MORTGAGE
BANK PLC

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2019

Our Value Statement

We strive to honour God
and be respectful of each other,
our customers and other stakeholders.

Our Vision Statement

To be the preferred Primary Mortgage Institution
with a commanding presence nation-wide.

Our Mission Statement

To consistently create value to stakeholders
by providing excellent services through
creative and caring employees using innovative
technology applications in a
first class ambience.

CORPORATE INFORMATION

Directors

Rev. Chidi Okoroafor Ph.D - Chairman
Mr. Ngozi Anyogu - Managing Director
Barr. Patrick Chinweike Abuka - *(Retired w.e.f. 12/10/2019)*
Rev. (Dr.) Vincent Alaje - Director
Rev. (Pastor) Ejikeme Ejim - Director
Mr. Sally Biose - Director
Rev. (Surv.) Ugochukwu Chime - Director
Barr. (Mrs.) Theresa Ntong- Director
Mr. Emmanuel Ocholi - Director
Mr. Chris Okenwa - *(Appointed w.e.f. 12/09/2019)*

Company Secretary:

Barr. Anthony Okonmah

Registered Number: RC 602252

Date of Registration: 21 July, 2004

Operating License Number: 000000005

Date Licensed: 31 December, 2004

Registered Office: 96, Opebi Road, Ikeja, Lagos

Principal Activities:
Mortgage Banking

Independent Auditors:
Bakertilly,
(Chartered Accountants),
Kresta Laurel Complex (4th Floor),
376, Ikorodu Road, Maryland,Lagos.

Correspondent Banks:
United Bank for Africa Plc
Access Bank Plc

...a partner you can trust

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The Board

Rev. Chidi Okoroafor *Ph.D*
Chairman

Barr. (Mrs) Theresa Ntong
Director

Ngozi Anyogu
Managing Director/CEO

Rev. (Dr) Vincent Alaje
Director

Mr Emmanuel Ocholi
Director

Barr. Patrick Abuka
Director *(Retired 12/10/19)*

Rev. (Surv.) Ugochukwu Chime
Director

Mr. Chris Okenwa
Director *(Appointed 12/09/19)*

Mr. Sally Biose
Director

Rev. (Pastor) Ejikeme Ejim
Director

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 15th Annual General Meeting of AG MORTGAGE BANK PLC will be held at the Company's Head Office, AG Mortgage Bank Plc, 96, Opebi Road, Ikeja, Lagos including via teleconference on **Thursday the 24th Day of September 2020 at 11.00a.m.** prompt to transact the following business:

ORDINARY BUSINESS:

1. To lay before the Members, the Report of the Directors and the Audited Financial Statements together with the Auditors and Audit Committee Reports for the year ended 31st December, 2019.
2. To appoint Bakertilly as the External Auditors of the Company and authorize the Directors to fix their remuneration.
3. To elect/re-elect Directors
4. To elect members of the Statutory Audit Committee.

SPECIAL BUSINESS:

1. "The Directors are hereby duly authorized to raise additional capital of up to N5,000,000,000 (Five Billion Naira Only) whether by way of Private Placement, Rights Issue, Public Offer or other methods and at such a price as may be advised by the Bank's Financial Advisers, subject to obtaining the approval of the relevant regulatory authorities"

COMPLIANCE WITH GOVERNMENT DIRECTIVES ON COVID-19 AND RELATED GUIDELINES: 'Due to the COVID-19 pandemic, the restrictions on gatherings and social distancing and the need to comply with the directives, regulations of the measures issued by the Federal Government of Nigeria, the National Centre for Disease Control and the Lagos State Government, the Company has obtained the approval of the Corporate Affairs Commission (CAC), to hold the Annual General Meetings (AGM) in accordance with the CAC's "Guidelines on Holding of Annual General Meetings (AGM) of Public Companies Using Proxies". The meeting will hold in accordance with the aforementioned directives and regulations.

PROXY:

Any member of the Company entitled to attend and vote at this meeting is also entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a member of the Company. For the appointment of the proxy to be valid, a Proxy Form must be completed and deposited either at the office of the Company's Registrar, CardinalStone Registrars Limited, 358, Herbert Macaulay Way, Yaba, Lagos not later than 48 hours before the time fixed for the meeting. A blank Proxy Form is attached to the Annual Report and may also be downloaded from the Company's website at www.agmortgagebankplc.com

ATTENDANCE BY PROXY

In line with CAC Guidelines, attendance of the AGM shall be by proxy only. Shareholders are required to appoint a proxy of their choice from the list of nominated persons below:

- Mr. Eme Tasie
- Mr. Monday Ubani
- Mr. Ngozi Anyogu
- Mrs. Gladys Laleye
- Mrs. Christiana Oluwafemi

STAMPING OF PROXY

The Company has made arrangement at its cost, for the stamping of the duly completed and signed Proxy Forms submitted to the Company's Registrars within the stipulated time.

ONLINE STREAMING OF AGM

The AGM will be streamed live online. This will enable Shareholders and other stakeholders who will not be attending physically to follow the proceedings. The link for the AGM online live streaming will be made available on the Company's website–www.agmortgagebankplc.com, info@agmortgagebank.com , Facebook channel agmortgagebankplc, twitter @agmbplc, instagram @agmbplc

CLOSURE OF REGISTER

The Register of Members shall be closed from Monday 31st August, 2020 to 4th September, 2020, (both days inclusive) for the purpose of updating the Register of Members.

NOMINATION OF STATUTORY AUDIT COMMITTEE MEMBERS

In accordance with Section 404(5) of the Companies and Allied Matters Act , Laws of the Federal Republic of Nigeria, 2020, any member may nominate a shareholder as a member of the Statutory Audit Committee by giving notice in writing of such nomination to the Company Secretary at least twenty-one (21) days before the Annual General Meeting. Such notice of nominations should be sent via email to: *info@agmortgagebankplc.com*

RIGHTS OF SECURITY HOLDERS TO ASK QUESTIONS

Shareholders of the Company have a right to ask questions not only at the Annual General Meeting, but also in writing prior to the Meeting, and such questions must be submitted at least one week before the meeting.

Dated This 31st Day of August, 2020

BY: ORDER OF THE BOARD

Anthony Okonmah, FCIS
Company Secretary
FRC/2015/NBA/00000012622
REGISTERED OFFICE
96 Opebi Road, Ikeja, Lagos

CHAIRMAN'S STATEMENT

Fellow shareholders, invited guests, ladies and gentlemen. I am pleased to welcome you to the 15th Annual General Meeting of your Bank and to lay before you the Annual Report and Accounts of the Bank for the financial year ended 31st December 2019.

THE HOUSING MARKET

The revitalization of the Federal Mortgage Bank of Nigeria (FMBN) for the provision of long term capital for both development of housing stock and on-lending to prospective house owners is a resurgence of hope in the housing market. This will result in increased transaction volume for your Bank in the in-coming months

The Mortgage Bankers Association of Nigeria (MBAN) has also mounted a strong advocacy that promises to open up alternative funding awareness for providers of mortgage finance.

Your Bank is also making arrangements to take advantage of the financing window available from the Nigeria Mortgage Refinancing Company (NMRC)

Consequently we see the housing sector being positioned to become the bedrock of the economy, creating jobs and making significant contribution to the National Gross Domestic Product (GDP)

OPERATING RESULTS

The Bank fully exploited the opportunities within the environment, which translated to an improved result from its December 2018 report.

The Total Asset of the bank grew by 16% from N10.6billion in prior year to N12.6 billion in year 2019; while shareholder's fund rose by 0.4% from N5.103billion to N5.125billion.

Profit Before Tax (PBT) dropped by 52% from N137m in 2018 to N66m in 2019. The drop is as a result of the N134m debited to the Bank's Financial Statement as the impact of the adoption of IFRS 9 impairment model.

Gross Earning similarly grew by 12% from N729m in year 2018 to N833m in 2019.

During the same period total deposits was N3.4billion for the year ended 31, December 2019 representing a 13 per cent increase over the previous year figure of N2.9billion

DIVIDENDS

Your Bank had been constrained in dividend payment over the past 4 years due to the painful but necessary loan loss provisioning which created a diminution in capital and by regulation, the Bank is not permitted to pay dividends until its capital impairment is regularized. Consequently, no dividend payment is recommended for the period.

APPRECIATION

I must express my profound appreciation to my colleagues on the Board for their support and encouragement over the years. My gratitude also goes to our esteemed shareholders for their support and our Staff and Management who have worked assiduously to deliver the improvement recorded in this year's financial results.

We are deeply indebted to our loyal customers, regulators, financial advisers, service providers and the Assemblies of God constituency for their continued support and prayers.

Thank you and God bless

Rev. Chidi Okoroafor Ph.D
Chairman

Rev. Chidi Okoroafor *Ph.D*
Chairman

STATEMENT BY THE MD/CEO

INTRODUCTION

I am delighted to welcome you to the 15th Annual General Meeting of your Bank. This is my third such event after becoming Managing Director/CEO in July 2017. Like other years, 2019 was particularly active and challenging given the difficulties the mortgage sub-sector was embroiled in; the shake out post the new capital regime and liquidity challenges amidst a gloomy macro-economic outlook. The stability and soundness of the sub-sector has remained an issue for debate among stakeholders.

During the year, your Bank launched the Road Map for Performance Enhancement. The cardinal focus of the Road Map was to attract capital injection, strengthen the Bank's Corporate Governance and Management Capacity, Enhance Risk Management Infrastructure and to adopt new lending policies. These measures were aimed at strengthening the operational capacity and efficiency of the Bank and to restore confidence in the system. Management under the skillful guidance of your Board which has continued to be strengthened since the 2018 financial year, confronted these issues. Though the results so far are modest, they were enough to stabilize the Bank and stopped the slide into crises.

During the year the Bank had capital injection in the sum of N1.3 Billion arising from underwriting of its public offer by FSL Securities Ltd. We are grateful to the FSL Board and Management and our team of Financial Advisers for the confidence in the Bank even at a time of general instability in the sub-sector. The regulatory process of recognizing and accounting for the new capital injection is still on-going.

The Bank implemented the key recommendation of the CapitalPlus Diagnostic Assessment of the company; invited more professional persons to join the Board, revamped its lending protocols and strengthened risk management, internal control and compliance functions.

The Bank also restructured around a Regional arrangement to bring its services nearer to consumers in its chosen locations. Some Senior Management staff were encouraged to leave to make room for strategic hirings to strengthen operational capacity and to realize the benefits of the new structure. The mortgage loan portfolio which represent the Bank's core business grew significantly during the year. We are grateful to the Board and Management of the Federal Mortgage Bank of Nigeria for their invaluable support in this regard.

The Bank's shares had earlier been listed on the NASD/OTC Securities Exchange. We are grateful to the Management of the Exchange for the goodwill we had enjoyed.

In terms of performance in numbers, our climb out from the loss of the 2017 financial year has been arduous. Although the challenge of high Non Performing Loan (NPL) portfolio is being severely confronted, its impact continues to hurt financial performance. The sluggish property market has also made it difficult to dispose of the large portfolio of non-earning assets carried in the books as "Investment Properties". These challenges are matched by the combined and determined efforts of the Board and Management. This includes improving level of information and follow-up on debtors, enhancing asset-liability management capability and deployment of more creative ways to exit the investment properties portfolio and convert it to mortgage assets.

Looking ahead, the blue print for reforming the Bank in the next five years has been articulated and adopted as 'Project Sisu'. The initiative is built around entrenching 'Purposeful Practice and Excellence in Execution'. The document which is currently being implemented redefines the Bank's purpose in providing homes for families, clearly articulates its business drivers and establishes the framework for growth in the next five years not only in operations but also on social impact.

I conclude by expressing the gratitude of our Management and Staff to our Customers (we chose to call them friends) for their loyalty and understanding, our distinguished Shareholders who provided us the platform to participate in this venture, the Board for its guidance, our Regulators for the learning experience they have provided, our Service Providers for their contribution in making the partnership work and the Nigerian Public for the peace that prevailed in our land.

Each work day we share songs and prayers in praise of Him who has made the continued existence of AGMB possible. We are reminded each day that this is "ALL ABOUT GOD"!!!

Ngozi Anyogu
Managing Director/Chief Executive Officer
September 9th, 2020

Ngozi Anyogu
Managing Director/CEO

RESULTS AT A GLANCE

	2019 ₦'m	2018 ₦'m	% change
Major Profit and Loss Account Items			
Gross earnings	945	883	7
Interest expenses	349	334	4
Operating expenses etc	480	425	13
Profit before taxation	66	138	(52)
Profit after taxation	22	95	(76)
Profit after Taxation and other comprehensive income	22	95	(76)
	====	====	=====
Major Statement of Financial Position Items:			
Mortgage and other Loans and Advances	6,910	6,117	13
Deposits	3,408	2,966	15
Share Capital	3,877	3,877	-
Shareholders' Fund	5,126	5,237	(2)
Total Assets	12,583	10,747	17
	=====	=====	====
Per 50k share data	**k**	**k**	
Basic: (Based on 7,754,395,000 ordinary shares)			
Earnings	0.28	1.22	
Net Assets	67	69	
Total Assets	162	139	
	=====	====	
Diluted: (based on 3,085,334,000 ordinary shares)			
Earnings	0.71	3.1	
Net assets	168	170	
Total assets	409	348	
	=====	=====	
Number of Branches and Cash Centres	5	5	
Number of Employees	73	68	
	=====	====	

REPORT OF THE DIRECTORS

The Directors hereby submit their report and the financial statements of the Company for the year ended 31 December, 2019.

1. **Result for the Period**

	N'000
Profit after Taxation	22,160
Transfer to statutory reserve	-
	22,160
Other Comprehensive Income	-
Total Comprehensive Income	22,160

2. **Legal Form**
The Company was incorporated on 21 July, 2004 as a public liability company limited by shares and commenced operations on 30 January, 2005.

3. **Principal Activities**
The Company is licensed by the Central Bank of Nigeria to carry on mortgage banking business, with license No. 000000005 dated 31 December, 2004.

4. **Branches and Cash Centres**
As at the financial position date, the Company had a branch at the Head Office, 2 other branches at Festac Town, Enugu and Abuja and 2 cash Centres at Surulere and Apapa.

5. **Directors' Shareholding**
The interest of the Directors in the issued share capital of the Company is as follows:-

	Number of shares held	
	At 31 December 2019	At 31 December 2018
Mr. Sally Biose (indirect)	**416,666,667**	**416,666,667**
Rev. (Dr.)Vincent Alaje	**6,000,000**	6,000,000
Mr. Ngozi O. Anyogu	**22,000,000**	22,000,000
Barr. Patrick C. Abuka	-	2,734,000
Rev. Ejikeme Ejim	**500,000**	500,000
Rev. Chidi Okoroafor	**20,000**	20,000

6. **Directors**- The names of the current Directors are listed on page 2.

7. **Directors' Responsibility**

In accordance with the provisions of Sections 334 and 335 of the Companies and Allied Matters Act Cap C20 LFN 2004, the Directors of the Company are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the company at the end of each financial year, and of the profit or loss for that year, and comply with the provisions of the Companies and Allied Matters Act, CAP C20 LFN 2004. In doing so, they ensure that:-

- proper accounting records are maintained;
- applicable accounting standards are followed;
- suitable accounting policies are adopted and consistently applied;
- the going concern basis is used, unless it is inappropriate to presume that the company will continue in business; and
- adequate internal control procedures are instituted which, as far as is reasonably possible, safeguard the assets and prevent and detect fraud and other irregularities.

8. **Analysis of Shareholding**

The Ordinary Shares of the Company as at 31 December, 2019 were held as follows: -

	No. of ordinary shares held	Percentage share holding
Assemblies of God Ministers Benefit Scheme	5,192,363,637	67.0
AG Nigeria	1,502,133,333	19.3
Sally Best Properties	416,666,666	5.4
AGMBS Nominees	363,000,000	4.7
Others	280,231,364	3.6
	7,754,395,000	**100**
	===========	=====

9. **Corporate Governance**

1. Introduction

AG Mortgage Bank Plc has remained true to its reputation built within its fifteen years of mortgage banking practice as an organization founded on integrity, professionalism and exemplary corporate governance practices. Our strong values remain an important ingredient in sustaining shareholder value, while ensuring that behavior is ethical, legal and transparent. AG Mortgage Bank Plc is governed by a framework which, in line with the Central Bank's Code of Conduct for Board of Directors of Banks and financial institutions, ensures that checks and balances are facilitated and that appropriate controls are put in place. The corporate governance principles of the Company are designed to promote high standards of corporate governance as we benchmark ourselves against best practices as the Board recognizes the importance of best corporate governance principles, its invaluable accountability to its shareholders.

The Shareholders at the General Meeting remain the highest decision making body of AG Mortgage Bank Plc. Effect is given to the Memorandum & Articles of Association of the Company as well as any laws for the time being in force in Nigeria. Members are given opportunity to take part in decisions affecting the strategic direction of the Company.

The Board

Board Committees

The Board's functions are dispensed through the six (6) standing committees each of which has clearly defined composition, duties, purpose and reporting lines to the Board. The standing committees are as listed hereunder:

- Board Credit Committee
- Board Audit Committee
- Governance & Nominations Committee
- IT Steering Committee
- Risk Management Committee
- Statutory Audit Committee

Board Credit Committee

The Board Credit Committee is responsible for approval of loans above Executive Management's authority limits as defined by the Board of directors from time to time. The Committee ensures that internal control procedures in the area of risk assets remain high to safeguard the quality of the Company's risk assets.

Board Audit Committee

Before the setup of the Statutory Audit Committee, the Bank as a public company exercised its oversight functions on credit through its Board Audit Committee which has the responsibility of ensuring that the Bank complies with all relevant policies and procedures from the regulators and as laid down by the Board of Directors. The four man Statutory Audit Committee consists of two executive and two non-executive directors. Although the Statutory Audit Committee is now in place considering the Company's plc status, the Board has retained its Audit Committee because of the importance attached to audit functions. The Internal Auditor has access to the Audit Committee and presents quarterly reports.

IT Steering Committee

The Committee was established to ensure that the Bank meets, at every point in time, the IT need of modern banking. The Committee exercises oversight functions over the IT Unit through the instrumentality of the Internal Control Unit of the Bank. It ensures the IT policy of the Bank is tailored to meet regulatory requirements.

The Governance & Nominations Committee

The Governance & Nominations Committee is strategically positioned for its functions which includes human resource issues, investments and general operational matters. This Committee provides governance and strategic oversight for considering remunerations, human resources activities and senior management development.

Risk Management

We recognize that the new dispensation has introduced a fresh approach to risk management which must be reflected in the operational principles of organisations such as ours. The Company shall be repositioned to accommodate innovative techniques in credit administration and remedial services. We raised the bar in our risk management standards to enable us remain in tune with developments at all times. Our risk management framework and team were put in place within the financial year to ensure an adequate risk management.

2. RECORD OF DIRECTORS ATTENDANCE

In accordance with Section 258(2) of the Companies and Allied Matters Act, Cap C20, LFN 2004, the record of Directors' attendance at Directors meetings during the financial year under review is as follows:

Name	No. of Board Meetings	No. Attended	No. Absent
Rev. Vincent Alaje	4	4	Nil
Mrs. Theresa Ntong	4	3	1
Ngozi Onyemuwa Anyogu	4	4	Nil
Rev. Chidi Okoroafor Ph.D	4	4	Nil
Rev. (Pastor) Ejikeme Ejim	4	4	Nil
Mr. Sally Biose	4	2	2
Mr. Emmanuel Ocholi	4	4	Nil
Mr. Chris Okenwa	4	4	Nil

10. **Property, plant and equipment Assets**

Movements in **Property, plant and equipment** are shown in Note 12 on page 38. In the opinion of the Directors, the value of the company's properties is not less than the book value.

11. **Declaration of Fraud and Forgeries**

There were no reported cases of fraud and forgeries during the period under review.

12. **Events after Reporting Date**

There are no events after reporting date which could have had a material effect on the state of affairs of the company as at 31 December, 2019 which have not been provided for or disclosed in these financial statements.

13. **Employment and Employees**

(i) ***Employment of Physically Challenged Persons***

The company does not discriminate in considering applications for employment including those from disabled persons. All employees are given equal opportunities for self development.

(ii) ***Employees Involvement and Training***

The company is committed to keeping employees fully informed as far as possible regarding its performance and progress and seeking their views wherever practicable on matters, which particularly affect them as employees.

Management, professional and technical expertise are the Company's major assets and investment in their further development continues.

The Company's expanding skill base has increased by a range of training programmes provided to its employees whose opportunities for career development within the company have thus been enhanced.

(iii) ***Health, Staff Welfare and Safety at Work***

Health and safety regulations are in force within the company's premises, and employees are aware of safety regulations. The Company provides subsidies to all employees for medical, transportation, housing and lunch. Incentive schemes designed to meet the circumstances of each individual are implemented wherever appropriate and some of these include bonuses, salary reviews, promotions, etc.

14. **Auditors**

Messrs Baker Tilly Nigeria (Chartered Accountants) have indicated their willingness to continue as Auditors in accordance with Section 357(2) of the Companies and Allied Matters Act, CAP C20 LFN 2004. A resolution will be proposed at the Annual General Meeting to authorise the Directors to fix their remuneration.

By order of the Board

Barr. Anthony Okonmah, FCIS
Company Secretary
FRC/2015/NBA/00000012622
Lagos, Nigeria
22nd May, 2020

REPORT OF THE AUDIT COMMITTEE

In compliance with Section 359 sub section 6 of the Companies and Allied Matters Act Cap C20 LFN 2004, we have:

- reviewed the scope and planning of the audit requirements.
- reviewed the External Auditors' management report for the period ended 31 December, 2019 as well as the Management responses thereon.
- ascertained that the accounting and reporting policies of the Company for the period ended 31 December, 2019 are in accordance with legal requirements and agreed ethical practices.

The External Auditors discharged their duties conscientiously and without fear or favour whilst the management responded with due sense of responsibility and cooperation to the audit points raised.

Dated this 22 May, 2020

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Engr. Eme Tasie
Chairman Audit Committee
FRC/2014/IODN/00000008633

Members of the audit Committee:

Engr. Eme Tasie	-	*Chairman*
Barr. (Mrs) Theresa Ntong	-	*Member*
Barr. Monday Ubani	-	*Member*
Mr Emmanuel Attah Ocholi	-	*Member*

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF AG MORTGAGE BANK PLC

Report on the Audit of the Financial Statements

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of AG Mortgage Bank Plc as at 31 December, 2019, its financial performance and its cash flows for the year then ended in accordance with the provision of the Companies and Allied Matters Act CAP C20 LFN 2004 and the Financial Reporting Council of Nigeria (FRCN) Act No.6 of 2011.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company within the meaning of Nigerian Standards on Auditing (NSAs) issued by the Institute of Chartered Accountants of Nigeria and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

The Company's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Management has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, and accordingly none is disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty

As stated in Note 39 to the financial statements, Lagos and Ogun States as well as the Federal Capital Territory, Abuja in Nigeria were all locked down in compliance with an order from the President of the Federal Republic of Nigeria as a consequence of the global pandemic 'Covid 19'. We are not in a position, at present, to determine the extent to which this lockdown and the consequent close down of business may affect the future operating performance of the bank and/or its continuance as a going concern.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements which are in compliance with the requirements of both Financial Reporting Council of Nigeria Act, No. 6 of 2011, the Companies and Allied Matters Act, Cap C20 LFN, 2004 and Bank and Other Financial Institutions Act Cap B3 LFN 2004. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to express an independent opinion on these financial statements based on our

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF AG MORTGAGE BANK PLC
Report on the Audit of the Financial Statements

audit. We conducted our audit in accordance with International Standards on Auditing (ISAs) issued by the Institute of Chartered Accountants of Nigeria. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Report on Other Legal and Regulatory Requirements
The Companies and Allied Matters Act, CAP C20 LFN, 2004 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that: -

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
ii) in our opinion, proper books of account have been kept by the Company; and
iii) the Company's statement of financial position and profit or loss and other comprehensive income are in agreement with the books of account.

Compliance with Section 27(2) of the Banks and Other Financial Institutions Act of Nigeria and Central Bank of Nigeria circular BSD/1/2004:

I. AG Mortgage contravened the minimum regulatory capital requirement for a National Primary Mortgage Bank specified in Section 2.4 of the Central Bank of Nigeria (CBN) revised guidelines for PMBs. The particulars of the contraventions are stated in note 30 page 57.

ii. Related party transactions and balances are disclosed in note 37 page 60 of the financial statements in compliance with the Central Bank of Nigeria circular BSD/1/2004.

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M. E. Ariemuduigho
FRC/2013/ICAN/00000002724
on behalf of Bakertilly (Chartered Accountants)
Lagos, Nigeria 22 May, 2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER, 2019

	Note	31 December 2019 ₦'000	31December 2018 ₦'000
Interest income	4	833,230	729,963
Interest expense	5	(349,118)	(333,966)
Net interest income		484,112	395,997
Fee and commission income	6	26,804	40,450
Fee and commission expense		-	-
Net fee and commission income		26,804	40,450
Operating income		510,916	436,447
Operating expenses	7	(383,241)	(394,923)
Depreciation and amortization charges	8	(24,261)	(29,707)
Impairment on placements	12.1	(327)	-
Impairment on loans & advances	13.1	(66,349)	14,147
Impairment on equity investment	14.1	(5,776)	(1,474)
Share of profit/loss of associate	15	382	878
Operating profit		31,344	25,368
Other income	9	34,724	112,562
Profit for the year		66,068	137,930
Information Technology Development Levy	24.1	(661)	(1,394)
Current taxation	23.1	(30,129)	(30,281)
Deferred tax	23.4	(13,118)	(11,526)
Profit after tax		22.160	94,729
Transfer to statutory reserve	28	-	-
Net profit transferred to general reserves	27	22,160	94,729
Other comprehensive income		-	-
Profit after tax and other comprehensive income for the year		22,160	94,729
Basic earnings per share	35	0.28k	1.22k

The accounting policies and notes on pages 22 to 64 form part of these financial statements

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER, 2019

Current assets	Note	31 Dec, 2019 ₦'000	31 Dec, 2018 ₦'000
Central Bank of Nigeria	10	70,000	15,000
Cash and Cash Equivalents	11	1,064,595	545,354
Due from other Banks	12	644,521	219,848
Mortgage, Other Loans and Advances	13	6,910,259	5,983,395
Financial assets through profit or loss	14	42,750	48,526
Investment in Associate company	15	35,296	34,914
Other Assets	16	129,421	57,534
		8,896,842	6,904,571
Non-current assets			
Non-current asset held for sale	17	3,093,324	3,113,316
Property, Plant and Equipment	18	558,958	558,526
Intangible Assets	19	3,169	5,619
Deferred tax asset	23.5	30,622	30,622
		3,686,073	3,708,083
Total Assets		12,582,915	10,612,654
Liabilities			
Overdraft	20	-	149,328
Deposits from Customers	21	3,408,716	2,966,438
Borrowings from FMBN	22	2,472,728	2,132,933
Income Tax	23.3	106,888	89,417
Deferred Tax Liabilities	23.4	110,256	97,138
Other Liabilities	24	1,358,108	74,002
Total Liabilities		7,457,357	5,509,256
Capital and Reserves			
Share Capital	25	3,877,197	3,877,197
Share Premium	26	619,694	619,694
General Reserve	27	(2,076,565)	(993,582)
Statutory Reserve	28	112,560	112,560
Regulatory Credit Risk Reserve	29	2,592,672	1,487,529
Available to Equity Holders of the Bank		5,125,558	5,103,398
Total Liabilities and Equity		12,582,915	10,612,654

These financial statements were approved by the Board of Directors of the company on 27 March, 2019 and signed on its behalf by:

Mr. Ngozi Anyogu	**Mr. Ocholi Emmanuel**	**Mrs. Anthonia Lloyd Okereafor**
Managing Director	**Director**	**Chief Financial Officer**
FRC/2018/CIBN/00000018170	**FRC/2015/CISN/00000013199**	**FRC/2014/ICAN/00000008792**

The accounting policies and notes on pages 22 to 64 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER, 2019

	Share Capital	Share Premium	Regulatory credit Risk Reserve	Statutory Reserve	General Reserves	Total
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Balance as at 1 January, 2019 (Restated)	3,877,197	619,694	1,487,529	112,560	(993,582)	5,103,398
Profit for the year	-	-	-	-	22,160	22,160
Transfers			1,105,143	-	(1,105,143)	-
Balance as at 31 December, 2019	3,877,197	619,694	2,592,672	112,560	(2,076,565)	5,125,558
Balance as at 1 January, 2018	3,877,197	619,694	912,912	112,560	(379,593)	5,142,770
Profit for the year	-	-	-	-	94,729	94,729
Impact of IFRS 9	-	-	-	-	(134,101)	(134,101)
Transfer	-	-	574,617	-	(574,617)	-
Balance as at 31 December 2018	3,877,197	619,694	1,487,529	112,560	(993,582)	5,103,398

The accounting policies and notes on pages 22 to 64 form part of these financial statements

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER, 2019

	Note	2019 ₦'000	2018 ₦'000
Cash Flow from Operating Activities -			
Interest and Other Incomes	31	950,706	880,435
Interest Payments	5	(349,118)	(333,966)
Cash Payments to Employees and Suppliers		(487,509)	(349,366)
Operating Profit before Changes in Operating Assets/Liabilities		114,079	197,103
Movement in Operating Assets and Liabilities			
Mortgage and Other Loans and Advances	13	(923,650)	(790,680)
Other Assets	16	(71,887)	83,875
Customers' Deposits	21	442,278	318,781
Staff Pension	24.2	(19,184)	(13,596)
Other Liabilities	24	1,283,286	(42,869)
Information Technology Levy	24.1	(1,394)	(3,344)
Cash used in Operating Activities		823,528	(250,730)
Income and Education Taxes Paid	23.3	(12,658)	(8,192)
Net Cash used in Operating Activities		810,870	(258,922)
Cash Flow from Investing Activities			
Purchase of investment Properties	17	-	-
Proceeds from disposal of investment properties	17	19,992	-
Purchase of Fixed Assets and intangible assets	18	(22,243)	(11,955)
Proceeds from disposal of PPE			-
Net Cash used in Investing Activities		**(2,096)**	**(11,955)**
Cash Flow from Financing Activities			
Borrowing from FMBN	22	339,795	503,033
Net cash inflow from financing activities		339,795	503,033
Net (decrease)/increase in cash and cash equivalent		1,148,569	232,156
Cash and Cash Equivalent at beginning		631,026	398,870
Cash and Cash Equivalent at end	32	1,779,595	631,026
Represented by:			
Cash and short term funds	10 &11	1,134,595	560,354
Due from banks and other financial institutions	12	645,000	220,000
Overdrawn balances	20	-	(149,328)
		1,779,595	631,026

The accounting policies and notes on pages 22 to 64 form part of these financial statements

1. **Basis of preparation**

(a) Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"), and in compliance with the requirements of the Financial Reporting Council Act No. 6 of 2011.

The financial statements were authorized for issue by the Board of Directors of AG Mortgage Bank Plc on 22 May, 2020.

(b) Basis of measurement
The financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss and investment properties measured at fair value.

(c) Use of estimates and judgments
The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates is revised and in any future periods affected.

d) Standards issued but not yet effective
Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective. The Bank expects the adoption of these standards, amendments and interpretations in most cases not to have any significant impact on the Bank's financial position or performance in the period of initial application but additional disclosures will be required. In cases where it is likely to have an impact, the Bank is still assessing the possible impact.

Standards and interpretations issued/amended but not yet effective
The standards listed below have been issued or amended by the IASB but are yet to become effective for annual periods beginning on or after 1 January 2019. The Company has not applied the following new or amended standards in preparing these financial statements as it plans to adopt these standards at their respective effective dates. Insights on these new standards/amendments are provided below.

a) Amendments to IFRS 3 (Business Combination)
IFRS 3 (Business Combinations) outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). In October 2018, after the post implementation review of IFRS 3, the IASB issued an amendment to IFRS 3 which centers majorly on the definition of a Business. The effective date is on or after 1st January 2020. The considerations include:

• To be considered a business, an acquired set of activities and assets must include, at minimum, an input and a substantive process that together significantly contribute to the ability to create outputs:

- Narrows the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.
- Adds guidance and illustrative examples to help entities assess whether a substantive process has been acquired.
- Removes the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs: and
- Adds an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

b) Amendment to IAS 1 and IAS 8 In October 2018, the IASB issued the definition of 'material'. The amendments are intended to clarify, modify and ensure that the definition of 'material' is consistent across all IFRS. in IAS 1 (Presentation of Financial Statements) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the revised definition of 'material' is quoted below:

"An information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity". The amendments laid emphasis on five (5) ways material information can be obscured. These include:

- If the language regarding a material item, transaction or other event is vague or unclear;
- If information regarding a material item, transaction or other event is scattered in different places in the financial statements;
- If dissimilar items, transactions or other events are inappropriately aggregated;
- If similar items, transactions or other events are inappropriately disaggregated; and
- If material information is hidden by immaterial information to the extent that it becomes unclear what information is material. The amendments are effective for annual reporting periods beginning on or after 1st January 2020.

c) IFRS 17 - Insurance Contracts

IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021. The new IFRS 17 standard establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the Standard. It also requires similar principles for reinsurance contracts held and issued investment contracts with discretionary participation features. The standard brings a greater degree of comparability and transparency about an insurer's financial health and the profitability of new and in-force insurance business.

IFRS 17 introduces a general measurement model that measures groups of insurance contracts based on fulfilment cash flows (comprising probability-weighted current estimates of future cash flows and an explicit entity-specific adjustment for risk) and a contractual service margin. The premium allocation approach (PAA) is a simplified measurement model that may be applied when certain conditions are fulfilled. Under the PAA approach, the liability for remaining coverage will be initially recognized as the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows. The general measurement model has specific modifications applicable to accounting for reinsurance contracts, direct participating contracts and investment contracts with discretionary participation features.

In June 2019, the IASB proposed targeted amendments to IFRS 17 which aim to ease implementation of the standard. **The amendments defer the effective date of the standards to reporting periods beginning on or after 1 January 2022.** This is a deferral of one year compared to the current data published in IFRS 17 of 1 January 2021 and is subject to public consultation, which will take place in the latter half of 2019.

2. Significant accounting policies

1.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The financial statements are presented in Nigeria Naira, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translations at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

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

The bank changed its policies on financial assets revenue as a result of the implementation of IFRS 9 and 15 respectively.

Revenue

This relates to the services provided to customers, exclusive value added tax and less any discounts. Revenue is recognised when the significant risks and rewards of ownership of the services have passed to the buyers, recovery of the consideration is possible, the associated costs and possible return of services can be estimated reliably, there is no continuing management involvement with the services provided and the amount of revenue can be measured reliably.

3.6 *Interest*

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

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

The calculation of the effective interest rate includes contractual fees paid or received transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue of

disposal of a financial assets or liability.
Interest income and expenses presented in the income statement include:

- Interest on financial assets and liabilities measured at amortised cost calculated on an effective interest rate basis;

- Interest on financial assets measured at fair value through profit or loss calculated on an effective interest rate basis; and

- Interest on financial assets measured at fair value through OCI calculated on an effective interest rate basis.

3.7 *Fees and commission*

Fees and commission that are integral to the effective interest rate on a financial assets 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' term, preparing and processing documentation and finalizing 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 relate 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 recognized as the related services are provided/performed

3.8 *Net income from other financial instruments at fair value through profit or loss*

Net income from other financial instruments at fair value through profit or loss relates to derivatives held for risk management purposes that do not form part of qualifying hedge relationships. Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in other operating income – mark to market gain/ (loss) on trading investments in the income statement.

3.9 *Unearned income*

Unearned income on Treasury Bill represents upfront discounted interest received on treasury bills held to maturity. Under IFRS, treasury bills held to maturity and held for trading are carried at amortised cost and fair value respectively.

3.10. *Dividend income*

Dividend income is recognised when the right to receive income is established. Dividends on investment in equities are reflected as a component of net trading income. Dividend income on long-term equity investments is recognised as a component of other operating income.

3.11 *Financial instruments*

Financial instruments carried at the date of financial positon include the loans and receivables, cash and cash equivalents and deposits. Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, financial instruments are measured as described below:

Financial assets and liabilities

I. Recognition

The Bank on the date of origination or purchase recognizes loans, debt and equity securities and deposits at the fair value of consideration paid. For non-revolving facilities, origination date is the date the facility is disbursed while origination date for revolving facilities is the date the line is availed. Regular-way purchases and sales of financial assets are recognized on the settlement date. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

II. Classification and Measurement

Initial measurement of a financial asset or liability is at fair value plus transaction costs that are directly attributable to its purchase or issuance. For instruments measured at fair value through profit or loss, transaction costs are recognized immediately in profit or loss.

Financial assets are classified into one of the following measurement categories:

- Amortized cost
- Fair Value through Other Comprehensive Income (FVOCI)
- Fair Value through Profit or Loss (FVTPL) for trading related assets
- Equity Instruments

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics.

Business Model Assessment

Business model assessment involves determining whether financial assets are managed in order to generate cash flows from collection of contractual cash flows, selling financial assets or both. The Bank assesses business model at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective. For the assessment of business model, the Bank takes into consideration the following factors:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets
- How the performance of assets in a portfolio is evaluated and reported to management and other key decision makers within the Bank's business lines;
- The risks that affect the performance of assets held within a business model and how those risks are managed;

Management determines the classification of the financial instruments at initial recognition. The business model assessment falls under three categories:

Business Model 1 (BM1): Financial assets held with the sole objective to collect contractual cash flows;

Business Model 2 (BM2): Financial assets held with the objective of both collecting contractual cash flows and selling; and

Business Model 3 (BM3): Financial assets held with neither of the objectives mentioned in BM1 or BM2 above. These are basically financial assets held with the sole objective to trade and to realize fair value changes. The Bank may decide to sell financial instruments held under the BM1 category with the objective to collect contractual cash flows without necessarily changing its business model if one or more of the following conditions are met:

- When the Bank sells financial assets to reduce credit risk or losses because of an increase in the assets 'credit risk. The Bank considers sale of financial assets that may occur in BM1 to be infrequent if the sales is one-off during the Financial Year and/or occurs at most once during the quarter or at most three (3) times within the Financial Year.

- Where these sales are infrequent even if significant in value. A Sale of financial assets is considered infrequent if the sale is one-off during the Financial Year and/or occurs at most once during the quarter or at most three (3) times within the Financial Year.

- Where these sales are insignificant in value both individually and in aggregate, even if frequent. A sale is considered insignificant if the portion of the financial assets sold is equal to or less than five (5) per cent of the carrying amount (book value) of the total assets within the business model.

- When these sales are made close to the maturity of the financial assets and the proceeds from the sales approximates the collection of the remaining contractual cash flows. A sale is considered to be close to maturity if the financial assets has a tenor to maturity of not more than one (1) year and/or the difference between the remaining contractual cash flows expected from the financial asset does not exceed the cash flows from the sales by ten (10) per cent. Other reasons: The following reasons outlined below may constitute 'Other Reasons' (infrequent in occurrence) that may necessitate selling financial assets from the BM1 category that will not constitute a change in business model:
    - Selling the financial asset to realize cash to deal with unforeseen need for liquidity.
    - Selling the financial asset to manage credit concentration risk.
    - Selling the financial assets as a result of changes in tax laws.
    - Other situations also depend upon the facts and circumstances which need to be judged by the management

Cash flow characteristics assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI). Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instruments due to repayments. Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets; and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates. The Bank holds a portfolio of medium to long-term fixed rate loans forwhich it has the option to propose a revision of the interest rate periodically. These

reset rights are limited to the market rate at the time of revision. The right to reset the rates of the loans based on the revision in market rates are part of the contractually agreed terms on inception of the loan agreement, therefore the borrowers are obligated to comply with the reset rates without any option of repayment of the loans at par at any reset date. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies with the interest rate in a way that is considered a consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

a) Financial assets measured at amortized cost

Financial assets are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost using the effective interest rate method. Amortized cost is calculated considering any discount or premium on acquisition, transaction costs and fees that are an integral part

considering any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization is included in Interest income in the Statement of Income. Impairment on financial assets measured at amortized cost is calculated using the expected credit loss approach. Loans measured at amortized cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

b) Financial assets measured at FVOCI

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

c) Financial assets measured at FVTPL

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

d) Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, any contract that evidences a residual interest in the issuer's net assets. Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase. For equity instruments measured at FVTPL, changes in fair value are recognized as part of Other Income in the Statement of Income. The Bank can elect to classify non-trading equity instruments at FVOCI. This election will be used for certain equity investments for strategic or longer -term investment purposes. The FVOCI election is made upon initial recognition, on an instrument-byinstrument basis and once made is irrevocable. Gains and losses on these instruments including when derecognized/sold are recorded in OCI and are not subsequently reclassified to the Statement of Income. Dividends received are recorded in other income in the Statement of Income. Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and are not reclassified to the Statement of Income on sale of the security. Transaction cost on disposal of equity instruments is recognized as an expense in the income statement.

Financial liabilities are classified into one of the following measurement categories:

- Amortised cost
- Fair Value through Profit or Loss (FVTPL)

e) Financial Liabilities at amortised cost

Financial liabilities that are not classified at fair value through profit or loss fall into this category and are measured at amortised cost using the effective interest rate method. Financial liabilities measured at amortised cost are deposits from banks or customers and other borrowed funds

f) Financial Liabilities at fair value through profit or loss

Financial liabilities accounted for at fair value through profit or loss fall into two categories: financial liabilities held for trading and financial liabilities designated at fair value through profit or loss on inception. Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the income statement and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'. Financial Liabilities are designated at FVTPL when either the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or the financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required. For liabilities designated at fair value through profit or loss, all changes in fair value are recognized in Other Income in the Statement of Income, except for changes in fair value arising from changes in the Bank's own credit risk which are recognized in OCI. Changes in fair value of liabilities due to changes in the Bank's own credit risk, which are recognized in OCI, are not subsequently reclassified to the Statement of Income upon derecognition/extinguishment of the liabilities.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks, balances held with other banks , Money market placements and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the Statements of financial position.

III. Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. A change in the Bank's business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations such as significant internal restructuring and any other reason that might warrant a change in the Bank's business model as determined by management based on facts and circumstances.
The following are not considered to be changes in the business model:

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

When reclassification occurs, the Bank reclassifies all affected financial assets in accordance with the new business model. Reclassification is applied prospectively from the 'reclassification date'. Reclassification date is 'the first day of the first reporting period following the change in business model. For example, if the Bank decides to shut down the Corporate mortgage business segment, the reclassification date is the first day of the next reporting period.

IV. Modification of financial assets and liabilities

a. Financial assets

When the contractual terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized, and a new financial asset is recognized at fair value. Any difference between the amortized cost and the present value of the estimated future cash flows of the modified asset or consideration received on derecognition is recorded as a separate line item in profit or loss as 'gains and losses arising from the derecognition of financial assets measured at amortized cost'. If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognized, the Bank shall assess whether there has been a significant increase in the credit risk of the financial instrument by comparing:

- the risk of a default occurring at the reporting date (based on the modified contractual terms); and

- the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms)

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

Quantitative criteria

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

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

Qualitative criteria

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

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

Other factor to be considered:

Extension of maturity dates If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized (see above) and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cashflow from the existing financial asset a

b. Financial Liabilities

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

De-recognition of financial instruments

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

V. Impairment of Financial Assets

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

- Amortized cost financial assets;
- Debt securities classified as at FVOCI;

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

Expected Credit Loss Impairment Model

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

Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 – Financial instruments that are considered to be in default are included in this stage. Like Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

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

Accounts classified as either "Substandard", "Doubtful" or "Loss" are, for the purpose of this model, classified as defaulted accounts (and classified as Stage 3). All accounts classified as "Watchlist" are classified as Stage 2. In addition to this, and in line with CBN expectations, all loans that have been restructured or the term extended, are assumed to have significantly increased credit risk since origination and are thus classified as Stage 2, if not already classified as Stage 2 or Stage 3. Thus, all accounts flagged as forbearance are classified as Stage 2. However, if the Bank has evidence that not all of these accounts' credit risk has significantly increased since initial recognition, then these accounts can be re-classified as Stage 1. The Bank generates credit ratings for each obligor. Loans rated "D" are classified as stage 3 loans.

Measurement of Expected Credit Losses

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. Details of these statistical parameters/inputs are as follows:

Probability of Default – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

- **12-month PDs** – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs. The Bank obtains the constant and relevant coefficients for the various independent variables and computes the outcome by incorporating forward looking macroeconomic variables and computing the forward probability of default.

- **Lifetime PDs** – This is the estimated probability of default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2' and 'stage 3' exposures. PDs are limited to the maximum period of exposure required by IFRS 9. The Bank obtains 3 years forecast for the relevant macroeconomic variables and adopts exponentiation method to compute cumulative PD for future time periods for each obligor.

Exposure at Default – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Loss Given Default – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. 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. In modelling CCF, the Bank considers its account monitoring and payment processing policies including its ability to prevent further drawings during periods of increased credit risk. CCF is applied on the off-balance sheet exposures to determine the EAD and the ECL impairment model for financial assets which is applied on the EAD to determine the ECL on the off-balance sheet exposures.

Forward-looking information

IFRS 9 specifies that ECLs should include a forward-looking element which translates into an allowance for changes in macro-economic conditions and forecasts when estimating lifetime ECLs. It is important to understand the effect of forecasted changes in the macro-economic environment on ECLs, so that an appropriate level of provisions can be raised. The most acceptable way of allowing for macro-economic conditions is to build a regression model that aims to explain and predict the impact of macro-economic indicators on default rates. Such regression models are usually built on a history of default rates and macro-economic variables covering at least one economic cycle, but preferable more. Information gathering is based on historical Nigerian macroeconomic indicators from a host of reliable sources, including the International Monetary Fund. As a proxy for default rates, the Bank uses its non-performing loans as a percentage of gross loans ("NPL%") metric. The following steps were followed in quantifying the impact of macro-economic scenarios on ECLs.

Step 1 Using the statistical methodology of multiple Regression, estimate the relationship between collected historical non-performing loans and on a list of macro-economic indicators.

Step 2 Identify variables that are statistically significant (that is variables that have the most significant predictive power)

Step 3 Forecast macroeconomic forward-looking information for periods over which lifetime PD will be determined

Step 4 Using the equation derived in step one as, significant coefficient obtained in step 2 as well as forecast macroeconomic forward-looking information in step 3, predict the default probability for relevant periods

Step 5 Determine Scalars for relevant period. In order to remove the impact of any historical trends included in the data, the scalar denominator is adjusted based on the estimation period used to derive the PDs.

Step 6 Apply the scalars calculated in Step 5 to the lifetime PDs as derived. A scalar factor of one means that the probability of default for the forecast year is expected to be in line with historical average probability of default. A scalar factor less than one means that the probability of default for the forecast year is expected to be less than the historical average probability of default. A scalar factor greater than one means that the probability of default for the forecast year is expected to be greater than the historical average probability of default.

Assessment of Significant Increase in Credit Risk (SICR)

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors. The common assessments for SICR on retail and non-retail portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. The Bank adopts a multi factor approach in assessing changes in credit risk. This approach considers: Quantitative (primary), Qualitative (secondary) and Back stop indicators which are critical in allocating financial assets into stages. The quantitative models consider deterioration in the credit rating of obligor/counterparty based on the Bank's internal rating system or External Credit Assessment Institutions (ECAI) while qualitative factors consider information such as expected forbearance, restructuring, exposure classification by licensed credit bureau, etc. A backstop is typically used to ensure that in the (unlikely) event that the primary (quantitative) indicators do not change and there is no trigger from the secondary (qualitative) indicators, an account that has breached the 30 days past due criteria for SICR and 90 days past due criteria for default is transferred to stage 2 or stage 3 as the case may be except there is a reasonable and supportable evidence available without undue cost to rebut the presumption.

Definition of Default and Credit Impaired Financial Assets

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

- Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception
- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated or issued at the reporting date
- Significant changes in external market indicators of credit risk for a financial instrument or similar financial instruments with the same expected life.
- An actual or expected significant change in the financial instrument's external credit rating.

- An actual or expected internal credit rating downgrade for the borrower
- Existing or forecast adverse changes in business, financial or economic conditions - An actual or expected significant change in the operating results of the borrower
- Significant increases in credit risk on other financial instruments of the same borrower.
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower
- Significant changes in the value of the collateral supporting the obligation
- Significant changes, such as reductions, in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement
- Significant changes in the expected performance and behavior of the borrower
- Changes in the entity's credit management approach in relation to the financial instrument
- Deterioration of relevant credit risk drivers for an individual obligor (or pool of obligors);
- Expectation of forbearance or restructuring due to financial difficulties;
- Evidence that full repayment of interest and principal without realization of collateral is unlikely, regardless of the number of days past due; and
- A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, loans that are more than 30 days past due are considered impaired.

Presentation of allowance for ECL in the statement of financial position

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

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

VI. Write-off

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

- continued contact with the customer is impossible;

- recovery cost is expected to be higher than the outstanding debt;
- The bank's recovery method is foreclosing collateral and the value of the collateral is such that there is reasonable expectation of recovering the balance in full.
- Where all possible avenues for recoveries have been explored and it is evident that the financial capacity of the borrower makes it impossible to recover part or the whole amount of indebtedness.

All credit facility write-offs shall require endorsement at the appropriate level, as stated in the Bank's Credit Policy. Credit write-off approval shall be documented in writing and properly initialed by the approving authority. A write-off constitutes a derecognition event. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amount due. Whenever amounts are recovered on previously written off credit exposures, such amount recovered is recognized as income on a cash basis only.

VII. Investment securities

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

VIII. Repossessed Collateral

In certain circumstances, property may be 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 'Other assets'

2.2 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, nonrestricted current accounts with the central bank and amounts due from banks on demand or with an original maturity of three months or less.

2.3 Property and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	%
Buildings	2
Computers	20
Furniture and Equipment	20
Motor Vehicle	25
Office Equipment	20
Plant and Machinery	20
Leasehold Improvement	20

The assets' residual values and useful lives are reviewed and prospectively adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Increases in the carrying amount arising on revaluation of buildings are credited to other comprehensive income and shown as Revaluation surplus in the shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against Revaluation surplus directly in equity; all other decreases are charged to the profit or loss.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is derecognised.

2.4 Income tax

(a) Current income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the profit or loss, 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 tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income

tax liability is realised.
Deferred income tax is provided on temporary differences except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the temporary difference will not reverse in the forseeable future.
Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

2.5 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.6 Ordinary capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the bank. Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

2.7 Employee Benefits

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The company operates a defined contributory pension scheme for eligible employees. The employee and the company contribute 8% and 10% respectively of the employees' basic salary, housing and transport allowances in line with the provisions of the Pension Reform Act 2004 as amended in 2018.
Liabilities in respect of the defined contribution scheme are charged against the profit of the period in which they become payable. Payments are made to Pension Fund Administration Companies, who are appointed by respective staff of the Bank.

2.8 Investment in Associate

An associate is an entity over which the company has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights.

Investments in associate are accounted for by the equity method of accounting and are initially recognized at cost.

Intra group gains on transactions between the company and its associate are eliminated to the extent of the company's interest in the associate. Intra group losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.9 Investment Properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Investment properties are land and buildings which are not occupied substantially for use in the operations of the Company. They are revalued periodically by external professional valuers.

The professional valuer holds the Financial Reporting Council (FRC) of Nigeria Registration Certificate.

2.10 Transition Disclosures

The following explanation set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs. A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2019 is, as follows:

		Notes	IAS 39 Measurement Category	Amount N000	Re - measurement ECL N000	IFRS Measurement Amount	Category N000
1	Cash on hand	a	Loans and receivables	545,354	-	545,354	Amortized cost
	Due from banks	a	Loans and receivables	220,000	(152)	219,848	Amortized cost
	Cash balance with central bank	a,c	Loans and receivables	15,000	-	15,000	Amortized cost
	Loans and advances	a,c	Loans and receivables	6,117,344	(133,949)	5,983,395	Amortized cost
				6,897,698	(134,101)	6,763,597	
				=========	========	=========	
2	Available for sale	b		48,526	-	48,526	Fair value through profit or loss (FVTPL)
				=======		=======	
3	Financial Liabilities						
	Deposit liabilities	a	Financial liabilities	2,966,438	-	2,966,438	Amortized cost
	Other liabilities	a	Financial liabilities	74,002	-	74,002	Amortized cost
	Borrowings from FMBN	a	Financial liabilities	2,132,933	-	2,132,933	Amortized cost
				5,173,373	-	5,173,373	
				========		=========	

		Amount ₦000
4	Retained earnings	
	Closing balance under IAS 39(31 December 2018)	(859481)
	Recognition of IFRS 9 ECLs on financial instruments	(134101)
	Opening balance under IFRS 9 (1 January 2019)	(993582)
		=======

		Amount N000
5	Aggregate amount of impairment	
	Due from banks	152
	Loans and advances	133,949
	Total change in equity due to adopting IFRS 9	134,101
		=========

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the company as detailed below:

a. Reclassification from retired categories with no change in measurement

In addition to the above, the financial instrument below have been reclassified to new categories under IFRS 9, as the previous categories under IAS 39 was 'retired', with no changes to the measurement basis:

(i) Those previously classified as loans and receivables and now classified as measured at amortized cost.

(ii) Those financial liabilities previously classified as other financial liabilities and now classified at amortized cost

b. **Equity instruments measured at FVTPL**

The Company has classified all its investments in equity instrument to be measured at FVTPL as permitted under IFRS 9. These securities were previously classified as available-for-sale carried at fair value. As at 1 January 2018, the fair value of the instruments remain the same.

c. ECL Computation on cash balances due from banks and loans and advances under IFRS

Impairment allowance on loans and advances was previously determined in accordance with the incurred loss model of IAS 39 Financial Instruments - Recognition and measurement. In addition, there has been no impairment charges on cash balances with central bank and due from banks under IAS 39. Effective 1 January 2018, the impairment computation for loans and advances and due from banks is now done in accordance with the expected credit loss model under IFRS 9. As at 1 January 2019, the Bank adopted the general approach for all these instruments in accordance with IFRS 9 and recognized an additional impairment in the accounts.

3. FINANCIAL RISK MANAGEMENT

3.1 Introduction

AG MORTGAGE BANK PLC uses its financial skills to provide mortgage banking business to a broad range of customers.

Risk management is essential to help ensure business sustainability thereby providing customers and the shareholders with a long-term value proposition.

Key elements of risk management are:

- Strong corporate governance including relevant and reliable management information and internal control processes;
- Ensuring significant and relevant skills and services are available consistently to the company;
- Keeping abreast of technology and consumer trends and investing capital and resources where required.

The overall company focus within an appropriate risk framework is to give value to the customers through effective and efficient execution of trades.

The board of directors acknowledges its responsibility for establishing, monitoring and communicating appropriate risk and control policies.

3.2 Significant risks

The Company has exposure to significant risks which are categorised as follows:

- Regulatory (capital adequacy, legal, accounting and taxation);
- Business environment (reputation and strategic);
- Operational (people, information technology and internal control processes);
- Market (equity prices, interest rate and currency);
- Liquidity; and
- Concentration.

3.3 Discussion of significant risks

3.3.1 Regulatory risk

Regulatory risk is the risk arising from a change in regulations in any legal, taxation and accounting pronouncements or specific industry regulations that pertain to the business of the Company. In order to manage this risk, the Company is an active participant in industry and preferred bodies, such as The Chartered Institute of Bankers of Nigeria, and the Mortgage Bankers Association of Nigeria. (MBAN) and engages in discussions with policy makers and regulators.

3.3.1.1 Regulatory capital risk

Regulatory capital risk is the risk that the company does not have sufficient capital to meet either minimum regulatory or internal amounts.

Central Bank of Nigeria sets and monitors capital requirements for the Company. The Company is required to maintain a prescribed minimum level of risk adjusted capital of N100,000,000 calculated in accordance with such requirements as the Central Bank of Nigeria may from time to time prescribe.

The company's objectives in managing capital are:

- To safeguard the company's ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for other stakeholders; and
- To provide an adequate return to the shareholder commensurately with the level of risk.

NOTES TO THE FINANCIAL STATEMENTS

	2019 N	2018 N
Regulatory minimum capital requirement	5,000,000,000	5,000,000,000
Actual qualifying capital	2,532,886	3,615,869
Actual capital ratio (times)	0.51	0.72

The Central Bank has increased the minimum capital requirement of Primary Mortgage Institutions (PMIs) to N2.5billion for PMIs operating at state level and N5billion for nationwide operational license with effect from April 2018.

3.3.1.2 Legal risk

Legal risk is the risk that the company will be exposed to contractual obligations which have not been provided for.

The company has a policy of ensuring all contractual obligations are documented and appropriately evidenced to agreements with the relevant parties to the contract.

All significant contracted claims are reviewed by independent legal resources and amounts are provided for if there is consensus as to any possible exposure. At 31 December 2019, the directors are not aware of any significant obligation not provided for.

3.3.1.3 Taxation risk

Taxation risk is the risk of suffering a loss, financial or otherwise, as a result of an incorrect interpretation and application of taxation legislation or due to the impact of new taxation legislation on existing products.

Taxation risk occurs in the following key areas:

- Transactional risk;
- Operational risk;
- Compliance risk; and
- Financial accounting risk.

Transactional risk

The risk which concerns specific transactions entered into by the company, including restructuring projects and re-organisations.

Operational risk

The underlying risks of applying tax laws, regulations and decisions to the day-to-day business operations of the company.

Compliance risk

The risk associated with meeting the company's statutory obligations.

Financial accounting risk

The risk relates to the inadequacy of proper internal controls over financial reporting, including tax provisioning. In managing the company's taxation risk, the company's tax policy is as follows: The company will fulfill its responsibilities under tax law in each of the jurisdictions in which it operates, whether in relation to compliance, planning or client service matters. Tax law includes all responsibilities which the company may have in relation to company taxes, personal taxes, capital gains taxes, indirect taxes and tax administration.

Compliance with this policy is aimed at ensuring that:

- All taxes due by the company are correctly identified, calculated, paid and accounted for in accordance with the relevant tax legislation;
- The company continually reviews its existing operations and planned operations in this context; and
- The company ensures that, where clients participate in company products/services, these clients are either aware of the probable tax consequences, or are advised to consult with independent professionals to assess these consequences, or both.

The identification and management of tax risk is the primary objective of the company tax function, and this objective is achieved through the application of a formulated tax risk approach, which measures the fulfillment of tax responsibilities against the specific requirements of each category of tax to which the company is exposed, in the context of the various types of activities the company conducts.

3.4.1.4 Accounting risk

Accounting risk is the risk that the company fails to explain the current events of the business in the financial statements.

Accounting risk can arise from the failure of management to:

- Maintain proper books and records, accounting systems and to have proper accounting policies;
- Establish proper internal controls system;
- Prepare periodic financial statements that reflect an accurate financial position; and
- Be transparent and fully disclose all important and relevant matters.

Measures to control accounting risk are the use of proper accounting systems, books and records based on proper accounting policies as well as the establishment of proper internal accounting controls. Proposed accounting changes are researched by accounting resources, and if required external resources, to identify and advise on any material impact on the company.

NOTES TO THE FINANCIAL STATEMENTS

Financial statements are prepared in a transparent manner that fully disclose all important and relevant matters as well as accurately reflecting the financial position, results and cash flows of the company.

3.5.1 Business environment

3.5.1.1 Reputational risk

Reputational risk is the risk of loss caused by a decline in the reputation of the company or any of its specific business units from the perspective of its stakeholders, customers, staff, business partners or the general public.
Reputational risk can both cause and result from losses in all risk categories such as market or credit risk. Customers expectations regarding service delivery is managed by regular communication and ongoing reviews.

3.5.1.2 Strategic risk

Strategic risk is the risk of an unexpected negative change in the company value, arising from the adverse effect of executive decisions on both business strategies and their implementation.
This risk is a function of the compatibility between strategic goals, the business strategies developed to achieve those goals and the resources deployed to achieve those goals. Strategic risk also includes the ability of management to effectively analyse and react to external factors, which could impact the future direction of the relevant business unit.

3.5.2 Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

The initiation of all transactions and their administration is conducted on the foundation of segregation of duties that has been designed to ensure materially the completeness, accuracy and validity of all transactions. These controls are augmented by management and executive review of control accounts and systems, electronic and manual checks and controls, back-up facilities and contingency planning. The internal control systems and procedures are also subjected to regular internal audit reviews.

3.5.3 Market risk

Market risk includes asset liability matching risk, currency risk, interest rate risk and equity price risk.

Asset liability matching risk

Asset liability mismatches and market risks are assessed by means of a number of stress tests each designed to examine a different component of market and mismatch risk.

Liquidity requirements and cash resources are reviewed on a monthly basis by the asset liability matching and capital management committees.

The company's assets are relatively liquid with placement, listed equities and cash being easily realisable.

NOTES TO THE FINANCIAL STATEMENTS

The company is exposed to market risk through its financial assets and financial liabilities. The most important components of this risk are interest rate risk, market price risk and currency risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

Interest rate and market price risk

These risks have very different impacts on the various categories of business used in the company's Assets and Liabilities Management framework. Interest rate and market price risk have been discussed together since they interact on certain types of liabilities.

Interest rate risk

Interest rate risk is the risk that the value and cash flow of a financial instrument will fluctuate due to changes in market interest rates.

Equity price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

Investments in all equities are valued at fair value and are therefore susceptible to market fluctuations.

3.5.4 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss to the other party by failing to discharge an obligation.

Key areas where the company is exposed to credit risk are:

- Certain classes of financial assets such as loan and advances, government securities, term deposits and cash and cash equivalents

Financial assets

Various debt instruments are entered into by the company in order to invest surplus shareholder funds. The company is exposed to the issuer's credit standing on these instruments. Exposure to outside financial institutions concerning financial instruments is monitored in accordance with parameters which have been approved by the company's Audit Committee and the company's board as mandated by the board of AG Mortgage Bank Plc.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments.

AG Mortgage Bank Plc is a registered financial service company and is required to hold minimum liquid capital. Central Bank of Nigeria is the regulatory authority that regularly reviews compliance with these minimum capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

		31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
4.	**Interest Income**		
	Analysis by Nature:		
	Interest on term loans and overdrafts	305,862	238,575
	Interest on mortgage loans	499,942	471,503
	Interest on placements	25,401	17,345
	Interest on staff loan	2,025	2,540
		833,230	729,963
4.1	**Analysis by Source:**		
	Interest income – mortgage sources	805,804	710,078
	Interest income – non mortgage sources	25,401	17,345
	Interest income – staff loan	2,025	2,540
		833,230	729,963
5.	**Interest Expenses**		
	Savings accounts	17,031	14,774
	Fixed deposit	272,135	242,084
	FMBN Loan	59,952	77,108
		349,118	333,966
5.1	**Analysis by Sources**		
	Interest expenses – mortgage sources	289,166	256,858
	Interest expenses – non-mortgage sources	59,952	77,108
		349,118	333,966

NOTES TO THE FINANCIAL STATEMENTS

	31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
6. Other Income -Net Fees and Commissions		
Commissions	-	-
Fees	26,804	40,450
Net Fees & Commission Income	26,804	40,450
6.1 Analysis by sources		
Credit related commission	26,804	40,450
7. Operating Expenses		
Staff cost (note 7.1)	171,306	164,869
Motor Vehicle Operating and Maintenance	23,512	23,329
Repairs and Maintenance of Equipment	29,562	20,968
Staff Training	15,567	22,403
Office Expenses	14,023	20,082
Other Professional Fees	12,405	17,465
Hotel& Accommodation	14,290	17,059
Rent	14,714	16,112
Travelling	12,895	16,000
Subscription	13,181	15,923
Advertisement & Business Promotion	10,195	9,724
Security Expenses	8,980	8,514
NDIC Premium	10,000	8,000
Entertainment	6,639	7,185
Postage Telephone & Telex	6,420	7,024
Printing & Stationery	5,229	6,113
Audit Fee	5,000	5,000
Water & Electricity	4,934	5,729
Insurance	3,193	2,322
Newspaper & Periodicals	195	635
Bank charges	629	360
Medical	372	107
	383,241	394,923

NOTES TO THE FINANCIAL STATEMENTS

		31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
7.1	**Staff Costs**		
	Staff costs (including directors) comprise:		
	Wages and Salaries	160,829	155,575
	Defined Contribution pension cost	10,477	9,294
		171,306	164,869
8.	**Depreciation and amortisation charges**		
	Depreciation	21,811	26,227
	Amortisation	2,450	3,480
		24,261	29,707
9.	**Other Operating Income**		
	Profit on disposal of assets	155	-
	Maintenance fee	4,345	4,334
	Legal fees	7,714	6,588
	Commission	2,549	2,771
	Other income	19,961	23,869
	Income on Real Estate Investment	-	75,000
		34,724	112,562
10.	Balance with the Central Bank of Nigeria	70,000	15,000

This amount represent the cash reserve of the Bank with the CBN

		31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
11.	**Cash and Cash Equivalent**		
	Cash	33,806	66,226
	Balances with Banks & Other Financial Institutions (note 11.1)	1,030,789	479,128
		1,064,595	545,354
11.1	Access Bank Plc	776,135	307,958
	Zenith Bank Plc	1,198	125,424
	United Bank of Africa Plc	29,266	29,855
	Polaris Bank PlC (Skye Bank)	224	3,340
	First Bank of Nigeria Plc	12,169	9,063
	First City Monument Bank Plc	9,104	484
	Access Bank PlC (Diamond Bank)	50	50
	Keystone Bank Limited	1,572	-
	Fidelity Bank	201,705	-
	Heritage Bank Limited	32	32
	Unity Bank Plc	(666)	2,922
		1,030,789	479,128

		31 Dec, 2019	31 Dec, 2018
12.	**Due from other banks**	**₦'000**	**₦'000**
	Access Bank Plc	45,000	-
	Lighthouse Asset Management Limited	600,000	220,000
		645,000	220,000
	Impairment (12.1)	(479)	(152)
		644,521	219,848

This amount represents fixed deposit with the Asset Management Company which is rolled over on a yearly basis.

		31 Dec, 2019	31 Dec, 2018
12.1	**Impairment allowance**		
	Balance as at 1 January	152	-
	Addition during the year	327	152
	Balance as at 31 December	479	152
13.	**Mortgage, Other Loans and Advances**		
	Loans and Advances	7,567,587	6,643,937
	Provision for impairment (note 13.1)	(657,328)	(660,542)
		6,910,259	5,983,395
13.1	**Provision for Impairment**		
	As at January	334,425	348,572
	Additions for the year	66,349	(14,147)
	As at December	400,774	334,425
	Interest in suspense	256,554	326,117
		657,328	660,542
	Total impairment recognised in the financial statements is as follows:-		
	As per IFRS		
	Specific	348,108	340,823
	Collective	309,220	319,719
		657,328	660,542
	As per CBN prudential guidelines		
	Performing	43,008	35,596
	Watchlist	4,667	272
	Substandard	57,736	105,553
	Doubtful	631,831	537,573
	Lost	2,512,758	1,469,077
		3,250,000	2,148,071
	Regulatory risk reserve (note 30)	2,592,672	1,487,529
13.2	**Analysis by Security**		
	Secured against real estate	6,027,280	5,315,150
	Otherwise secured	77,015	66,439
	Unsecured	1,463,292	1,262,348
		7,567,587	6,643,937
13.3	**Analysis by Type:**		
	Mortgage loans	6,027,280	5,315,150
	Other advances	1,540,307	1,328,787
		7,567,587	6,643,937

NOTES TO THE FINANCIAL STATEMENTS

		31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
13.4	**Analysis by Maturity**		
	Under 1 month	-	-
	3 to 6 months	77,015	66,439
	6 to 12 months	1,463,292	1,262,348
	Over 12 months	6,027,280	5,315,150
		7,567,567	6,643,937
13.5	**Analysis by performance**		
	Performing	4,297,999	3,559,215
	Watchlist	466,684	27,193
	Substandard	527,361	1,055,526
	Doubtful	1,263,662	1,075,146
	Lost	1,011,881	926,857
		7,567,587	6,643,937
14.	**Financial assets through profit or loss**		
	Equity securities: Listed	42,750	48,526
	Market Value		
	Skye Shelter Fund	42,750	48,526
		42,750	48,526
14.1	**Movement in financial equity**		
	At beginning of year	48,526	50,000
	Impairment	(5,776)	(1,474)
	Fair value gain	-	-
	At end of year	42,750	48,526
	Fair value gain	-	-
		42,750	48,526
15.	**Investments in Associate Company**		
	At beginning of year	34,914	34,036
	Share of profit/loss of associate	382	878
	At end of year	35,296	34,914

The bank holds 30% interest in Evangel Properties Limited, a property development company based in Lagos. This investment is accounted for using equity method as stipulated by International Accounting Standard (IAS) 28 – Investment in Associate.

16. Other Assets

	31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
Other prepayments	1,965	9,308
Cash in suspense	-	110
Interest receivables- mortgage loans (note 16.1)	53,658	46,794
Stock of stationeries	819	819
Share offer expenses	72,861	-
Head office operational account	-	54
Harp receivables (note 16.2)	-	1
E-business NIP receivable (note 16.3)	118	448
	129,421	57,534

16.1 **Interest Receivable- Mortgage Loans**

This is a bridging account between when the loan interest is earned and collected based on the agreement entered into with the customer.

16.2 **Harp Receivable**

The Harp Receivable account has a bearing with the Harp Mortgage Account. It is a specialized Rent to Own product that allows customers pay for a property over a period of time. The unpaid part of the property is recorded in the harp receivable account.

16.3 **E- Business Receivable**

These are transactions carried out on the Bank's E- business platform for which we are yet to get value from settlement banks as at year end.

	31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
17. Investment properties (Non-current asset held for sale)		
At 1 January	3,113,316	3,113,316
Additions	-	-
Disposal/transfer	(19,992)	-
At 31 December	3,093,324	3,113,316

Investment properties are revalued periodically and the last revaluation was done in September, 2012.

	Carrying amount as at 1 January ₦000	Addition/ disposal ₦000	carrying amount as at 31/12/2019 ₦000
Evangel Estate Ofada, Papalanto Road	253,934	-	253,934
layout Enugu North LGA, Enugu State	166,523	-	166,523
Evangel Estate Ikorodu	42,075	-	42,075
CBN Properties Lagos	13,932	-	13,932
Ogbeke Ibagwa Estate Enugu LGA, Enugu State	258,013	-	258,013
Plot 1038 A Close Gwarinpa II Estate Abuja	446,448	-	446,448
Plot 1131 Chikakore Kubwa layout Abuja	302,974	-	302,974
Plot 1130 Chikakore Kubwa Layout Abuja	266,091	-	266,091
Plot 1132 Chikakore Kubwa layout Abuja	286,572	-	286,572
Lexim Estate 1, Sabon Lugbe, Abuja	1,076,754	(19,992)	1,056,762
	3,113,316	(19,992)	3,093,324

In line with the Central Bank of Nigeria (CBN) circular dated October 11, 2013, which required that Primary Mortgage Bank (PMBs) should commence the disposal of all real estates development in their books, the bank has opted to classify the investment properties as noncurrent asset held for sale in line with IFRS 5. The details of these assets and their carrying amount as at 31 December, 2019 is as listed above.

NOTES TO THE FINANCIAL STATEMENTS

18. Property, Plant and Equipment

	Leasehold Improvement	Land and Buildings	Plant and Machi nery	Office Equipment and Computers	Furniture and Fittings	Motor Vehicles	Total
Cost/Valuation	**₦'000**	**₦'000**	**₦'000**	**₦'000**	**₦'000**	**₦'000**	**₦'000**
At 1 January, 2019	39,430	598,491	25,768	48,201	57,137	105,074	874,101
Additions	-	-	2,000	4,419	914	14,910	22,243
At 31/12/2019	**39,430**	**598,491**	**27,768**	**52,620**	**58,051**	**119,984**	**896,344**
Accumulated depreciation							
At 1 January, 2019	39,200	64,501	20,921	32,470	56,131	102,352	315,575
Charge for the year	161	11,870	2,144	4,302	1,732	1,602	21,811
At 31/12/2019	**39,361**	**76,371**	**23,065**	**36,772**	**57,863**	**103,954**	**337,386**
Net Book Value:							
At 31 December, 2019	**69**	**522,120**	**4,703**	**15,848**	**188**	**16,030**	**558,958**
At 31 December, 2018	**230**	**533,990**	**4,847**	**15,731**	**1,006**	**2,722**	**558,526**

	31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
19. Intangible Assets– Computer software		
Cost		
At beginning of year	26,878	26,511
Additions	-	367
At end of the year	26,878	26,878
Amortization		
At beginning of year	21,259	17,779
Charged for the year	2,450	3,480
At end of the year	23,709	21,259
Net book value	3,169	5,619
20. Overdraft	-	149,328
21. Customers' Deposits		
Analysis by Category		
Current	703,121	828,370
Savings	641,220	556,750
Time	2,064,375	1,581,318
	3,408,716	2,966,438
Analysis by Maturity		
Under 1 month	1,344,341	1,385,120
6 – 12 Months	2,064,375	1.581.318
	3,408,716	2,966,438

22. Borrowings from FMBN

	31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
At beginning of year	2,132,933	1,629,900
Addition	412,429	521,874
Repayments	(72,634)	(18,841)
	2,472,728	2,132,933

Amount represents long term loan secured from the Federal Mortgage Bank of Nigeria (FMBN) for onward disbursement to customers under the National Housing Scheme. During the year, additional funds were disbursed to the Bank for customers whose loans were approved.

23. Taxation

23.1 For the year

	31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
Current Taxation		
Income tax charge	26,888	27,164
Education tax	3,241	3,117
	30,129	30,281
Deferred tax		
Liabilities (note 23.4)	13,118	11,526
Assets (note 23.5)	-	-
	13,118	11,526

NOTES TO THE FINANCIAL STATEMENTS

23.2 The tax charged on the profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate. This is explained as follows: -

	31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
Profit before tax	66,068	139,404
Tax calculated at the statutory rate of 32%	21,142	44,609
Tax effect of:		
Disallowable expenses	-	-
Other levies	-	-
Capital allowances	-	-
Tax expense	-	-
Minimum tax	30,129	30,281
Effective tax rate	46%	22%

23.3 Statement of Financial Position

	31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
Balance brought forward	89,417	67,328
Based on the profit the year	30,129	30,281
Paid during the year	(12,658)	(8,192)
	106,888	89,417

23.4 Deferred Tax Liabilities

	31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
Balance brought forward	97,138	85,612
Charged/(released) during the year (note 23.1)	13118	11,526
	110,256	97,138

23.5 Deferred tax assets

	31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
Balance brought forward	30,622	30,622
Arising during the year (note 23.1)	-	-
	30,622	30,622

		31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
24.	**Other Liabilities**		
	Accounts payable	11,845	20,467
	Unidentified deposit	4,134	9,460
	Provision for infrastructures	67	67
	Deposit for real estate	14,897	14,899
	Statutory deductions	17,325	18,588
	Information Technology Levy (note 24.1)	661	1,394
	Pension (24.2)	820	3,058
	Cash overage	69	69
	Others	6,500	6,000
	Deposit for shares (24.3)	1,302,451	-
		1,358,108	74,002
24.1	**Information Technology Levy**		
	At start of the year	1,394	3,344
	Additions	661	1,394
	Payment	(1,394)	(3,344)
		661	1,394

The Nigerian Information Technology Development Agency (NITDA) Act was signed into law on 24 April, 2007. Section 12(2a) of the Act stipulates that specified companies contribute 1% of profit before tax to the Nigerian Information Technology Development Agency.

24.2 Pension

	Movement in the defined contribution liability recognised in the balance sheet:		
	At start of year	3,058	671
	Charge to income statement:		
	Employees	6,469	6,689
	Employer	10,477	9,294
	Contributions remitted	(19,184)	(13,596)
	At end of year	820	3,058
24.3	**Deposit for shares**		
	At start of year	-	-
	Deposit during the year	1,302,451	-
	Transferred to share premium	-	-
		1,302,451	-

	31 December, 2019 ₦'000	31 March, 2018 ₦'000
25. Authorized Share Capital		
Authorised		
10,000,000,000 Ordinary Shares of 50k each	**5,000,000**	**5,000,000**
Issued and fully paid		
7,754,395,000 ordinary shares of 50k each		
At the beginning	3,877,197	3,877,197
Allotted during the year	-	-
	3,877,197	3,877,197
26. Share Premium		
At start of year	619,694	619,694
Transferred from deposit for shares	-	-
Share offer expenses	-	-
At 31 December	619,694	619,694

27. General Reserve

	12 Months Ended 31 Dec.2019 ₦'000	12 Months ended 31 Dec. 2018 ₦'000
At beginning of the year	(993,582)	(379,593)
Profit for the year	22,160	94,729
Impact of adoption of IFRS 9	-	(134,101)
Transfer (to) regulatory risk reserve (note 29)	(1,105,143)	(574,617)
	(2,076,565)	(993,582)

	31 Dec. 2019 ₦'000	31 Dec. 2018 ₦'000
28. Statutory Reserve		
At start of year	112,560	112,560
Additions during the year	-	-
At end of year	112,560	112,560

Transfer to statutory reserve is made at 20% of profit after tax in line with prudential Guidelines issued by the Central Bank of Nigeria (CBN). At the end of the year, no transfer was made to the reserve account as a result of the Bank's negative general reserve.

29. Regulatory Credit Risk Reserve		
Balance brought forward	1,487,529	912,912
Movement (note 27)	1,105,113	574,617
	2,592,672	1,487,529

30. Contravention

The bank's adjusted capital of N2.53 billion was below the minimum regulatory requirement of N5 billion specified for National Primary Mortgage in Nigeria.

	31 Dec. 2019 ₦'000	31 Dec. 2018 ₦'000
31. Cash flow reconciliation		
Interest and other income is reconciled to the cash flow statement as follows:-		
Interest Income	833,230	729,963
Net fees and commissions	26,804	40,450
Other operating incomes	34,724	112,562
Gross earnings	944,758	882,975
Interest on staff loan	-	(2,540)
(Profit)/loss on disposal of PPE	(155)	-
Impairment on other assets/equity	6,103	-
Per cash flow statement	950,706	880,435

32. Cash and Cash Equivalents:

For the purpose of the cash flow statement, cash and cash equivalents include cash and non-restricted balances with central banks, eligible treasury bills, operating account balances with other banks, amount due from other banks and short-term government securities

Cash and balances with other banks	1,134,595	560,354
Other banks	645,000	220,000
Overdrawn balances	-	(149,328)
	1,779,595	631,026

	31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
33. Directors' emoluments		
Fees	1,833	1,833
Sitting Allowance	17,414	17,414
Other emoluments	19,607	19,607
	38,854	38,854
Chairman	1,520	1,520
Highest paid director	19,607	19,607

NOTES TO THE FINANCIAL STATEMENTS

	31 Dec, 2019 ₦000	31 Dec, 2018 ₦000
34. **Earnings Per Share**		
Net Profit attributable to shareholders (N'000)	22,160	76,962
	========	=========
Number of ordinary share in issue as at year end (thousands)	7,754,395	7,754,395
Time weighted average number of ordinary shares in issue (thousands)	7,754,395	7,754,395
	=========	=========
Basic Earnings Per Share (kobo)	0.28	0.99
	========	========

35. Guarantees and Other Financial Commitments

The Directors are of the opinion that there are no known commitments and liabilities which are relevant in assessing the state of affairs of the company during the period under review.

36. Contingent Liabilities

The Directors are of the opinion that there are no known contingent liabilities as at the end of the period.

37. Related Party Transactions

The company has related party transactions as one or more of its directors were also directors of company whose facilities were outstanding at year end. Such loans are secured and have the same interest rate as mortgage loans. This is detailed as follows:-

Type of loan	Outstanding balance	
	2019 ₦	2018 ₦
Mortgage loan	92,713	98,418
	========	========

38. Foreign Currency Transactions

The company has no transaction denominated in foreign currency within the reporting period.

39. Events after the reporting date

At the end of March, 2020, the President of the Federal Republic of Nigeria mandated a lockdown of Lagos and Ogun States in reaction to the global pandemic 'Covid 19'. All companies in Lagos and Ogun states were accordingly mandatorily closed down. This may likely affect the operations and operational performance of the bank in the coming year. As at the time of this report however, we are not in a position to determine the extent to which the bank will be affected by this development.

40. Approval of financial statements

These financial statements were approved by the Board of Directors on 22 May, 2020.

STATEMENT OF VALUE ADDED
FOR THE YEAR ENDED 31 DECEMBER, 2019

	2019 ₦'000	%	2018 ₦'000	%
Gross earnings	944,758		882,975	
Interest expenses	(349,118)		(333,966)	
	595,640		549,009	
Overhead and payment for other services	(334,005)		216,503	
Value added	261,635	100	332,506	100
Applied as follows:				
In payments to employees:				
Salaries and benefits	171,306	65	164,869	50
In payment to Government				
Current taxation	30,129	12	30,281	9
ITDF	661	-	1,394	1
Retained for future maintenance of assets and expansion of business:				
Deferred taxation	13,118	5	11,526	3
Depreciation and amortization	24,261	9	29,707	9
Profit retained for the year	22,160	9	94,729	28
Value added	261,635	100	332,506	100

FIVE-YEAR FINANCIAL SUMMARY
YEAR ENDED 31 DECEMBER, 2019

	31 Dec 2019 ₦'000	31 Dec 2018 ₦'000	31 Dec 2017 ₦'000	31 March 2016 ₦'000	31 March 2015 ₦'000
Assets					
Cash and Short Term Funds	1,064,595	560,354	402,116	1,199,877	1,809,505
Due from other Banks	644,521	220,000	300,000	333,669	-
Loans and Advances	6,910,259	6,117,344	5,340,292	4,598,806	3,926,317
Financial assets through profit or loss	42,750	50,000	50,000	50,734	50,734
Investment in Associate	35,296	34,914	34,036	22,982	72,433
Other Assets	129,421	56,060	140,668	74,974	45,265
Due from related party	-	-	-	204,914	-
Non-current asset held for sales	3,093,324	3,113,316	3,113,316	3,095,673	3,031,949
Deferred tax asset	30,622	30,622	30,622	30,622	30,622
Property and equipment	558,958	558,526	573,165	593,357	616,768
Intangible assets	3,169	5,619	8,732	7,165	8,838
	12,582,915	10,746,755	9,992,947	10,212,773	9,592,431
Liabilities					
Overdraft	-	149,328	303,246	-	-
Deposit and other accounts	3,408,716	2,966,438	2,647,657	2,509,060	1,819,279
Borrowings from FMBN	2,472,728	2,132,933	1,629,900	1,770,071	1,828,546
Income tax	106,888	89,417	67,328	42,741	36,978
Deferred tax liabilities	110,256	97,138	85,612	61,636	48,797
Other liabilities	1,358,769	74,002	116,434	2,910,312	2,871,411
	7,457,357	5,509,256	4,850,177	7,293,820	6,605,011
Capital and reserves					
Share capital	3,877,197	3,877,197	3,877,197	1,542,667	1,542,667
Share premium	619,694	619,694	619,694	192,757	192,757
General reserves	(2,0376,565)	(859,481)	(379,593)	740,881	999,232
Statutory reserves	112,560	112,560	112,560	112,560	109,667
Revaluation reserve	-	-	-	1,787	47,694
Regulatory credit risk reserve	2,592,672	1,487,529	912,912	328,301	95,403
Shareholders' fund	5,125,558	5,237,499	5,142,770	2,918,953	2,987,420
	12,582,915	10,746,755	9,992,947	10,212,773	9,592,431
Profit and loss account					
Gross earnings	944,758	882,975	724,446	706,852	744,285
Net interest margin	484,112	395,997	428,831	446,214	372,854
Profit before taxation	66,068	137,930	(190,040)	44,726	114,622
Exceptional item	-	-	-	(447)	(1,146)
Taxation	(43,908)	(43,201)	(56,370)	(29,815)	(38,314)
Transfer to statutory reserve	-	-	-	(2,893)	(15,032)
Other comprehensive income	-	-	-	-	-
Profit after tax and comp. income	22,160	94,729	(246,410)	11,571	60,130
Per share information					
Basic earnings per share (kobo)	0.28k	1.22k	(3.18k)	0.4k	2k
Net asset per share (kobo)	67k	69k	66k	95k	97k
Diluted: Earnings per share (kobo)	0.71k	3.1k	(3.18k)	0.15k	0.78k
Net asset per share (kobo)	168k	170k	66k	38k	39k

Basic earnings per share is calculated based on profit after tax and the number of issued shares at the end of each financial year.

Net asset per share is based on the number of issued shares at the end of each financial year.

AG MORTGAGE BANK PLC

PROXY FORM

15TH ANNUAL GENERAL MEETING TO BE HELD AT 11.00 A.M.
ON THURSDAY THE 24TH SEPTEMBER 2020 AT AG MORTGAGE BANK PLC,
96, OPEBI ROAD, IKEJA-LAGOS.

I/WE ______________________________
(Name of shareholder in block letters)

Being a member/members of the above named company, hereby appoint:

____

or failing him, the Chairman of the meeting as my/our proxy to act and vote for me/us and on my/our behalf at the 15th Annual General Meeting of the company to be held on
and at any adjourned date thereof.

Dated this _____ day of __________ 2020

Shareholder's Signature __________________

IF YOU ARE UNABLE TO ATTEND THE MEETING
A member (Shareholder) who is unable to attend an Annual General Meeting is allowed by law to vote by proxy. The above proxy form has been prepared to enable you exercise your right to vote, in case you cannot personally attend the meeting.

Please sign this proxy form and forward it so as to reach the office of the Secretary, 96 Opebi Road, Ikeja, Lagos, not later than 48 hours before the time fixed for the meeting. If executed by a Corporation, the proxy form should be duly executed by the appointor.
It is a requirement of the law under the Stamp Duties Act CAP S8, Laws of the Federation of Nigeria, 2004 that any instrument of proxy to be used for the purpose of voting by any person entitled to vote at any meeting of shareholders must be stamped by the Commissioner for Stamp Duties.

	The manner in which the proxy is to vote should be indicated by inserting "X" in the appropriate box space.		
	Number of Shares		
	ORDINARY RESOLUTIONS	FOR	AGAINST
1	That the audited financial statements of the Company for the year ended 31st December 2019 and the reports of the Directors and Auditors thereon and the Audit Committee Reports	....	....
2	To re-elect Barr(Mrs) Theresa Ntong & Mr Emmanuel Ocholi and elect Mr Simon Ogwu as Directors:	....	....
3	That the appointment of the independent auditors, Bakertilly, for the 2020 financial year be renewed and that the Directors be authorized to fix the remuneration of the Auditors	....	....
4	That members of the Audit Committee be elected for the year 2020	....	....
	Please indicate with an "X" how you wish your votes to be cast on the resolutions set out above. Unless otherwise instructed, your proxy will vote or abstain from voting at his discretion		

The proxy must produce the Admission Card below to obtain entrance to the meeting.

AG MORTGAGE BANK PLC
14TH ANNUAL GENERAL MEETING
ADMISSION CARD

Please admit the shareholder named on this card or his duly appointed proxy to the 15th Annual General Meeting of the Company to be held on the 24th of September 2020 at the Boardroom, AG Mortgage Bank Plc, 96 Opebi Road, Ikeja-Lagos.

This admission card must be presented
By the shareholder in order to obtain entrance
to the Annual General Meeting

____
Name of Shareholder

____
Name of Proxy

____
Number of shares held

____
Signature

AG MORTGAGE BANK PLC

OUR PRODUCTS & SERVICES

AG MORTGAGE BANK PLC SAVE-4-IT ACCOUNT

TENANT OWNER MORTGAGE TOM A-Rent-To-Own Scheme
Designed to make your owning a home easier

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AG MORTGAGE BANK PLC NHTF mortgage loan scheme

AGMB ASSET-BIN AGMB ASSET-BACKED INVESTMENT NOTE

Construction Finance CONFIN

Flexi Accounts
which is a Special Cheque operated Mortgage focused demand deposit account.

AG MORTGAGE BANK PLC VISA AGMB Victory Savings Account

MFDs Mortgage Focused Deposits

..Plus many other valuable products and services

HEAD OFFICE/OPEBI BRANCH:
96, Opebi Road, Ikeja, Lagos.
P. M. B 21810 Ikeja, Lagos.
Tel: 08074534384
E-mail: Info@agmortgagebankplc.com
Website: www.agmortgagebankplc.com

SURULERE OFFICE:
12, Ogunlana Drive, Surulere Lagos
Tel: 08074534694

FESTAC OFFICE:
22 Road, 2 Avenue Festac Tower Plaza Festac Town Lagos.
Tel: 08074534523

ABUJA OFFICE:
Federal Mortgage Bank of Nigeria Building. 266, Casdastral A. O., Central Business District, Wuse, Abuja
Tel: 08074534537

ENUGU OFFICE:
48 Ogui Road, Enugu
08034488784

MARKETING UNIT NUMBER:
08074071540

AGMB...a partner you can trust