and the Sponsor shall have failed or neglected for a period of thirty (30) days to comply with such notice.

Following the occurrence of an Event of Default as specified in sub-clause 8.1.1 to 8.1.5, the Trustee shall and without further notice, take such proceedings against the Issuer and/or the Sponsor, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Trust Deed, but it shall not be bound to take any such enforcement proceedings in relation to the Trust Deed unless;

- (i) it shall have been so directed by a Special Resolution of all the Bondholders or so requested in writing by the Bondholders of not less than 20 per cent in Principal Amount of the Bonds then outstanding and
- (ii) it shall have been indemnified and/or secured to its satisfaction.

No Bondholder will be entitled to proceed directly against the Issuer unless the Trustee, having become bound to do so, fail to do so within a reasonable period and such failure shall be continuing.

Notwithstanding provisions contained to the contrary herein, in the event of default, the procedure to be undertaken by the Trustee as envisaged herein shall be initiated only after compliance with any relevant procedure described under the SEC Rules.

### 30.0 PROCEEDINGS TO ENFORCE PAYMENT

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- 30.1 At any time after any payment on the Bond shall have become due and payable after the expiry of the notice periods specified in Clause 27 above, the Trustee may at their discretion and shall upon the request in writing of the registered holders of at least one-fifth (1/5) of the nominal amount of the Bond for the time being outstanding or upon being so directed by a Special Resolution and without further notice, institute such proceedings as the Trustee may think fit to enforce payment of any unpaid coupon which may have accrued, premium (if any) or the principal amount of the Bond.
- 30.2 No Bondholder shall in any circumstance be entitled to proceed directly against the Issuer to enforce the performance of any of the provisions of this Deed for any remedy (whether by way of action, petition, arbitration or otherwise howsoever) for the recovery of any payment of principal or Coupon on the Bond unless the Trustee having become bound to take proceedings in accordance with this Deed, fails to do so within 60 (sixty) Business Days, and such failure is continuing, in which case, the Bondholder may then initiate such proceedings:
- 30.2.1 in a representative capacity on behalf of himself and other Bondholders, for the recovery of the payments due on the Bond; or
- 30.2.2 in his name for the recovery of his own units of the Bond only.

### **32.0 REMOVAL AND RESIGNATION OF TRUSTEE**

- 32.1 The Trustee may resign as trustee at any time, by giving not less than sixty (60) days prior written notice to that effect to the Issuer, SEC and the Bondholders, PROVIDED THAT such resignation shall not be effective until a successor(s) is appointed in accordance with this Deed; and the Trustee shall continue to hold the rights conferred and perform the obligations imposed on them by this Deed until the resignation is effective.
- 32.2 The Trustee may be removed by the Issuer or the Bondholders by a Special Resolution but only for the reasons stated in hereof and only so long as
- (a) no Event of Default shall have occurred and be continuing on the part of the Issuer and;
- (b) the removal of the Trustee shall not have any adverse effect upon the rights and interests of the Bondholders.
- 32.3 Where the Trustee give notice of its resignation as trustee pursuant to Clause 31.1 hereof or in the event that the Trustee are dissolved or otherwise becomes incapable of acting as Trustee or is removed as Trustee pursuant to Clause 30.2 herein, the Issuer shall with the approval of the SEC, immediately appoint a successor Trustee. In such event, the successor Trustee shall cause written notice of its appointment to be issued to the Bondholders of the entire Bond and the SEC shall be promptly notified provided that no successor Trustee may be appointed unless approved by the Bondholders. If the Trustee are removed, dissolved, or becomes incapable of acting as trustee, the Issuer shall bear the cost of giving such notice; if the Trustee cease to act for any other reason, the Trustee shall bear the cost of the notice.
- 32.4 Unless otherwise ordered by a court or SEC or any other regulatory body having competent jurisdiction, or unless required by law, any successor Trustee appointed by the Issuer shall be a company authorised to carry on trust business in Nigeria and duly registered with the SEC to provide corporate trust services.
- 32.5 Every successor Trustee shall execute, acknowledge and deliver to its predecessor and also to the Issuer an instrument in writing, accepting such appointment hereunder and shall also execute and lodge with the Issuer a Deed of Adherence to the terms of this Deed in the form set out in Schedule 3 hereof, and thereupon such successor Trustee, without further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor shall execute and deliver an instrument transferring to the successor Trustee all the rights, powers and trusts of said predecessor. The predecessor

Trustee shall execute any and all documents necessary or appropriate to convey all interest they may have to the successor Trustee. The predecessor Trustee promptly shall deliver all records relating to the trust hereby created and copies thereof and communicate all material information they may have obtained concerning the trust to the successor Trustee and shall duly provide the successor Trustee with a full and updated statement of affairs and accounts of the trust hereby created in respect of the Bonds.

### **37.0 TERMINATION**

- 37.1 This Deed shall continue in full force and effect until the earlier of the date on which the Trustee unconditionally confirm in writing that there is no longer any outstanding sum due from the Issuer which is constituted under this Trust Deed, the unconditional release by the Trustee of the Issuer from all of its obligations under this Trust Deed or upon the occurrence of the circumstances stated in Clause 32.2 above pursuant to a receipt by the Trustee of unconditional confirmation in writing from the Registrar that all outstanding obligations to the Bondholders have been paid in full.
- 37.2 Upon termination of the trust and conclusion of payment(s) to the Bondholders and/or Trustee, any assets outstanding in the trust shall be returned to the Issuer.

### **40.0 MODIFICATION OF TRUST**

- 40.1 If the Issuer desires to alter any provision of this Deed for any reason whatsoever, the Issuer shall make a written request to the Trustee for written approval of the alteration, with the proposed alterations and the reasons therefore, including a statement to the effect that the alterations shall not be prejudicial to the interest of Bondholders.
- 40.2 Upon receipt of such notice made pursuant to sub-clause 40.1 above, the Trustee shall consider the proposed modification or alterations and if they are of the opinion that the proposed modification is, or alterations are not prejudicial to the interest of Bondholders, the Trustee shall convene a meeting of Bondholders to discuss the proposed modification or alterations. With the prior written consent of the Bondholders, the Trustee shall within a period of 5 (five) days communicate said approval for modifying or supplementing the provisions of this Deed to the Issuer. Upon receipt of the approval, the Issuer may make the necessary alterations to the Deed.
- 40.3 Where pursuant to Clauses 40.1 and 40.2 above, the Trustee are unable to secure the written consent of the Bondholders approving the proposed modification, the Trustee shall immediately communicate this to the Issuer, in writing, and the proposed modification shall not occur.
- 40.4 Notwithstanding the provisions of Clauses 40.1 and 40.2 and 40.3 above, the Issuer and Trustee subject to the approval of SEC, acting in good faith, may without the consent of the Bondholders agree to any modification of this Trust Deed if such modification is (a) not prejudicial to the interests of the Bondholders; (b) of a minor or technical nature; and/or (c) to correct a manifest error.
- 40.5 All amendments and modifications to the Deed shall only become effective upon obtaining the approval of the SEC to such amendment or modification.

### **41.0 DISPUTE RESOLUTION**

- 41.1 Notwithstanding any dispute, difference, controversy or claim which may arise as a result of the operation of this Deed, (hereinafter referred to as a "Dispute") each Party shall continue the performance of its obligations hereunder.
- 41.2 Where the Parties are unable to resolve any dispute amicably within fourteen (14) Business Days of holding consultations after a dispute arises, such dispute shall then be settled by arbitration in accordance with the Arbitration and Conciliation Act, Cap. A18 LFN 2004;

## STATUTORY AND GENERAL INFORMATION

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provided that notification of any such dispute shall be given to the SEC within five (5) Business Days of its occurrence.

- 41.3 The arbitration panel shall consist of a sole arbitrator, to be appointed upon agreement of the Parties. Where the Parties are unable to agree on the choice of an arbitrator within 5 Business Days, the choice of an arbitrator shall be referred to the Director General of the SEC, who shall nominate the arbitrator. The arbitral proceedings shall be held in Lagos, Nigeria, and shall be conducted in the English language.
- 41.4 The arbitrator shall have a maximum period of ten (10) Business Days following the Parties' exchange of pleadings to resolve the dispute failing which the said dispute shall be referred to the SEC for resolution.
- 41.5 Any Party aggrieved by the decision of the SEC reached in accordance with Clause 40.4 above may refer the matter to the Investments and Securities Tribunal established in accordance with the provisions of the ISA, for final resolution.
- 41.6 The provisions of this clause shall survive the termination from whatever cause arising out of any or all the terms of this Deed.

### **42.0 GOVERNING LAW**

- 42.1 This Deed shall be governed by and construed in all respects in accordance with the laws of the Federal Republic of Nigeria.

## **14. STATEMENT OF INDEBTEDNESS OF THE SPONSOR**

Details of all indebtedness of the Sponsor at the time of issuance of any Bonds under the Programme, will be disclosed in the Supplementary Shelf Prospectus relating to the series of Bonds to be issued.

## **15. STATEMENT OF INDEBTEDNESS OF THE ISSUER**

Details of all indebtedness of the Issuer at the time of issuance of any Bonds under the Programme will be disclosed in the Supplementary Shelf Prospectus relating to the series of Bonds to be issued.

Other than the aforementioned, the Issuer has not incurred any debt, other than that which it shall incur in relation to the transactions contemplated herein.

## **16. OFF BALANCE SHEET ITEMS OF THE SPONSOR**

As at 31 December 2019, the Sponsor had no Off Balance Sheet Items other than in the ordinary course of business.

## **17. OFF BALANCE SHEET ITEMS OF THE ISSUER**

As at 31 December 2019, the Issuer had no Off Balance Sheet Items other than in the ordinary course of business.

## **18. CLAIMS AND MATERIAL LITIGATION**

The due diligence exercise revealed that the Sponsor is currently involved in three (3) litigation claims. Besides from these cases, the due diligence exercise by F.O. Akinrele & Co., the Solicitor to the Transaction, did not reveal any other current or potential investigations, litigation, arbitration or administrative proceedings which have been commenced or threatened against the Company and or the Sponsor which may have a material adverse effect or impact negatively on this Transaction.

### 19. DECLARATIONS

Except as otherwise disclosed in this Shelf Prospectus:

- (i) No share of the Sponsor or the Issuer is under option or agreed conditionally or unconditionally to be put under option;
- (ii) No commissions, brokerages or other special terms have been granted by the Sponsor or the Issuer to any person in connection with the Debt Issuance Programme or sale of any securities of the Sponsor or the Issuer;  
  
Save as disclosed herein, the directors of the Sponsor and the Issuer have not been informed of any holding
- (iii) representing 5% or more of the issued share capital of the Sponsor or the Issuer;
- (iv) There are no founders', management or deferred shares or any options outstanding in the Sponsor or the Issuer;
- (v) There are no material service agreements between the Sponsor or the Issuer or any of their respective Directors and employees other than in the ordinary course of business;
- (vi) There are no long-term service agreements between the Sponsor or the Issuer or any of their respective Directors and employees other than in the ordinary course of business;
- (vii) No Directors of the Sponsor or the Issuer has had any interest, direct or indirect, in any property purchased or proposed to be purchased by the Sponsor or the Issuer in the five years prior to the date of this Shelf Prospectus;
- (viii) No prosecution has commenced against the Sponsor or the Issuer or any of their respective subsidiaries in respect of any breach of any securities or banking laws or CAMA;
- (ix) No action has been taken against the Sponsor or the Issuer by the NSE or FMDQ in respect of any breach of the listing requirements of NSE or FMDQ respectively.

Further declarations/information in respect of shareholders/key management staff. It is further declared that to the best of knowledge of the Directors of the Sponsor and the Issuer as at the 16 February 2021:

- (i) None of the above is under any bankruptcy or insolvency proceedings in any court of law;
- (ii) None of them has been convicted in any criminal proceeding;
- (iii) None of them is subject of any order, judgment or ruling of any court of competent jurisdiction or regulatory body relating to fraud or dishonesty.

### 20. COSTS AND EXPENSES

The costs and expenses of and incidental to the establishment of this Programme and the issuance of Bonds under the Programme, including fees payable to the regulatory authorities, brokerage commission, professional parties, printing and distribution expenses, would be determined at each issuance and will not exceed the maximum amount stipulated by the regulatory authorities. In addition, these costs and expenses shall be borne by the Sponsor and will be specified in the Applicable Pricing Supplement.

### 21. MATERIAL CONTRACTS

The following agreements have been entered into and are considered material to this Programme:

## STATUTORY AND GENERAL INFORMATION

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- A Programme Trust Deed dated 16 February 2021 between FSDH Funding SPV PLC and ARM Trustees Limited in connection with the Programme.
- A Master Notes Issuance Agreement dated 16 February 2021 between FSDH Merchant Bank Limited, ARM Trustees Limited and FSDH Funding SPV PLC.
- Deed of Undertaking dated 16 February 2021 between FSDH Merchant Bank Limited, FSDH Funding SPV PLC and ARM Trustees Limited.
- A Share Trust Deed dated 16 February 2021 between FSDH MB and FBNQuest Trustees Nigeria Limited.

Other material contracts in respect of any issuance of Bonds under the Programme will be disclosed in the Applicable Pricing Supplement issued in respect of that Series of Bonds.

### 22. UNDERWRITING

Any underwriting commitments with respect to Bonds issued under the Programme will be disclosed in the Applicable Pricing Supplement issued in respect of that Series of Bonds.

### 23. RELATIONSHIPS BETWEEN THE SPONSOR AND ITS ADVISERS

FSDH Capital Limited (Joint Issuing House) and FSDH Merchant Bank Limited (the Sponsor to the Debt Issuance Programme) are subsidiaries of FSDH Holding Company.

Save as disclosed, there is no relationship between the Sponsor, the Issuing Houses and the other Professional Parties as at the date of the Shelf Prospectus, other than in the ordinary course of business.

### 24. MERGERS AND TAKEOVERS

As at the date of this Shelf Prospectus, the Directors are not aware of the following during the preceding financial year or current financial year:

- a merger or takeover offer by third parties in respect of the Sponsor's securities; and
- a merger or takeover by the Sponsor in respect of another company's securities.

### 25. CONFIRMATION OF GOING CONCERN STATUS

The Directors affirm that the Sponsor is a going concern and has no pending insolvency proceedings instituted against it. The Directors also confirm that the Sponsor will continue in operations for the foreseeable future and that there are no threats to the operations of the Sponsor.

### 26. CONSENTS

The following have given and not withdrawn their written consents to the issue of this Shelf Prospectus with their names and reports (where applicable) included in the form and context in which they appear:

Directors and Secretary of the Sponsor (FSDH Merchant Bank Limited)		
S/N	Name	Role
1.	Mr. Femi Agbaje	Chairman
2.	Mrs. Hamda Ambah	MD/CEO
3.	Ms. Olufunsho Olusanya	Executive Director
4.	Mr. Taiwo Otit	Executive Director
5.	Alhaji Bello Garba	Non - Executive Director

## STATUTORY AND GENERAL INFORMATION

6.	Mr. Kelechi Okoro	Non - Executive Director
7.	Mr. Tosayee Ogbomo	Non - Executive Director
8.	Mr. Patrice Backer	Non - Executive Director
9.	Mr. Godwin Ize-Iyamu	Non - Executive Director
10.	Ms. Bolanle Meshida	Company Secretary
<b>Directors and Secretary of the Issuer (FSDH Funding SPV PLC)</b>		
1.	Mr. Taiwo Okeowo <sup>4</sup>	Director
2.	Mr. Adekunle Awojobi	Director
3.	Mr. Patrick Mgbenwelu	Director
4.	Mrs. Tolulope Adetugbo	Company Secretary
<b>Other Parties to the Programme</b>		
1.	Stanbic IBTC Capital Limited	Lead Issuing House
2.	FSDH Capital Limited	Joint Issuing House
3.	Rand Merchant Bank Nigeria Limited	Joint Issuing House
4.	United Capital PLC	Joint Issuing House
5.	Udo Udoma & Belo-Osagie	Issuer's Counsel
6.	F.O. Akinrele & Co.	Transaction Counsel
7.	PricewaterhouseCoopers	Auditor
8.	Deloitte & Touche Nigeria	Reporting Accountants
9.	ARM Trustees Limited	Trustee
10.	Agusto & Co. Limited	Rating Agency
11.	UCML Capital Limited	Stockbroker
12.	First Registrars & Investor Services Limited	Registrar

### 27. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at the offices of the Issuing Houses during normal business hours on any weekday (except public holidays), during the validity period of the Programme:

- i. The Certificate of Incorporation of the Sponsor, duly certified by the Sponsor's Company Secretary;
- ii. The Certificate of Incorporation of the Issuer, duly certified by the Issuer's Company Secretary;
- iii. The Memorandum and Articles of Association of the Sponsor, duly certified by the CAC;
- iv. The Memorandum and Articles of Association of the Issuer, duly certified by the CAC;
- v. A copy of the resolution dated 11 August 2020 passed at the meeting of the Board of Directors of the Sponsor authorising the Programme; signed by a Director and the Company Secretary of the Sponsor;
- vi. A copy of the resolution dated 5 August 2020 passed at the meeting of the Board of Directors of the Issuer authorising the Programme; signed by a Director and the Company Secretary of the Issuer;
- vii. This Shelf Prospectus dated 16 February, 2021 issued in respect of the ₦30,000,000,000 Debt Issuance Programme;
- viii. The Programme Trust Deed;
- ix. The Sponsor's Audited Accounts for each of the five years ended 31 December 2019;

<sup>4</sup> Mr. Taiwo Okeowo resigned from the board of directors of FSDH Funding SPV PLC - effective 01 February 2021

## STATUTORY AND GENERAL INFORMATION

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- x. The Reporting Accountants' Report on the audited financial information of the Sponsor for each of the five years ended 31 December 2019;
- xi. The Sponsor's Rating Report by Agosto & Co.
- xii. The schedule of the Claims and Litigation referred to above and the Solicitors' opinion thereon;
- xiii. The material contracts referred to on page 157 of this Shelf Prospectus;
- xiv. The written consents referred to on page 158 of this Shelf Prospectus;
- xv. The letter from solicitors on claims and litigations; and
- xvi. The SEC letter of approval dated 03 January 2021 in respect of the shelf registration of the Programme.

## FORM OF PRICING SUPPLEMENT

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Set out below is the form of Pricing Supplement which will be prepared by the Issuer for each Series of Bonds issued under the Programme



**FSDH FUNDING SPV PLC**

**(RC 1123160)**

**OFFER FOR SUBSCRIPTION OF [-] [-] YEAR [-] % FIXED RATE SENIOR UNSECURED BOND  
DUE [-]**

**UNDER THE ₦30,000,000,000 FSDH FUNDING SPV PLC DEBT ISSUANCE PROGRAMME**

**ISSUE PRICE: ₦1,000 PER UNIT**

**PAYABLE IN FULL ON APPLICATION**

**Application List Opens: [-]**

**Application List Closes: [-]**

This Pricing Supplement is prepared for the purpose of Rule 321 of the Rules and Regulation of the Securities & Exchange Commission (“The Commission” or “The SEC”) in connection with the ₦30,000,000,000.00 Debt Issuance Programme established by FSDH Funding SPV PLC (“the Issuer”). This Pricing Supplement is supplemental to, and should be read in conjunction with, the Shelf Prospectus dated 16 February 2021 and any other supplements to the Shelf Prospectus to be issued by the Issuer. Terms defined in the Shelf Prospectus have the same meaning when used in this Pricing Supplement.

To the extent that there is any conflict or inconsistency between the contents of this Pricing Supplement and the Shelf Prospectus, the provisions of this Pricing Supplement shall prevail. This Pricing Supplement may be used to offer and sell the Bonds only if accompanied by the Shelf Prospectus. Copies of the Shelf Prospectus can be obtained from any of the Issuing Houses.

The registration of the Shelf Prospectus and this Pricing Supplement shall not be taken to indicate that the Commission endorses or recommends the Securities or assumes responsibility for the correctness of any statements made or opinions or reports expressed in the Shelf Prospectus or this Pricing Supplement. No Securities will be allotted or issued on the basis of the Shelf Prospectus read together with this Pricing Supplement later than three years after the date of the issue of the Shelf Prospectus.

This Pricing Supplement contains particulars in compliance with the requirements of the Commission for the purpose of giving information with regard to the Securities being issued hereunder (the “Series [●] Bonds” or “Bonds”). Application has been made to FMDQ for admission of the Bonds to its OTC platform. The Bonds now being issued will upon admission to the OTC platform qualify as a security in which Trustees may invest under the Trustee Investments Act (Cap T22) Laws of the Federation of Nigeria, 2004. The Bonds also qualify as a Security under Section 20(1)(g) of the Personal Income Tax Act, Cap P8, LFN, 2004 as well as Section (19)(2) of the Companies Income Tax Act, Cap C21, LFN, 2004.

The Issuer accepts full responsibility for the accuracy of the information contained in this Pricing Supplement. The Issuer declares that having taken reasonable care to ensure that such is the case, the information contained in this Pricing Supplement is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information and that save as disclosed herein, no other significant new factor, material mistake or inaccuracy relating to the information included in the Shelf Prospectus has arisen or has been noted, as the case may be, since the publication of the Shelf Prospectus. Furthermore, the material facts contained herein are true and accurate in all material respects and the Issuer confirms that, having made all reasonable enquiries, to the best of its knowledge and belief, there are no material facts, the omission of which would make any statement contained herein misleading or untrue.

This Pricing Supplement is dated [-]

*Investors may confirm the clearance of the prospectus and registration of the securities with the Securities and Exchange Commission by contacting the Commission on [sec@sec.gov.ng](mailto:sec@sec.gov.ng) or +234(0)94621100;+234(0) 94621168*

FINAL TERMS OF THE SERIES [●] BONDS		
1.	Issuer	FSDH Funding SPV Plc
2.	Description of the Bonds:	[●]
3.	Series Number:	[●]
4.	Aggregate Principal Amount of Bonds:	[●]
5.	Issue Price:	[●]
6.	Denomination(s):	[●]
7.	Issue Date:	[●]
8.	Maturity Date:	[●]
9.	Principal Moratorium:	[●]
10.	Interest Basis:	[●]
11.	Redemption/Payment Basis:	[●]
12.	Status:	[●]
13.	Security:	[●]
14.	Listing(s):	[●]
15.	Method of Distribution:	[●]
16.	Offer Period	[●]
<b>Provisions Relating to Interest (If Any) Payable</b>		
17.	Fixed Rate Note Provisions	
	- Interest Rate:	[●]
	- Coupon Payment Date(s) /Payment Dates:	[●]
	- Interest Amount(s):	[●]
	- Business Day Convention:	[Following Business Day Convention/ Preceding Business Day Convention/ Modified Business Day]
	- Business Day:	Modified Business Day
	- Other terms relating to method of calculating interest for Fixed Rate Bonds:	[●]
18.	Floating Rate Note Provisions	[●] (if not delete the remaining sub- paragraphs of this paragraph)

## FORM OF PRICING SUPPLEMENT

	- Coupon Payment Date(s):	[•]
	- Reference Banks:	[•]
	- Spread (if applicable):	[•]
	- Party responsible for calculating interest rate and interest amount(s)	[•]
	- Relevant Time (if applicable):	[•]
	- Screen Rate Determination: <ul style="list-style-type: none"> <li>• Benchmark:</li> <li>• Coupon Determination Dates(s):</li> <li>• Relevant Screen Page:</li> </ul>	Actual/Actual: Actual/360
	- Day Count Fraction	[•]
<b>Provisions Relating to Redemption</b>		
19.	Optional Early Redemption (Call Option):	[Applicable/Not Applicable]
20.	Optional Early Redemption (Put Option):	[Applicable/Not Applicable]
21.	Scheduled Redemption/Amortization:	[Applicable/Not Applicable]
22.	Redemption Amount(s):	[•]
23.	Scheduled Redemption Dates:	[•]
24.	Final Redemption Amount:	[•]
<b>General Provisions Applicable to the Notes</b>		
25.	Form of Notes: Form of Dematerialized Notes: Registrar:	Dematerialised Notes [Registered/Certificate/Dematerialized] [•]
26.	Trustee(s):	[•]
27.	Record Date:	[•]
28.	Other terms or special conditions:	[•]
<b>Distribution, Clearing and Settlement Provisions</b>		
29.	Underwritten/Book-building:	[•]
30.	If Underwritten, names of Underwriters	[•]
31.	Clearing System:	[•]
<b>General</b>		
32.	Rating:	[•]
33.	Taxation:	[•]

## FORM OF PRICING SUPPLEMENT

34.	Governing Law	Nigeria
<b>Appendices</b>		
35.	Appendices:	[List and Attach Appendices if applicable]
<b>Use of Proceeds</b>		

Insert details of use of proceeds

### Material Adverse Change Statement

Except as disclosed in this document and in the Shelf Prospectus dated [●], there has been no significant change in the financial or trading position of the Issuer since *[insert date of last audited accounts or interim accounts (if later)]* and no material adverse change in the financial position or prospects of the Issuer since *[insert date of last published annual accounts]*.

### Responsibility

The Issuer accepts responsibility for the information contained in this Pricing Supplement which, when read together with the Shelf Prospectus referred to above, contains all information that is material in the context of the issue of the Bonds.