

**CONSOLIDATED AND SEPARATE  
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2021



## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

|  |              | Group               | Group               | Bank                | Bank                |
|--|--------------|---------------------|---------------------|---------------------|---------------------|
|  |              | 31 December<br>2021 | 31 December<br>2020 | 31 December<br>2021 | 31 December<br>2020 |
|  | <b>Notes</b> |                     |                     |                     |                     |
| Interest income calculated using the effective interest method:      |              |                     |                     |                     |                     |
|  | 7a           | 85,025              | 107,995             | 85,025              | 107,995             |
| Interest income on Financial asset at FVTPL                          | 7b           | 518                 | 506                 | 518                 | 506                 |
| Interest expense   | 8            | (19,706)            | (23,132)            | (19,706)            | (23,132)            |
| Net interest income  |              | 65,837              | 85,369              | 65,837              | 85,369              |
| Impairment loss on loans and other financial assets                  | 12           | (3,317)             | (9,399)             | (3,317)             | (9,399)             |
|  |              | 62,520              | 75,970              | 62,520              | 75,970              |
| Net fee and commission income  | 9            | 7,596               | 5,635               | 7,596               | 5,635               |
| Net trading and foreign exchange income/(loss)                       | 10           | 4,575               | (443)               | 4,575               | (443)               |
| Other operating income   | 11           | 5,198               | 3,096               | 6,351               | 9,753               |
| Net operating profit   |              | 79,889              | 84,258              | 81,042              | 90,915              |
| Employee benefit costs   | 13           | (26,496)            | (27,853)            | (26,496)            | (27,853)            |
| Administration and general expenses                                  | 14           | (30,842)            | (28,475)            | (30,842)            | (28,475)            |
| Depreciation and amortisation  | 15           | (6,262)             | (5,715)             | (6,262)             | (5,715)             |
| <b>Profit before tax</b>   |              | <b>16,289</b>       | <b>22,215</b>       | <b>17,442</b>       | <b>28,872</b>       |
| Taxation   | 31           | (664)               | (336)               | (664)               | (336)               |
| Profit for the period from continuing operations                     |              | 15,625              | 21,879              | 16,778              | 28,536              |
| Profit for the period from discontinued operations                   | 28c          | 3,843               | 6,212               | -                   | -                   |
| <b>Profit for the period</b>   |              | <b>19,468</b>       | <b>28,091</b>       | <b>16,778</b>       | <b>28,536</b>       |
| <b>Profit attributable to:</b>                                       |              |                     |                     |                     |                     |
| Owners of the Bank   |              | <b>19,404</b>       | <b>28,038</b>       | <b>16,778</b>       | <b>28,536</b>       |
| Continuing operations  |              | 15,625              | 21,879              | 16,778              | 28,536              |
| Discontinued operations  |              | 3,779               | 6,159               | -                   | -                   |
| Non-controlling interests  |              | <b>64</b>           | <b>53</b>           | -                   | -                   |
| Discontinued operations  |              | 64                  | 53                  | -                   | -                   |
|  |              | <b>19,468</b>       | <b>28,091</b>       | <b>16,778</b>       | <b>28,536</b>       |
| <b>Other comprehensive income:</b>                                   |              |                     |                     |                     |                     |
| <b>Items that may be subsequently reclassified to profit or loss</b> |              |                     |                     |                     |                     |
| Exchange differences on translation of discontinued operation        |              | -                   | (268)               | -                   | -                   |
| <b>Items that will not be reclassified to profit or loss</b>         |              |                     |                     |                     |                     |
| Net Change in Fair Value of Equity Investments (FVOCI)               |              | 830                 | 460                 | 830                 | 460                 |
| <b>Other comprehensive income for the period</b>                     |              | <b>830</b>          | <b>192</b>          | <b>830</b>          | <b>460</b>          |
| <b>Total comprehensive income for the period</b>                     |              | <b>20,298</b>       | <b>28,283</b>       | <b>17,608</b>       | <b>28,996</b>       |
| <b>Total comprehensive income attributable to:</b>                   |              |                     |                     |                     |                     |
| Owners of the bank   |              | <b>20,234</b>       | <b>28,230</b>       | <b>17,608</b>       | <b>28,996</b>       |
| Continuing operations  |              | 16,455              | 22,071              | 17,608              | 28,996              |
| Discontinued operations  |              | 3,779               | 6,159               | -                   | -                   |
| <b>Non-controlling interests</b>                                     |              | <b>64</b>           | <b>53</b>           | -                   | -                   |
| Discontinued operations  |              | 64                  | 53                  | -                   | -                   |
|  |              | <b>20,298</b>       | <b>28,283</b>       | <b>17,608</b>       | <b>28,996</b>       |

The accompanying notes form an integral part of these financial statements

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

|  |              | Group               | Group               | Bank                | Bank                |
|--|--------------|---------------------|---------------------|---------------------|---------------------|
|  |              | 31 December<br>2021 | 31 December<br>2020 | 31 December<br>2021 | 31 December<br>2020 |
| <b>Assets</b>  | <b>Notes</b> |                     |                     |                     |                     |
| Cash and balances with central bank                        | 16           | 19,558              | 52,995              | 19,558              | 52,995              |
| Due from banks and other financial institutions            | 17           | 52,673              | 57,812              | 52,673              | 57,812              |
| Financial assets held at fair value through profit or loss | 18           | 654                 | 43,087              | 654                 | 43,087              |
| Loans and advances to customers                            | 19           | 260,072             | 204,784             | 260,072             | 204,784             |
| <i>Investment securities:</i>                              |              |                     |                     |                     |                     |
| - Amortised cost   | 20           | 330,912             | 275,211             | 330,912             | 275,211             |
| - Fair value through other comprehensive income (FVTOCI)   | 21           | 18,650              | 17,821              | 18,650              | 17,821              |
| Assets pledged as collateral                               | 22           | 52,576              | 42,164              | 52,576              | 42,164              |
| Prepayment and other assets                                | 23           | 345,588             | 220,055             | 345,731             | 220,056             |
| Other loans and receivables                                | 23b          | 173,550             | 210,677             | 173,550             | 210,677             |
| Right of use assets  | 24           | 2,349               | 1,740               | 2,349               | 1,740               |
| Property, plant and equipment                              | 26           | 47,490              | 50,893              | 47,490              | 50,893              |
| Intangible assets  | 27           | 4,061               | 2,271               | 4,061               | 2,271               |
|  |              | 1,308,133           | 1,179,510           | 1,308,276           | 1,179,511           |
| Assets classified as held for sale                         | 28           | 1,894               | 14,680              | 500                 | 1,655               |
| <b>Total assets</b>  |              | <b>1,310,027</b>    | <b>1,194,190</b>    | <b>1,308,776</b>    | <b>1,181,166</b>    |
| <b>Liabilities</b>   |              |                     |                     |                     |                     |
| Deposits from customers                                    | 29           | 1,021,493           | 914,323             | 1,021,514           | 914,323             |
| Lease liabilities  | 25           | 1,798               | 1,335               | 1,798               | 1,335               |
| Borrowings   | 30           | 84,102              | 89,398              | 84,102              | 89,397              |
| Current tax liability                                      | 31           | 1,064               | 597                 | 1,064               | 597                 |
| Accruals and other liabilities                             | 32           | 98,693              | 78,615              | 98,693              | 78,615              |
|  |              | 1,207,150           | 1,084,268           | 1,207,171           | 1,084,267           |
| Liabilities classified as held for sale                    | 28           | 837                 | 9,984               | -                   | -                   |
| <b>Total liabilities</b>                                   |              | <b>1,207,987</b>    | <b>1,094,252</b>    | <b>1,207,171</b>    | <b>1,084,267</b>    |
| <b>Equity</b>  |              |                     |                     |                     |                     |
| Share capital  | 33a          | 25,000              | 25,000              | 25,000              | 25,000              |
| Share premium  | 33b          | 25,433              | 873,450             | 25,433              | 873,450             |
| Retained earnings  |              | 12,992              | 8,613               | 12,686              | 10,040              |
| Reorganisation reserve                                     | 33e          | -                   | (848,017)           | -                   | (848,017)           |
| Other reserves   | 33c          | 38,615              | 39,794              | 38,486              | 36,426              |
|  |              | 102,040             | 98,840              | 101,605             | 96,899              |
| Non-controlling interest                                   | 33d          | -                   | 1,098               | -                   | -                   |
| <b>Total equity</b>  |              | <b>102,040</b>      | <b>99,938</b>       | <b>101,605</b>      | <b>96,899</b>       |
| <b>Total equity and liabilities</b>                        |              | <b>1,310,027</b>    | <b>1,194,190</b>    | <b>1,308,776</b>    | <b>1,181,166</b>    |

The financial statements were approved and authorised for issue by the Board of Directors on 17 March 2022 and signed on its behalf by:



**Mr Muhammad K. Ahmad, OON**

Chairman

FRC NO: 2015/IODN/00000012581

Additional certification by:



**Mr Pius Olaoye**

Chief Financial Officer

FRC No: 2016/ICAN/00000014239



**Mr Innocent C. Ike**

Managing Director / CEO

FRC No: 2016/ICAN/00000014597

The accompanying notes form an integral part of these financial statements

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

| Group  | Attributable to equity holders of the parent |               |                   |                 |                     |                    |                   |                        |                           |          |                          |              |
|--|--|---------------|-------------------|-----------------|---------------------|--------------------|-------------------|------------------------|---------------------------|----------|--------------------------|--------------|
|  | Share capital                                | Share premium | Statutory reserve | AGSMEIS reserve | Translation reserve | Fair Value Reserve | Retained Earnings | Reorganisation reserve | Intervention fund reserve | Total    | Non-controlling interest | Total Equity |
| <b>At 01 January 2021</b>  | 25,000                                       | 873,450       | 17,623            | 2,795           | 3,239               | 3,235              | 8,615             | (848,017)              | 12,902                    | 98,842   | 1,098                    | 99,940       |
| Profit for the period  | -  | -             | -                 | -               | -                   | -                  | 19,404            | -                      | -                         | 19,404   | 64                       | 19,468       |
| <b>Other comprehensive income, net of tax</b>  |  |               |                   |                 |                     |                    |                   |                        |                           |          |                          |              |
| Net gains on financial instruments designated at FVTOCI                                  | -  | -             | -                 | -               | -                   | 830                | -                 | -                      | -                         | 830      | -                        | 830          |
| <b>Total other comprehensive income</b>  | -  | -             | -                 | -               | -                   | 830                | -                 | -                      | -                         | 830      | -                        | 830          |
| <b>Total comprehensive income</b>  | -  | -             | -                 | -               | -                   | 830                | 19,404            | -                      | -                         | 20,235   | 64                       | 20,298       |
| Transfers between reserves:  |  |               |                   |                 |                     |                    |                   |                        |                           |          |                          |              |
| Translation reserve reclassified to profit or loss due to disposal of foreign subsidiary | -  | -             | -                 | -               | (3,239)             | -                  | -                 | -                      | -                         | (3,239)  | -                        | (3,239)      |
| Payment of Intervention fund   | -  | -             | -                 | -               | -                   | -                  | -                 | -                      | (12,902)                  | (12,902) | -                        | (12,902)     |
| Transfers for the period   | -  | (848,017)     | 5,033             | (1,955)         | -                   | -                  | (14,132)          | 848,017                | 11,054                    | -        | -                        | -            |
| <b>Transactions with owners:</b>   |  |               |                   |                 |                     |                    |                   |                        |                           |          |                          |              |
| Disposal of subsidiary with NCI  | -  | -             | -                 | -               | -                   | -                  | (895)             | -                      | -                         | (895)    | (1,162)                  | (2,057)      |
|  | -  | (848,017)     | 5,033             | (1,955)         | (3,239)             | -                  | (15,027)          | 848,017                | (1,848)                   | (17,036) | (1,162)                  | (18,198)     |
| <b>Balance at 31 December 2021</b>   | 25,000                                       | 25,433        | 22,655            | 840             | 0                   | 4,065              | 12,992            | -                      | 11,054                    | 102,040  | -                        | 102,040      |

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

### Group

#### Attributable to equity holders of the parent

|   | Share capital | Share premium | Share Statutory reserve | AGSMEIS reserve | Translation reserve | Fair Value Reserve | Retained Earnings | Reorganisation reserve | Intervention fund reserve | Total    | Non-controlling interest | Total Equity |
|---|---------------|---------------|-------------------------|-----------------|---------------------|--------------------|-------------------|------------------------|---------------------------|----------|--------------------------|--------------|
| <b>At 01 January 2020</b>   | 25,000        | 873,450       | 9,062                   | 1,368           | 3,507               | 2,775              | 3,466             | (848,017)              | 15,085                    | 85,696   | 1,194                    | 86,890       |
| Profit for the period   | -             | -             | -                       | -               | -                   | -                  | 28,038            | -                      | -                         | 28,037   | 53                       | 28,090       |
| Translation reserve<br>Net gains on financial instruments<br>designated at FVTOCI | -             | -             | -                       | -               | (268)               | -                  | -                 | -                      | -                         | (268)    | -                        | (268)        |
| <b>Total other comprehensive income</b>   | -             | -             | -                       | -               | (268)               | 460                | -                 | -                      | -                         | 192      | -                        | 192          |
| <b>Total comprehensive income</b>   | -             | -             | -                       | -               | (268)               | 460                | 28,038            | -                      | -                         | 28,229   | 53                       | 28,282       |
| Transfers between reserves:<br>Payment of Intervention fund                       | -             | -             | -                       | -               | -                   | -                  | -                 | -                      | (15,085)                  | (15,085) | -                        | (15,085)     |
| Transfers for the period  | -             | -             | 8,561                   | 1,427           | -                   | -                  | (22,890)          | -                      | 12,902                    | -        | -                        | -            |
| <b>Transactions with owners</b>   | -             | -             | -                       | -               | -                   | -                  | -                 | -                      | -                         | -        | (149)                    | (149)        |
| Disposal of subsidiary with NCI   | -             | -             | 8,561                   | 1,427           | -                   | -                  | (22,890)          | -                      | (2,183)                   | (15,085) | (149)                    | (15,234)     |
| <b>Balance at 31 December 2020</b>  | 25,000        | 873,450       | 17,623                  | 2,795           | 3,239               | 3,235              | 8,615             | (848,017)              | 12,902                    | 98,840   | 1,098                    | 99,938       |

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

### Bank

|   | Attributable to equity holders |                  |                   |                 |                    |                   |                        | Intervention fund reserve | Total           |
|---|--------------------------------|------------------|-------------------|-----------------|--------------------|-------------------|------------------------|---------------------------|-----------------|
|   | Share capital                  | Share premium    | Statutory reserve | AGSMEIS reserve | Fair Value reserve | Retained earnings | Reorganisation reserve |                           |                 |
| <b>At 01 January 2021</b>                               | 25,000                         | 873,450          | 17,495            | 2,794           | 3,235              | 10,040            | (848,017)              | 12,902                    | 96,899          |
| Profit for the period                                   | -                              | -                | -                 | -               | -                  | 16,778            | -                      | -                         | 16,778          |
| <b>Other comprehensive income, net of tax:</b>          |                                |                  |                   |                 |                    |                   |                        |                           |                 |
| Net gains on financial instruments designated at FVTOCI | -                              | -                | -                 | -               | 830                | -                 | -                      | -                         | 830             |
| <b>Total other comprehensive income</b>                 | -                              | -                | -                 | -               | 830                | -                 | -                      | -                         | 830             |
| <b>Total comprehensive income</b>                       | -                              | -                | -                 | -               | 830                | 16,778            | -                      | -                         | 17,608          |
| Transfers between reserves:                             |                                |                  |                   |                 |                    |                   |                        |                           |                 |
| Payment of Intervention fund                            | -                              | -                | -                 | -               | -                  | -                 | -                      | (12,902)                  | (12,902)        |
| Transfers for the period                                | -                              | (848,017)        | 5,033             | (1,955)         | -                  | (14,132)          | 848,017                | 11,054                    | -               |
|   | -                              | <b>(848,017)</b> | <b>5,033</b>      | <b>(1,955)</b>  | -                  | <b>(14,132)</b>   | <b>848,017</b>         | <b>(1,848)</b>            | <b>(12,902)</b> |
| <b>Balance at 31 December 2021</b>                      | 25,000                         | 25,433           | 22,527            | 840             | 4,065              | 12,686            | -                      | 11,054                    | 101,605         |

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

### Bank

|   | Attributable to equity holders |               |                   |                 |                    |                   |                        |                           |          |
|---|--------------------------------|---------------|-------------------|-----------------|--------------------|-------------------|------------------------|---------------------------|----------|
|   | Share capital                  | Share premium | Statutory reserve | AGSMEIS reserve | Fair Value reserve | Retained earnings | Reorganisation reserve | Intervention fund reserve | Total    |
| <b>At 01 January 2020</b>                               | 25,000                         | 873,450       | 8,934             | 1,368           | 2,775              | 4,395             | (848,017)              | 15,085                    | 82,989   |
| Profit for the period                                   | -                              | -             | -                 | -               | -                  | 28,535            | -                      | -                         | 28,535   |
| <b>Other comprehensive income, net of tax:</b>          |                                |               |                   |                 |                    |                   |                        |                           |          |
| Net gains on financial instruments designated at FVTOCI | -                              | -             | -                 | -               | 460                | -                 | -                      | -                         | 460      |
| <b>Total other comprehensive income/(loss)</b>          | -                              | -             | -                 | -               | 460                | -                 | -                      | -                         | 460      |
| <b>Total comprehensive income</b>                       | -                              | -             | -                 | -               | 460                | 28,535            | -                      | -                         | 28,995   |
| Transfers between reserves:                             |                                |               |                   |                 |                    |                   |                        |                           |          |
| Payment of Intervention fund                            | -                              | -             | -                 | -               | -                  | -                 | -                      | (15,085)                  | (15,085) |
| Transfers for the period                                | -                              | -             | 8,561             | 1,427           | -                  | (22,890)          | -                      | 12,902                    | -        |
|   | -                              | -             | 8,561             | 1,427           | -                  | (22,890)          | -                      | (2,183)                   | (15,085) |
| <b>Balance at 31 December 2020</b>                      | 25,000                         | 873,450       | 17,495            | 2,794           | 3,235              | 10,040            | (848,017)              | 12,902                    | 96,899   |

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

|  |             | <b>Group</b>       | <b>Group</b>       | <b>Bank</b>        | <b>Bank</b>        |
|--|-------------|--------------------|--------------------|--------------------|--------------------|
|  |             | <b>31 December</b> | <b>31 December</b> | <b>31 December</b> | <b>31 December</b> |
|  |             | <b>2021</b>        | <b>2020</b>        | <b>2021</b>        | <b>2020</b>        |
| <b>Operating activities</b>  | <b>Note</b> |                    |                    |                    |                    |
| Net cash generated from/(used) in operating activities                       | 34          | 22,137             | (253,164)          | 22,137             | (253,164)          |
| <b>Cash flows from investing activities</b>                                  |             |                    |                    |                    |                    |
| Acquisition of investment securities held at amortised cost & pledged assets | 41.2        | (370,968)          | (242,399)          | (370,968)          | (242,399)          |
| Interest received on investment securities held at amortised cost            | 41.1        | 18,193             | 16,106             | 18,193             | 16,106             |
| Dividend received  |             | 768                | 321                | 768                | 321                |
| Acquisition of property and equipment  | 26          | (5,312)            | (6,402)            | (5,312)            | (6,402)            |
| Proceeds from the sale of property and equipment                             | 41.2        | 4,830              | 80                 | 4,830              | 80                 |
| Acquisition of intangible assets   | 27          | (2,168)            | (53)               | (2,168)            | (53)               |
| Payment on acquisition of Right of Use assets                                | 25          | (518)              | (4)                | (518)              | (4)                |
| Net proceeds from disposal of subsidiaries                                   |             | 2,309              | 7,431              | 2,309              | 7,431              |
| Proceeds from disposed and matured investment securities                     | 41.3        | 306,868            | 526,542            | 306,868            | 526,542            |
|  |             | <u>(45,998)</u>    | <u>301,622</u>     | <u>(45,998)</u>    | <u>301,622</u>     |
| <b>Cash flows from financing activities</b>                                  |             |                    |                    |                    |                    |
| Interest paid on borrowings  | 30          | (381)              | (2,195)            | (381)              | (2,195)            |
| Repayment of borrowings  | 30          | (5,981)            | (14,219)           | (5,981)            | (14,219)           |
| Principal repayment on lease liabilities                                     | 25          | (244)              | (218)              | (244)              | (218)              |
| Interest paid on lease liabilities   | 25          | (136)              | (105)              | (136)              | (105)              |
| Payment of Intervention fund   | 41.3        | (12,902)           | (15,085)           | (12,902)           | (15,085)           |
|  |             | <u>(19,643)</u>    | <u>(31,822)</u>    | <u>(19,643)</u>    | <u>(31,822)</u>    |
| <b>Net (decrease)/increase in cash and cash equivalents</b>                  |             | <u>(43,504)</u>    | <u>16,635</u>      | <u>(43,504)</u>    | <u>16,635</u>      |
| Opening cash and cash equivalents  |             | 110,807            | 88,560             | 110,807            | 88,560             |
| Effect of exchange rate fluctuations on cash held                            |             | 4,928              | 5,612              | 4,928              | 5,612              |
| Net (decrease)/increase in cash and cash equivalents                         |             | <u>(43,504)</u>    | <u>16,635</u>      | <u>(43,504)</u>    | <u>16,635</u>      |
| <b>Cash and cash equivalents at 31 December</b>                              | 16.1        | <b>72,231</b>      | <b>110,807</b>     | <b>72,231</b>      | <b>110,807</b>     |

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

### 1 Reporting entity

Polaris Bank Limited commenced banking operations on September 21, 2018 after it took over and assumed ownership of assets and certain liabilities of Skye Bank Plc. The Bank was issued operating license by the Central Bank of Nigeria (CBN) whilst the operating license of Skye Bank was revoked by the Central Bank of Nigeria. The address of the Bank's registered office is 3 Akin Adesola Street, Victoria Island, Lagos.

The accompanying financial statements comprise the financial statements of Polaris Bank Limited (referred to as the "Bank" or "the Parent") and its subsidiaries (referred to together as "the Group"). The Bank is a company incorporated in Nigeria under the Companies and Allied Matters Act.

These consolidated and separate financial statements for the year ended 31 December 2021, are prepared for the Bank and the Group respectively. The Bank and the Group are primarily involved in wholesale, corporate and retail banking and mortgage financing.

These financial statements were authorised for issue by the Board of Directors on 17 March 2022.

### 2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated and separate financial statements are set out below. These policies are applicable to both the Bank and Group financial statements and have been consistently applied.

#### 2.1 Statement of compliance

The consolidated and separate financial statements of the Bank and the Group for the year ended 31 December 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the interpretations of these standards, issued by the International Financial Reporting Interpretations Committee (IFRIC).

#### 2.2 Basis of preparation

These financial statements comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flow and the notes.

##### 2.2(a) Basis of measurement

These financial statements have been prepared in accordance with the going concern principle under the historical cost convention except for the following:

- Derivative financial instruments which are measured at fair value.
- Non derivative financial instruments, carried at fair value through profit or loss, are measured at fair value.
- Fair value through other comprehensive income (FVOCI), financial assets are measured at fair value through equity.
- Assets and liabilities held for trading are measured at fair value.
- Non-current assets held for sale are measured at lower of cost and fair value less cost to sell.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group'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 Group's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 6.

##### 2.2.1 New and amended standards and interpretations

Below is a list of interpretations and amendment that were effective for the first time in periods commencing on or after 1 January 2021 but do not have a significant impact on the Bank and Group:

- Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2
- Amendment to IFRS 16 Leases – COVID-19 related rent concessions

- Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 Amendment to IFRS 9 Financial instruments, IFRS 16 Leases, IAS 39 Financial instruments: Recognition and Measurement (amendments), IFRS 4 Insurance contract, IFRS 7 Financial instruments: Disclosures - requirements enable companies to deal with its effect on financial instruments and to continue providing useful information to investors. The amendments require entities to update the effective interest rate to reflect the change to the alternative benchmark rate instead of derecognising or adjusting the carrying amount of financial instruments for changes required by the reform. The Group has assessed the impact of this amendment and this does not have a significant impact on the Group.

- Amendment to IFRS 16 Leases – COVID-19 related rent concessions

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The Group has assessed the impact of this amendment and this does not have a significant impact on the Group.

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The following standards have been issued or amended by the IASB but are yet to become effective for annual periods beginning on or after 1 January 2021:

The Group has not applied the following new or amended standards in preparing these consolidated and separate financial statements as it plans to adopt these standards at their respective effective dates. Commentaries on these new standards/amendments are provided below:

- Amendments to IAS 1 and IFRS Practice Statement 2 on disclosure of accounting policies
- Amendments to IAS 1 on classification of liabilities as current or non-current
- Amendments to IAS 8 on definition of accounting estimates
- Amendments to IAS 12 on Deferred tax related to Assets and liabilities arising from a single transaction

- Amendments to IAS 1 and IFRS Practice Statement 2 on disclosure of accounting policies

The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

- Amendments to IAS 1 on classification of liabilities as current or non-current

In January 2020, the IASB issued amendments to IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendment clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability non impacts its classification.

The Board also added two new paragraphs (Paragraph 76A and 76B ) to IAS 1 to clarify what is meant by "settlement" of a liability. The board concluded that it was important to link the settlement of the liability with the outflow of resources of the entity.

- Amendments to IAS 8 on definition of accounting estimates

The current version of IAS 8 does not provide a definition of accounting estimates. Accounting policies, however, are defined. Furthermore, the standard defines the concept of a "change in accounting estimates". A mixture of a definition of one item with a definition of changes in another has resulted in difficulty in drawing the distinction between accounting policies and accounting estimates in many instances. In the amended standard, accounting estimates are now defined as, "monetary amounts in financial statements that are subject to measurement uncertainty".

The amendments are effective for annual reporting periods beginning on or after 1 January 2023

- Amendments to IAS 12 on Deferred tax related to Assets and liabilities arising from a single transaction

This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023

## NOTES TO THE FINANCIAL STATEMENTS

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### 2.2.2 Accounting policies

The Group has adopted all the relevant standards applicable from the date of its incorporation.

### 2.3 Foreign currency translation

#### (a) Functional and presentation currency

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

Except where indicated, financial information presented in Naira has been rounded to the nearest million.

#### (b) Transactions and balances

Foreign currency transactions, that is transactions denominated or that require settlement in a foreign currency, are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

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

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

Changes in the fair value of monetary securities denominated in foreign currency measured at fair value through OCI are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets measured at fair value, such as equities classified as fair value through OCI, are included in other comprehensive income.

#### (c) Group companies (foreign operations)

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Exchange differences arising from the above process are reported in shareholders' equity as 'Foreign currency translation reserve'.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to 'Other comprehensive income'. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 2.4 Basis of consolidation

The financial statements of the subsidiaries used to prepare the consolidated financial statements were prepared as of the parent company's reporting date.

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### Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Investment in subsidiaries are reported at cost less impairment (if any) in the separate financial statements of the Bank.

Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies. Accounting policies of the subsidiaries have been changed where necessary to reflect the accounting policies of the group.

### Changes in ownership interests in subsidiaries without change of control

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

### Disposal of subsidiaries

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

### Common control transactions

Business combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination (and where that control is not transitory) are referred to as common control transactions. The Group accounts for the transaction at book values in its consolidated financial statements. The book values of the acquired entity are the consolidated book values as reflected in the group annual financial statements. The excess of the cost of the transaction over the Group's proportionate share of the net asset value acquired in common control transactions, will be allocated to the existing business combination reserve in equity. Where comparative periods are presented, the financial statements and financial information are not restated.

### Capital reorganisation

When there is Capital reorganisation, the Group recognizes the assets and liabilities of the defunct entity in its consolidated financial statements at their pre-combination carrying amounts. The assets and liabilities are not remeasured to fair values but are recognised at their book values on the date of the reorganisation.

## 2.5 Current and deferred income tax

### Current income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the applicable tax laws in the respective jurisdiction and it consists of Company Income Tax, Education Tax and NITDEF Tax. Company Income Tax is assessed at 30% statutory rate of total profit, Education Tax is computed as 2% of assessable profit while NITDEF tax is a 1% levy on Profit Before Tax of the Bank. The Group periodically evaluates positions taken in tax returns; ensuring information disclosed are in agreement with the underlying tax liability which has been adequately provided for in the financial statements.

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### 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 consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; 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 or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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 taxes assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2.6 Financial assets and liabilities

### 2.6.1 Financial assets

The Group classifies its financial instruments in the following categories: at fair value through profit or loss (FVTPL), amortised costs and fair value through other comprehensive income (FVOCI). The Group's financial assets classified as amortised cost includes loans and advances to customers; other loans and receivables; and investment securities. The classification depends on the purpose for which the financial assets were acquired and their characteristics.

#### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement-date on which the Group commits to purchase or sell the asset. At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

### (a) 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 and trade receivables purchased from clients in factoring arrangements without recourse. Debt investment securities

Classification and subsequent measurement of debt instruments depend on:

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

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

**Amortised cost:** 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 FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 2.6.1 (f). Interest income from these financial assets is included in 'interest income' using the effective interest rate method.

**Fair value through other comprehensive income (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 FVTPL, are measured at fair value. Movements in the carrying amount are taken through 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 profit or loss.

**Fair value through profit or loss:** 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 is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income and foreign exchange income' in the period in which it arises.

**Business model:** the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business for a group of assets include past experience on how the cash flows for these assets were collected, how the assets performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Group's business model for the mortgage loan book is to hold to collect contractual cash flows.

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**SPPI:** Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group 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.

The Group 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.

### (b) 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. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. 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 profit or loss as other income when the Group's right to receive payment is established.

Gains and losses on equity investments at FVTPL are included in the 'Net trading income' line in the statement of comprehensive income.

### (c) Impairment

The Group assesses on a forward - looking basis the expected credit losses ('ECL') associated with its debt instruments carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

### (d) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group 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 the 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 Group 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 Group 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 Group 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).

### (e) 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 Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group 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 Group:

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- (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 (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

**(f) Expected credit loss (ECL) measurement**

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 2.6.1 g for a description of how the Group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 2.6.1 i for a description of how the Group defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 2.6.1 j for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 2.6.1 j includes an explanation of how the Group has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

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

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

**(g) Significant increase in credit risk (SICR)**

The Group 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. At each reporting period, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of origination. The assessment considers borrower-specific quantitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

**Quantitative criteria:**

The quantitative criteria considers deterioration in the credit rating of the obligor/counterparty based on the Bank's internal rating system or External Credit Assessment Institutions (ECAI). The Bank has also adopted the CBN Risk Management Guidelines in determining its significant increase in credit risk criteria.

**Qualitative Criteria**

The occurrence of any of the under listed indicators in the Bank's Portfolio shall be considered as a significant increase in credit risk:

- Actual or expected significant change in the financial instrument's external credit rating.
  - Actual or expected or for retail portfolios, if the borrower meets one or more of the following criteria.
  - Identification of the loan or customer on a 'watchlist' or other forbearance indicators.
  - Significant financial difficulty of a borrower or issuer.
  - Classification of an exposure by a licensed credit risk management, including credit bureaus.
  - Deterioration of relevant credit risk drivers for an individual obligor or pool of obligors.
  - Expectation of forbearance or restructuring due to financial difficulties.
  - Significant increases in credit risk on other financial instruments of the same borrower.
- Deterioration in credit worthiness due factors other than those listed above.

**(h) Low Credit risk exemption**

The Group has not used the low credit risk exemption for any financial instruments apart from Debt investment securities (FGN treasury bills and bonds) and balances due from other banks in the period ended 31 December 2021.

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### (i) Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

#### Quantitative criteria

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

#### Qualitative criteria

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

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

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations. An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

### (j) 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:

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.
- The PD represents the likelihood of a borrower defaulting on its financial obligation (based on the "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.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate.

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 prepayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

To estimate expected credit loss for off balance sheet exposures, credit conversion factor (CCF) is usually computed. CCF is a modelled assumption which represents the proportion of any undrawn exposure that is expected to be drawn prior to a default event occurring. It is a factor that converts an off balance sheet exposure to its credit exposure equivalent.

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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.

### (k) Macroeconomic variables incorporated in the ECL models

The Group relies on a broad range of forward looking information as economic inputs, such as: GDP growth. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement. The macro-economic parameters used are the same across risk management and capital planning process. See note 3.1.3iv for additional details.

### (l) Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group 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 judgement has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Predictive Analytics' team on a quarterly basis and provide the best estimate view of the economy over the next four years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical analysis to understand the impact that 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 Predictive Analytics' 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. At the reporting period, for all portfolios, the Group concluded that three scenarios appropriately captured non-linearities. 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. Following this assessment, the Group 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 relevant ECL model and multiplying it by the appropriate scenario weighting.

## 2.6.2 Financial liabilities

### (i) Classification and subsequent measurement

In the current period, financial liabilities are classified and 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 profit or loss;

- 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 Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments

### (ii) Derecognition

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 Group 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 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 term 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 cost of fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

## NOTES TO THE FINANCIAL STATEMENTS

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### 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:

- i) The amount of the loss allowance; and
- ii) The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group 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 Group 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.

### 2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the counterparty.

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

### 2.8 Assets pledged as collateral

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

Initial recognition of assets pledged as collateral is at fair value, whilst subsequent measurement is based on the classification of the financial asset. Assets pledged as collateral are either designated as FVOCI or amortised cost. Where the assets pledged as collateral are designated as FVOCI, subsequent measurement is at fair-value through OCI. Assets pledged as collateral are measured at amortised cost.

### 2.9 Interest income and expense

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

- a) POCI (Purchased or originated credit-impaired) 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).

Interest income and expense for all interest-earning and interest bearing financial instruments are recognised in the income statement within 'interest income' and 'interest expense' using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, the next re-pricing date) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments but not future credit losses.

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

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

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities measured at amortised cost is calculated on an effective interest rate basis.
- Interest on fair value through other comprehensive income investment securities is calculated on an effective interest basis.
- Interest income on fair value through profit or loss instruments is recognised using the contractual interest rate in net gains/(loss) on investment securities

## NOTES TO THE FINANCIAL STATEMENTS

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(All amounts in millions of Naira unless otherwise stated)

### 2.10 Fees and commission income

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

Other fees and commissions which relates mainly to transaction and service fees, including loan account structuring and service fees, investment management and other fiduciary activity fees, sales commission, placement line fees, syndication fees and guarantee issuance fees are recognised as the related services are provided or performed.

### 2.11 Net trading and foreign exchange income

Net trading income and foreign exchange income comprises net fair value changes in held for trading securities, net fair value gain on derivative instrument, and foreign exchange translation and trading gains/losses.

### 2.12 Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of other operating income.

### 2.13 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not available for use, the recoverable amount is estimated each year.

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Any impairment loss in a disposal group is allocated first to goodwill and then to the remaining assets and liabilities on a prorata basis except that loss is allocated to inventories, deferred tax assets, employee benefits and investment property which continue to be measured in accordance with the group's accounting policies.

### 2.14 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) 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.

### 2.15 Leases

Leases (right-of-use asset) are accounted for in accordance with IFRS 16 and are accounted for in line with the following based on whether the Group is the Lessor or the Lessee:

#### (i) The Group is the lessee

At the commencement date, the Group recognises a right-of-use asset at cost and a lease liability, where applicable, at the present value of the lease payments that are not paid at that date.

The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Group measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. The Group subsequently measures the lease liability by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect lease payments made and measuring the carrying amount and remeasuring the carrying amount to reflect any reassessment or lease modification. The corresponding lease liabilities, where applicable, are included in other liabilities. The interest element of the lease liabilities is charged to the Income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

#### (ii) The Group is the lessor

When assets are leased to a third party under a finance lease terms, the present value of the lease income is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflect a constant periodic rate of return.

The Group building is currently under a leasehold agreement for over the shorter of the useful life of 50 years or lease term.

**NOTES TO THE FINANCIAL STATEMENTS**

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**2.16 Property, plant and equipment****i. Recognition and measurement**

The Group recognizes items of property, plant and equipment at the time the cost is incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment as well as the costs of its dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of using the item during a particular period.

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

The assets' carrying values and useful lives are reviewed, and written down if appropriate, at each reporting date. Assets are impaired whenever events or changes in circumstances indicate that the carrying amount is less than the recoverable amount.

**ii. Subsequent costs**

The cost of replacing part of an item of property, plant or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

**iii. Depreciation**

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

Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with IFRS 5. 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:

Land – Not depreciated  
 Leasehold buildings - Over the shorter of the useful life of 50 years or lease term  
 Leasehold improvements - Over the shorter of the useful life of 50 years or lease term  
 Motor vehicles - 4 years  
 Computer hardware - 3 years  
 Furniture and fittings - 5 years  
 Plant and machinery - 5 years

Capital work in progress is not depreciated. Upon completion it is transferred to the relevant asset category. Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review on an annual basis to take account of any change in circumstances.

**iv. Derecognition**

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 the income statement in the year the asset is derecognised.

**2.17 Intangible assets****Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries at the date of acquisition. When the excess is negative, it is recognised immediately in profit or loss. Goodwill on acquisition of subsidiaries is included in intangible assets.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**Software**

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development.

## NOTES TO THE FINANCIAL STATEMENTS

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Development costs previously expensed cannot be capitalised. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is 3 years.

Amortisation method, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

### Derecognition

Intangible assets are derecognized on disposal or when no future economic benefits are expected from their use or disposal.

## 2.18 Employee benefits

### Defined contribution plans

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

For defined contribution plans, the Group pays contributions to publicly or privately administered pension fund administrators (PFA) on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense in the income statement 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.

The Group operates a defined contribution pension plan in accordance with the Pension Reform Act. Under the contributory scheme, both the employees (8%) and the employer (10%) contribute to the scheme as permitted by the Act'

### Defined benefit plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

The current service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements.

Past-service costs are recognised immediately in the income statement. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation. This cost is included in employee benefit expense in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

### Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

### Short-term employee benefits

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

## 2.19 Provisions

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

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. The Group recognizes no provision for future operating losses.

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

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### 2.20 Financial guarantees

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.

Financial guarantees are initially recognised in the consolidated financial statements at their fair values on the date that the guarantee was given; and the initial fair value amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

### 2.21 Share capital

Ordinary shares are classified as equity.

#### 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.

Where the Bank or any member of the Group purchases the Bank's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Bank's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

#### Dividends on the Bank's ordinary shares

Dividends on the Bank's 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 consolidated statement of financial position are dealt with in the subsequent events note.

No dividends has been proposed by management for the current period.

### 2.22 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of borrowings are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

### 2.23 Discontinued operations

The Group presents discontinued operations in a separate line in the consolidated income statement if an entity or a component of an entity has been disposed of or is classified as held for sale and:

- (a) Represents a separate major line of business or geographical area of operations;
- (b) Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- (c) Is a subsidiary acquired exclusively with a view to resale (for example, certain private equity investments).

Net profit from discontinued operations includes the net total of operating profit and loss before tax from operations, including net gain or loss on sale before tax or measurement to fair value less costs to sell and discontinued operations tax expense. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group's operations and cash flows. If an entity or a component of an entity is classified as a discontinued operation, the Group restates prior periods in the consolidated income statement.

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on re-measurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale or distribution, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity accounted investee is no longer equity accounted.

### 2.24 Repossessed Collateral

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'Prepayments and other assets'.

## NOTES TO THE FINANCIAL STATEMENTS

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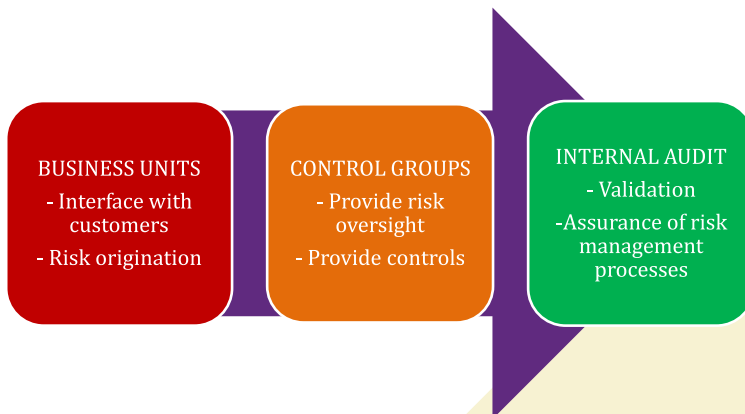
### 3 Financial risk management

The following section discusses the Group's risk management policies. The measurement of ECL under IFRS 9 uses the information and approaches that the Group uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9. The approach taken for IFRS 9 measurement purposes is discussed separately in note 2.6.1.

Risk management is at the center of the Group's operations. The Group practices a robust risk management system which embodies proactive identification measurement, treatment, monitoring and reporting of all material risks to which it is exposed. The Group is primarily exposed to credit, market and operational risks. Other risks faced by the Group include but is not limited to operational liquidity, settlement, reputational, legal, strategic and compliance risks. The management of these risks is in unison with the Group's capital management in general and the Group's strategic objectives in particular.

The Enterprise Wide Risk Management Directorate is responsible for carrying out risk management in line with global best practice and with the ultimate objective of delivering value to the Group's shareholders. The risk management practice adopted begins with establishing a general context from policy and guidance notes approved by the Board of Directors. The practice further cascades into risk identification, risk analysis, evaluation, mitigation and communication.

The communication of risks helps to inculcate homogenous risk principles shared across the Group that eventually shapes in general, risk awareness and response. A common risk management language improves the risk culture of the group hence making everybody a stake holder in the risk process. The Group's risk management is organised along the three line of defense shown in the figure below:



These risk organisations are geared towards protection of the Group's Customer deposits, ensure optimum Capital Management and boost risk adjusted profit margins for the enhancement of Shareholders value. The dynamic nature of risks is a basis for the regular review of risk management policies and systems by the Group for effectiveness and relevance. This makes risk management in the Group, a veritable tool for decision making since it aligns with the prevailing market conditions.

The need for proper risk management cannot be over emphasized hence the Group recognises the need to invest in establishing appropriate structures, develop its personnel and deploy the right technology to support its risk practices which will further strengthen risk management values and beliefs across board. The Group's aim is to achieve an appropriate balance between risk and return while minimising potential adverse effects on the Group's financial performance.

## NOTES TO THE FINANCIAL STATEMENTS

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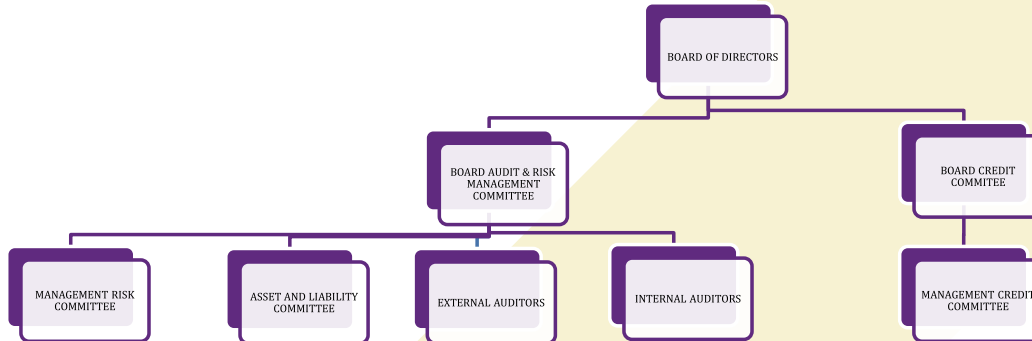
### Risk Management Philosophy

The Group defines risk management philosophy as the set of values, attitudes and practices that shows how it would perceive and or respond to any risk to which it is exposed. The principles that guide the management of risk across the Group are:

1. A general acceptance that enterprise risk-management is mandatory, and not optional.
2. Retention of ownership and accountability for risk and risk management right from the business unit or other unit where it was first identified.
3. Striking a conservative balance between risk and reward. This is achieved by aligning risk appetite with business strategy, diversifying risk, pricing risk appropriately, mitigating risk through preventive and detective controls and updating risk registry.
4. Making risk management a shared responsibility .All business segments are responsible for active management of their risks, with direction and oversight provided by the Risk Management Group, and other corporate support groups.
5. Risk knowledge and understanding as a basis for decision making. The enterprise performs a rigorous assessment of risks in relationships, products, transactions and other business activities.
6. Avoidance of activities that are not consistent with our Values, Code of Conduct or Policies - This contributes to the protection of our reputation and the uniformity of our principles.
7. Focus on clients as an act of good risk management. We know our clients, build a relationship with them and ensure that the services we provide are suitable for and understood by them.

### Enterprise risk management framework

Polaris Bank has an enterprise risk management structure that aligns its practice within the strategy and regulatory standards for capital management. It spells out the risk types, policies within which they are treated and the metrics for their management and/or control. The Board has the overall responsibility for risk management within the Bank. The Board enhances value for shareholders through various committees that includes but is not restricted to the committees shown in the diagram below:



The committees at board and management levels are responsible for reviewing and recommending risk management policies, procedures and profiles including risk philosophy, risk appetite and risk tolerance of the Group. The oversight functions cut across all risk areas. The committees monitor the Group's plans and progress towards meeting regulatory Risk-Based Supervision requirements and implementation of Basel precepts as well as the overall Regulatory and Economic Capital Adequacy. Other functions of these committees include: