FirstTrust
Mortgage Bank Plc
...your FirstTrust in mortgage banking

Annual Report & Accounts

DECEMBER 2019

TABLE OF CONTENT

STATEMENT OF PURPOSE

To go beyond the regular delivery of mortgage and real estate financial services leveraging disruptive technology and our people.

BRAND PROMISE

...your FirstTrust in mortgage banking

CORE VALUES

Passion
Innovation
Excellence

About Us

FirstTrust Mortgage Bank Plc is a leading Primary Mortgage Bank (PMB) at the forefront of the Nigerian mortgage banking sector. We are strategically positioned to help our customers secure their future through home ownership by offering innovative mortgage and real estate financial solutions.

With a long history that dates back to 2003 and a combined management experience spanning over 100 years, FirstTrust has a strong balance sheet showing assets totaling over N27.6billion.

Our products and services are carefully designed to serve the mortgage and financial needs of Nigerians and we help facilitate the implementation of the National Housing Policy by supporting people in their aspiration to gain stability through home ownership, making it possible for our customers to have a tangible stake in the country's development.

We take pride in being our customers' FirstTrust in mortgage banking as we assist them in doing their homework whilst also providing superior services to meet their needs.

Corporate information

Directors:

*	Mr. Uduma O. Kalu	Chairman
****	Mr. Etigwe Uwa (SAN)	Chairman (resigned)
**	Mr. Korede Adedayo	Managing Director
***	Ms. Ngozi Ogunwa	Executive Director
*****	Mr. Adeniyi Akinlusi	Non-Executive Director
	Mrs. Ola Ifezulike	Non-Executive Director
****	Mr. Tamuno Atekebo	Non-Executive Director
****	Engr. Emmanuel Akintayo Alabi	Non-Executive Director
****	Mrs. Deborah Nicol- Omeruah	Non-Executive Director
****	Mrs. Amira Abiodun Obi- Okoye	Independent Director

* *Appointed Chairman of the Board effective 23 September 2019*
** *Appointed Managing Director effective 23 September 2019*
*** *Appointed Executive Director effective 23 September 2019*
**** *Resigned from the Board effective 23 September 2019*
***** *Former Managing Director of defunct TrustBond Mortgage Bank Plc, now Non-Executive Director in FirstTrust Mortgage Bank Plc effective 23 September 2019*

Company Secretary:
Mark Chukwugozie Okoye
124 Awolowo Road
Ikoyi South West
Lagos, Nigeria

Registered Office:
124 Awolowo Road
Ikoyi South West
Lagos, Nigeria

Auditors:
KPMG Professional Services
KPMG Tower,
Bishop Aboyade Cole Street,
Victoria Island,
Lagos, Nigeria

Registrars:
Coronation Registrars (formerly United Securities Limited)
10, Amodu Ojikutu Street
Victoria Island,
Lagos, Nigeria

Bankers:
Access Bank PLC
Guaranty Trust Bank PLC
Sterling Bank PLC
Skye Bank PLC
EcoBank PLC
First City Monument Bank PLC
FirstBank of Nigeria Ltd
Fidelity Bank PLC
Providus Bank PLC
Zenith Bank
SunTrust Bank
Nova Merchant Bank Ltd

THE BOARD

Uduma O. Kalu
Chairman

Korede Adedayo
Managing Director

Ola Ifezulike
Non-Executive Director

Adeniyi Akinlusi
Non- Executive Director

Ngozi Ogunwa
Executive Director


FirstTrust Mortgage Bank Plc
Best Emerging Mortgage Bank
2020
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Best
Emerging Mortgage
Bank
Nigeria
2020
INTERNATIONAL FINANCE AWARDS

BOARD OF DIRECTORS

Uduma O. Kalu
Chairman

Uduma O. Kalu is the Chairman, Board of Directors, FirstTrust Mortgage Bank Plc. With over two decades of banking experience, he brings a wealth of expertise in leading the Board and providing focus on strategic matters whilst overseeing the Bank and setting high governance standards.

Uduma, a graduate of Political Science, University of Nigeria, Nsukka (1982), and a Master of Public Administration holder from the same university (1985), is presently the Managing Director of SouthGlobe Limited. Prior to this, he had served in various senior managerial roles, including but not limited to his invaluable role as Executive Director, Consumer Banking, Treasury and Financial Institutions, Equity Bank of Nigeria Limited.

Korede Adedayo
Managing Director

Korede Adedayo is the Managing Director/Chief Executive Officer of FirstTrust Mortgage Bank Plc. He is an inspirational leader who is grounded in the financial sector and makes a vision a reality through sound innovations and strategy development.

He started his career from West African Examination Council (WAEC) in 1990 in the Computer Service Department. In his pursuit for excellence, he moved to the banking sector as a staff of the Card Marketing Unit of the then EIB International Bank (now Polaris Bank Limited) in 1997. He progressed to Indo-Nig Bank Limited (Now Sterling Bank Plc) where he headed the Product Development Unit in 2001. His contributions led to his transfer to the Business Development Unit where he was Head of the Retail and Consumer Banking Group. He was appointed as the pioneer Chairman, General Awareness Generation & Marketing Committee (Smartcard Society of Nigeria) in 2003.

Korede was also in United Bank for Africa (UBA) and Keystone Bank (Bank PHB) as the Profit Center Manager and Team Lead, Commercial Banking Group, respectively. He subsequently moved to First Bank of Nigeria Limited in 2009 where he served as Group Head, held various managerial positions, and played a major role in building the Private Banking suite of the bank. He was also a pioneer member of the team that birthed Providus Bank.

As a seasoned banker with over two decades of managerial experience that cuts across notable banks in Nigeria, he has built versatility and core competences across Retail Banking, Credit Analysis, Consumer Banking, Wealth Creation and Management.

Further to the divestment by FirstBank of Nigeria Limited from FBN Mortgages Limited, Korede was duly appointed as the Managing Director/ Chief Executive Officer in 2018. He also played a lead role in the successful merger between First Mortgages Limited and TrustBond Mortgage Bank Plc which resulted in the emergence of FirstTrust Mortgage Bank Plc where he currently serves as the Managing Director/Chief Executive Officer. Korede is a graduate of Accounting from Lagos State University. He also attended several executive trainings within and outside Nigeria including the renowned global business schools; INSEAD Business School and The Wharton School of the University of Pennsylvania.

Ola Ifezulike
Non-Executive Director

Ola Ifezulike, is a member of the Board of Directors, FirstTrust Mortgage Bank Plc. A Fellow of the Institute of Chartered Accountants (FCA) of Nigeria and Fellow of the Chartered Institute of Taxation of Nigeria (FCIT) with an enviable career in capital markets and banking spanning over 30 years. She has also attended several courses and programmes at home and abroad including the prestigious Harvard Business School (Boston, U.S.A). Her experience ranges across Branch Operations, Financial Control and Advisory, Investment Management, Treasury, Private Banking and Management Information Systems.

Preceding her appointment, due to her exemplary work whilst holding the position of General Manager, Corporate Finance, Afribank Capital, she became the pioneer Managing Director/Chief Executive Officer of Afribank Capital from 2007 to 2012. She is currently the Managing Director/Chief Executive Officer of Mahogany Capital Limited. Ola having worked with Afribank International Limited (Merchant Bankers), Ojike, Okechukwu & Co (Chartered Accountants) as well as Kapital Securities Limited (a registered Capital Market Operator) and currently serving as Non-Executive Director on the board of Gresham Asset Management, brings her professionalism, extensive knowledge in financial services and administration to impact her Board contribution.

Adeniyi Akinlusi
Non- Executive Director

Adeniyi Akinlusi is a member of the Board of Directors, FirstTrust Mortgage Bank Plc. A multiple award-winning banker and visionary leader, Adeniyi possesses over two decades of extensive knowledge in leadership positions in Banking, Corporate Strategy, Restructuring, and Transformation.

He was the erstwhile Managing Director/Chief Executive Officer of TrustBond Mortgage Bank Plc (which merged with First Mortgages Limited to become FirstTrust Mortgage Bank Plc) and successfully birthed TrustBond Mortgage Bank Plc from Intercontinental Homes Savings & Loans Plc, following its transformation from Partnership Savings & Loans Limited. Adeniyi is an alumnus of Harvard Business School (Boston, U.S.A), Institute for Management Development (Lausanne, Switzerland) and Lagos Business School (Lagos, Nigeria). He has also benefitted from leadership training in various internationally acclaimed business schools such as: The Wharton School of the University of Pennsylvania, IESE Business School (University of Navarra, Spain) and London Management Centre (one of UK's leading providers of Leadership and Management training). He is a Fellow of the Institute of Chartered Accountants of Nigeria (FICA), Fellow of the Chartered Institute of Taxation of Nigeria (FCIT), Fellow of the Institute of Credit Administration (FICA), Fellow of the Association of Investment Advisers and Portfolio Managers (FAIAPM) and Honorary Senior Member of the Chartered Institute of Bankers of Nigeria (HCIB).

Ngozi Ogunwa is the Executive Director, Business Development, FirstTrust Mortgage Bank Plc. A banking professional with over 26 years of industry experience. She is a team builder, client service expert and has top-tier budget planning and management skills.

Ngozi Ogunwa
Executive Director

She started her career at the All States Trust Bank where she worked for 14 years traversing various areas of the bank including, but not limited to Operations, Electronic Banking, Customer Service and Private Banking.

She joined First Bank of Nigeria Limited (FBN) in 2004 and completed her stint in four years prior to moving to FBN, United Kingdom, in 2008. At FBN (UK), she held the role of Head, Business Development whilst managing the Northern representative office as well as the South-South representative office in Nigeria. She was the liaison for FBN (UK) in Nigeria; profiling and assisting eligible Nigerians access mortgages in the United Kingdom, which contributed immensely to the bank's growth. Her stint at FBN (UK) came to an end in 2016.

Ngozi has a Master of Business Administration (MBA) from The University of Hull, United Kingdom. She has received both local and international executive education, developing extensive skill sets in various banking techniques and relationship management.

CHAIRMAN'S STATEMENT

Distinguished shareholders, ladies, and gentlemen, I warmly welcome you to the 11th Annual General Meeting of FirstTrust Mortgage Bank Plc, and on behalf of the members of the Board of Directors, it is an honour to present the Annual Report and Accounts for the financial year ended 31st December 2019.

Global Economy

The global economy experienced a dip in growth from 3.7% in 2018 to 2.9% in 2019 according to the International Monetary Fund (IMF) emerging from trade strains, macroeconomic instability, and depressed investor interest.

The United States (US) economy grew weaker at an annual growth rate of 2.3% in comparison to 2.9% recorded in 2018. This was the outcome of interest rate cuts implemented by The US Federal Reserve to avoid a sharp slowdown and the likelihood of an economic downturn.

By contrast, emerging markets saw significant development with: China rising by 6.1%, India by 4.8%, and Asia by 5.6%. However, Sub-Saharan Africa grew by just 3.3%.

On the global political front, a more positive picture presented itself as we witnessed the UK government circumvent a no-deal BREXIT, reducing the risk to the economic progress in the UK and Europe. US and China also eased the outcome of their trade war as several negotiations were made.

Local Economy

In Nigeria, the economy performed relatively positively as the nation rebounded from recession. Data from the National Bureau of Statistics (NBS) highlighted that the economy grew at a rate of 2.27% year-on-year in 2019 against a 1.91% growth rate in 2018. The development in the local economy was spurred by increasing crude oil prices coupled with oil output of 2 million barrels per day (mbpd). The non-oil economy grew at a rate of 2.06% year-on-year in 2019. Telecoms and agricultural sectors played significant roles in its development. By contrast, the manufacturing sector grew slightly, and the real estate sector remained in recession for most of the year.

Headline inflation subsided in 2019 in comparison to the previous year with inflation standing at 11.37 percent in January 2019 but dropped to a three- and half-year low of 11.02 percent in August. However, anticipation of the headline inflation dipping towards the target range of 6.0-9.0 percent set by the CBN evaporated as inflation was recorded at 11.98 percent in December.

The Mortgage Industry

In 2019, the Nigerian Mortgage Industry's contribution to GDP stood at 0.58%. Nigeria, which has one of the world's lowest mortgages to Gross Domestic Product (GDP), falls behind Ghana's 2 percent, South Africa's 30 percent and is significantly lower than the U.S and UK rates of 60 percent and 70 percent respectively.

A housing deficit of 17 million which has been immovable despite a three percent growth in population over the last few years, remains one of the most significant challenges and opportunities to the industry.
In light of the opportunities, efforts, such as the Rent-to-Own scheme, deepening of the Nigerian Mortgage Refinance Company's participation in the capital markets, and the conception of the Central Bank of Nigeria's Mortgage Guarantee Scheme, have been made by significant participants to improve home ownership and mortgage penetration.

During the year under review, the Boards of Directors of First Mortgages Limited and TrustBond Mortgage Bank Plc agreed to merge both mortgage institutions. The combination, which culminated in the business of First Mortgages Limited being merged with that of TrustBond Mortgage Bank Plc, was effected through a

Scheme of Merger in line with part XII of the Investment and Securities Act No. 29 of 2007 and in accordance with the rules and regulations of Securities and Exchange Commission made pursuant thereto. The post-merger entity eventually became FirstTrust Mortgage Bank Plc.

The primary objective of the merger is to create a larger Mortgage Bank with technical capabilities to take advantage of economies of scale and become the preferred choice for customers as the inter-company synergy is leveraged.

The New Board
Following the merger, the Boards of Directors of both legacy Banks, (First Mortgages Limited and TrustBond Mortgage Bank Plc) were dissolved and a new Board of Directors was constituted for the new entity, FirstTrust Mortgage Bank Plc. Soon this new Board of Directors will be strengthened in compliance with best practice.

Performance Review
A review of the Bank's financial performance for 2019 shows a significantly improved position. The Bank continues to be more efficient in its balance sheet structure with the total assets and Shareholders' funds ending at N27.63 billion and N4.72billion, compared with the closing results of N13.75 billion and N3.46 billion respectively in December 2018. The gross loans and advances also grew by 68.5% to N18.62 billion in 2019 from N11.05 billion recorded in 2018, while deposits from customers increased noticeably by 243.6% to N11.20billion in 2019 from N3.26 billion in December 2018.

The impact of the improved and more efficient balance sheet structure has begun to reflect on the income segment of the Bank's performance. Gross earnings stood at N1.81billion, representing a growth of 17.7% over N1.54 billion recorded in the corresponding year ended December 2018. The total comprehensive income for 2019 was a loss of N98.63million from N621.57million loss recorded in 2018, representing a decrease of 430%.

Outlook
We are optimistic that with the successful completion of the merger in 2019 and the resultant enhanced capital structure, FirstTrust is better positioned to support many Nigerians in their aspiration to gain stability through home ownership, making it possible for citizens to have a tangible stake in the country's development. We expect the Bank to have higher operating synergies which will result in increased gross income and interest income, decreased interest expense, enhanced credit management, and other benefits made possible by the combination of complementary operations.

Conclusion
I want to use this opportunity to appreciate our stakeholders, especially our esteemed shareholders and customers, for the ardent support and cooperation given throughout the year, particularly in ensuring the success of our merger.

Also, I would like to thank the Board members, Management team and entire Staff for their dedication, hard work and commitment, while we assure them of our support as they strive to build a stronger mortgage institution.

My appreciation also extends to our regulators and stakeholders, Central Bank of Nigeria, Securities and Exchange Commission, Federal Competition and Consumer Protection Commission, Nigeria Deposit Insurance Corporation, Corporate Affairs Commission, and other regulatory bodies for their support all through the merger process and continued support.

Thank you all.

Uduma O. Kalu
CHAIRMAN

CHIEF EXECUTIVE'S REVIEW

Introduction

It is my honour to welcome you – our esteemed shareholders, valuable customers, and regulators to the 11th Annual General Meeting of FirstTrust Mortgage Bank Plc.

2019 financial year was particularly symbolic for our company because it was the year of our merger - First Mortgages Limited and TrustBond Mortgage Bank Plc entered a business combination arrangement that resulted in the merger of the two entities now known as FirstTrust Mortgage Bank Plc.

The merger will continue to be an attractive combination for both mortgage institutions' stakeholders with customers benefitting from our wider and better-integrated array of mortgage banking services; employees will enjoy the advantages and opportunities of being part of a larger, stronger bank; and the Bank's shareholders will also experience an enhanced value in their investment, while other stakeholders (suppliers, creditors, etc) will have the opportunity to continue to participate in the success of a bigger business.

Our performance in 2019 reflected the benefit of this business combination. The merged entity experienced a reduced loss position after tax of N235m million compared with the N621 million loss recorded in the corresponding year ended 2018. The total assets of the combined entity grew by 101% to N27.64 billion in 2019 from N13.75 billion in 2018.

We carved a purpose statement that reflects the capabilities bestowed on our new brand by the merger which is: **"To go beyond the regular delivery of mortgage and real estate financial services leveraging disruptive technology and our people"** and crafted our core values **- Passion, Innovation** and **Excellence.** To this end, our core banking application suite is being upgraded to the latest version – Flexcube 14 - with advance features and collaborative capabilities.

Understanding that people are our greatest asset, the Bank will leverage its internal process harmonization to ensure concerted efforts towards achieving complete integration of all employees for optimum performance in the combined entity.

Corporate Social Responsibility

In line with the Bank's Corporate Social Responsibility policy which covers Health, Education, Environment and Poverty Alleviation, FirstTrust supported victims of a three-storey building that collapsed in the Ita-Faaji area of Lagos Island in Lagos State where 54 persons were trapped. The Bank provided succour to the 42 hospitalized victims by supporting their treatment with financial aid and further supported the availability of drugs to the Iga-Idunganran Primary Health Care Centre in Isale-Eko, Lagos. Also, the Bank donated funds to support the furnishing of a cancer centre newly established in Lagos.

Outlook

The successful merger presents the combined entity with a unique opportunity to increase our market share in the industry, create greater value and deliver superior returns to our esteemed shareholders.

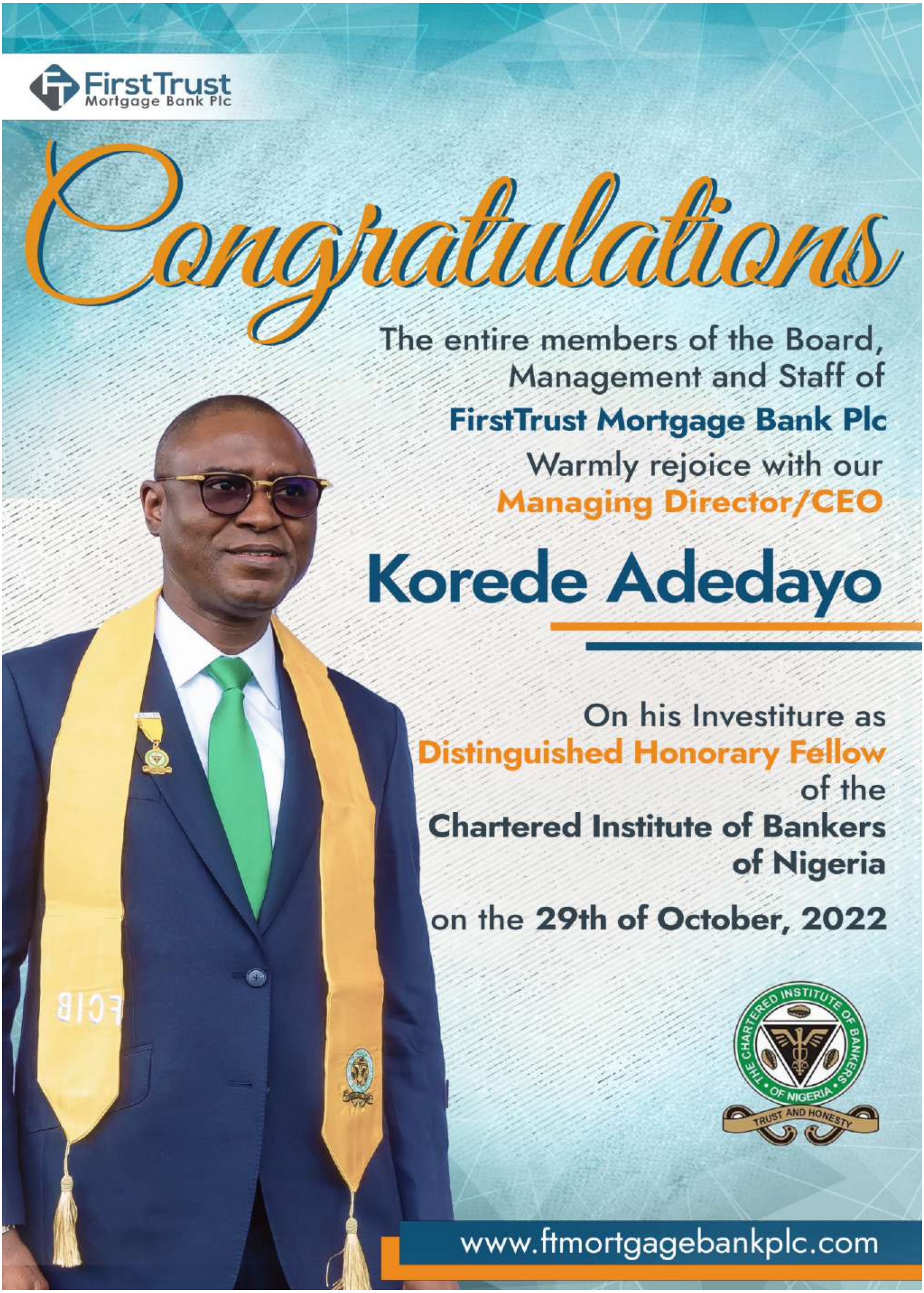
Following the merger, the Bank has been making and will continue to make concerted efforts to integrate the entire workforce as a unified entity, recognising that our greatest asset is our people.

Conclusion

I thank the Board for their trust and understanding, the Shareholders for their support, the Management team and entire Staff for their commitment, dedication, and hard work all the time.

Thank you for investing in FirstTrust and for your unwavering support.

Korede Adedayo
Managing Director/CEO


FirstTrust Mortgage Bank Plc
Congratulations
The entire members of the Board, Management and Staff of
FirstTrust Mortgage Bank Plc
Warmly rejoice with our
Managing Director/CEO
Korede Adedayo
On his Investiture as
Distinguished Honorary Fellow
of the
Chartered Institute of Bankers of Nigeria
on the 29th of October, 2022
THE CHARTERED INSTITUTE OF BANKERS OF NIGERIA
TRUST AND HONESTY
www.ftmortgagebankplc.com

MANAGEMENT TEAM

KOREDE ADEDAYO
Managing Director/CEO

NGOZI OGUNWA
Executive Director, Business Development

LUQMAN BAKARE
Regional Executive, Lagos Business Development

MARK OKOYE
Company Secretary/Legal Adviser

OLUSOLA AJIBADE
Regional Executive, FCT/North Business Development

ADETOKUNBO ABERUAGBA
Chief Risk Officer

JACOB ESUGA
Head, Abuja Business Development

MICHAEL ASALU
Head, Strategy & Brand Communications

JANET ODUNLAMI
Ag. Head, Financial Control

Directors' report
For the year ended 31 December 2019

The Directors hereby present the annual report on the affairs of FirstTrust Mortgage Bank Plc ("the Mortgage Bank"), together with the financial statements and the auditor's report thereon, for the year ended 31 December 2019.

Legal form
FirstTrust Mortgage Bank Plc (formerly TrustBond Mortgage Bank Plc) began operations as Partnership Savings & Loans Limited. It was incorporated on 26 May 1992, and licensed to carry on mortgage banking business on 31 December 1993.

Gateway Bank Plc acquired the Mortgage Bank in March 2003. Following the merger of Intercontinental Bank Plc with Equity Bank of Nigeria Plc, Global Bank Plc and Gateway Bank Plc in October 2005, the Mortgage Bank became a subsidiary of Intercontinental Bank Plc. Its name was changed to Intercontinental Homes Savings and Loans Plc in August 2006 to reflect the new ownership. The Mortgage Bank became a Public Liability Mortgage Bank in June 2007. The Mortgage Bank became a subsidiary of Access Bank in 2012 following the acquisition of Intercontinental Bank Plc and the subsequent merger of the two financial institutions into a single entity.

In January 2013, Access Bank sold its interest in the Mortgage Bank to Interrec Limited in compliance with the Central Bank of Nigeria's (CBN) revised banking model. Consequently, Interrec Limited became the majority shareholder in the Mortgage Bank. In line with the sale agreement, the Mortgage Bank's name was changed from Intercontinental Homes Savings and Loans Plc to TrustBond Mortgage Bank Plc.

In August 2015, TrustBond Mortgage Bank Plc listed its shares on the NASD. The NASD known as the National Association of Securities Dealers, was formally launched on 1 July 2014 and opened for trading on 2 July 2014. The NASD is registered with the Securities and Exchange Commission (SEC) as an over-the-counter (OTC) trading platform for unquoted securities; including equities and bond.

Effective 30 September 2019, TrustBond Mortgage Bank Plc consummated a business combination with First Mortgages Limited via a Scheme of Merger to become FirstTrust Mortgage Bank Plc. All the assets and liabilities of First Mortgages Limited were transferred to the new Bank.
First Mortgages Limited (formerly FBN Mortgages Limited) was incorporated on 17 March 2003 as a wholly owned subsidiary of First Bank of Nigeria Limited and commenced operations on 1 May 2004. On 21 February 2018, the bank was acquired by Afriswiss Asset Management Limited. However, First Mortgages Limited ceases to exist as at 30 September 2019 following the merger with TrustBond Mortgage Bank.

The Mortgage Bank was primarily set up to carry on business as a mortgage institution in accordance with the provisions of the Mortgage Institutions Act 1989 and the revised guidelines of the Central Bank of Nigeria for Primary Mortgage Institutions (2004). The Mortgage Bank has a national license and currently operates from the head office in Lagos and another business office in Abuja.

In compliance with the provisions of the Revised Central Bank of Nigeria (CBN) guidelines for Primary Mortgage Institutions (PMIs) and the directive from the Central Bank of Nigeria (CBN) that all Primary Mortgage Banks are to dispose of all the real estate developments on their books, the Mortgage Bank, in 2013, committed to a plan to sell and commenced disposal of its investment and trading properties. Accordingly, the outstanding properties as at 31 December 2013 were presented as assets held for sale in the financial statements. In 2016, the Directors, after having given due consideration to the facts and circumstances, have resolved to change the classification of these properties from held for sale to inventory. The change in classification reflects the expectation of IFRS 5 on Non-Current Assets Held for Sale and Discontinued Operations that such assets should be disposed of within a short span of time, the continued delay in sale of these properties does not correlate with such expectation. These properties have been presented as trading properties and efforts to sell them have continued.

Operating results
The following is a summary of the operating results for the year:

	31 December 2019 ₦' 000	31 December 2018 ₦' 000
Gross earnings	1,814,214	1,542,036
Loss before tax	(228,032)	(601,782)
Minimum tax	(9,245)	(19,331)
Income tax credit	1,875	-
Loss for the year, after tax	(235,402)	(621,113)
Other comprehensive income/(loss) for the year	136,775	(459)
Total comprehensive loss for the year	(98,627)	(621,572)

Dividends
No dividend was proposed by the Board of Directors in respect of the year ended 31 December 2019 (2018: Nil).

Directors' report
For the year ended 31 December 2019

Board of Directors

Mr. Uduma O. Kalu*	Chairman
Mr. Etigwe Uwa (SAN)****	Chairman (resigned)
Mr. Korede Adedayo**	Managing Director
Ms. Ngozi Ogunwa***	Executive Director
Mr. Adeniyi A. Akinlusi*****	Non-Executive Director
Mrs. Ola Ifezulike	Non-Executive Director
Mr. Tamuno Atekebo****	Non-Executive Director
Engr. Emmanuel Akintayo Alabi****	Non-Executive Director
Mrs. Deborah Nicol- Omeruah****	Non-Executive Director
Mrs. Amira Abiodun Obi- Okoye****	Independent Director

* *Appointed Chairman of the Board effective 23 September 2019*
** *Appointed Managing Director effective 23 September 2019*
*** *Appointed Executive Director effective 23 September 2019*
**** *Resigned from the Board effective 23 September 2019*
***** *Former Managing Director of TrustBond Mortgage Bank Plc, now Non-Executive Director in FirstTrust Mortgage Bank Plc effective 23 September 2019*

Directors' interest in contracts

None of the Directors notified the Mortgage Bank for the purpose of section 277 of the Companies and Allied Matters Act, Cap C20, Laws of the Federation of Nigeria, 2004 of any interest in contracts with which the Mortgage Bank was involved as at 31 December 2019 (31 December 2018: Nil).

Directors' shareholding

The direct and indirect interest of Directors in the issued share capital of the Mortgage Bank as recorded in the register of shareholding and/or as notified by the Directors for the purposes of sections 275 and 276 of the Companies and Allied Matters Act, Cap C20, Laws of the Federation of Nigeria, 2004 are as follows:

Number of shares held are as follows;

	31 December 2019		
	Direct	Indirect	Total
Mr. Etigwe Uwa (SAN)*	-	84,568,143	84,568,143
Mr. Uduma O. Kalu	-	25,713,413	25,713,413
Mr. Adeniyi A. Akinlusi	16,159,203	-	16,159,203
Mrs. Ola Ifezulike	321,163	-	321,163
Mr. Korede Adedayo	5,946	-	5,946
TOTAL	16,486,312	110,281,556	126,767,868

* Resigned from the Board effective 23 September 2019

	31 December 2018		
	Direct	Indirect	Total
Mr. Etigwe Uwa (SAN)	-	84,568,143	84,568,143
Mr. Adeniyi A. Akinlusi	16,159,203	-	16,159,203
Mr. Uduma O. Kalu	-	25,713,413	25,713,413
Mrs. Ola Ifezulike	321,163	-	321,163
TOTAL	16,480,366	110,281,556	126,761,922

Share capital and shareholding analysis

The authorised share capital of the Mortgage Bank for the year ended 31 December 2019 was N7billion (2018: N7 billion) divided into 7 billion ordinary shares of N1.00 each while the paid – up capital of the Mortgage Bank is N6,027,514,905 (2018: N4,674,992,833).

Directors' report
For the year ended 31 December 2019

Major Shareholding
According to the register of members, no shareholder other than the under-mentioned held more than 5% of the issued share capital of the Bank as at 31 December 2019.

	31 December 2019		31 December 2018	
	No. of holdings	% share holdings	No. of holdings	% share holdings
Interrec Limited	2,547,094,526	42.26%	2,547,094,526	54.48%
Afriswiss Asset Management Limited	1,352,515,793	22.44%	-	-

The shareholding pattern of the Mortgage Bank was as follows:

	31 December 2019			
Share Range	No. of Shareholders	% of Shareholders	No. of Holdings in thousands	% Share Holdings
1 - 50,000	213	12.41%	2,068	0.03%
50,001-100,000	63	3.67%	5,002	0.08%
100,001-500,000	940	54.78%	239,421	3.97%
500,001-1,000,000	107	6.23%	75,044	1.25%
1,000,001-5,000,000	339	19.76%	831,018	13.79%
5,000,001-10,000,000	25	1.46%	206,193	3.42%
10,000,001-2,000,000,000	28	1.63%	2,121,674	35.20%
2,000,000,001-5,000,000,000	1	0.06%	2,547,095	42.26%
TOTAL	1,716	100.00%	6,027,515	100.00%

	31 December 2018			
Share Range	No. of Shareholders	% of Shareholders	No. of Holdings in thousands	% Share Holdings
1 - 50,000	238	13.43%	2,027	0.04%
50,001-100,000	63	3.56%	5,002	0.11%
100,001-500,000	958	54.06%	244,516	5.23%
500,001-1,000,000	111	6.26%	78,418	1.68%
1,000,001-5,000,000	347	19.58%	851,633	18.22%
5,000,001-10,000,000	28	1.58%	223,482	4.78%
10,000,001-2,000,000,000	26	1.47%	722,820	15.46%
2,000,000,001-5,000,000,000	1	0.06%	2,547,095	54.48%
TOTAL	1,772	100.00%	4,674,993	100.00%

Property and equipment
Information relating to the changes in property, plant and equipment during the year is given in note 23 to the financial statements. In the Directors' opinion, the fair value of the Mortgage Bank's property, plant and equipment is not less than the value shown in the financial statements.

Contribution for charitable purposes
During the year under review, the Mortgage Bank made donations amounting to N13.47million for charitable purposes (December 2018: N725,000).

The beneficiaries are as follows:

	31 December 2019	31 December 2018
	₦' 000	₦' 000
Permanent Secretary Ministry of Health	10,000	-
Lagos University Teaching Hospital	2,539	-
St Nicholas Hospital	500	-
University of Uyo	200	-
Ilasan Junior Secondary School	135	-
University of Lagos Engineering Society	100	-
Women In Housing Sector Initiative	-	500
Staff University Educational Support	-	195
Providence Youth Association	-	30
	13,474	725

Directors' report
For the year ended 31 December 2019

Compliance with the laws and regulations
The Board of Directors ensured that management complies with all the laws relating to banking operations, particularly the Money Laundering Laws, The Know Your Customer (KYC) Principles, Code of Corporate Governance for Nigerian Banks and all the policies of the Central Bank of Nigeria and the Federal Mortgage Bank of Nigeria. The Board also ensures that the Mortgage Bank cooperates with all statutory agencies in the course of carrying out its responsibilities.

Employment of physically challenged persons
The Mortgage Bank operates an equal opportunity recruitment policy which makes the Mortgage Bank's employment open to all classes of persons (including the physically challenged). However, no disabled person applied for employment, nor was employed by the Mortgage Bank during the year under review. (2018: Nil)

Health, safety and welfare of employees
The Mortgage Bank has continued to operate a well equipped first aid box within the Mortgage Bank's premises, for the in-house treatment of minor ailments occurring at work. Also, the Mortgage Bank subscribed to medicare providers under the National Health Insurance Scheme to facilitate quick medical attention to the medical needs of all staff and their qualified dependants.

The Mortgage Bank's premises are well equipped with up-to-date safety gadgets, such as, smoke detectors, fire alarms and fire extinguishers which are strategically positioned to forestall and control fire outbreaks and are regularly tested to ensure their effectiveness. Fire prevention and control drills are also regularly held for the benefit of the Mortgage Bank's staff and customers.

The Mortgage Bank maintains a Pension Scheme for all its staff and Group Personal Accident and the Workmen's Compensation Insurance covers are also maintained for all staff to cushion the effect of work-related hazards.

Employees' involvement and training

The Mortgage Bank has continued to encourage active involvement of its staff in the Mortgage Bank's affairs. Regular co-ordination meetings are held at different levels (Department/Unit) with staff members to deliberate on and proffer suggestions in respect of matters which affect both the staff and the Mortgage Bank.

In line with its belief in continuous education and human resources development, suitable training courses are provided as deemed necessary. Towards also sharpening and better positioning the staff for the realisation of the Mortgage Bank's aims, the Mortgage Bank constantly organises formal in-house staff training programmes for all members of staff. These formal trainings are complimented by regular on-the-job training.

Events after reporting period
On 11 March 2020, the World Health Organization declared the coronavirus (COVID – 19) outbreak a pandemic and most governments have taken restrictive measures to contain its further spread by introducing lockdowns, closures of borders and travel restrictions which has affected the free movement of people and goods. The Nigerian Centre for Disease Control (NCDC) has confirmed COVID -19 cases in Nigeria and this has resulted in lock down in certain states. The pandemic has caused a significant reduction in social interactions, disruption in economic activities while some public facilities have been shut down in a bid to reduce the spread of the virus.

The Mortgage Bank considers this outbreak to be a non-adjusting subsequent event. As the situation is fluid and rapidly evolving, the Directors do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak and will continue to evaluate the impact of COVID-19 on the Mortgage Bank's operations, financial position and operating results.
As at the date these financial statements were authorised for issue, the Directors were not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

There were no other events after the reporting date that could have had a material effect on the financial statements of the Mortgage Bank that have not been provided for or disclosed in these financial statements.

Auditors
Messrs. KPMG Professional Services were appointed as the auditors to the Mortgage Bank on 28 February 2020, having satisfied the relevant corporate governance rules on their tenure in office and have indicated their willingness to continue in office as auditors to the Mortgage Bank. In accordance with section 357 (2) of the Companies and Allied Matters Act of Nigeria therefore, the auditors will be re-appointed at the next annual general meeting of the Mortgage Bank without any resolution being passed.

MARK CHUKWUGOZIE OKOYE
FRC/2013/NBA/00000000956
Mortgage Bank Secretary
28 October 2020

Statement of Directors' responsibilities in relation to the financial statements for the year ended 31 December 2019

The Directors accept responsibility for the preparation of the annual financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies and Allied Matters Act Cap C.20, Laws of the Federation of Nigeria 2004, the Financial Reporting Council of Nigeria Act, 2011, the Banks and Other Financial Institutions Act Cap B3, Laws of the Federation of Nigeria, 2004 and relevant Central Bank of Nigeria Guidelines and Circulars.

The Directors further accept responsibility for maintaining adequate accounting records as required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

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

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

Mr. Uduma O. Kalu
Chairman
FRC/2014/NIM/00000008402
28 October 2020

Mr. Korede Adedayo
Managing Director
FRC/2018/IMN/00000018513
28 October 2020

Corporate governance report

1 Introduction

FirstTrust Mortgage Bank Plc ("the Mortgage Bank") is committed to improving shareholders' value through transparent conduct of its business. In addition to the principles of the "Code of Corporate Governance for Banks in Nigeria Post Consolidation" issued by the Central Bank of Nigeria (CBN), and the Securities and Exchange Commission Code of Corporate Governance, the Mortgage Bank benchmarks itself against local and international best practices. The Code of Corporate Governance of FirstTrust Mortgage Bank Plc provides the basis for promoting the highest standards of corporate governance in the Mortgage Bank. The Mortgage Bank is governed by a framework that facilitates checks and balances and ensures that appropriate controls are put in place. The Corporate Governance Practices of the Mortgage Bank are designed to ensure accountability of the Board and Management to the stakeholders.

The business of the Mortgage Bank is driven by the Board of Directors, which exercises its oversight function through its various committees, namely, the Board Credit and Finance Committee, the Board Audit Committee, the Board Risk Management Committee and the Board Governance and Remuneration Committee.

Through these committees, interactive dialogue is employed to set broad policy guidelines, and to ensure the proper management and direction of the Mortgage Bank on a regular basis.

In addition to the Board Committees, there are three management committees: Assets and Liability Committee, Management Credit Committee and Criticised Assets Committee to ensure effective and good corporate governance at the management level. These committees form the bedrock for the long-term professional management of the business of the Mortgage Bank.

2 Governance structure

Board of Directors

The Board is made up of the Chairman, the Managing Director, two (2) Non-Executive Directors and an Executive Director. The Directors are listed in the Directors' report. The Board is made up of a crop of seasoned professionals who have excelled in their various professions including banking and law and possess the requisite integrity, skills and experience to bring independent judgment to bear on the Board's deliberations.

The primary purpose of the Board is to provide strategic direction for the Mortgage Bank in order to deliver long term value to shareholders through its oversight function of the Mortgage Bank's business.

Other functions of the Board include:

- to review management succession plans and determine management's compensation;
- to ensure that the Mortgage Bank operates ethically and complies with applicable laws and regulations;
- to approve capital projects and investments;
- to consider and approve the annual budget of the Mortgage Bank and monitor its performance;
- to ensure that adequate system of internal control, financial reporting and compliance are in place;
- to ensure that an effective risk management process exists and is sustained and
- to constitute board committees and determine their terms of reference and procedures, including reviewing and approving the reports of these committees.

The Board meets quarterly and additional meetings are convened as required. Decisions may be taken between meetings by way of written resolution, as provided for in the Articles of Association. The Non-Executive Directors are provided with comprehensive information at each of the quarterly board meetings and are also briefed on business developments between board meetings.

The Board carries out the above responsibilities through its standing committees. All committees have clearly defined terms of reference, which set out their roles, responsibilities, functions and scope of authority. All committees in the exercise of their powers, so delegated, conform to the regulations laid down by the board.

The committees render reports to the Board at its quarterly meetings. The roles and responsibilities of the committees are as stated hereunder:

Board Committees

These committees are as follows;

- Board Audit Committee;
- Board Credit and Finance Committee;
- Board Governance and Remuneration Committee;
- Board Risk Management Committee;

Addition to the Board committees.

- Shareholders Audit Committee.

Corporate governance report cont'd

The roles and responsibilities of these committees are discussed below:

Board Audit Committee

The Committee assists the Board in fulfilling its oversight responsibility relating to;

- The integrity of the Mortgage Bank's financial statements and the financial reporting process,
- The independence and performance of the Mortgage Bank's internal and external auditors; and
- The Mortgage Bank's system of internal control and mechanism for receiving and addressing complaints about the Mortgage Bank's accounting and operating procedures.

Its main functions are:

- Monitoring the activities of the internal audit function of the Mortgage Bank including ensuring its independence;
- Overseeing the development of a procedure for the receipt, retention and treatment of complaints received by the Mortgage Bank, about the accounting, internal accounting controls, unethical activity/breach of the corporate governance code or audit matters, including a means for the Mortgage Bank's stakeholders (employees, customers, suppliers, applicants, etc) to submit such complaints in a confidential and anonymous manner;
- Investigating any matter brought to its attention within the scope of its duties with the authority to retain legal counsel or other advisors, if in its judgment that is appropriate, at the expense of the Mortgage Bank;
- Annually reviewing and re-assessing its own responsibilities, functions, pre-approval policy for audit and non-audit services, and Charter, making changes as necessary, and conducting an annual performance evaluation of its activities;
- Reviewing the proposed audit plan(s) and review the results of internal audits completed since the previous Committee meeting as well as the focus of upcoming internal audit projects.
- Reviewing the results of the annual audit and discuss the annual financial statements with management;
- Reviewing the statutory auditors' management letter when presented and ensure adequacy of management's response;
- Reviewing with the Financial Controller annually the significant financial reporting issues and practices of the Mortgage Bank, and ensure that appropriate accounting principles are applied including financial controls relating to the "closing of the books" process;
- Meeting separately, and at least quarterly, with the Financial Controller and the Chief Inspector to discuss the adequacy and effectiveness of accounting and financial controls of the Mortgage Bank;
- Discussing the Mortgage Bank's policy regarding press releases as well as financial information provided to analysts and rating agencies;
- Reviewing the Mortgage Bank's legal representation letter presented to the statutory auditors and discuss significant items, if any, with the Company Secretary;
- Receiving the decisions of the Shareholders Audit Committee on the statutory audit report from the Company Secretary and ensure its full implementation;
- Requiring management to present and discuss, as soon as practicable, all reports received from regulators statements or related Mortgage Bank compliance policies;
- Annually assessing and confirming the independence of the statutory auditor, in line with the Mortgage Bank's Statutory Audit Independence Policy;
- Developing, annually reviewing and ensuring compliance with the list of non-audit services that may be provided by the statutory auditors; and,
- Reviewing with the Company Secretary, legal and regulatory matters, contingent liabilities or other sensitive information that may have a material effect on the Mortgage Bank's financial statements, systems of internal control or regulatory compliance.

Board Credit and Finance Committee

The purpose of the Committee is to advise the Board on its oversight responsibilities in relation to the Mortgage Bank's credit exposure and management, lending practices and provide strategic guidance for the development and achievement of the Mortgage Bank's credit and lending objectives. In performing this oversight role, the Committee shall work with management to:

- Review the quality of the Mortgage Bank's credit portfolio and the trends affecting the portfolio;
- Oversee the effectiveness and administration of credit related policies including compliance with legal lending limits and the Mortgage Bank's in-house lending restrictions;
- Review the process for determining provision for credit losses and the adequacy of the provision made; and
- Provide oversight and guidance to the Mortgage Bank regarding credit related aspects of implementing the BASEL II Capital Accord and compliance with the regulatory Risk based supervision framework.

Corporate governance report cont'd

Its main functions are to:

- Approve the definition of risk and return preferences, target risk portfolio, credit portfolio quality plan for the year and level of exposure to customers;
- Approve credit risk appetite and credit portfolio strategy and ensure it is in line with the corporate strategy of the Mortgage Bank;
- Review and approve, as and when required, the establishment of or any material changes to:
  * credit policies
  * credit concentration guidelines and limits;
  * compliance programs for credit-related matters;
  * delegation of credit authority;
  * the provisions for loan losses methodology; and
  * other matters as required by regulation and on the recommendation of the Management Credit Committee (MCC);
- Exercise general oversight over the Mortgage Bank's credit portfolio and related risk management processes through a periodic review of reports on:
  * Credit and assets quality trends and statistics;
  * Reports on the lending activities of the major business units and lines of business which comprise the Mortgage Bank's lending
  * Reports on any category of credit or specialised credit activity that reflects areas of material or rapidly increasing risk (e.g., concentrations of credit, classified credits and non-performing assets, etc.); and
  * Any other matter that relates to the extension or administration of credit or the condition of the Mortgage Bank's credit portfolio that is deemed appropriate by the Committee or as required by regulation, at a level and frequency established by the Committee.
- Oversee the administration and effectiveness of, and compliance with the Mortgage Bank's credit policies through the review of processes and reports on the recommendation of the MCC and any other means as it deems appropriate. The review shall as a minimum, include the loan quality grading in accordance with the CBN Prudential Guidelines, internal and external audits and examinations of the Mortgage Bank's credit processes, the incidence of new problem assets and the frequency and reasons for credit policy exceptions;
- Approve credit facility requests and proposals within limits defined by the Mortgage Bank's credit policy and within the statutory requirements set by the regulatory/ supervisory authorities;
- The Committee shall review and assess the adequacy of the provision for credit losses. In making its assessment, the Committee may review such measures of the adequacy of the provision as it deems appropriate, and shall periodically review the credit rating methodology used in computing the adequacy of the provisions;
- Approve new credit products and processes;
- Approve limit setting and assignment of credit approval authority on the recommendation of the Management Credit Committee
- Approve changes to credit policy guidelines on the recommendation of the Management Credit Committee (MCC);
- Review credit risk reports on a periodic basis;
- Approve credit exceptions in line with Board approval

Board Governance and Remuneration Committee

The purpose of the Committee is to advise the Board on its oversight responsibilities in relation to governance, remuneration and all other human resource matters affecting the directors and employees of the Mortgage Bank. Specifically, the Committee is responsible for determining and executing the processes for Board appointments, removal of non-performing directors and recommending appropriate remuneration for directors (both executive and non-executive) and approving remuneration for all other staff.

Its main functions are to:

- Review the size and composition of the Board, including succession planning and recommend the appropriate skill mix, personal qualities, expertise, ability to exercise independent judgment and diversity required to discharge the Board's duties;
- Devise criteria for board membership and board positions. This criteria will however be approved by the Board;
- Prepare a job specification for the Chairman's position, including the assessment of the time commitment required of the candidate;
- Make recommendation on experience required by Board Committee members, Committee appointment and removal, operating structure, reporting and other Committee operational matters;
- Recommend the appointment of new directors to the Board, noting the desirable qualifications and experience for individual new appointees. The process shall involve subjecting director nominees to a fit and proper test and ensuring that they are qualified to hold office and their appointment will not have a negative impact on the Mortgage Bank's reputation in the market place;

Corporate governance report cont'd

- Ensure that all new directors receive a formal letter of appointment specifying what is expected of them and that new directors with no or limited board experience receive development and education to enhance the discharge of their duties, responsibilities, and understand their powers and potential liabilities;
- Establish and continuously review the effectiveness of the orientation programme for new directors to familiarise them with the Mortgage Bank's operations, senior management, business environment and to induct them on their fiduciary duties and responsibilities;
- Continuously, review the effectiveness of the process for the selection and removal of directors and make recommendations where appropriate;
- Oversee the implementation of the process for the evaluation of the performance of individual directors on an annual basis;
- Monitor and assess the continuing education program for Directors;
- Establish and oversee a process for providing periodic briefings on relevant new laws and regulations to Board members;
- Establish, oversee and ensure that the Mortgage Bank has an accurate profile on all directors;
- Review and approve the annual human resources departments plan, including the succession planning for the Chief Executive Officer and other key officers positions and report key developments to the Board;
- Review and approve the annual performance targets for the MD/CEO at the beginning of the financial year and evaluate his performance at the end of the financial year;
- Ratify the annual performance targets of the executive directors as submitted by the MD/CEO at the beginning of the financial year, and their annual performance evaluation at the end of the financial year; annual performance evaluation at the end of the financial
- Review and approve individual performance ratings and remunerations for the Chief Executive Officer and other top Management staff (Assistant Managers and above), benchmarking the proposed salary structure to similar sized Companies;
- Review and approve the promotion, hiring and dismissal of Senior Managers and above;
- Review and approve all employee benefit plans such as pension, share ownership and other retirement plans, and material amendments to existing benefit plans; and
- Review and approve the Mortgage Bank's Travel and Expense Policy as and when required.

Board Risk Management Committee

The Committee assists the Board in fulfilling its oversight responsibility relating to establishment of policies, standards and guidelines for risk management, and compliance with legal and regulatory requirements, in the Mortgage Bank.

Its main functions are to:

- Oversee the establishment of a formal written policy on the overall risk management system. The policy should define risks and risk limits that are acceptable and unacceptable to the Mortgage Bank. It should provide guidelines and standards to administer the acceptance and on-going management of all risks;
- Ensure that adequate policies are in place to manage and mitigate the adverse effects of both business and control risks in its
- Ensure compliance with established policy through periodic review of reports provided by management, internal and external (statutory) auditors and the supervisory authorities;
- Ensure the appointment of qualified officers to manage the risk function;
- Oversee the functions of the Risk Management Department in the Mortgage Bank;
- Re-evaluate the Risk Management Policy of the Mortgage Bank on a periodic basis to accommodate major changes in internal or external factors;
- Review the Mortgage Bank's activities related to the Code of Conduct and Ethics;
- Review the adequacy and effectiveness of the programme of compliance established within the Mortgage Bank;
- Review the processes in place for ensuring new and changed legal and regulatory requirements are identified and reflected in the Mortgage Bank's processes;
- Review the scope and depth of compliance unit's activities, and the resulting impact audit findings have on the risk profile of the Mortgage Bank; and
- Evaluate the nature and effectiveness of action plans implemented to address identified compliance weaknesses.

Corporate governance report cont'd

Shareholders Audit Committee

Its main functions are to:

- Assist in the oversight of the integrity of the company's financial statements, compliance with legal and other regulatory requirements, assessment of qualifications and independence of external auditor, and performance of the company's internal audit function as well as that of external auditors:
- Review and ensure that adequate whistle-blowing procedures are in place and that a summary of issues reported are highlighted to the chairman;
- Appointing, removing or re-appointing the external auditors (subject to approval by the shareholders).
- At least on an annual basis, obtain and review a report by the internal auditor describing the strength and quality of internal controls including any issues or recommendations for improvement, raised by the most recent internal control review of the company;
- Discuss policies and strategies with respect to risk assessment and management.

Composition of Board and Board Committees

Board of Directors

1	Mr. Uduma O. Kalu	- Chairman
2	Mr. Korede Adedayo	- Managing Director
3	Mrs. Ola Ifezulike	- Director
4	Mr. Adeniyi Akinlusi	- Director
5	Ms. Ngozi Ogunwa	- Director
6	Mr Etigwe Uwa (SAN)*	- Chairman
7	Mr Tamuno Atekebo*	- Director
8	Engr. Emmanuel Akintayo Alabi*	- Director
9	Mrs. Deborah Nicol- Omeruah*	- Director
10	Mrs. Amira Abiodun Obi- Okoye*	- Independent Director

Board Audit Committee

1	Mrs. Ola Ifezulike	- Chairman
2	Mr. Korede Adedayo	- Managing Director
3	Mr. Adeniyi Akinlusi	- Director
4	Mr Uduma Okoro Kalu**	- Director
5	Mr Tamuno Atekebo*	- Director
6	Engr. Emmanuel Akintayo Alabi*	- Director
7	Mrs. Deborah Nicol- Omeruah*	- Director
8	Mrs. Amira Abiodun Obi- Okoye*	- Independent Director

Board Credit and Finance Committee

1	Mr. Adeniyi Akinlusi	- Chairman
2	Mr. Korede Adedayo	- Managing Director
3	Mrs. Ola Ifezulike	- Director
4	Ms. Ngozi Ogunwa	- Director
5	Mr Uduma O. Kalu**	- Chairman
6	Engr. Emmanuel Akintayo Alabi*	- Director
7	Mrs. Deborah Nicol- Omeruah*	- Director

Board Governance and Remuneration Committee

1	Mr. Adeniyi Akinlusi	- Chairman
2	Mr. Korede Adedayo	- Managing Director
3	Mrs. Ola Ifezulike	- Director
4	Mr Tamuno Atekebo*	- Chairman
5	Mr Uduma O. Kalu**	- Director
6	Mrs. Deborah Nicol- Omeruah*	- Director
7	Mrs. Amira Abiodun Obi- Okoye*	- Independent Director

Corporate governance report cont'd

Board Risk Management Committee

1	Mrs. Ola Ifezulike	- Chairman
2	Mr. Korede Adedayo	- Managing Director
3	Mr. Adeniyi Akinlusi	- Director
4	Ms. Ngozi Ogunwa	- Director
5	Engr. Emmanuel Akintayo Alabi*	- Chairman
6	Mr Tamuno Atekebo*	- Director
7	Mrs. Amira Abiodun Obi- Okoye*	- Independent Director

Shareholders Audit Committee

1	Mr. Raphael Fola Adedayo	- Chairman
2	Sir Sunday Nnamdi Nwosu (KSS)	- Member
3	Mrs. Ola Ifezulike	- Member
4	Mr. Adeniyi Akinlusi	- Member
5	Mrs. Amira Abiodun Obi- Okoye*	- Member

* Resigned effective 23 September 2019
** No longer in the Committee effective 23 September 2019, when he was appointed Board Chairman

The Committees meets quarterly and additional meetings are convened as required.

Attendance at Board Committee meetings

Directors' attendances at meetings are as shown below;

				Meeting		
S/N	**NAMES OF DIRECTORS**	**BOD**	**BAC**	**BCFC**	**BGRC**	**BRMC**
	Total number of meetings	**8**	**4**	**4**	**4**	**4**
1	Mr Etigwe Uwa (SAN)	7	N/A	N/A	N/A	N/A
2	Mr. Adeniyi A. Akinlusi	8	4	4	4	4
3	Mr Uduma O. Kalu	6	2	2	2	N/A
4	Mr Tamuno Atekebo	7	3	N/A	3	3
5	Engr. Emmanuel Akintayo Alabi	7	3	3	N/A	3
6	Mrs. Ola Ifezulike	8	4	N/A	N/A	N/A
7	Mrs. Deborah Nicol- Omeruah	6	2	2	N/A	N/A
8	Mrs. Amira Abiodun Obi- Okoye	7	3	N/A	3	3
9	Mr. Korede Adedayo	1	1	1	1	1
10	Ms. Ngozi Ogunwa	1	N/A	N/A	N/A	N/A

Key
BOD -Board of Directors
BAC -Board Audit Committee
BCFC -Board Credit and Finance Committee
BGRC -Board Governance and Remuneration Committee
BRMC -Board Risk Management Committee
N/A - Not Applicable (Not a Committee Member)

Management Committees

These are committees comprising senior management of the Mortgage Bank. The Committees are also risk driven and are basically set up to identify, analyze, synthesise and make recommendations on risks arising from day to day activities of the Mortgage Bank. They also ensure that risk limits as contained in the Board and regulatory policies are complied with at all times. They provide inputs for the respective Board Committees and also ensure that recommendations of the Board Committees are effectively and efficiently implemented. They meet as frequently as the risk issues occur to immediately take actions and decisions within the confines of their powers. The main management committees of the Mortgage Bank are: Assets and Liability Committee and Management Credit Committee.

Corporate governance report cont'd

Assets and Liability Committee

This Committee is responsible for the management of a variety of risks arising from the Mortgage Bank's business including, market and liquidity risk management, loan to deposit ratio analysis, cost of funds analysis, establishing guidelines for pricing on deposit and credit facilities, risks analysis, balance sheet structuring, regulatory considerations and monitoring of the status of implemented assets and liability strategies.

Composition of the Committee is made up of senior management staff of the Mortgage Bank, including the Managing Director/CEO of the Mortgage Bank.

Management Credit Committee

This is the Committee responsible for ensuring that the Mortgage Bank complies fully with the Credit Policy guide as laid down by the Board. The Committee also provides inputs for the Board Credit Committee. This Committee is empowered to approve credit facilities to individual obligors not exceeding in aggregate a sum determined by the Board from time to time. The Committee meets at least once a week or once a fortnight depending on the number of credit applications to be considered.

Criticized Assets Committee

This Committee is responsible for the assessment of the risk asset portfolio of the Mortgage Bank. It highlights the status of the Mortgage Bank's assets in line with the internal and external regulatory framework, and ensures that triggers are sent in respect of delinquent assets. The Committee also ensures that adequate provisions are taken in line with regulatory guidelines. The members of the Committee include the Managing Director/CEO as Chairman, the Assistant General Manager, Senior Manager, and other relevant senior staff of the Mortgage Bank.

The Committee meets twice every month to review the Mortgage Bank's portfolio.

Whistle blowing

FirstTrust has a whistle-blowing policy which provides the procedure for reporting suspected breaches of their internal policies, laws and regulations.

There is a special e-mail address and telephone hotline dedicated for whistle blowing. The Mortgage Bank's Chief Compliance Officer (CCO) is responsible for monitoring and reporting on whistle blowing.

Report of the audit committee

To the members of FirstTrust Mortgage Bank Plc

In accordance with the provisions of Section 359 (6) of the Companies and Allied Matters Act Cap C.20, Laws of the Federation of Nigeria 2004, the members of the Audit Committee of FirstTrust Mortgage Bank Plc hereby report on the financial statements for the year ended 31 December, 2019, as follows:

- We have exercised our statutory functions under Section 359 (6) of the Companies and Allied Matters Act Cap C.20, Laws of the Federation of Nigeria 2004 and acknowledge the co-operation of management and staff in the conduct of these responsibilities.

- We are of the opinion that the accounting and reporting policies of the Mortgage Bank are in accordance with legal requirements and agreed ethical practices and that the scope and planning of both the external and internal audits for the year ended 31 December 2019 were satisfactory and reinforce the Mortgage Bank internal control systems.

- We are satisfied that the Bank has complied with the provisions of Central Bank of Nigeria circular BSD/1/2004 dated 18 February 2004 on insider related credits in the financial statements of Banks, and hereby confirm that an aggregate amount of N81,482,642 (31 December 2018: N58,416,270) was outstanding as at 31 December 2019.

- We have deliberated with the external auditors, who have confirmed that necessary cooperation was received from management in the course of their statutory audit and we are satisfied with management's responses to the External Auditor's recommendations on accounting and internal control matters and with the effectiveness of the Mortgage Bank's system of accounting and internal control.

Mr. Raphael Fola Adedayo
FRC/2013/CIBN/00000002229
Chairman
28 October 2020

Members of the committee

Mr. Raphael Fola Adedayo	- Chairman
Sir Sunday Nnamdi Nwosu (KSS)	- Member
Mrs. Ola Ifezulike	- Member
Mr. Adeniyi Akinlusi	- Member
Mrs. Amira Abiodun Obi- Okoye*	- Member

* *Resigned effective 23 September 2019*

KPMG

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of FirstTrust Mortgage Bank Plc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of FirstTrust Mortgage Bank Plc. ("the Mortgage Bank"), which comprise the statement of financial position as at 31 December, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information, as set out on pages 23 to 84.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Mortgage Bank as at 31 December, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act, 2011, the Banks and other Financial Institutions Act, Cap B3, Laws of the Federation of Nigeria, 2004 and relevant Central Bank of Nigeria (CBN) Guidelines and Circulars.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Expected Credit Loss Impairment of Loans and Advances

The determination of the impairment of loans and advances requires a high level of subjectivity inherent in estimating the impact of key assumptions on the recoverability of loan balances, including the application of industry knowledge and prevailing economic conditions in arriving at the estimation of the impairment allowance required.

KPMG

The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Mortgage Bank's determination of impairment are:

- Economic scenarios – IFRS 9 *Financial Instruments* requires the Mortgage Bank to measure expected credit losses (ECLs) on a forward-looking basis reflecting a range of future economic conditions. Significant management judgment is applied to determining the economic scenarios used and the probability weightings applied to them especially for the credit card and corporate portfolios.

- Significant Increase in Credit Risk ("SICR") – The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Mortgage Bank's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded.

- Model estimations – Inherently judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ("PD"), Loss Given Default ("LGD"), and Exposures at Default ("EAD"). The PD models used are the key drivers of the Mortgage Bank's ECL results and are therefore the most significant judgemental aspect of the Mortgage Bank's ECL modelling approach.

- Qualitative adjustments – Adjustments to the model- driven ECL results are raised by management to address known impairment model limitations or emerging trends, which included the effects of COVID 19. Such adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts especially in relation to loans and advances.

The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The credit risk sections of the financial statements disclose the sensitivities estimated by the Mortgage Bank.

How the matter was addressed in our audit
Our audit procedures amongst others included the following:

- **Controls testing:** We performed end to end process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant general IT and applications controls over key systems used in the ECL process.

Key aspects of our controls testing involved the following:

- Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions into the IFRS 9 impairment models;
- Evaluating controls over model monitoring and validation;
- Evaluating controls over authorization and calculation of model adjustments; and
- Testing key controls relating to selection and implementation of material macro- economic variables and the controls over the scenario selection and probabilities.

Our financial risk modelling expertise: For the loans and advances we involved our financial risk management specialists in evaluating the appropriateness of the Mortgage Bank's IFRS 9 impairment methodologies (including the SICR criteria used).

KPMG

- **Our economic scenario expertise:** We involved our financial risk management specialists to assist us in assessing the appropriateness of the Mortgage Bank's methodology for determining the economic scenarios used and the probability weightings applied to them. We also assessed key economic variables used, which included agreeing samples of economic variables to external sources, as well as the overall reasonableness of the economic forecasts by comparing the Mortgage Bank's forecasts to our own modelled forecasts. As part of this work we assessed the reasonableness of the Mortgage Bank's considerations of the ECL impact of economic uncertainty.

- **Tests of details:** Key aspects of our testing involved:
  - Sample testing over key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts, weights, and PD assumptions applied.
  - evaluated the reasonableness of the Mortgage Bank's determination of significant increase in credit risk by checking that a lifetime ECL is recognized when credit risk has increased significantly (Stage 2), a lifetime ECL is recognized on impaired facilities (Stage 3) and a 12-month ECL (Stage 1) is recognized for facilities in Stage 1;
  - evaluated that the Mortgage Bank factored business cycle dependencies into ECL estimates by incorporating forward-looking information into the ECL parameters and checked the reasonableness of forward-looking information and multiple economic scenarios considered. We also checked the reasonableness of the scenario probability weight by performing independent computation and benchmarking scenario weights.

- **Disclosures:** We assessed whether disclosures in these financial statements appropriately reflect the Mortgage Bank's exposure to credit risk including collateral information.

Refer to note 4.9(f) in the Mortgage Bank's accounting policies and note 20 to the financial statements.

Accounting for Business Combination

The Mortgage Bank completed an acquisition in the year, as set out in note 37. At the date of initial recognition, the Mortgage Bank is required to quantify the fair value of the identifiable net assets acquired, the fair value of the consideration transferred and the amounts allocated to goodwill. The identification of intangible asset (goodwill) and the measurement of fair values involves a significant degree of judgement and estimation.

We focused on this area due to the inherent judgement and estimation involved in the identification, recognition and valuation of intangible and other assets acquired. In addition, the disclosure requirements in respect of acquisitions are extensive.

How the matter was addressed in our audit

Our audit procedures amongst others included the following:

- We inspected the underlying acquisition agreement to ensure the appropriateness of the acquisition accounting applied including the date at which control is deemed to have passed.
- We challenged the Mortgage Bank's critical assumptions in relation to the identification and valuation of intangible assets and other assets by assessing whether the resulting goodwill have been appropriately identified.
- We evaluated the reasonableness of the Directors' determination of the acquisition date by comparing to the date the transaction was sanctioned by the Courts;

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- We checked the reasonableness of the Directors' determination of the fair value of net assets acquired;
- We assessed the reasonableness of the First Mortgages Limited closing balances as at the date of acquisition by comparing with the audited financial statements as of the same date.
- We also considered and evaluated the completeness of the disclosures in respect of new acquisition to ensure that they are in compliance with IFRS 3 *Business Combinations.*

Refer to note 4.1 in the Mortgage Bank's accounting policies and note 37 to the financial statements.

Recoverability of Deferred tax asset

The Mortgage Bank has recognized deferred tax assets of N835 million as at 31 December 2019, which has arisen from unrelieved tax losses, unutilized capital allowances and other deductible temporary differences.

The recoverability of the recognised deferred tax asset is dependent on the future profitability of the Mortgage Bank. There is inherent uncertainty involved in developing the operational plan upon which forecast future taxable profits are based. These forecasts determine the extent to which deferred tax assets are or are not recognised. We focused on this area in our audit since the estimation of future taxable profits is inherently judgemental.

How the matter was addressed in our audit

Our audit procedures amongst others included the following:

- . We challenged management's assessment of the recoverability, including the estimated future taxable profits and the underlying assumptions by using our knowledge of the business, industry and past performance.
- We checked whether unrelieved tax losses, unutilised capital allowance and other deductible temporary differences were determined in accordance with the relevant tax laws.
- We assessed the adequacy of the Mortgage Bank's disclosures in respect of the assumptions supporting the deferred tax asset valuation and recognition.

Refer to note 4.8(b) in the Mortgage Bank's accounting policies and note 25 to the financial statements.

Other Information

The Directors are responsible for the other information. The other information comprises the Corporate information, Directors' report, Statement of Directors' responsibilities, Corporate governance report, Report of the Audit Committee, Management Discussion and Analysis and Other national disclosures, but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditors' report.

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

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

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Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004, the Financial Reporting Council of Nigeria Act, 2011, the Banks and other Financial Institutions Act, Cap B3, Laws of the Federation of Nigeria, 2004 and relevant Central Bank of Nigeria (CBN) Guidelines and Circulars, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Mortgage Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Mortgage Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Mortgage Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

Compliance with the requirements of Schedule 6 of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004

In our opinion, proper books of account have been kept by the Mortgage Bank, so far as appears from our examination of those books and the Mortgage Bank's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

Compliance with Section 27 (2) of the Banks and the other Financial Institutions Act Cap B3, Laws of the Federation of Nigeria, 2004 and Central Bank of Nigeria circular BSD/1/2004

i. The Mortgage Bank did not pay any penalty in respect of contraventions of the Banks and Other Financial Institutions Act during the year ended 31 December 2019.
ii. Related party transactions and balances are disclosed in note 32 to the financial statements in compliance with the Central Bank of Nigeria circular BSD/1/2004.

Akinyemi J. Ashade, FCA
FRC/2013/ICAN/00000000786
For: KPMG Professional Services
Chartered Accountants
4 November 2020
Lagos, Nigeria

DCSL Corporate Services Limited
235 Ikorodu Road
Ilupeju
P. O. Box 965, Marina
Lagos, Nigeria

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RC NO. 352393

July 2020

REPORT OF THE EXTERNAL CONSULTANTS ON THE PERFORMANCE OF THE BOARD OF DIRECTORS OF FIRSTTRUST MORTGAGE BANK PLC ("FIRSTTRUST") FOR THE YEAR-ENDED DECEMBER 31, 2019.

DCSL Corporate Services Limited (DCSL) was appointed by FirstTrust Mortgage Bank Plc ("FirstTrust") to carry out an evaluation of the performance of the Board of Directors for the year-ended December 31, 2019 in line with the provisions of **Section 15.6 of the Securities and Exchange Committee (SEC) Code of Corporate Governance for Public Companies ("the Code"), Section 2.8.2 of the Central Bank of Nigeria Code of Corporate Governance for Primary Mortgage Banks in Nigeria and Section 14.1 of the Nigerian Code of Corporate Governance ("NCCG").** The appraisal entailed a review of the Bank's corporate and statutory documents, the Minutes of Board and Committee meetings, policies and other ancillary documents made available to us. We also administered electronic surveys to the Directors to ascertain the level of the Board's compliance with the provisions of the SEC Code, CBN Code, NCCG, relevant legislation as well as global Best Practice. Our appraisal covered the following seven key corporate governance themes:

1. Board Structure and Composition
2. Strategy and Planning
3. Board Operations and Effectiveness
4. Measuring and Monitoring of Performance
5. Risk Management and Compliance
6. Corporate Citizenship; and
7. Transparency and Disclosure.

Our review of the corporate governance standards and processes affirm that the Board has complied with the provisions of the SEC Code, CBN Code, NCCG and other relevant corporate governance best practices. The appraisal indicates that individual Directors remain committed to enhancing the Bank's growth. Whilst commending the Board for its efforts thus far towards ensuring compliance with the Codes, we have recommended that the Board should appoint Independent Directors to the Board.

Our key findings and other recommendations are contained in our detailed Report.

Yours faithfully,

For: DCSL Corporate Services Limited

Bisi Adeyemi
Managing Director
FRC/2013/NBA/00000002716

DCSL Corporate Services Limited

Directors: • Abel Ajayi (Chairman) • Obi Ogbechi • Adeniyi Obe • Dr. Anino Emuwa • Adebisi Adeyemi (Managing Director)

Statement of profit or loss and other comprehensive income

For the year ended	Note	31 December 2019	31 December 2018
		N'000	N'000
Interest income		1,612,311	1,316,956
Interest expense		(954,581)	(519,165)
Net interest income	9	657,730	797,791
Fee and commission income		138,581	179,174
Fee and commission expense		(7,799)	(4,067)
Net fee and commission income	10	130,782	175,107
Net trading loss	11	(14,342)	(4,273)
Other operating income	12	63,322	45,906
Operating income		837,492	1,014,531
Impairment writeback/(losses) on financial instruments	13	34,824	(817,019)
Net operating income after impairment loss on financial instruments		872,316	197,512
Personnel expenses	14	(367,757)	(276,391)
Depreciation of property, plant and equipment	23	(54,556)	(48,029)
Amortisation of intangible assets	24	(9,148)	(17,871)
Other operating expenses	15	(668,887)	(457,003)
Total expenses		(1,100,348)	(799,294)
Loss before income tax and minimum tax		(228,032)	(601,782)
Minimum tax	16(b)	(9,245)	(19,331)
Loss before income tax		(237,277)	(621,113)
Income tax credit	16(a)	1,875	-
Loss for the year		(235,402)	(621,113)
Other comprehensive loss, net of income tax:			
Items that will not be reclassified to profit or loss:			
Equity investments at FVOCI – net change in fair value	21(c)	136,775	(459)
Other comprehensive income/(loss) for the year		136,775	(459)
Total comprehensive loss for the year		(98,627)	(621,572)
Basic and diluted earnings per share (kobo)	17	(4.70)	(13.29)

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

FirstTrust Mortgage Bank Plc
(formerly TrustBond Mortgage Bank Plc)
Annual Report
31 December 2019

Statement of financial position

As at	Note	31 December 2019	31 December 2018
		₦'000	₦'000
Assets:			
Cash and cash equivalents	18	370,512	1,675,457
Trading properties	19	8,175,444	607,525
Loans and advances to customers	20	13,552,217	8,516,947
Investment securities	21	1,269,534	1,353,852
Other assets	22	389,404	130,208
Property, plant and equipment	23	776,479	613,162
Intangible assets	24	2,266,452	17,048
Deferred tax assets	25	835,539	833,163
Total assets		27,635,581	13,747,362
Liabilities:			
Bank overdraft	18	1,964,302	821
Deposits from customers	26	11,202,755	3,262,179
Current tax liabilities	16	13,130	17,207
Other liabilities	27	1,953,695	1,285,293
Interest-bearing borrowings	28	7,782,699	5,716,920
Total liabilities		22,916,581	10,282,420
Equity:			
Share capital	29(a)	6,027,515	4,674,993
Share premium	29(b)	2,737	2,737
Retained deficits	29(e)	(3,446,951)	(2,403,100)
Regulatory risk reserves	29(d)	1,456,104	647,655
Statutory reserves	29(c)	239,170	239,170
Other reserves	29(f)	440,425	303,487
Total equity		4,719,000	3,464,942
Total liabilities and equity		27,635,581	13,747,362

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS ON 28 OCTOBER 2020 BY:

Mr. Uduma O. Kalu
(Chairman)
FRC/2014/NIM/00000008402

Mr. Korede Adedayo
(Managing Director)
FRC/2018/IMN/00000018513

Additionally certified by:

Odunlami Afolasade Janet
Ag. Chief Finance Officer
FRC/2013/ICAN/00000001870

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

Statement of changes in equity

For the year ended 31 December 2019

	Share capital	Share premium	Retained deficits	Regulatory risk reserves	Statutory reserves	Other reserves	Total
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Balance as at 1 January 2019	4,674,993	2,737	(2,403,100)	647,655	239,170	303,650	3,465,105
Transfer to regulatory risk reserves	-	-	(808,449)	808,449	-	-	-
Total comprehensive loss for the year:							
Loss for the year	-	-	(235,402)	-	-	-	(235,402)
Other comprehensive income, net of tax:							
Fair value gain on financial assets at FVOCI	-	-	-	-	-	136,775	136,775
Total other comprehensive income for the year	-	-	-	-	-	136,775	136,775
Total comprehensive loss for the year	-	-	(235,402)	-	-	136,775	(98,627)
Transaction with equity holders:							
Shares issued under Scheme of Merger	1,352,522	-	-	-	-	-	1,352,522
Total transactions with equity holders	1,352,522	-	-	-	-	-	1,352,522
Balance as at 31 December 2019	6,027,515	2,737	(3,446,951)	1,456,104	239,170	440,425	4,719,000

For the year ended 31 December 2018

	Share capital	Share premium	Retained deficits	Regulatory risk reserves	Statutory reserves	Other reserves	Total equity
	₦'000	₦'000	₦'000	₦'000	₦'000	N'000	₦'000
Balance as at 1 January 2018	4,674,993	2,737	(886,298)	1,314,129	239,170	303,946	5,648,677
Adjustment on initial application of IFRS 9	-	-	(1,562,163)	-	-	-	(1,562,163)
Reclassification from regulatory risk reserves	-	-	1,314,129	(1,314,129)	-	-	-
Adjusted balance as at 1 January 2018	4,674,993	2,737	(1,134,332)	-	239,170	303,946	4,086,514
Transfer to regulatory risk reserves	-	-	(647,655)	647,655	-	-	
Total comprehensive income for the year:							
Loss for the year	-	-	(621,113)	-	-	-	(621,113)
Other comprehensive income, net of tax:							
Fair value loss on financial assets at FVOCI	-	-	-	-	-	(459)	(459)
Total other comprehensive loss for the year	-	-	-	-	-	(459)	(459)
Total comprehensive loss for the year	-	-	(621,113)	-	-	(459)	(621,572)
Balance as at 31 December 2018	4,674,993	2,737	(2,403,100)	647,655	239,170	303,487	3,464,942

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

Statement of cash flows

For the year ended	Notes	31 December 2019 ₦'000	31 December 2018 ₦'000
Loss after taxation		(235,402)	(621,113)
Tax charge	16(a)	(1,875)	-
Minimum tax	16(b)	9,245	19,331
Loss before taxation		(228,032)	(601,782)
Adjustments for:			
Depreciation of property and equipment	23	54,556	48,029
Amortisation of intangible assets	24	9,148	17,871
Net impairment loss on loans and advances	13	8,259	854,860
Net impairment loss on other assets	13	(43,083)	(34,576)
Net impairment loss on cash and cash equivalents	13	-	220
Net impairment loss investment securities	13	-	15
Net impairment loss on unquoted equities	13	-	2,500
Write-down on trading properties	11	12,440	20,000
Profit on disposal of property and equipment	12	(629)	(3,804)
Interest income	9	(1,612,311)	(1,316,956)
Interest expense on borrowings	9	385,668	276,369
Interest expense on deposits	9	469,973	242,796
		(944,011)	(494,458)
Changes in loans and advances to customers	35(a)	(4,097,737)	(2,070,460)
Changes in trading properties	35(b)	(7,580,359)	255,688
Changes in other assets	35(c)	(169,307)	(12,581)
Changes in deposits from customers	35(f)	7,153,882	303,754
Changes in other liabilities	35(e)	668,402	240,476
		(4,969,130)	(1,777,581)
Payments made by the employer on the gratuity scheme	35(e)	-	(87,242)
Interest received on loans and advances	35(a)	482,833	1,081,497
Interest received on investment securities	9	47,639	38,200
Interest received on money market placements	9	131,336	106,719
Interest paid	35(f)	(316,722)	225,786
Income tax paid	16(c)	(627)	(29,567)
Net cash used in operating activities		(4,624,671)	(442,188)
Cash flows from investing activities			
Purchase of property and equipment	23	(164,743)	(109,355)
Purchase of intangible assets	24	(2,693)	(10,710)
Purchase of investment securities	21(c)	(434,553)	(829,216)
Proceeds from the sale of property and equipment	35(g)	1,291	7,241
Net cash acquired from business combination	37(c)	235,092	-
Proceeds from redemption of treasury bills	21(c)	782,403	790,001
Net cash flows used in investing activities		416,797	(152,039)
Cash flows from financing activities			
Repayment on long term borrowings	28(d)	(507,112)	(203,540)
Interest paid	28(d)	(377,173)	(259,908)
Additional borrowings during the year	28(d)	1,823,773	1,608,345
Net cash flows from financing activities		939,488	1,144,897
Net (decrease)/increase in cash and cash equivalents		(3,268,386)	550,670
Cash and cash equivalents at beginning of year		1,676,909	1,126,239
Cash and cash equivalents at end of year	18	(1,591,477)	1,676,909

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

Notes to the Financial statements

1 Reporting entity

FirstTrust Mortgage Bank Plc ("the Mortgage Bank") is a Mortgage Bank domiciled in Nigeria. The address of the Mortgage Bank's registered office is 124 Awolowo Road, Ikoyi Lagos.

The principal activity of the Bank is the provision of mortgage banking services to corporate and individual customers.

FirstTrust Mortgage Bank Plc was formed, effective 30 September 2019, via a Scheme of Merger between TrustBond Mortgage Bank Plc and First Mortgages Limited.

2 Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and its interpretation committee effective and available as at 31 December 2019. These financial statements complies with the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004, the Financial Reporting Council of Nigeria (FRC) of Nigeria Act, 2011, the Banks and Other Financial Institutions Act of Nigeria and relevant Central Bank of Nigeria guidelines and circulars.

The financial statements were authorised for issue by the Directors on 28 October 2020

3 Basis of preparation

(a) *Functional and presentation currency*

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

(b) *Basis of measurement*

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

- financial instruments measured at fair value through other comprehensive income and investments measured at amortised cost;
- trading properties are measured at the lower of cost and net realisable value; and
- Loans and advances to customers are measured at amortised cost less impairment.

(c) *Use of estimates and judgments*

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of the revision and future years, if the revision affects both current and future years.

Information about significant areas of estimation uncertainties and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 6 to these financial statements.

(d) *New standards and interpretation not yet adopted*

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Mortgage Bank has not early adopted the following or new standards in preparing these financial statements.

New or amended standards	Summary of the requirements	Possible impact on financial statements
Amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform	Amendments to IFRS 9, IAS 39 and IFRS 7 have now been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. The amendments address issues affecting financial reporting in the period leading up to IBOR reform, and are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform. The amendments are effective from 1 January 2020. Early application is permitted.	Based on an initial assessment, management does not foresee a significant impact coming from this new standard. The Mortgage Bank will adopt the amendments for the year ending 31 December, 2020.

Notes to the Financial statements

New or amended standards	Summary of the requirements	Possible impact on financial statements
Amendments to IAS 1 and IAS 8	The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework. The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments "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 on the basis of those financial statements, which provide financial information about a specific reporting entity." The Board has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments are effective from 1 January 2020 but may be applied earlier. However, the Board does not expect significant change – the refinements are not intended to alter the concept of materiality.	Based on an initial assessment, management does not foresee a significant impact coming from this new standard. Management does not plan to early adopt this IFRS.
Amendments to IFRS 3- Definition of a Business	Defining a business is important because the financial reporting requirements for the acquisition of a business are different from the requirements for the purchase of a group of assets that does not constitute a business. The proposed amendments are intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3. In October 2018 the IASB issued this amendment to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments: • Confirm that a business must include inputs and a process, and clarified that: (i) the process must be substantive and (ii) the inputs and process must together significantly contribute to creating outputs. • Narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and • Add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted. The standard is effective for annual periods beginning on or after 1 January 2020. Early adoption is permitted.	Based on an initial assessment, management does not foresee a significant impact coming from this new standard. Management does not plan to early adopt this IFRS.

Notes to the Financial statements

Amendments to references to conceptual framework in the IFRS Standards	The IASB decided to revise the Conceptual Framework because certain important issues were not covered and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes: • A new chapter on measurement; • Guidance on reporting financial performance; • Improved definitions of an asset and a liability, and guidance supporting these definitions; and • Clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. Although we expect this to be rare, some companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs. The standard is effective for annual periods beginning on or after 1 January 2020.	Based on an initial assessment, management does not foresee a significant impact coming from this new standard. The Mortgage Bank will adopt the amendments for the year ending 31 December, 2020.

(e) ***Changes in accounting policies***

The Mortgage Bank initially applied the following standards and amendments to standards from 1 January 2019.

- *IFRS 16 Leases*
- *IFRIC 23 Uncertainty over income tax treament*
- *Amendments to IFRS 9 Financial Instruments - Prepayment features with negative compensation*

i ***IFRS 16 Leases***

IFRS 16 *Leases* replaces the requirement in IAS 17 Leases and related interpretations, and is applicable for the first time for entities with an annual reporting period beginning on or after 1 January 2019.
The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). It also includes extensive new disclosure requirements for both lessees and lessors.

The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on statement of financial position.

The most significant change pertaining to the accounting treatment of operating leases is from the lessee's perspective. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless underlying asset is of low value. The lessor accounting requirements in IAS 17 has not changed substantially in terms of this standard as a result, a lessor continues to classify its leases as operating leases or finance leases and accounts for these as it is currently done in terms of IAS 17.

In addition, the standard requires the lessor to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed.

Scope, Recognition and Measurement

The scope of IFRS 16 applies to contracts meeting the definition of a lease, except for:

• Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;
• Leases of biological assets held by a lessee;
• Service concession arrangements
• Licences of intellectual property granted by a lessor; and
• Rights held by a lessee under licensing agreements for items such as films, videos, plays, mauscripts, patents and copyrights within the scope of IAS 38 Intangible Assets

Notes to the Financial statements

As a lessee

As a lessee, the Mortgage Bank leases its Ikoyi office. The Ikoyi office was acquired on business combination during the year, and had been previously classified as operating leases under IAS 17; based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Mortgage Bank. Under IFRS 16, the Mortgage Bank recognises only right-of-use assets for lease of its Ikoyi office.

ii *IFRIC 23 Uncertainty over income tax treatments*

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- Judgments made;
- Assumptions and other estimates
- The potential impact of uncertainties that are not reflected.

The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and

- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

- If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.

- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings

The Mortgage Bank has considered the guidance included within the interpretation and concluded that the prescribed approach does not have a material impact on it.

iii *Amendments to IFRS 9 Financial Instruments - Prepayment features with negative compensation*

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The amendment is required to be applied retrospectively.

The Mortgage Bank has considered the guidance included within the interpretation and concluded that the prescribed approach does not have a material impact on it.

4 Significant accounting policies

Except for the changes explained in note 3(e), the accounting policies set out below have been consistently applied to all years presented in these financial statements.

4.1 Business Combination

The Mortgage Bank accounts for business combinations using the acquisition method when control is transferred to the Mortgage Bank. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 24 (a)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see note 15). The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

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

Notes to the Financial statements

4.2 Interest

(a) Effective interest rate

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

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

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

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

(b) Amortised cost and gross carrying amount

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

(c) Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cashflows of floating rate instruments to reflect movement in market rates of interests

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

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

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:
— interest on financial assets measured at amortised cost.
Interest expense presented in the statement of profit or loss and OCI includes:
— financial liabilities measured at amortised cost.

Cash flows related to capitalised interest are presented in the statement of cash flows consistently with interest cash flows that are not capitalised.

4.3 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.
Other fees and commission income, including account servicing fees, investment management and other fiduciary activity fees, loan management fees, legal fees, inspection fees, and marketing fees, are recognised as the related services are performed.

(a) Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Mortgage Bank recognises revenue when it transfers control over a service to a customer. The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Notes to the Financial statements

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Mortgage Loan Services	The Mortgage Bank provides Mortgage loans to retail and corporate customers and charges the following fees: - Acceptance fees, - Legal fees, - Service fees, - Inspection fees, - Marketing fees **Acceptance fees** are charged to loan facility to customers majorly at the rate of 1.5% flat and one-off on the loan granted on customers. **Legal fees** are earned on legal documentation services rendered by the Mortgage Bank to its loan facility customers. **Service fees** is a flat rate charged at 0.25% per quarter on each loan starting from the beginning of the loan tenure and subsequently on the principal outstanding balance. Servicer fee is charged on the following loan type: 1) Mortgage Loan 2) Commercial Loan 3) Overdraft Facility **Inspection fee** is charged on construction finance loans, some mortgage loans and NHF Loans. The inspection fee is negotiable ranging between 0 to 1% per annum. **Marketing fee** is earned from sale of Federal Mortgage Bank of Nigeria (FMBN) Ministerial Plot Housing Scheme projects and marketing/sale of properties on behalf of real estate developers.	Revenue is recognised over time as the services are provided.
Insurance Referral services	The Mortgage Bank earns 10% commission from insurance Companies for businesses obtained through the Bank's referral of its customers to the Insurance Companies.	Revenue is recognised over time as the services are provided.

4.4 Net trading gain or loss

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

4.5 Other revenue recognition

(a) Rental income from investment properties leased out under an operating lease is recognised in net trading income in the profit or loss on a straight line basis over the lease.

(b) Sale of properties: Revenue from the sale of trading properties is recognised when the customer accepts the terms and conditions of the sale on the offer letter. The offer letter is an indication that the Mortgage Bank cannot sell the property to another customer and is issued when the customer pays half of the sales amount.

(c) Other operating income: Other operating income comprises recoveries on other assets previously written off, profit from disposal of property and equipment, income realized from legal search and other income. Other operating income are recognized as related services are performed.

4.6 Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in other operating income.

Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

4.7 Leases

(a) Definition of a lease

The Mortgage Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Notes to the Financial statements

(b) The Mortgage Bank acting as a lessee

(i) *Policy applicable from 1 January 2019*

At commencement or on modification of a contract that contains a lease component, the Mortgage Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Mortgage Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Mortgage Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Mortgage Bank's incremental borrowing rate. Generally, the Mortgage Bank uses its incremental borrowing rate as the discount rate.

The Mortgage Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.
Lease payments included in the measurement of the lease liability comprise the following:
— fixed payments, including in-substance fixed payments;
— variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
— amounts expected to be payable under a residual value guarantee; and
— the exercise price under a purchase option that the Mortgage Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Mortgage Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Mortgage Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Mortgage Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Mortgage Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.
When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Mortgage Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets
The Mortgage Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Mortgage Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) *Policy applicable before 1 January 2019*

For contracts entered into before 1 January 2019, the Mortgage Bank determined whether the arrangement was or contained a lease based on the assessment of whether:
— fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
— the arrangement had conveyed a right to use the asset.
In the comparative period, as a lessee the Mortgage Bank classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Mortgage Bank's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

There have no changes to the recognition of leases in the books of the Mortgage Bank, as all leases as at 31 December 2019 were short term leases.

Notes to the Financial statements

(c) The Mortgage Bank acting as a lessor

At inception or on modification of a contract that contains a lease component, the Mortgage Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Mortgage Bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease. To classify each lease, the Mortgage Bank makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Mortgage Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Mortgage Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Mortgage Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

There was no changes in the recognition and classification of leases as a lessor, under the requirements of IFRS 16.

4.8 Income tax

Income tax expense comprises current tax (company income tax, tertiary education tax, National Information Technology Development Agency levy and Nigeria Police Trust Fund levy) and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Mortgage Bank has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and has recognised the related expenses in 'other expenses'.

(a) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date and is assessed as follows:
- Company income tax is computed on taxable profits
- Tertiary education tax is computed on assessable profits
- National Information Technology Development Agency levy is computed on profit before tax
- Nigeria Police Trust Fund levy is computed on net profit (i.e. profit after deducting all expenses and taxes from revenue earned by the Mortgage Bank during the year).

Total amount of tax payable, under Company Income Tax Act (CITA) and the Finance Act 2019, is determined based on the higher of two components namely Company Income Tax (based on taxable income (or loss) for the year); and minimum tax. Taxes based on profit for the period are treated as income tax in line with IAS 12.
Current tax assets and liabilities are offset only if certain criteria are met.

Minimum tax

Minimum tax which is based on a gross amount is outside the scope of IAS 12 and therefore, are not presented as part of income tax expense in the profit or loss. In line with the Finance Act 2019, minimum tax if applicable will be determined based on 0.5% of gross turnover, less franked investment income, provided the Mortgage Bank earned gross turnover up to N25 million in the relevant year of assessment.

Where the minimum tax charge is higher than the Company Income Tax (CIT), a hybrid tax situation exists. In this situation, the CIT is recognised in the income tax expense line in the profit or loss and the excess amount is presented above the income tax line as minimum tax.

The Mortgage Bank offsets the tax assets arising from withholding tax (WHT) credits and current tax liabilities if, and only if, the entity has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The tax asset is reviewed at each reporting date and written down to the extent that it is no longer probable that future economic benefit would be realised.

Notes to the Financial statements

(b) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

— temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

— temporary differences related to investments in subsidiaries to the extent that the Mortgage Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

— taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Mortgage Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Mortgage Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Mortgage Bank has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

4.9 Financial assets and liabilities

(a) Recognition and initial measurement

The Mortgage Bank initially recognises loans and advances and deposits on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Mortgage Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets as at year end includes:

- Cash and cash equivalents measured at amortized cost
- Loans and advances to customers measured at amortized cost
- Investment securities measured at amortized cost
- Unquoted equities measured at fair value through other comprehensive income
- Other assets (excluding prepayments and WHT receivables) measured at amortized cost

Financial liabilities measured at amortized cost as at year end includes:

- Bank overdraft
- Deposits from customers
- Other liabilities (excluding VAT and WHT payables)
- Interest bearing loans and borrowings

Notes to the Financial statements

(b) *Classification, subsequent measurement and gains and losses - Financial instruments*

(i) **Classification and Subsequent Measurement and gains and losses - Financial assets**

Subsequent to initial measurement, financial assets are measured either at fair value or amortised cost, depending on their classification:

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Mortgage Bank changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Mortgage Bank may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

Financial assets – Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice.

These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Mortgage Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Assessment of whether contractual cash flows are solely payments of principal and interest

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Mortgage 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 this assessment, the Mortgage Bank considers:
- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Mortgage Bank's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Notes to the Financial statements

(ii) *Subsequent measurement and gains and losses*

Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) ***Classification, subsequent measurement and gains and losses - Financial liabilities***

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(c) ***Derecognition***

(i) ***Financial assets***

The Mortgage Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Mortgage Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Mortgage Bank enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

(ii) ***Financial liabilities***

The Mortgage Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Mortgage Bank also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(d) ***Offsetting***

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

(e) **Fair value measurement**

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Mortgage Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Mortgage Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Mortgage Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Mortgage Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Notes to the Financial statements

If an asset or a liability measured at fair value has a bid price and an ask price, then the Mortgage Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price. Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Mortgage Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.
The Mortgage Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.
Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

(f) Impairment

The Mortgage Bank recognises loss allowances for Expected Credit Loss (ECL) on the following financial instruments that are not measured at FVTPL:
— financial assets measured at amortised cost; and
No impairment loss is recognised on equity investments.
The Mortgage Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
— debt investment securities that are determined to have low credit risk at the reporting date; and
— other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Mortgage Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Mortgage Bank does not apply the low credit risk exemption to any other financial instruments.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Mortgage Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Mortgage Bank's historical experience and informed credit assessment, that includes forward-looking information.
The Mortgage Bank assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.
The Mortgage Bank considers a financial asset to be in default when:
— the debtor is unlikely to pay its credit obligations to the Mortgage Bank in full, without recourse by the Mortgage Bank to actions such as realising security (if any is held); or
— the financial asset is more than 90 days past due.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.
Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of Expected Credit Losses (ECLs)
Expected Credit Losses (ECLs) are a probability-weighted estimate of credit losses. They are measured as follows:
- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Mortgage Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

When discounting future cash flows, the following discount rates are used:
— financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof; and
— POCI assets: a credit-adjusted effective interest rate.

See also Note 5(a)(xii).

Notes to the Financial statements

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being past due;
- the restructuring of a loan or advance by the Mortgage Bank on terms that the Mortgage Bank would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

Financial assets are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Mortgage Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are recognised when cash is received and are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Mortgage Bank's procedures for recovery of amounts due.

(g) Collateral

The Mortgage Bank obtains collateral where appropriate, from customers to manage their credit risk exposure to the customer. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer in the event that the customer defaults.

Collateral received in the form of securities is not recorded on the statement of financial position. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. These items are assigned to deposits received from bank or other counterparties.

4.10 Deposits and borrowings

Deposits and borrowings are the Mortgage Bank's sources of funding. Deposits and borrowings are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Mortgage Bank chooses to carry the liabilities at fair value through profit or loss.

4.11 Other financial liabilities

Other financial liabilities that are not classified as at fair value through profit or loss are measured at amortised cost using the effective interest method. Interest expense is included in 'interest expense' in the statement of profit or loss. They include Staff pension scheme, Accruals

4.12 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks 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 Mortgage Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

4.13 Trading properties

Trading properties are similar to inventory and are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of trading properties is determined on the basis of specific identification of their individual costs.

4.14 Property and equipment

(i) *Recognition and measurement*

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

(ii) *Subsequent costs*

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Mortgage Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Notes to the Financial statements

(iii) *Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

Depreciation is calculated using the following rates:

Leasehold land	not depreciated
Buildings	2%
Leasehold improvement	shorter of lease term and useful life
Motor vehicles	25%
Furniture and fittings	25%
Right-of-use assets	over the relevant lease
Computer equipment and machinery	25%
Capital work in progress	not depreciated

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

(iv) *De-recognition*

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

4.15 Intangible assets

Goodwill

Goodwill that arises upon the acquisition or mergers is included in intangible assets.

Goodwill has an indefinite useful life and it is tested annually, as well as whenever a trigger event has been observed for impairment by comparing the present value of the expected future cash flows from a cash generating unit with the carrying value of its net assets, including attributable goodwill and carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified in accordance with IFRS 8. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Software

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

The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful life of software is five years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

De-recognition

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

Notes to the Financial statements

4.16 Impairment of non-financial assets

The carrying amounts of the Mortgage Bank's non-financial assets other than deferred tax assets and trading properties, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.17 Provisions

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

A provision for restructuring is recognised when the Mortgage Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

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

A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached

4.18 Contingent liabilities and assets

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

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

Contingent assets are never recognised but are disclosed in the financial statements when they arise.

4.19 Employee benefits

(i) *Defined contribution plans*

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due in respect of service rendered before the end of the reporting year.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the reporting year in which the employees render the service are discounted to their present value at the reporting date.

The Mortgage Bank operates a defined contribution plan, based on a percentage of pensionable earnings funded by both the Mortgage Bank and employees, the assets of which are held in separate trustee administered funds.

Notes to the Financial statements

(ii) ***Short-term benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Mortgage Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iii) ***Defined benefit plans***

The Mortgage's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Mortgage, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Mortgage Mortgage Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Mortgage Bank recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) ***Termination benefits***

Termination benefits are recognised as an expense when the Mortgage Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Mortgage Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

4.20 Share capital and reserves

(i) ***Share issue costs***

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

(ii) ***Dividend on ordinary shares***

Dividends on the Mortgage Bank's ordinary shares are recognised in equity in the year in which they are paid or, if earlier, approved by the Bank's shareholders. Dividends declared after the reporting date are disclosed in the notes to the financial statements.

4.21 Earnings per share

The Mortgage Bank presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

4.22 Segment reporting

An operating segment is a component of the Mortgage Bank that engages in business activities from which it can earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Mortgage Bank's other components, whose operating results are reviewed regularly by the Executive Management Committee to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

4.23 Expenditure

Expenses that are not material in nature and for which failure to present them as separate line items would not have impact on the financial statements are aggregated under other operating expenses. All expenses are accounted for on an accrual basis.

Notes to the Financial statements

5 Financial risk management

Scope of financial risks

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

- Credit risk
- Market risk
- Liquidity risk

Risk Management Framework: The Mortgage Bank's Board of Directors have overall responsibility to the establishment and oversight of the Mortgage Bank's risk management framework. The Board of Directors established the risk management committee which is responsible for developing and monitoring the Mortgage Bank's risk management policies. The highlight of the committee's responsibilities towards the management of financial risks are as shown below:

Credit risk

- Approve the Mortgage Bank's overall risk tolerance in relation to credit risk based on the recommendation of the Chief Risk and Compliance officer.
- Ensure that the Mortgage Bank's overall credit risk exposure is the available capital through quarterly review of various types of credit exposure maintained at prudent levels and consistent with the available capital through quarterly review of various types of credit exposure.
- Ensure that top management as well as individuals responsible for credit risk management possess the requisite expertise and knowledge to accomplish the risk management function.
- Ensure that the Mortgage Bank implements a sound methodology that facilitates the identification, measurement, monitoring and control of credit risk.
- Ensure that detailed policies and procedures for credit risk exposure creation, management and recovery are in place.
- Appoint credit officers and delegate approval authorities to individuals and committees.

Market and liquidity risk

- Define the Mortgage Bank's overall risk appetite in relation to market risk.
- Ensure that the Mortgage Bank's overall market risk exposure is maintained at levels consistent with the available capital.
- Ensure that top management as well as individuals possess sound expertise and knowledge to accomplish the risk management function and are responsible for market risk management process.
- Approve the Mortgage Bank's strategic direction and tolerance level for liquidity risk.
- Ensure that the Mortgage Bank's senior management has the ability and required authority to manage liquidity risk.
- Approve the Mortgage Bank's liquidity risk management framework.
- Ensure that liquidity risk is identified, measured, monitored and controlled.

(a) Credit Risk Management

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances, debt investment securities, cash and cash equivalents and other assets.

The carrying amounts of Mortgage Banks' financial assets represent the maximum credit exposure. Impairment losses on financial assets recognised in profit or loss were as follows:

In thousands of Naira	Note	**2019**	**2018**
Impairment loss on other assets	13	-	13,101
Impairment loss on debt securities at amortised cost	13	-	15
Impairment loss on cash and cash equivalents	13	-	220
Impairment loss on loans and advances	13	8,259	854,860
Write-back of impairment allowance on other assets	13	(43,083)	(53,677)
Write off of unquoted equities	13	-	2,500
		(34,824)	817,019

(i) Loans and advances

The Mortgage Bank's risk management philosophy is that moderate and guarded risk attitude will ensure sustainable growth in shareholder value and reputation. The plan also sets out the roles and responsibilities of different individuals and committees involved in the credit process. Extension of credit in the Mortgage Bank is guided by its Credit Risk and Portfolio Management Plan, which sets out specific rules for risk origination and management of the loan portfolio.

The Mortgage Bank manages, limits, and controls concentration of credit risk exposures to individual counterparties or groups, and to industries. The Mortgage Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of related borrowers (single-obligor limits), and to geographical and industry segments.

Notes to the Financial statements

The credit evaluation process is based both on qualitative and quantitative factors. Factual information on the borrower is collected as well as pertinent macroeconomic data, such as an outlook for the relevant sector. These subjective factors are assessed by the analyst and all individuals involved in the credit approval process, relying not only on quantitative factors but also on extensive knowledge of the customer/company in question.

The credit risk and limit control system focuses more on credit quality mapping from the inception of the lending and investment activities. The Mortgage Bank's credit process requires rigorous proactive and periodic review of the quality of the loan portfolio. This helps us to identify and remediate credit issues proactively.

(ii) Principal Credit Policies

The following are the principal credit policies of the Mortgage Bank:

- ***Extension of credit:*** Every extension of credit must be approved by at least three officers; one of whom must be from Independent Credit Risk Management. The final approving officer must have a credit limit for the total facilities extending to the obligor (or group of related obligors).
- ***Special Approvals:*** Extension of credit to certain sectors may require unique approvals or prohibited altogether.
- ***Credit Analysis Policy:*** There are consistent standards of credit analysis within the Mortgage Bank for approval of credit facilities.

- ***Review of facilities:*** All extension of credits must be reviewed at least once every month.
- ***Sectoral Limits:*** The Mortgage Bank utilises sectoral limits to maintain a diversified portfolio of risk assets.
- ***Problem Recognition:*** There are uniform and consistent standards for recognition of credit migration and remediation within the Mortgage Bank.

(iii) Credit process

The Mortgage Bank's credit process starts with portfolio planning and target market identification. Within identified target markets, credits are initiated by relationship managers. The proposed credits are subjected to review and approvals by applicable credit approval authorities. Further to appropriate approvals, loans are disbursed to beneficiaries. On-going management of loans is undertaken by both relationship management teams and our Credit Risk Management group.

If a preliminary analysis of a loan request by the account manager indicates that it merits further scrutiny, it is then analysed in greater detail by the account manager, with further detailed review by Credit Risk Management. The concurrence of Credit Risk Management must be obtained for any credit extension. If the loan application passes the detailed analysis it is then submitted to the appropriate approval authority for the size of facilities.

The standard credit evaluation process is based both on quantitative figures from the Financial Statements and on an array of qualitative factors. Factual information on the borrower is collected as well as pertinent macroeconomic data, such as an outlook for the relevant sector, etc. These subjective factors are assessed by the analyst and all individuals involved in the credit approval process, relying not only on quantitative factors but also on extensive knowledge of the Mortgage Bank in question and its management.

(iv) Credit risk measurement

Risk Rating Methodology

The credit rating of the counterparty plays a fundamental role in final credit decisions as well as in the terms offered for successful loan applications.

The Mortgage Bank employs a robust credit rating system based on international best practices (including Basel II recommendations) in the determination of the Obligor risks and thus allows the Mortgage Bank to maintain its asset quality at a desired level.

In FirstTrust Mortgage Bank, the objective of the Risk Rating Policy is to ensure reliable and consistent Obligor Risk Ratings ('ORRs) throughout the Bank and to provide guidelines for risk rating for retail for individual and corporate exposures in the Mortgage Bank.

The Risk rating policy incorporates credit risk rating models which estimate risk of obligor default and facility risks (covering both recovery as well as Exposure risk).

Credit Risk Rating Models

The following are the credit risk rating models deployed by the Mortgage Bank

Individual

- Mortgage loans
- Construction finance

Corporate

- Financial institutions
- Oil & Gas
- Telecommunications
- Manufacturing
- Real Estate
- Public Sector

Notes to the Financial statements

Risk Rating Process

It is the policy of FirstTrust Mortgage Bank Plc that all businesses must have a documented and approved Risk Rating Process for deriving risk ratings for all obligors and Facilities Risk Ratings (FRR) (including those covered under Credit Programs). The Risk Rating Process is the end-to-end process for deriving ORRs and FRRs and includes models, guidelines, support adjustments, collateral adjustments, process controls, as well as any other defined processes that a business undertakes in order to arrive at ORRs and FRRs. Risk rating process of each business must be in compliance with the Bank's Risk rating Policy and deviations must be explicitly approved.

Establishing the Risk Rating Process is the joint responsibility of the Business Manager and Independent Credit Risk Manager associated with each business. The process must be documented and must be approved by the Management Credit Committee.

The Risk Rating Process for each business must be reviewed and approved every three years, unless more frequent review is specified as a condition of the approvals. Interim material changes to the Risk Rating Process, as determined by the Independent Credit Risk Manager for the business, must be re-approved.

Responsibilities of Business Units and Independent Credit Risk Management

In FirstTrust Mortgage Bank Plc, Business units and independent credit risk management have a joint responsibility for the overall accuracy of risk ratings assigned to obligors and facilities. Business Relationship Managers will be responsible for deriving the ORR and FRR using approved methodologies as set out in this policy, however independent credit risk management may also perform this function.

Notwithstanding who derives the risk rating, Independent Credit Risk Management is responsible for reviewing and ensuring the correctness of the ORR and FRR assigned to a borrower and facilities. This review includes ensuring the ongoing consistency of the business' Risk Rating Process within the Mortgage Bank Risk Rating Policy; ongoing appropriate application of the Risk Rating Process and tools; review of judgmental and qualitative inputs into the Risk Rating Process; ensuring the timeliness and thoroughness of risk rating reviews; and ensuring that the documentation of the Risk Rating Process is complete and current.

Credit Risk Management has the final authority if there is a question about a conflict rating.

Risk Rating Scale and external rating equivalent

FirstTrust Mortgage Bank Plc operates a 9-grade numeric risk rating scale. The risk rating scale runs from 1 to 9. Rating 1 represents the best obligors and facilities and rating 9 represents the worst obligors and facilities. The risk rating scale incorporates sub-grades and full grades reflective of realistic credit migration patterns.

The risk rating scale and the external rating equivalent is detailed below:

The Mortgage Bank Risk Rating	S&P Long term equivalent	Risk Description	Grade
1	AAA	Extremely Low Risk	Investment Grade
2	AA	Very Low Risk	
3	A	Low Risk	
4	BBB	Acceptable Risk	Standard Grade
5	BB	Moderately High Risk	
6	B	High Risk	
7	CCC	Very High Risk	Non Investment Grade
8	CC	Extremely High Risk	
9	C	High Likelihood of Default	

(v) Credit Risk Control & Mitigation policy

Authority Limits on Credit

The highest credit approval authority is the Board of Directors, supported by the Board Credit Committee and further by the Management Credit Committee. Individuals are also assigned credit approval authorities in line with the Mortgage Bank's criteria for such delegation set out in its Credit Risk and Portfolio Management Plan. The principle of central management of risk and decision authority is maintained by the Mortgage Bank.

The credit approval limits of the principal officers of the Mortgage Bank are shown in the table below:

	Approval Limit
Board of Directors	> N100 million
Board Credit and Finance Committee	>N50 million < =N100 million
Managing Director	> N10 million <= N50 million
Executive Director	>N1million <=N10million
Regional Executives	<N1million

All loans applications above N20 million must be approved by the Management Credt Committee before Board approval.

Notes to the Financial statements

Collateral Policies

It is the Mortgage Bank's policy that all credit exposures are adequately collateralised. Credit risk mitigation is an activity of reducing credit risk in an exposure or transferring it to counterparty, at facility level, by a safety net of tangible and realisable securities including approved third-party guarantees/ insurance.

In the Mortgage Bank, strategies for risk reduction at the transaction level differ from that at the portfolio level. At transaction level, the most common technique used by the Mortgage Bank is the collateralisation of the exposures, by first priority claims or obtaining a third party guarantee. In addition, the Bank's customers are required to take up either or both of the following insurance polices:

- Fire insurance: Taken on the value of the collateral (property).
- Credit life assurance: Taken on the loan amount at inception and renewable annually, based on the outstanding balance. The policy covers the death of the customer, long term disability of the customer, critical illness and loss of job by the customer.

The range of collaterals acceptable to the Bank include:

- Cash / Deposit (domestic and foreign currency)
- Certificates of Deposit from other banks.
- Mortgage on Landed Property
- Asset-backed securities.
- Charge on assets (Fixed and/or Floating) - premises/ inventory/ receivables/ merchandise/ plant/ machinery etc.

Master Netting arrangements

It is the Mortgage Bank's policy that all credit exposures are adequately collateralised. Notwithstanding, our account opening documentation allows the Mortgage Bank to net off customers' deposits against their exposure to the Mortgage Bank. Generally transactions are allowed to run on a gross basis, however, in cases of unfavorable credit migration, the Mortgage Bank may elect to invoke the netting agreement.

Credit related commitments

It is the Mortgage Bank's policy that all credit exposures are adequately collateralised. Credit risk mitigation is an activity of reducing credit risk in an exposure.

Provisioning policy

Provisions for credit losses meet the requirements of the accounting standards and the prudential guidelines set forth by the Central Bank of Nigeria both for loans for which specific provisions exist as well as for the portfolio of performing loans.

(vi) Credit definitions

Impaired loans and securities

Individually impaired loans and securities are loans and debt investment securities for which the Mortgage Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan /investment security agreement(s). These loans are graded 6 to 9 in the Mortgage Bank's internal credit risk grading system.

Past due but not impaired loans

Past due but not impaired loans and debt investment securities are those for which contractual interest or principal payments are past due but the Mortgage Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Mortgage Bank.

Allowances for impairment

The Mortgage Bank establishes an allowance for impairment losses that represents its expected credit losses in its loan portfolio. The Expected Credit Loss (ECL) is the probability-weighted estimate of credit losses (i.e., the present value of all cash shortfalls) over the expected life of a loan or debt investment securities.

Write-off policy

The Mortgage Bank writes off a loan or debt investment securities balance, and any related allowances for impairment losses, when Management Credit Committee determines that the loan or security are uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Renegotiated loans and Advances.

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified due to weakness in the counterparty's financial position and where it has been judged that normal repayment will likely continue after the restructure.

Notes to the Financial statements

(vii) Statement of Prudential adjustments

Provision under prudential guidelines are determined using the time based provisioning regime prescribed by the Revised Central Bank of Nigeria (CBN) prudential guidelines. This is at variance with the expected loss model required by IFRS under IFRS 9. As a result of the differences in the methodology/provision regime, there will be variances in the impairment allowances required under the two methodologies.

Paragraph 12.4 of the revised prudential guidelines stipulates that the Banks would be required to make provisions for loans as prescribed in the relevant IFRS standard when IFRS is adopted. However, Banks would be required to comply with the following:

Provisions for loans recognised in the profit and loss account should be determined based on the requirement of IFRS. However, the IFRS provision should be compared with provisions determined under prudential guidelines and the expected impact/changes in general reserves should be treated as follows:

- Prudential provisions is greater than IFRS provisions: IFRS determined provision is charged to the statement of comprehensive income. The excess provision resulting should be transferred from the general reserves account to the "regulatory risk reserve".

- Prudential provision is less than IFRS provisions: IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve account.

The non-distributable reserve are classified under Tier 1 as part of the core capital.

The Mortgage Bank has complied with the requirements of the guidelines as follows:

	31 Dec 2019 ₦'000	31 Dec 2018 ₦'000
Statement of prudential adjustments		
Prudential provision		
Loan loss provision	6,521,177	3,175,714
Other assets	214,703	311,375
	6,735,880	3,487,089
IFRS Provisions		
ECL under IFRS 9	5,065,073	2,532,557
Other assets	214,703	306,877
	5,279,776	2,839,434
Closing regulatory reserves	1,456,104	647,655
Opening regulatory reserves	647,655	-
Appropriation:Transfer from retained earnings	808,449	647,655

(viii) Debt securities at amortized cost

The Mortgage Bank limits its exposure to credit risk by investing only in debt securities issued by the Federal Government Nigeria.

(ix) Cash and cash equivalents

The Mortgage Bank limits its exposure to credit risk by placing funds only with counterparties that have a credit rating of at least B.

(x) Other assets

The Mortgage Bank limits its exposure to credit risk by limiting counterparties to those who have been approved by its Board.

Notes to the Financial statements

(xi) Credit quality analysis

The following tables set out information about the credit quality of financial assets measured at amortised cost without taking into account collateral or other credit enhancement. Unless specifically indicated, the amounts of the financial assets in the table represent gross carrying amounts.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 4.9(f).

The Mortgage Bank's exposure to credit risk is as outlined below:

	2019				2018			
	12-Month ECL ₦'000	Lifetime ECL not credit impaired N'000	Lifetime ECL credit impaired ₦'000	Total ₦'000	12-Month ECL ₦'000	Lifetime ECL not credit impaired ₦'000	Lifetime ECL credit impaired ₦'000	Total ₦'000
Loans and advances to customers								
Grade 1 - 3 : Low Risk	7,865,192	-	-	7,865,192	5,835,717	-	-	5,835,717
Grade 4 - 6 : Fair Risk	-	382,682	-	382,682	-	335,676	-	335,676
Grade 7 - 9 : High Risk	-		10,369,416	10,369,416	-	-	4,878,111	4,878,111
Gross carrying amount	**7,865,192**	**382,682**	**10,369,416**	**18,617,290**	**5,835,717**	**335,676**	**4,878,111**	**11,049,504**
Loss allowance	(194,213)	(21,067)	(4,849,793)	(5,065,073)	(470,750)	(81,895)	(1,979,912)	(2,532,557)
Carrying amount	**7,670,979**	**361,616**	**355,229**	**13,552,217**	**5,364,967**	**253,781**	**2,898,199**	**8,516,947**

	2019				2018			
	12-Month ECL ₦'000	Lifetime ECL not credit impaired N'000	Lifetime ECL credit impaired ₦'000	Total ₦'000	12-Month ECL ₦'000	Lifetime ECL not credit impaired ₦'000	Lifetime ECL credit impaired ₦'000	Total ₦'000
Investment securities at amortized cost								
Grade 1 - 3 : Low Risk	59,284	-	-	59,284	406,417	-	-	406,417
Grade 4 - 6 : Fair Risk	-	-	-	-	-	-	-	-
Grade 7 - 9 : High Risk	-	-	-	-	-	-	-	-
Gross carrying amount	**59,284**	**-**	**-**	**59,284**	**406,417**	**-**	**-**	**406,417**
Loss allowance	-				(65)	-	-	(65)
Carrying amount	**59,284**	**-**	**-**	**59,284**	**406,352**	**-**	**-**	**406,352**

	2019				2018			
	12-Month ECL ₦'000	Lifetime ECL not credit impaired N'000	Lifetime ECL credit impaired ₦'000	Total ₦'000	12-Month ECL ₦'000	Lifetime ECL not credit impaired ₦'000	Lifetime ECL credit impaired ₦'000	Total ₦'000
Other assets (less prepayments and WHT receivables)								
Grade 1 - 3 : Low Risk	-	-	-	-	-	-	-	-
Grade 4 - 6 : Fair Risk	-	318,082	-	318,082	-	8,634	-	8,634
Grade 7 - 9 : High Risk	-	-	214,703	214,703	-	-	285,715	285,715
Gross carrying amount	**-**	**318,082**	**214,703**	**532,785**	**-**	**8,634**	**285,715**	**294,349**
Loss allowance	-	-	(214,703)	(214,703)	-	(173)	(285,715)	(285,888)
Carrying amount	**-**	**318,082**	**-**	**318,082**	**-**	**8,461**	**-**	**8,461**

	2019				2018			
	12-Month ECL ₦'000	Lifetime ECL not credit impaired N'000	Lifetime ECL credit impaired ₦'000	Total ₦'000	12-Month ECL ₦'000	Lifetime ECL not credit impaired ₦'000	Lifetime ECL credit impaired ₦'000	Total ₦'000
Cash and Cash equivalents (excluding cash in hand)								
Grade 1 - 3 : Low Risk	365,966	-	-	365,966	1,740,873	-	-	1,740,873
Grade 4 - 6 : Fair Risk	-	-	-	-	-	-	-	-
Grade 7 - 9 : High Risk	-	-	-	-	-	-	-	-
Gross carrying amount	**365,966**	**-**	**-**	**365,966**	**1,740,873**	**-**	**-**	**1,740,873**
Loss allowance	(2,313)			(2,313)	(2,273)	-	-	(2,273)
Carrying amount	**363,653**	**-**	**-**	**363,653**	**1,738,600**	**-**	**-**	**1,738,600**

(xii) Collateral

Details of collateral pledged by customers against the carrying amount of loans as at December 31, 2019 are as follows:

In thousands of Naira	2019		2018	
	Total Exposure	Value of Collateral	Total Exposure	Value of Collateral
Secured against real estate	18,135,799	30,263,378	10,769,322	16,121,527
Cash collateral, lien over fixed and floating assets	132,179	370,091	251,812	463,950
Unsecured	349,313	-	28,370	-
Total Gross Amount	18,617,290	30,633,469	11,049,504	16,585,477
ECL impairment				
'- Stage 1	(194,213)	-	(470,750)	-
'- Stage 2	(21,067)	-	(81,895)	-
'- Stage 3	(4,849,793)	-	(1,979,912)	-
Net Carrying Amount	13,552,217	30,633,469	8,516,947	16,585,477

Notes to the Financial statements

Mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans, the value of collateral is based on the most recent appraisals.

LTV ratio	31 December 2019 Carrying amount N'000	31 December 2018 Carrying amount N'000
Fair value of collateral < 100% of carrying amount	3,479,489	2,320,572
Fair value of collateral >100% but <= 125% of carrying amount	3,256,207	1,598,640
Fair value of collateral > 125% but <= 150% of carrying amount	1,893,371	1,021,093
Fair value of collateral > 150% but <= 200% of carrying amount	1,944,909	2,164,776
Fair value of collateral > 200% but <= 300% of carrying amount	1,611,224	960,489
Fair value of collateral > 300% of carrying amount	1,367,017	451,377
	13,552,217	8,516,947

(xiii) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 4.9(f)

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Mortgage Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Mortgage Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

— the remaining lifetime probability of default (PD) as at the reporting date; with

— the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where appropriate for changes in prepayment expectations).

The Mortgage Bank uses three criteria for determining whether there has been a significant increase in credit risk:

— a quantitative test based on movement in PD;

— qualitative indicators; and

— a backstop of 30 days past due.

Notes to the Financial statements

Credit risk grades

The Mortgage Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk grade deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.
Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

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

See note 5(a)(iii) for the Mortgage Bank's internal credit risk grades and the related PDs.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Mortgage Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Mortgage Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.
In determining the ECL for other assets, the Group applies the simplified model to estimate ECLs, adopting a provision matrix to determine the lifetime ECLs. The provision matrix estimates ECLs on the basis of historical default rates, adjusted for current and future economic conditions (expected changes in default rates) without undue cost and effort.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Mortgage Bank's quantitative modelling, the remaining lifetime PD is determined to have increased by more than a predetermined percentage/range.

Using its expert credit judgement and, where possible, relevant historical experience, the Mortgage Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. As a backstop, the Mortgage Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Notes to the Financial statements

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Mortgage Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

Generally, facilities with loss allowances being measured as Life-time ECL not credit impaired (Stage 2) are monitored for a probationary period of 90 days to confirm if the credit risk has decreased sufficiently before they can be migrated from Lifetime ECL not credit impaired (Stage 2) to 12-month ECL (Stage 1) while credit-impaired facilities (Stage 3) are monitored for a probationary period of 180 days before migration from Stage 3 to 12-month ECL (Stage 1). The decrease in risk of default is reflected in the obligor's Risk Rating which is a critical input for Staging.

The Mortgage Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

— the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
— the criteria do not align with the point in time when an asset becomes 30 days past due;
— the average time between the identification of a significant increase in credit risk and default appears reasonable;
— exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
— there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

The Mortgage Bank considers a financial asset to be in default when:
— the borrower is unlikely to pay its credit obligations to the Mortgage Bank in full, without recourse by the Mortgage Bank to actions such as realising security (if any is held);
— the borrower is more than 90 days past due on any material credit obligation to the Mortgage Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
— it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Mortgage Bank considers indicators that are:
— qualitative: e.g. breaches of covenant;
— quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Mortgage Bank; and
— based on data developed internally and obtained from external sources.

Incorporation of forward-looking information

The Mortgage Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Mortgage Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.
The key drivers for credit risk for financial instruments are: GDP growth, unemployment rates and interest rates. The Mortgage Bank estimates each key driver for credit risk over the active forecast period of three years. This is followed by a period of mean reversion of between two and four years, depending on the instrument.

Notes to the Financial statements

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

—probability of default (PD);
—loss given default (LGD); and
—exposure at default (EAD).

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL are calculated by multiplying the lifetime PD by LGD and EAD. These parameters are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect forward-looking information as described above.

PD is an estimate of the likelihood of default over a given time horizon, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.
The methodology for estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Mortgage Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios and, for lending, to reflect possible changes in the economics. They are calculated on a discounted cash flow basis using the effective interest rate as the discount.

EAD represents the expected exposure in the event of a default. The Mortgage Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD includes the amount drawn,as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Mortgage Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Mortgage Bank considers a longer period. The maximum contractual period extends to the date at which the Mortgage Bank has the right to require repayment of an advance or terminate a loan commitment.

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

As at 31 December 2019

	Gross Carrying Amount				ECL Provision			
Financial statement Items	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	365,966	-	-	365,966	2,313	-	-	2,313
Loans and advances to customers	7,865,192	382,682	10,369,416	18,617,290	194,213	21,067	4,849,793	5,065,073
Investment securities	59,284	-	-	59,284	-	-	-	-
Other assets	-	318,082	214,703	532,785	-	-	214,703	214,703
Total	8,290,442	700,764	10,584,119	19,575,325	196,526	21,067	5,064,496	5,282,089

Notes to the Financial statements

As at 31 December 2018

Financial statement Items	Gross Carrying Amount Stage 1	Stage 2	Stage 3	Total	ECL Provision Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	1,740,873	-	-	1,740,873	2,273	-	-	2,273
Loans and advances to customers	5,835,717	335,676	4,878,111	11,049,504	470,750	81,895	1,979,912	2,532,557
Investment securities	406,417	-	-	406,417	65		-	65
Other assets	-	8,634	285,715	294,349	-	173	285,715	285,888
Total	7,983,007	344,310	5,163,826	13,491,143	473,088	82,068	2,265,627	2,820,783

(xiv) Credit concentration

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

	Loans and advances to customers		Investment securities at amortized cost		Other assets (less prepayments and WHT receivables)		Cash and Cash equivalents (excluding cash in hand)	
	31 December 2019 N'000	31 December 2018 N'000	31 December 2019 N'000	31 December 2018 N'000	31 December 2019 N'000	31 December 2018 N'000	31 December 2019 N'000	31 December 2018 N'000
Carrying amount	13,552,217	8,516,947	59,284	406,352	318,082	8,461	363,653	1,738,600
Concentration by sector:								
Corporate	2,824,216	2,847,689	-	-	-	-	363,653	1,738,600
Commercial	-	-	-	-	318,082	8,461	-	-
Retail	4,933,406	5,669,258	-	-	-	-	-	-
Government	5,794,595	-	59,284	406,352	-	-	-	-
	13,552,217	8,516,947	59,284	406,352	318,082	8,461	363,653	1,738,600
Concentration by location:								
Nigeria	13,552,217	8,516,947		406,352	318,082	8,461	363,653	1,738,600
Rest of Africa	-	-		-	-	-	-	-
	13,552,217	8,516,947	-	406,352	318,082	8,461	363,653	1,738,600

Concentration by location for loans and advances is measured based on the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security. Concentration by location for other assets is measured based on the location of the third parties involved. Concentration by location for cash and cash equivalents is measured based on the location of the Banks' headquarters.

(b) Market risk management

Definition

FirstTrust Mortgage Bank's ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. Market risk in the Bank mainly arises from trading activities and unquoted equity investments. The Mortgage Bank's had unquoted equity investments valued at N1.21 billion as at 31 December 2019 (31 December 2018: N947.50million).

Notes to the Financial statements

(i) ***Interest rate risk***

Interest rate risk is the exposure of the Mortgage Bank's financial condition to adverse movements in interest rates, yield curves and credit spreads. The Mortgage Bank is exposed to a considerable level of interest rate risk i.e. the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. These changes could have a negative impact on the net interest income, if not properly managed.

The Mortgage Bank however, has a portion of its liabilities in non-rate sensitive liabilities. This assists in managing its exposure to interest rate risks.

Sensitivity analyses are carried out from time to time to evaluate the impact of rate changes on the net interest income (ranging from 100 basis point to 500 basis points). The sensitivity analysis is computed using only rate sensitive assets and liabilities.

The table below summarizes the Mortgage Bank's interest rate gap position:

31 December 2019	Note	Carrying amount ₦'000	Rate Sensitive ₦'000	Non-rate Sensitive ₦'000
Assets				
Cash and cash equivalents (excluding cash in hand)	18	365,966	277,803	88,163
Loans and advances to customers (gross)	20	18,617,290	18,617,290	-
Investment securities (excluding equity investment)	21	59,284	59,284	-
		19,042,540	18,954,377	88,163
Liabilities				
Deposits from customers	26	11,202,755	9,628,985	1,573,770
Interest-bearing loans and borrowings	28	7,782,699	7,782,699	-
		18,985,454	17,411,684	1,573,770
Total interest repricing gap		57,086	1,542,693	(1,485,607)

31 December 2019	**Notes**	**Carrying amount ₦'000**	**Less than 3 months ₦'000**	**3 - 6 months ₦'000**	**6 - 12 months ₦'000**	**1 - 5 years ₦'000**	**More than 5 years ₦'000**
Assets							
Cash and cash equivalents (excluding cash in hand)	18	277,803	277,803	-	-	-	-
Loans and advances to customers (gross)	20	18,617,290	1,206,373	1,336,911	1,385,780	4,890,962	9,797,264
Investment securities (excluding equity investment)	21	59,284	59,284	-	-	-	-
		18,954,377	1,543,460	1,336,911	1,385,780	4,890,962	9,797,264
Liabilities							
Deposits from customers	26	9,628,985	5,617,135	3,668,954	331,388	11,508	-
Interest-bearing loans and borrowings	28	7,782,699	-	196,937	-	14,441	7,571,320
		17,411,684	5,617,135	3,865,891	331,388	25,949	7,571,320
Total interest repricing gap		1,542,693	(4,073,675)	(2,528,980)	1,054,392	4,865,012	2,225,944

Notes to the Financial statements

31 December 2018		Carrying amount ₦'000	Rate Sensitive ₦'000	Non-rate Sensitive ₦'000
Assets				
Cash and cash equivalents (excluding cash in hand)	18	1,740,873	1,604,155	136,718
Loans and advances to customers (gross)	20	11,049,504	11,049,504	-
Investment securities (excluding equity investment)	21	406,417	406,417	-
		13,196,794	13,060,076	136,718
Liabilities				
Deposits from customers	26	3,262,179	2,103,332	1,158,847
Interest-bearing loans and borrowings	28	5,716,920	5,716,920	-
		8,979,099	7,820,252	1,158,847
Total interest repricing gap		4,217,695	5,239,824	(1,022,129)

31 December 2018	Notes	Carrying amount ₦'000	Less than 3 months ₦'000	3 - 6 months ₦'000	6 - 12 months ₦'000	1 - 5 years ₦'000	More than 5 years ₦'000
Assets							
Cash and cash equivalents (excluding cash in hand)	18	1,604,155	1,604,155	-	-	-	-
Loans and advances to customers (gross)	20	11,049,504	3,902,627	533,666	258,416	2,981,844	3,372,951
Investment securities (excluding equity investment)	21	406,417	406,417	-	-	-	-
		13,060,076	5,913,199	533,666	258,416	2,981,844	3,372,951
Liabilities							
Deposits from customers	26	2,103,332	1,691,934	215,996	134,405	3,741	57,256
Interest-bearing loans and borrowings	28	5,716,920	-	-	-	10,043	5,706,877
		7,820,252	1,691,934	215,996	134,405	13,784	5,764,133
Total interest repricing gap		5,239,824	4,221,265	317,670	124,011	2,968,060	(2,391,182)

Sensitivity analysis

31 December 2019

	Note	₦'000	At reporting date	+1%	-1%	Increased by 100bp	Decreased by 100bp
Interest income (Cash and cash equivalents)	9	135,330	0.7%	1.7%	-0.3%	324,874	(54,214)
Interest income (Loans)	9	1,428,625	7.5%	8.5%	6.5%	1,618,169	1,239,081
Interest income (Investment securities)	9	48,356	0.3%	1.3%	-0.7%	237,900	(141,188)
Interest expense (Deposits from customers)	9	(469,973)	-2.7%	-3.7%	-1.7%	(644,090)	(295,856)
Interest expense (Borrowings)	9	(385,668)	-2.2%	-3.2%	-1.2%	(559,785)	(211,551)
Net interest income		756,670				977,068	536,272
Impact on net interest income						220,398	(220,398)

31 December 2018	Note	₦'000	At reporting date	+1%	-1%	Increased by 100bp	Decreased by 100bp
Interest income (Cash and cash equivalents)	9	106,719	0.8%	1.8%	-0.2%	237,320	(23,882)
Interest income (Loans)	9	1,158,410	8.9%	9.9%	7.9%	1,289,011	1,027,809
Interest income (Investment securities)	9	51,827	0.4%	1.4%	-0.6%	182,428	(78,774)
Interest expense (Deposits from customers)	9	(242,796)	-3.1%	-4.1%	-2.1%	(320,999)	(164,593)
Interest expense (Borrowings)	9	(276,369)	-3.5%	-4.5%	-2.5%	(354,572)	(198,166)
Net interest income		797,791				1,033,189	562,393
Impact on net interest income						235,398	(235,398)

Notes to the Financial statements

(c) Liquidity risk management

'Liquidity risk' is the risk that the Mortgage Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Mortgage Bank's operations and investments.

The Mortgage Bank has developed a liquidity management framework based on a statistical model underpinned by conservative assumptions with regard to cash inflows and the liquidity of liabilities. In addition, liquidity stress tests assuming extreme withdrawal scenarios are performed. These stress tests specify additional liquidity requirements to be met by holdings of liquid assets.

Funding and liquidity risk management activities are centralised within Corporate Treasury. We believe that a centralized approach to funding and liquidity risk management enhances our ability to monitor liquidity requirements, maximizes access to funding sources, minimizes borrowing costs and facilitates timely responses to liquidity events. We analyse and monitor our liquidity risk, maintain excess liquidity and access diverse funding sources including our stable deposit base.

The Board approves the Mortgage Bank's liquidity policy and contingency funding plan, including establishing liquidity risk tolerance levels. The ALCO, in conjunction with the Board and its committees, monitors our liquidity position and reviews the impact of strategic decisions on our liquidity. Liquidity positions are measured by calculating the Mortgage Bank's net liquidity gap and by comparing selected ratios with targets as specified in the liquidity risk management manual.

(i) Quantifications

FirstTrust Mortgage Bank has adopted both qualitative and quantitative approaches to measuring liquidity risk. Specifically, the Bank adopted the following approaches;

a) Funding and Liquidity plan;

b) Gap Analysis; and

c) Ratio Analysis.

The Funding and Liquidity plan defines the Mortgage Bank's sources and channels of utilisation of funds. The funding liquidity risk limit is quantified by calculating liquidity ratios and measuring/monitoring the cumulative gap between our assets and liabilities. The Liquidity Gap Analysis quantifies the cumulative gap in a business as usual environment. The gap for any given tenor bucket represents the borrowings from, or placements to, the market required to replace maturing liabilities or assets. The Mortgage Bank monitors the cumulative gap as a + or – 20% of the total risk assets and the gap as a + or – 20% of total deposit liabilities.

(ii) Limits management and monitoring

Active management of liquidity through the framework of limits and control presented above is possible only with proper monitoring capabilities. The monitoring process focuses on funding portfolios, the forward balance sheet and general indicators; where relevant information and data are compared against limits that have been established. The Mortgage Bank's Treasury is responsible for maintaining sufficient liquidity by maintaining sufficient high ratio of liquid assets and available funding for near-term liabilities. The secured liquidity measure is calculated and monitored by risk management. Increased withdrawals of short-term funds are monitored through measurements of the deposit base in the Bank. Liquidity risk is reported to the Board of Directors on a quarterly basis.

(iii) Contingency funding plan

The Mortgage Bank has a contingency funding plan which incorporate early warning indicators to monitor market conditions. The Mortgage Bank monitors its liquidity position and funding strategies on an ongoing basis, but recognises that unexpected events, economic or market conditions, earnings problems or situations beyond its control could cause either a short or long-term liquidity crisis. It reviews its contingency funding plan in the light of evolving market conditions and stress test results.

To monitor liquidity and funding, the Treasury prepares a liquidity worksheet twice a month that project sources and uses of funds. The worksheet incorporates the impact of moderate risk and crisis situations. The worksheet is an integral component of the contingency funding plan. Although it is unlikely that a funding crisis of any significant degree could materialise, we consider it important to evaluate this risk and formulate contingency plans should one occur.

The contingency funding plan covers: the available sources of contingent funding to supplement cash flow shortages; the lead times to obtain such funding; the roles and responsibilities of those involved in the contingency plans; and the communication and escalation requirements when early warning indicators signal deteriorating market conditions. Both short term and long-term funding crises are addressed in the contingency funding plan.

Notes to the Financial statements

(iv) Exposure to liquidity risk

The key measure used by the Mortgage Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market divided by any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar calculation is used to measure the Mortgage Bank's compliance with the liquidity limit established by the Mortgage Bank's lead regulator (The Central Bank of Nigeria).

Details of the reported ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	31 December 2019	31 December 2018
At end of year	6%	60%
Average for the year	52%	46%
Maximum for the year	72%	60%
Minimum for the year	6%	35%

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

31 December 2019	Note	Carrying amount	Gross nominal	Less than 3 month	3 - 6 months	6 - 12 months	1 to 5 years	More than 5 years
Non-derivative assets:		₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Cash and cash equivalents (excluding cash in hand)	18	363,653	364,858	343,163	15,750	5,945	-	-
Loans and advances to customers	20	13,552,217	19,006,213	3,217,237	1,364,840	1,414,729	4,993,136	8,016,271
Investment securities	21	1,269,534	1,270,250	60,000	-	-	-	1,210,250
Other assets (excluding prepayments and WHT receivables)	22	318,082	318,082	318,082	-	-	-	-
		15,503,486	20,959,403	3,938,482	1,380,590	1,420,674	4,993,136	9,226,521
Non-derivative liabilities								
Deposits from customers	26	11,202,755	11,535,837	6,598,452	4,445,603	473,550	18,231	-
Other liabilities (excluding VAT and WHT payables)	27	1,910,429	1,910,429	1,910,429	-	-	-	-
Interest bearing loans and borrowings	28	7,782,699	7,802,515	-	197,439	-	14,478	7,590,598
		20,895,883	21,248,781	8,508,881	4,643,042	473,550	32,709	7,590,598
Gap (asset - liabilities)		(5,392,397)	(289,378)	(4,570,399)	(3,262,452)	947,124	4,960,427	1,635,923
Cumulative liquidity gap		(5,392,397)	(5,681,775)	(10,252,174)	(13,514,627)	(12,567,503)	(7,607,076)	(5,971,153)

31 December 2018	Note	Carrying amount	Gross nominal	Less than 3 month	3 - 6 months	6 - 12 months	1 to 5 years	More than 5 years
		₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Non-derivative assets:								
Cash and cash equivalents (excluding cash in hand)	18	1,738,600	1,740,873	1,719,473	15,455	5,945	-	-
Loans and advances to customers	20	8,516,947	11,049,504	2,450,541	335,100	180,069	2,034,762	6,049,032
Investment securities	21	1,353,852	1,353,959	406,459	-	-	-	947,500
Other assets (excluding prepayments and WHT receivables)	22	75,345	75,345	75,345	-	-	-	-
		11,684,744	14,219,681	4,651,818	350,555	186,014	2,034,762	6,996,532

Notes to the Financial statements

Non-derivative liabilities								
Deposits from customers	26	3,262,179	3,262,179	2,850,781	215,996	134,405	3,741	57,256
Other liabilities (excluding VAT and WHT payables)	27	1,251,375	1,251,375	1,251,375	-	-	-	-
Interest bearing loans and borrowings	28	5,716,920	5,706,451	-	-	-	10,025	5,696,426
		10,230,474	10,220,005	4,102,156	215,996	134,405	13,766	5,753,682
Gap (asset - liabilities)		1,454,270	3,999,676	549,662	134,559	51,609	2,020,996	1,242,850
Cumulative liquidity gap		1,454,270	5,453,946	6,003,608	6,138,167	6,189,776	8,210,772	9,453,622

(d) Capital management

The Capital planning policy of FirstTrust is applicable to all process and activities associated with managing and allocating the Mortgage Bank's capital including: financing activities, investment activities, dividends, acquisition and disposal of assets.

The Board and Management of the Mortgage Bank are committed to maintain the optimum capital needed to run its business effectively, absorb unexpected losses and maximize shareholders' value. The Mortgage Bank's capital goals are to adhere to regulatory capital requirements even under unfavorable conditions. The required capital targets takes into consideration forward–looking economic outlook, the Mortgage Bank's financial condition, the potential impact of stress events and the uncertainties inherent in capital planning process.

(i) *Regulatory Minimum Capital Risk*

There were no changes in the Mortgage Bank's approach to capital management during the year. The Mortgage Bank has not met the minimum capital and capital adequacy ratio required by the Central Bank of Nigeria (CBN), applicable to National level Primary Mortgage Banks of N5billion and 10% respectively.

The table below summarizes the composition of regulatory capital and the ratios of the Mortgage Bank only for the years presented below.

In thousands of Naira	2019	2019	2018	2018
	Full impact of IFRS 9 transition	**Adjusted impact of IFRS 9 transition**	**Full impact of IFRS 9 transition**	**Adjusted impact of IFRS 9 transition**
Tier 1 Capital				
Share capital	6,027,515	6,027,515	4,674,993	4,674,993
Share premium	2,737	2,737	2,737	2,737
Retained profit	(3,446,951)	(3,446,951)	(2,403,100)	(2,403,100)
Other components of equity	2,135,699	2,135,699	1,190,312	1,190,312
IFRS 9 transitional adjustment	-	99,214	-	148,821
Tier 1 Sub-Total	**4,719,000**	**4,818,214**	**3,464,942**	**3,613,763**
Less regulatory deductions:				
Regulatory risk reserves	1,456,104	-	647,655	-
Deferred tax assets	835,539	835,539	833,163	833,163
Other intangible assets	246,204	246,204	17,048	17,048
Goodwill	2,020,248	2,020,248	-	-
	4,558,095	**3,101,991**	**1,497,866**	**850,211**
Net Total Tier 1 Capital (A)	**160,905**	**1,716,223**	**1,967,076**	**2,763,552**
Tier 2 Capital				
General provisions/general loan-loss reserves	53,635	572,074	655,692	921,184
Net Total Tier 2 Capital (B)	**53,635**	**572,074**	**655,692**	**921,184**
Total Qualifying Capital (C=A+B)	**214,540**	**2,288,297**	**2,622,768**	**3,684,736**
Composition of Risk-Weighted Assets				
Risk-Weighted Amount for Credit Risk	15,987,634	15,987,634	10,614,169	10,614,169
Risk-Weighted Amount for Market Risk	8,563	8,563	632,654	632,654
Risk-Weighted Amount for Operational Risk	272,132	272,132	231,305	231,305
Aggregate Risk-Weighted Assets	**16,268,329**	**16,268,329**	**11,478,129**	**11,478,129**
Total Risk-Weighted Capital Ratio	**1.32%**	**14.07%**	**22.85%**	**32.10%**
Tier 1 Risk-Based Capital Ratio	**0.99%**	**10.55%**	**17.14%**	**24.08%**

Notes to the Financial statements

6 Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Mortgage Bank's 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 estimates are recognised prospectively.

Estimates

Information about assumptions and estimation uncertainties at 31 December 2019 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

(i) Note 4.9 - Impairment losses on loans and advances
(ii) Note 24 (a) - Valuation of goodwill on business combination

Key sources of estimation uncertainty

(a) *Impairment losses on loans and advances*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 4.9(f).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

— Determining criteria for significant increase in credit risk;
— Determining the credit risk grades;
— Generating the term structure of the probability of default;
— Determining whether credit risk has increased significantly;
— Incorporation of forward-looking information.

(b) *Valuation of goodwill on business combination*

The valuation of goodwill is dependent on the fair value of the consideration transferred, fair value of the assets acquired and liabilities assumed, which are all measured on a provisional basis.

Goodwill is not subject to amortisation and is tested annually for impairment and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each asset or group of assets, i.e. cash generating unit (CGU), to which the goodwill relates. A CGU represents an asset grouping at the lowest level for which there are separately identifiable cash flows.

The recoverable amount of an asset or a CGU is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The estimation process is complex due to the inherent risks and uncertainties and if different estimates were used this could materially change the projected value of the cash flows. An impairment loss in respect of goodwill is not reversed.

Judgements

(a) *Determining fair values*

The determination of fair value for financial assets and liabilities for which there is no observable market prices requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. Where the fair values of unquoted securities could not be determined, the assets were carried at cost.

The Mortgage Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

i) Level 1 : Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

ii) Level 2 : Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

iii) Level 3 : Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Notes to the Financial statements

The fair values of properties are determined by applying the direct market evidence comparative method of valuation to derive the open market value. This valuation model reflects the current price on actual transaction for similar properties in the neighbourhood in recent time. References were made to prices of land and comparable properties in the neighbourhood. The data obtained were analysed and adjustment was made to reflect differences in site area and the actual location, quality of construction and off-site facilities.

(i) Financial instruments measured at fair value - fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

31 December 2019 *In thousands of Naira*	Note	Level 1	Level 2	Level 3	Total
Investment securities (unquoted equities)	21	-	-	1,210,250	1,210,250

31 December 2018 *In thousands of Naira*	Note	Level 1	Level 2	Level 3	Total
Investment securities	21	-	-	947,500	947,500

(ii) Financial instruments not measured at fair value

The following table sets out the fair value of financial instruments not measured at fair value and analyses them by the level in fair value hierarchy into which each fair value measurement is categorised. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2019 *In thousands of Naira*	Level 1	Level 2	Level 3	Total carrying amount	Total fair values
Loans and advances to customers	-	13,552,217	-	13,552,217	13,552,217
Investment securities (at amortized cost)	59,284	-	-	59,284	59,284
Total	59,284	13,552,217	-	13,611,501	13,611,501

31 December 2018 *In thousands of Naira*	Level 1	Level 2	Level 3	Total carrying amount	Total fair values
Loans and advances to customers	-	8,516,947	-	8,516,947	8,516,947
Investment securities (at amortized cost)	406,352	-	-	406,352	406,352
Total	405,573	10,486,121	-	9,329,651	8,923,299

(b) The useful life of property and equipment

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

(c) Recognition of deferred tax

The recognition of deferred tax asset is based on Management's profit forecasts (which are based on the available evidence, including historical levels of profiatbility), which indicates that it is probable that the Mortgage Bank will have future taxable profits against which these assets can be used.

(d) Determination of impairment of property and equipment, and intangible assets

Management is required to make judgments concerning the cause, timing and amount of impairment of property and equipment, and intangible assets. In the identification of impairment indicators, management considers the impact of technological obsolescence, discontinuance of use and physical conditions of the property or equipment that could indicate that impairment exists. This requires management to make significant judgments and estimates concerning the existence of impairment indicators, remaining useful lives of assets, and net realisable values. Management's judgment is also required when assessing whether a previously recognised impairment loss should be reversed.

Notes to the Financial statements

7 Operating segments

(a) Basis of segmentation

The Mortgage Bank has two reportable segments. These segments offer different products and services, and are managed separately based on the Mortgage Bank's management and internal reporting structure.

- The mortgage banking segment represents the Mortgage Bank's major line of business and it involves the provision of mortgage banking services to individuals and corporate customers.
- The trading properties segment represents a line of business that has been discontinued and the segment does not meet the qualitative thresholds set out in the standard for reportable segments. However, Management is of the view that information about the segment would be useful to users of the financial statements and has disclosed the information.

For each of the segments, the Executive Management Committee reviews internal management reports on, at least, a quarterly basis. The Mortgage Bank presents segment information to its Executive Management Committee, which is the Mortgage Bank's Chief Operating Decision Maker.

(b) Information about reportable segments

Information related to each reportable segment is set out below. Segment profit before tax, as included in internal management reports reviewed by the Executive Management committee is used to measure performance because management believes that such information is the most relevant in evaluating the results of the respective segments relative to other entities that operate within the same industries.

	Mortgage Banking	Trading Properties	Total
	₦'000	₦'000	₦'000
31 December 2019			
Revenue:			
Derived from external customers	1,675,633	147,250	1,822,883
Total revenue	1,675,633	147,250	1,822,883
Interest expenses	(954,581)	-	(954,581)
Cost of sales and other expenses	-	(161,592)	(161,592)
Net fee and commission income	130,782	-	130,782
Net operating income	851,834	(14,342)	837,492
Expense:			
Personnel expenses	(367,757)	-	(367,757)
Operating expenses	(668,887)	-	(668,887)
Impairment on financial assets	34,824	-	34,824
Depreciation of property, plant and equipment	(54,556)	-	(54,556)
Amortisation of intangible assets	(9,148)	-	(9,148)
Total expense	(1,065,524)	-	(1,065,524)
Reportable segment loss before tax	(213,690)	(14,342)	(228,032)
Taxation	-	-	(7,370)
Reportable segment loss after tax	(213,690)	(14,342)	(235,402)
Assets and liabilities:			
Total assets	19,460,137	8,175,444	27,635,581
Total liabilities	21,604,130	1,312,451	22,916,581
Net (liabilties)/assets	**(2,143,993)**	**6,862,993**	**4,719,000**

Notes to the Financial statements

Operating segments (Cont'd)

	Mortgage Banking	Trading Properties	Total
	₦'000	₦'000	₦'000
31 December 2018			
Revenue:			
Derived from external customers	1,362,862	272,350	1,635,212
Total revenue	1,362,862	272,350	1,635,212
Interest expenses	(519,165)	-	(519,165)
Cost of sales and other expenses	-	(276,623)	(276,623)
Net fee and commission income	175,107	-	175,107
Net operating income/(expense)	1,018,804	(4,273)	1,014,531
Expense:			
Personnel expenses	(276,391)	-	(276,391)
Operating expenses	(457,003)	-	(457,003)
Impairment on financial assets	(817,019)	-	(817,019)
Depreciation and amortisation	(65,900)	-	(65,900)
Total expense	(1,616,313)	-	(1,616,313)
Reportable segment loss before tax	(597,509)	(4,273)	(601,782)
Taxation	-	-	(19,331)
Reportable segment loss after tax	(597,509)	(4,273)	(621,113)
Assets and liabilities:			
Total assets	13,139,016	607,525	13,746,541
Total liabilities	9,342,391	939,208	10,281,599
Net Assets/ (Liabilities)	**3,796,625**	**(331,683)**	**3,464,942**

(c) Geographic information

The operations of the operating segments are in the same geographic location i.e Nigeria; hence, no further information is presented in this regard.

Notes to the Financial statements

8 Financial assets and liabilities

Accounting classification and measurement basis.

The table below sets out the Mortgage Bank's classification and measurement basis for each class of financial assets and liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2019	*Note*	**Financial assets at amortized cost ₦'000**	**Financial assets at FVOCI ₦'000**	**Financial liabilities at amortized cost ₦'000**	**Total carrying amount ₦'000**
Cash and cash equivalents	18	370,512	-	-	370,512
Loans and advances to customers	20	13,552,217	-	-	13,552,217
Investment securities	21	59,284	1,210,250	-	1,269,534
Other assets (excluding prepayments and WHT receivables)	22	318,082	-	-	318,082
		14,300,095	1,210,250	-	15,510,345
Bank overdraft	18	-	-	1,964,302	1,964,302
Deposits from customers	26	-	-	11,202,755	11,202,755
Other liabilities (excluding VAT and WHT payables)	27	-	-	1,910,429	1,910,429
Interest bearing loans and borrowings	28	-	-	7,782,699	7,782,699
		-	-	22,860,185	22,860,185

31 December 2018	*Note*	**Financial assets at amortized cost ₦'000**	**Financial assets at FVOCI ₦'000**	**Financial liabilities at amortized cost ₦'000**	**Total carrying amount ₦'000**
Cash and cash equivalents	18	1,742,341	-	-	1,742,341
Loans and advances to customers	20	8,516,947	-	-	8,516,947
Investment securities	21	406,352	947,500	-	1,353,852
Other assets (excluding prepayments and WHT receivables)	22	75,345	-	-	75,345
		10,740,985	947,500	-	11,688,485
Bank overdraft	18	-	-	821	821
Deposits from customers	26	-	-	3,262,179	3,262,179
Other liabilities (excluding VAT and WHT payables)	27	-	-	1,251,377	1,251,377
Interest bearing loans and borrowings	28	-	-	5,716,920	5,716,920
		-	-	10,231,297	10,231,297

Notes to the Financial statements

9 Net interest income

	31 December 2019	31 December 2018
	₦'000	₦'000
Interest income		
Cash and cash equivalents	135,330	106,719
Loans and advances to customers	1,428,625	1,158,410
Investment securities at amortised cost	48,356	51,827
Total interest income earned on financial assets measured at amortized cost	1,612,311	1,316,956
Interest expense		
Interest-bearings loans and borrowings	(385,668)	(276,369)
Bank overdraft	(98,940)	-
Deposit from customers	(469,973)	(242,796)
Total interest expense incurred on financial liabilies measured at amortized cost	(954,581)	(519,165)
Net interest income	657,730	797,791

The amounts reported above were calculated using the effective interest method.

10 Net fee and commission income

	31 December 2019	31 December 2018
	₦'000	₦'000
Commission on turnover	24	116
Loan management fees	9,210	1,832
Financial advisory fees	8,044	2,142
Acceptance fees	597	470
Servicer fees	41,061	48,688
Marketing fees	13,123	13,604
Legal fees	3,592	-
Inspection fees	37,723	37,612
Commission on insurance premium	14,181	13,274
Other fees and commissions	11,026	61,436
Fee and commission income	138,581	179,174
Fees and commission expense	(7,799)	(4,067)
Net fee and commission income	130,782	175,107

The total amount of net fee and commission income above excludes amounts included in determining the effective interest rate on financial assets and financial liabilities measured at amortised cost.

11 Net trading loss

	31 December 2019	31 December 2018
	N'000	N'000
Proceeds from sale of trading properties	146,000	271,750
Rental income	1,250	600
Expenses:		
Cost of properties disposed	(133,589)	(251,860)
Property expenses	(15,563)	(4,763)
Write-down on trading properties (see note 19)	(12,440)	(20,000)
	(14,342)	(4,273)

Net trading loss is the loss arising on the sale of trading properties to customers.

Notes to the Financial statements

12 Other operating income

	31 December 2019	31 December 2018
	₦'000	₦'000
Recoveries (See note (a) below)	-	4,495
Profit from disposal of property and equipment	629	3,804
Other income (See note (b) below)	62,693	37,607
	63,322	45,906

(a) Recoveries represent inflow for non-performance of contract by DQS Matrix Ltd from Anchor Insurance Ltd. The Mortgage Bank recognized the excess of inflow over value of workdone based on loss adjuster's report as income.

(b) Other income warehouses income earned from penal charges on loans, foreign exchange gain and non-interest income earned on loans taken over by the Bank during the year.

13 Impairment losses on financial instruments

	31 December 2019	31 December 2018
	₦'000	N'000
Expected credit loss on loans and advances (see note 20(b))	8,259	854,860
Expected credit loss on investment securities (see note 21(d))	-	15
Expected credit loss on other assets (see note 22(d))	-	13,101
Expected credit loss on cash and cash equivalents (see note 18(b))	-	220
	8,259	868,196
Write off of unquoted equities (See note 21)	-	2,500
	8,259	870,696
Write-back of impairment on other assets (See note 22(d))	(43,083)	(53,677)
	(34,824)	817,019

14 Personnel expenses

	31 December 2019	31 December 2018
	₦'000	N'000
Wages and salaries	271,676	203,856
Contributions to defined contribution plans	12,268	10,650
Productivity bonus	24,135	23,398
Medical expense	9,752	6,195
Other staff costs	49,926	32,292
	367,757	276,391

	31 December 2019	31 December 2018
(i) The average number of persons employed by the Mortgage Bank during the year by category:		
Management	7	12
Non-management	92	54
	99	66

	31 December 2019	31 December 2018
Compensation for the above staff:	₦'000	₦'000
Management	139,416	114,151
Non-management	228,341	162,240
	367,757	276,391

Notes to the Financial statements

(ii) The number of employees of the Mortgage Bank who received emoluments (excluding pension contributions and certain benefits) are in the following ranges:

			31 December 2019	31 December 2018
Less than N500,000			3	-
N500,001	-	N900,000	-	-
N900,001	-	N1,200,000	1	7
N1200,001	-	N1,700,000	10	18
N1,700,001	-	N2,500,000	20	-
N2,500,001	-	N3,000,000	1	7
N3,000,001	-	N3,500,000	17	13
N3,500,001	-	N5,000,000	14	9
N5,000,001	-	N7,000,000	23	8
N7,000,001	-	N9,000,000	2	2
N9,000,000 and above			8	2
			99	66

The Mortgage Bank operates a contributory pension scheme in accordance with the provisions of the Pensions Act 2004. The contribution by employees and the Mortgage Bank are 8% and 10% respectively of the employees' basic salary, housing and transport allowances. The contribution by the Mortgage bank during the year was N12.3million (2018: N10.7million).

15 Other operating expenses

	31 December 2019	31 December 2018
	₦'000	N'000
Insurance premium	31,633	33,557
Directors emoluments	22,712	14,419
Other premises and equipment costs	65,266	51,177
Auditor's remuneration	22,500	21,000
Repairs and maintenance	35,207	28,540
Professional fees	28,044	50,384
Business travel expenses	43,885	27,145
Stationery and postage	37,639	22,880
NDIC Premium	18,378	10,556
Advert, promotion and corporate gifts	27,802	5,905
Merger expenses	133,515	-
Training cost	55,595	37,635
Fuel expenses	20,917	25,424
Security charges	8,373	8,373
Donations and subscriptions	16,534	8,421
Fees and levies	1,631	2,459
AGM Expenses	5,913	5,097
Office expenses	29,626	6,208
Unskilled labour expenses	32,742	46,039
General administrative expenses	30,975	51,784
	668,887	457,003

Notes to the Financial statements

16 Taxation

	31 December 2019	31 December 2018
	₦'000	₦'000
(a) Income tax expense		
Current taxes:		
Company income tax	-	-
Tertiary education tax	500	-
	500	-
Deferred taxes:		
Origination and reversal of temporary differences	(2,375)	-
Total income tax credit	(1,875)	-
(b) Minimum tax	9,245	19,331
Total tax expense	7,370	19,331

(c) Movement in taxation payable

The movement on the current income tax payable account during the year was as follows:

	31 December 2019	31 December 2018
	₦'000	₦'000
Balance, beginning of the year	17,207	27,443
Charge for the year	500	-
Minimum tax	9,245	19,331
Acquired on business combination	5,509	-
Utilization of withholding tax credit notes	(18,704)	-
Payments during the year	(627)	(29,567)
Balance, end of year	13,130	17,207

(d) Reconciliation of effective tax expense

	Tax Rate	31 December 2019	Tax Rate	31 December 2018
	%	₦'000	%	₦'000
Profit before income tax		(228,032)		(601,782)
Income tax using the domestic corporation tax rate	30%	(68,410)	30%	(180,535)
Minimum tax charge	-4%	9,245	-3%	19,331
Tertiary education tax	0%	500	0%	-
Non-deductible expenses	-35%	80,731	-18%	106,218
Tax exempt income	6%	(14,696)	7%	(43,216)
Current-year losses for which no deferred tax asset is recognised	0%	-	-20%	117,533
Total income tax expense	-3%	7,370	-3%	19,331

Notes to the Financial statements

17 Earnings per share

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share as at 31 December 2019 was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year calculated as follows:

Weighted average number of ordinary shares

	31 December 2019	31 December 2018
	₦'000	₦'000
Issued ordinary shares at beginning of year	4,674,993	4,674,993
Weighted average number of ordinary shares at end of year	5,013,124	4,674,993

Profit attributable to ordinary shareholders

	31 December 2019	31 December 2018
	N'000	N'000
Loss for the year attributable to equity holders	(235,402)	(621,113)
Basic and diluted earnings per share (in kobo)	(4.70)	(13.29)

18 Cash and cash equivalents

	31 December 2019	31 December 2018
	N'000	₦'000
Cash in hand	6,859	2,920
Balances with banks	88,163	137,539
Money market placements	277,803	1,537,271
	372,825	1,677,730
Impairment allowance (see note (a) below)	(2,313)	(2,273)
	370,512	1,675,457
Bank overdraft	(1,964,302)	(821)
Add: impairment allowance	2,313	2,273
Cash and cash equivalent for the purpose of cashflow statement	(1,591,477)	1,676,909
Current	370,512	1,675,457

(a) Movement in impairment of cash and cash equivalents

	31 December 2019	31 December 2018
	₦'000	₦'000
Balance, beginning of year	2,273	-
Acquired on business combination	40	-
Transitional adjustment	-	2,053
Impairment charge for the year (see note 13)	-	220
Balance, end of year	2,313	2,273

Notes to the Financial statements

19 Trading properties

	31 December 2019	31 December 2018
	₦'000	₦'000
Opening balance	607,525	883,213
Disposals (see note (a) below)	(133,589)	(251,860)
Acquired on business combination	7,704,908	-
Reversal of cost	-	(5,505)
Write-down on trading properties (see note 11)	(12,440)	(20,000)
Service charge	9,040	1,677
Balance, end of year	8,175,444	607,525

(a) The cost, proceeds and profit on disposal of trading properties are disclosed in note 11.

Current	8,175,444	607,525

20 Loans and advances to customers

	31 December 2019	31 December 2018
	₦'000	₦'000
Loans and advances to customers at amortised cost	18,617,290	11,049,504
Less impairment loss allowance	(5,065,073)	(2,532,557)
Balance, end of year	13,552,217	8,516,947

(a) Loans and advances to customers at amortised cost

	31 December 2019	31 December 2018
Gross carrying amount		
Mortgage Loans	13,353,180	7,086,578
Commercial Real Estate Loans	3,490,494	2,470,040
Other Loans	1,773,616	1,492,886
	18,617,290	11,049,504
ECL allowance		
Mortgage Loans	(2,585,985)	(1,436,151)
Commercial Real Estate Loans	(1,786,200)	(801,911)
Other Loans	(692,888)	(294,495)
	(5,065,073)	(2,532,557)
Carrying amount	13,552,217	8,516,947
Current	3,141,228	2,965,710
Non-Current	10,410,989	5,551,237
	13,552,217	8,516,947

(b) Movement in impairment of loans and advances

	31 December 2019	31 December 2018
	₦'000	₦'000
Balance, beginning of year	(2,532,557)	(363,698)
IFRS 9 transition adjustment	-	(1,313,999)
Acquired on business combination	(2,524,257)	-
Expected credit loss for the year (see note 13)	(8,259)	(854,860)
Balance, end of year	(5,065,073)	(2,532,557)

Notes to the Financial statements

21 Investment securities

		31 December 2019 ₦'000	31 December 2018 ₦'000
(a)	*Investment securities at fair value through OCI*		
	Unquoted equities (see note (i) below)	1,210,250	950,000
	less: Write off on equities (see note (ii) below)	-	(2,500)
		1,210,250	947,500
(b)	*Investment securities at amortized cost*		
	Treasury bills	59,284	406,417
	ECL impairment allowance (see note (d) below)	-	(65)
		59,284	406,352
		1,269,534	1,353,852
	Current	59,284	406,352
	Non-current	1,210,250	947,500
		1,269,534	1,353,852

(i) Investment securities at fair value through OCI include investment in the equity shares of Nigerian Mortgage Refinancing Company (NMRC) with a fair value of N1.2 billion (2018: N937.5 million) and Mortgage Warehousing Facility Limited with cost of N10,000,000 (2018: N10,000,000).
The Mortgage Bank holds 191,555,554 units (2018: 150,000,000) units of shares of NMRC and 2,000,000 units (2018: 2,000,000) units of shares of Mortgage Warehousing Facility Limited.

(ii) The Mortgage Bank held 50,000 units of shares, valued at N50 per unit, in Vestril Limited in 2018. This was written off in 2018 due to the fact that the Company was no longer in operation.

		2019	2018
(c)	Movement in investment securities is as follows;		
	Investment securities at fair value through OCI		
	Balance, beginning of the year	947,500	950,459
	Acquired on Business Combination	125,975	-
	Write off of unquoted equity securities	-	(2,500)
	Fair value gain/(loss) on investment securities	136,775	(459)
	Balance, end of the year	1,210,250	947,500
	Investment securities at amortized cost		
	Balance, beginning of the year	406,352	353,575
	Transitional adjustment - IFRS 9	-	(50)
	Purchase of treasury bills	434,553	829,216
	Redemption of treasury bills on maturity	(782,403)	(790,001)
	Interest receivable	717	13,627
	Write-off of impaired assets during the year	65	-
	ECL impairment allowance (see note (d) below)	-	(15)
	Balance, end of the year	59,284	406,352
		1,269,534	1,353,852

(d) Movement in impairment of investment securities

	31 December 2019 ₦'000	31 December 2018 ₦'000
Balance, beginning of year	(65)	-
Transitional adjustment	-	(50)
ECL impairment charge for the year (see note 13)	-	(15)
Write-off of impaired assets during the year	65	-
Balance, end of year	-	(65)

Notes to the Financial statements

22 Other assets

(a) Other assets comprise:

	31 December 2019 ₦'000	31 December 2018 ₦'000
Financial assets		
Trade debtors	11,053	10,008
Accounts receivable (See (b) below)	168,878	208,897
Restricted deposits with central bank (see note (e) below)	267,066	66,884
Other receivables	85,788	75,443
	532,785	361,232
Impairment loss on other assets (See (c) below)	(214,703)	(285,887)
	318,082	75,345
Non-financial assets		
Prepayments	35,398	54,863
Withholding tax receivable	38,209	20,990
	73,607	75,853
Impairment on non-financial assets (See (c) below)	(2,285)	(20,990)
	71,322	54,863
Carrying amount of other assets	389,404	130,208
Current	389,404	130,208

(b) Account receivable includes receivables from customers for the purchase of the Mortgage Bank's trading properties as well as fund transfer receivable. The fund transfer account warehouses receivables due to the Bank in respect of e-settlement transactions done on the NIBSS and other electronic platforms.

(c) Total impairment on other assets

Impairment on financial assets (See (d) below)	(214,703)	(285,887)
Impairment on non-financial assets (See (d) below)	(2,285)	(20,990)
	(216,988)	(306,877)

(d) Movement in impairment in other assets

	31 December 2019 ₦'000	31 December 2018 ₦'000
Balance, beginning of year	306,877	101,392
Transitional adjustment	-	246,061
ECL impairment write-back (see note 13)	(43,083)	(53,677)
Charges during the year (See note 13)	-	13,101
Write-off of impaired assets during the year	(46,806)	-
Balance, end of year	216,988	306,877

(e) This balance is made up of Central Bank of Nigeria (CBN) cash reserve requirement. Restricted deposits with central banks are not available for use in the Mortgage Bank's day-to-day operations.

Notes to the Financial statements

23 Property, Plant and equipment

As at 31 December 2019

	Leasehold Land	Buildings	Furniture and Fittings	Motor vehicle	Leasehold Improvements	Right-of-use Leasehold Improvements	Computer Equipment and Machinery	Capital Work-in-progress	Total
	₦'000	₦'000	₦'000	₦'000	₦'000	N'000	₦'000	₦'000	₦'000
Cost									
Balance as at 1 January 2019	418,167	60,524	66,789	129,346	30,742	-	142,837	86,710	935,115
Acquired on business combination	-	-	35,760	128,240	108,579	22,000	150,309	-	444,888
Additions	-	-	3,984	47,250	1,945	-	5,582	105,982	164,743
Disposals	-	-	(618)	(87,845)	-	-	(1,225)	-	(89,688)
Reclassification to intangible assets	-	-	-	-	-	-	-	(141,742)	(141,742)
Balance as at 31 December 2019	418,167	60,524	105,915	216,991	141,266	22,000	297,503	50,950	1,313,316
Accumulated Depreciation									
Balance as at 1 January 2019	-	6,455	62,271	116,837	22,907	-	113,482	-	321,953
Acquired on business combination	-	-	22,347	59,571	52,710	9,900	104,826	-	249,354
Charge for the year:	-	1,210	3,750	20,367	7,864	3,300	18,065	-	54,556
Disposal	-	-	(618)	(87,221)		-	(1,187)	-	(89,026)
Balance as at 31 December 2019	-	7,665	87,750	109,554	83,481	13,200	235,186	-	536,837
Carrying amounts:									
Balance as at 1 January 2019	418,167	54,069	4,518	12,508	7,835	-	29,355	86,710	613,162
Balance as at 31 December 2019	418,167	52,859	18,165	107,437	57,785	8,800	62,317	50,950	776,479

(i) There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year (December 2018: Nil).
(ii) There were no contractual commitments for the acquisition of property, plant and equipment as at 31 December 2019 (December 2018 : Nil)
(iii) There were no liens or encumbrances on any of the property, plant and equipment during the year (December 2018 : Nil).
(iv) No impairment charge was recognised on property, plant and equipment during the year (December 2018: Nil).
(v) All classes of property, plant & equipment are non-current.

Notes to the Financial statements

As at 31 December 2018

	Leasehold Land	Buildings	Capital Work-in-progress	Furniture, Fittings and Equipment	Motor vehicle	Leasehold Improvements	Computer Equipment	Total
	₦'000	₦'000	N'000	₦'000	₦'000	₦'000	₦'000	₦'000
Cost								
Balance as at 1 January 2018	418,167	60,524	-	73,879	157,170	30,596	142,898	883,234
Additions	-	-	-	1,956	-	196	107,203	109,355
Disposals	-	-	-	(9,046)	(27,824)	(50)	(20,554)	(57,474)
Balance as at 31 December 2018	418,167	60,524	-	66,789	129,346	30,742	229,547	935,115
Accumulated Depreciation								
Balance as at 1 January 2018	-	5,245	-	67,067	120,921	17,424	117,304	327,962
Charge for the year:	-	1,210	-	4,103	21,507	5,528	15,681	48,029
Disposal	-	-	-	(8,899)	(25,591)	(45)	(19,503)	(54,038)
Balance as at 31 December 2018	-	6,455	-	62,271	116,837	22,907	113,482	321,953
Carrying amounts:								
Balance as at 1 January 2018	418,167	55,279	-	6,812	36,249	13,172	25,594	555,273
Balance as at 31 December 2018	418,167	54,069	-	4,518	12,509	7,835	116,065	613,162

Notes to the Financial statements

24 Intangible assets

As at 31 December 2019

	Goodwill	Purchased software	Work in progress	Total
Cost	₦'000	₦'000	₦'000	₦'000
Balance at 1 January 2019	-	153,106	-	153,106
Acquired from Business combination	2,020,248	126,646	8,940	2,155,834
Additions	-	2,693	5,465	8,158
Reclassification to work in progress		(61,500)	61,500	-
Reclassification from property, plant and equipment		-	141,742	141,742
Balance at 31 December 2019	2,020,248	220,945	217,647	2,458,840
Accumulated Amortisation and Impairment				
Balance at 1 January 2019	-	136,058	-	136,058
Acquired from Business combination	-	47,182	-	47,182
Amortisation for the year	-	9,148	-	9,148
Balance at 31 December 2019	-	192,388	-	192,388
Carrying amount at 1 January 2019	-	17,048	-	17,048
Carrying amount at 31 December 2019	2,020,248	28,557	217,647	2,266,452

(i) All classes of intangible assets are non-current.

(ii) There were no capitalised borrowing costs related to the acquisition of intangible assets during the year (December 2018: Nil).

(iii) There were no contractual commitments for the acquisition of intangible assets as at 31 December 2019 (December 2018 : Nil)

(iv) No impairment charge was recognised on intangible assets during the year (December 2018: Nil).

(v) The recognized goodwill is attributable to the acquisition of First Mortgages Limited during the year. It represents the value derived from the combined synergies of operations and is the excess of the purchase consideration over the fair value of the net assets of First Mortgages Limited acquired in the business combination.

(vi) Work in progress represents capitalised development costs for software that are currently in their development phase.

(a) Impairment review

In order to determine whether impairments are required, the Mortgage Bank estimates the recoverable amount of its intangible assets. The calculation is based on projecting future cash flows over a five-year period and using a terminal value to incorporate expectations of growth thereafter. A discount factor is applied to obtain a value in use which is the recoverable amount.

No impairment was required on goodwill arising in 2019.

(b) Key assumptions

The key assumptions include the rate of revenue and profit growth in the business. These are based on the Mortgage Bank's approved budget and five-year Strategic Plan. The estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money.

The calculation of the value in use is sensitive to long-term growth rates and discount rates. Long-term growth rate of 3% in interest income. Pre-tax discount rate of 21.22% was applied in determining the recoverable amounts. This discount rate was estimated using Nigeria's risk-free rate of 11.63% and market premium of 10.66%.

(c) Sensitivity analysis

None of the reasonable downside sensitivity scenarios on key assumptions would cause the carrying amount of each asset to exceed its recoverable amount. The sensitivities modelled by management include:

(i) Assuming revenues decline each year by 1% in 2021 to 2024 from the 2020 budgeted revenues, with margins increasing with base

(ii) Assuming zero growth in operating profit margins in 2020 to 2024 with revenues increasing per base assumptions.

(iii) Assuming an increase in the discount rates used by 1%.

Management considers that the likelihood of any or all of the above scenarios occurring is low.

Notes to the Financial statements

As at 31 December 2018

	Purchased software ₦'000	Total ₦'000
Cost		
Balance at 1 January 2018	142,396	142,396
Additions	10,710	10,710
Balance at 31 December 2018	153,106	153,106
Accumulated Amortisation		
Balance at 1 January 2018	118,187	118,187
Amortisation for the year	17,871	17,871
Balance at 31 December 2018	136,058	136,058
Carrying amount at 1 January 2018	24,209	24,209
Carrying amount at 31 December 2018	17,048	17,048

25 Deferred tax assets

(a) Deferred tax assets are attributable to the following:

	31 December 2019 ₦'000	31 December 2018 ₦'000
Property and equipment	55,483	174,657
Allowance for expected credit losses	69,630	47,984
Tax loss carried forward	710,425	610,522
	835,539	833,163

(b) **Movements in temporary differences during the year**

		Recognised in:		
	Opening balance	Profit or loss	Other comprehensive income	Closing balance
31 December 2019	₦'000	₦'000	₦'000	₦'000
Property and equipment	174,657	(119,173)	-	55,483
Allowance for expected credit losses	47,984	21,646	-	69,630
Tax loss carry forward	610,522	99,903	-	710,425
	833,163	2,375	-	835,538

	Opening balance	Profit or loss	Other comprehensive income	Closing balance
31 December 2018	₦'000	₦'000	₦'000	₦'000
Property and equipment	174,657	-	-	174,657
Allowance for expected credit losses	47,984	-	-	47,984
Tax loss carried forward	610,522	-	-	610,522
	833,163	-	-	833,163

(c) There are no unrecognized deferred tax assets as at year end. (2018:N136 million).
The Directors have recognized the deferred tax asset since it is probable that sufficient taxable profits will be available in the future on which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset where the Mortgage Bank has a legally enforceable right to do so.

Notes to the Financial statements

26 Deposits from customers

	31 December 2019 ₦'000	31 December 2018 ₦'000
Term deposits	9,375,459	1,949,865
Current deposits	1,573,770	1,158,847
Savings deposits	253,526	153,467
	11,202,755	3,262,179
Current	11,202,755	3,262,179

27 Other liabilities

	31 December 2019 ₦'000	31 December 2018 ₦'000
(a) Other liabilities comprise:		
Other financial liabilities		
Staff pension scheme	2,109	1,733
Accruals	207,484	74,669
Accounts payable	373,072	217,781
Fund transfer payable (see note (b) below)	1,859	4,530
Deposit for properties (see note (c) below)	1,312,451	939,208
Dividend payable	13,454	13,454
	1,910,429	1,251,375
Other non-financial liabilities		
Witholding tax payable	10,042	6,135
VAT payable	33,224	27,783
	43,266	33,918
	1,953,695	1,285,293
Current	1,953,695	1,285,293

(b) Fund transfer payable represents payables due from the Bank in respect of e-settlement transactions done on the NIBSS and other electronic platforms.

(c) This represents deposits received from customers as at year end with respect to trading properties.

28 Interest-bearing borrowings

	31 December 2019 ₦'000	31 December 2018 ₦'000
Borrowings from NMRC (see (a) below)	1,178,214	963,272
NHF On-lending Deposits (see (b) below)	6,407,046	4,753,648
Borrowings from MWFL (see (c) below)	197,439	-
	7,782,699	5,716,920
Non current	7,782,699	5,716,920

Notes to the Financial statements

(a) Amount represents the balance of the series of loan disbursed by Nigeria Mortgage Refinance Company Plc (NMRC) to the Mortgage Bank as at the 2019 financial year. The loans were disbursed for the purpose of refinancing mortgages originated by the Bank in a bid to provide liquidity and growth for mortgages. The loans, which were issued with recourse to the Bank, are tenured for 180 months with the latest maturity date of 7 September 2034. During the year, four (4) series of loans were granted to the Bank at an interest rate of 14.5%. Principal and interest repayments shall be made monthly.

(b) Amount represents the balances on loans disbursed by Federal Mortgage Bank of Nigeria (FMBN) for the purpose of on lending to the Mortgage Bank's customers. The loans were granted in various tranches with repayment maturities ranging from 2020 to 2047. Interest is payable on the loan amount at 4% per annum (2018:4%).

(c) MWFL (Mortgage Warehousing Funding Limited) is a Limited Purpose Vehicle (LPV) designed to provide short term liquidity for Mortgage Banks to enhance the origination of Mortgage Loans that conform with NMRC's Uniform Mortgage Underwriting Standards. It was set up to provide pre-financing funds for the creation of mortgages pending when the loans would be seasoned and refinanced by NMRC.
MWFL provides funds for Mortgage Banks to create the mortgages. The loan serves as a short term finance to the Bank pending the receipt of funding from NMRC. The loans were granted in two tranches during the year with repayment maturities in 2020. Interest is payable on the loan amount at 9.6% per annum.

(d) The movement on this account during the year was as follows:

	31 December 2019 ₦'000	31 December 2018 ₦'000
Balance, beginning of the year	5,716,920	4,295,654
Acquired on Business combination	740,623	-
Additions	1,823,773	1,608,345
Interest expense (see note 9)	385,668	276,369
Principal repayment	(507,112)	(203,540)
Interest paid	(377,173)	(259,908)
Balance, end of the year	7,782,699	5,716,920

29 Capital and reserves

(a) Share capital

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

	31 December 2019 ₦'000	31 December 2018 N'000
(i) Authorised:		
7,000,000,000 ordinary shares of N1.00 each	7,000,000	7,000,000
(ii) Issued and fully-paid up:		
6,027,514,833 (2018: 4,674,992,833) ordinary shares of N1.00 each	6,027,515	4,674,993

	31 December 2019	31 December 2018
Movement in share capital during the year:		
Balance, beginning of year	4,674,993	4,674,993
Additional shares from merger during the year (see note (iii) below)	1,352,522	-
Balance, end of year	6,027,515	4,674,993

(iii) As at 30 September 2019, through a Scheme of Merger between TrustBond Mortgage Bank Plc and First Mortgages Limited, First Mortgages Limited's shareholders received a share consideration comprising 4 TrustBond's shares for every 23 shares of First Mortgages Limited held at the effective date. Upon conclusion of the merger arrangement, the combined entity was re-named FirstTrust Mortgage Bank Plc with TrustBond being the acquirer in line with IFRS 3 *Business Combinations.*

Notes to the Financial statements

(b) Share premium

Share premium is the excess paid by shareholders over the nominal value for their shares.

	31 December 2019	31 December 2018
Movement in share premium during the year:		
Balance, beginning of year	2,737	2,737
Balance, end of year	2,737	2,737

(c) Statutory reserves:

Nigerian Banking regulations require the Mortgage Bank to make an annual appropriation to a statutory reserves.

As stipulated by S.11 of the Guidelines for Primary Mortgage Institutions, an appropriation of 20% of profit after tax is made if the statutory reserve is less than paid-up share capital and 10% of profit after tax if the statutory reserve is greater than the paid up share capital. However, the Bank made no transfer to statutory reserves as at year end because all identifiable losses have not been made good (31 December 2018: nil).

(d) Regulatory risk reserves

The regulatory risk reserves contains the difference between the impairment balance on loans and advances and other assets under the Nigeria GAAP, based on Central Bank of Nigeria prudential guidelines and the expected loss model used in calculating the impairment balance under IFRS. The movement in the regulatory risk reserves has been shown in the statement of changes in equity. See note 5(a)(vii) for details.

(e) Retained deficit

Retained deficits represent the carried forward losses plus current year loss attributable to shareholders.

	31 December 2019	31 December 2018
	₦'000	N'000
Opening balance - Accumulated losses	(2,403,100)	(886,298)
Adjustment on initial application of IFRS 9	-	(1,562,163)
Reclassification from regulatory risk reserve	-	1,314,129
Transfer to regulatory risk reserve	(808,449)	(647,655)
Loss for the year	(235,402)	(621,113)
Balance, end of year	**(3,446,951)**	**(2,403,100)**

(f) Other reserves

Other reserves warehouses fair value reserve for investments measured at fair value through other comprehensive income (FVOCI). The fair value reserve includes the net cumulative change in the FVOCI investments until the investment is derecognised or impaired.

30 Guarantees

As at reporting date, the Mortgage Bank had no performance bond to secure any loan from the Federal Mortgage Bank of Nigeria (31 December 2018: N468,594,497).

31 Claims and litigation

The Mortgage Bank in its ordinary course of business is presently involved in 27 cases as a defendant (2018:11) and 30 cases as a plaintiff (2018:10). The total amount claimed in the cases against the Mortgage Bank is estimated at N1.95billion (2018: N52 million) while the amount claimed in the cases by the Bank is estimated at N1.46 billion (2018: N1.28 billion). The Directors of the Mortgage Bank having sought advice of professional legal counsel are of the opinion that none of the aforementioned cases is likely to have material adverse effect on the Mortgage Bank and are not aware of any other pending and or threatened claims or litigation claim which may be material to the financial statements.

There are two (2) cases with total claim of N19.64 million of which judgement was awarded against the Bank in conjunction with other parties and adequate provisions were not recognised in the financial statements. Management is of the view that a high level of success is expected at the Court of Appeal based on professional legal advice and that the likelihood of outflow of economic resource is considered remote. The Directors are of the opinion that none of the aforementioned cases is likely to have a material adverse effect on the Mortgage Bank and are not aware of any other pending or threatened claims and litigations besides those included in the above number.

32 Related parties

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

Notes to the Financial statements

(a) **Transactions with key management personnel**

The Mortgage Bank's key management personnel, and persons connected with them, are also considered to be related parties. The definition of key management includes the close members of family of key personnel and any entity over which key management exercise control. The key management personnel have been identified as the executive and non-executive directors of the Bank. Close members of family are those family members who maybe expected to influence, or be influenced by that individual in their dealings with the Mortgage Bank.

Key management personnel and their close family members engaged in the following transactions with the Bank, during the year:

	31 December 2019	31 December 2018
	₦'000	₦'000
Loans and advances:		
Secured loans	81,483	58,416
	81,483	58,416

Interest rates charged on balances outstanding are at rates that are charged in the normal course of business.

The secured loans granted are secured over real estate, equity and other assets of the respective borrowers. As at 31 December 2019, the balances with key management personnel and their immediate relatives are allocated to stage 1 of the ECL model and have a loss allowance of N470,000 (2018: Nil).

Key management personnel compensation for the year comprises:

	31 December 2019	31 December 2018
	₦'000	₦'000
Fees as directors	9,200	7,200
Other allowances	13,512	7,219
Short term employee benefits:		
-Executive compensation	27,129	27,129
	49,841	41,548

Fees and other allowances disclosed above include amount paid to:

Chairman	1,200	1,200
Highest paid director	27,129	27,129

The number of directors (including directors that resigned as at 23 September 2019) who received fees and other allowances (excluding pensions contributions and certain benefit) in the following range was;

	Number	
	31 December 2019	31 December 2018
Below N1,600,000	10	7
N3,400,001 and above	-	-
	10	7

33 Contraventions

During the year, the Mortage Bank did not pay any penalty (2018: N500,000).

34 Events after the end of the reporting period

On 11 March 2020, the World Health Organization declared the coronavirus (COVID – 19) outbreak a pandemic and most governments have taken restrictive measures to contain its further spread by introducing lockdowns, closures of borders and travel restrictions which has affected the free movement of people and goods. The Nigerian Centre for Disease Control (NCDC) has confirmed COVID -19 cases in Nigeria and this has resulted in lock down in certain states. The pandemic has caused a significant reduction in social interactions, disruption in economic activities while some public facilities have been shut down in a bid to reduce the spread of the virus.

The Mortgage Bank considers this outbreak to be a non-adjusting subsequent event. As the situation is fluid and rapidly evolving, the Directors do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak and will continue to evaluate the impact of COVID-19 on the Mortgage Bank's operations, financial position and operating results.
As at the date these financial statements were authorised for issue, the Directors were not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

There were no other events after the reporting date that could have had a material effect on the financial statements of the Mortgage Bank

Notes to the Financial statements

35 Reconciliation notes to statement of cashflows

(a) Net changes in loans and advances

	Notes	31 December 2019	31 December 2018
		₦'000	₦'000
Balance, beginning of year	20	8,516,947	8,538,433
Transitional adjustment - IFRS 9		-	(1,313,999)
Interest income	9	1,428,625	1,158,410
Impairment charge	13	(8,259)	(854,860)
Interest received		(482,833)	(1,081,497)
Balance, end of year	20	(13,552,217)	(8,516,947)
Total changes in loans and advances		(4,097,737)	(2,070,460)

(b) Net changes in trading properties

		31 December 2019	31 December 2018
		₦'000	₦'000
Balance, beginning of year	19	607,525	883,213
Dimunition charge	11	(12,440)	(20,000)
Balance, end of year	19	(8,175,444)	(607,525)
Total changes in trading properties		(7,580,359)	255,688

(c) Net changes in other assets

		31 December 2019	31 December 2018
		₦'000	₦'000
Balance, beginning of year	22	130,208	329,112
Charges during the year (See note 13)	13	-	(19,101)
Transitional adjustment - IFRS 9	22	-	(246,061)
ECL impairment write-back	22	43,083	53,677
Write-off of impaired assets during the year	22	46,806	-
Balance, end of year	22	(389,404)	(130,208)
Total changes in other assets		(169,307)	(12,581)

(d) Net changes in restricted balance with CBN

		31 December 2019	31 December 2018
		₦'000	₦'000
Balance, beginning of year	18	66,884	49,416
Balance, end of year	18	267,066	66,884
Total changes in restricted balance with CBN		(200,182)	(17,468)

Notes to the Financial statements

(e) Net changes in other liabilities

		31 December 2019	31 December 2018
		₦'000	₦'000
Balance, beginning of year		1,285,293	1,132,059
Defined benefit obligation (see note (i) below)		-	(87,242)
Balance, end of year	27(a)	(1,953,695)	(1,285,293)
Total changes in other liabilities		(668,402)	(240,476)

(i) This represents accrued benefits paid to all qualifying staff on the funded defined benefit scheme in 2018. The scheme had been discontinued by the Board of Directors through a resolution on 30 January 2017 and the payment represents the benefits accrued to the staff from the commencement of the scheme to the date it was discontinued.

(f) Net changes in deposit liabilities

		31 December 2019	31 December 2018
		₦'000	₦'000
Balance, beginning of year	26	3,262,179	2,489,843
Interest paid		316,722	225,786
Interest expense	9	469,973	242,796
Balance, end of year	26	(11,202,755)	(3,262,179)
Total changes in deposit liabilities		(7,153,882)	(303,754)

(g) Net changes in Property, plant and equipment

	Notes	31 December 2019	31 December 2018
		₦'000	₦'000
Proceeds on disposal of property, plant and equipment		1,291	7,241
Net book value of disposed property, plant and equipment		(662)	(3,437)
Profit on disposal		629	3,804

36 Change in presentation of prior year balances

A change has been made to the presentation of the Statement of Financial Position in respect of cash and cash equivalents. Bank overdraft, which was previously combined with cash and cash equivalents has now been separated into its respective account. Restricted deposits with central bank which was previously combined with cash and cash equivalents has now been presented under other assets.

Presentation in prior year	31 December 2018
Cash and cash equivalents	1,741,520
	1,741,520

Presentation in current year	31 December 2018
Cash and cash equivalents	1,675,457
Restricted deposits with Central Bank	66,884
Bank overdraft	(821)
	1,741,520

Notes to the Financial statements

37 **Business combination**

Trustbond Mortgage Bank Plc (TMB) through a Scheme of Merger, merged with First Mortgages Limited (FMB).
The merger involved TrustBond Mortgage Bank Plc acquiring the entire issued share capital of First Mortgages Bank Limited in exchange for shares in TrustBond Mortgage Bank Plc via a Scheme of Merger. The share consideration has also been fully issued as at reporting date.
Based on the agreement reached by the Boards of the two financial institutions, First Mortgages Limited shareholders received the allotment of 1,352,522,000 (one billion, three hundred and fifty two million five hundred and twenty-two thousand) new TrustBond Mortgage Bank Plc ordinary shares, representing the 4 new TrustBond Mortgage Bank Plc ordinary shares for every 23 First Mortgages Limited shares.
The transaction has been completed as all formal regulatory and shareholder approvals have been obtained. The regulatory approvals required for the merger process are; the pre-order approval, the approval in principle and the final approval after convention of shareholders of which all the approvals have been obtained as at the time of this report.
Upon conclusion of the merger arrangement, the combined entity was re-named FirstTrust Mortgage Bank Plc with Trustbond being the surviving entity.

The Directors of TrustBond Mortgage Bank Plc and First Mortgages Limited determined that the combination of both entities will improve operational, financial and administrative efficiencies. It is envisaged that improvements in efficiency will lead to improved profitability and consequently enhanced shareholder value. The combination of both entities will result in the elimination of duplicated process resulting in a more operationally efficient and streamlined structure. Cost savings will be derived from streamlined operations and other duplicated expenses which are expected to be eliminated post consolidation, hence contribtuting to the enlarged entity's profitability.

The merger was done during the year, effective 30 September 2019 and the operational integration of the entities has been finalised. FirstTrust Mortgage Bank Plc has elected not to restate the comparatives in the statement of profit or loss and other comprehensive income as this is not explicitly required by the Standards. Hence, performance of the merged entities has been stated from the date the merger was finalised (30 September 2019).

(a) **Goodwill arising from business combination**

	31 December 2019
	₦'000
TrustBond Mortgage Bank's shares to issue to First Mortgages Limited's shareholders (see (i) below)	1,352,522
Fair value of net liabilities acquired from business combination (see note (b) below)	667,726
Goodwill	**2,020,248**

(i) 1,352,522,000(one billion, three hundred and fifty two million five hundred and twenty-two thousand) new Trustbond Mortgage Bank Plc ordinary shares, representing the 4 new Trustbond Mortgage Bank Plc ordinary shares for every 23 First Mortgages Bank shares.

(b) **The fair value of the net liabilities acquired include:**

	Book values 30 September 2019	Fair value adjustment 30 September 2019	Total fair value 30 September 2019
Assets	₦'000	₦'000	₦'000
Cash and cash equivalents	435,274		435,274
Trading properties	7,693,194	11,716	7,704,910
Loans and advances to customers	3,990,176		3,990,176
Investment securities	125,975		125,975
Property and equipment	183,434		183,434
Intangible assets	88,002		88,002
Right of use assets	12,100		12,100
Other assets	84,519		84,519
Total assets	**12,612,674**	**11,716**	**12,624,390**
Liabilities			
Bank overdraft	2,239,430		2,239,430
Deposits from customers	9,700,090		9,700,090
Current tax liabilities	5,509		5,509
Other liabilities	606,463		606,463
Interest-bearing loans and borrowings	740,624		740,624
	13,292,116	-	**13,292,116**
Net (liabilities)/assets	**(679,442)**	**11,716**	**(667,726)**

otes to the Financial statements

(c) **Cash and cash equivalents acquired from business combination**

	31 December 2019
	₦'000
Cash and balances with Banks	435,274
Restricted deposits with Central Bank	(200,182)
	235,092

(d) **Merger related cost**

The Company incurred a merger cost of N133.5 million on legal, processing, professional advisory fees and other directly attributale costs. These costs has been included in operating expenses

Management Discussion & Analysis

Management discussion & analysis

(a) Introduction and overview

FirstTrust Mortgage Bank Plc ("the Mortgage Bank") has a well-established risk governance structure and an experienced risk management team. The risk management framework provides essential tools to enable the Mortgage Bank take timely and informed decisions to maximise opportunities and mitigate potential threats. The Mortgage Bank has taken pre-emptive actions to reshape the portfolio and increase the frequency of risk monitoring and stress testing in case of adverse scenarios or downturns.

(b) The Mortgage Bank's approach to risk

Risk is an inherent part of the Mortgage Bank's business activities. FirstTrust Mortgage Bank Plc's overall risk tolerance is established in the context of the Mortgage Bank's earnings power, capital, and diversified business model. Effective risk management is critical to any financial institution for achieving financial soundness.

In view of this, aligning risk management to the Mortgage Bank's organisational structure and business strategy has become integral in our business. FirstTrust Mortgage Bank Plc's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks inherent in its business activities. It is also intended to create a culture of risk awareness and personal responsibility throughout the Mortgage Bank. The Mortgage Bank has taken pre-emptive action to reshape its credit portfolio and increase the frequency of risk monitoring and integrated stress testing for all the risks it undertakes. These actions will not immunise the Mortgage Bank from the effects of a cyclical downturn in its core markets, but should significantly mitigate their impact.

The Mortgage Bank's risk management architecture is carefully crafted to balance corporate oversight with well-defined risk management functions which fall into one of three categories where risk must be managed: lines of business, governance and control and corporate audit. The Board of Directors and management of the Mortgage Bank are committed to constantly establishing, implementing and sustaining tested practices in risk management to match those of leading international Mortgage Banks. We are convinced that the long-term sustainability of our Mortgage Bank depends critically on the proper governance and effective management of our business. As such, risk management occupies a significant position in terms of relevance and importance in the Mortgage Bank.

The Board of Directors determines the Mortgage Bank's overall objectives in terms of risk by issuing risk policies. These policies define acceptable levels of risk for day-to-day operations as well as the willingness of the Mortgage Bank to assume risk, weighed against the expected rewards. The umbrella risk policy is detailed in the Enterprise Risk Management (ERM) Framework, which is a structured approach to identifying opportunities, assessing the risk inherent in these opportunities and actively managing these risks in a cost-effective manner. It is a top-level integrated approach for continuous events identification and analysis for proper assessment, monitoring and identification of business opportunities. Specific policies are also in place for managing risks in the different core risk areas of credit, market, liquidity, compliance, and operational risks while policies on strategic and reputational risk are now in place.

The evolving nature of risk management practices and the dynamic character of the Mortgage Banking industry necessitate regular review of the effectiveness of each enterprise risk management component. In light of this, the Mortgage Bank's ERM Framework is subject to continuous review to ensure effective and cutting-edge risk management. The review is done in either or both of the following ways: via continuous self-evaluation and monitoring by the risk management and compliance functions in conjunction with internal audit; and through independent evaluation by external auditors, examiners and consultants.

The Chief Risk Officer has primary responsibility for risk management and the review of the ERM Framework and to provide robust challenge to the management teams based on quantitative and qualitative metrics. All amendments to the Mortgage Bank's ERM Framework require Board approval. The risk management division is responsible for the enforcement of the Mortgage Bank's risk policy by constantly monitoring risk, with the aim of identifying and quantifying significant risk exposures and acting upon such exposures as necessary. Overall, we view risk not only as a threat or uncertainty, but also as a potential opportunity to grow and develop the business, within the context of our clearly articulated and Board driven risk appetite.

Hence our approach to risk management is not limited to considering downside impacts or risk avoidance; it also encompasses taking risk knowingly for competitive advantage. The Mortgage Bank approaches risk, capital and value management robustly and we believe that our initiative to date have positioned the Mortgage Bank at the leading edge of risk management.

(c) Risk and capital drive value

The pursuit of value requires us to balance risk assumed against capital required. Hence, we have embarked on a journey, which requires us to undertake analysis involving optimising the upside and minimising the downside on an ongoing and rigorous basis. We believe that this process will add value for our shareholders, and provide security to our other capital providers and clients, as well as ensure overall sustainability in our business activities.

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

Management Discussion & Analysis (Cont'd)

-Understand the nature of the risks we are taking, and what the range of outcomes could be under various scenarios,for taking these risk.
-Understand the capital required in order to assume these risks;
-Understand the range of returns that we can earn on the capital required to back these risks; and
-Attempt to optimise the risk-adjusted rate of return we can earn by reducing the range of outcomes and capital required and increasing the certainty of earning an acceptable return.
Our objective of balancing risk, return and capital has led us to enhance substantially our risk management methodologies, in order to be able to identify threats, uncertainties and opportunities and in turn develop mitigation and management strategies to achieve an optimal outcome. Value is added for shareholders if our process allows us to demonstrate sustainable risk-adjusted returns in excess of our cost of capital. The process provides security to our capital providers and clients by assuring them that we are not taking on incremental risks which adversely affect the outcomes we have contracted to deliver to them.

(d) Enterprise-wide stress testing

As a part of our core risk management practices, the Mortgage Bank conducts enterprise-wide stress tests on a periodic basis to better understand earnings, capital and liquidity sensitivities to certain economic scenarios, including economic conditions that are more severe than anticipated. These enterprise-wide stress tests provide an understanding of the potential impacts to our risk profile, capital and liquidity. It generates and considers pertinent and plausible scenarios that have the potential to adversely affect our business.
Stress testing and scenario analysis are used to assess the financial and management capability of FirstTrust Mortgage Bank Plc to continue operating effectively under extreme but plausible trading conditions. Such conditions may arise from economic, legal, political, environmental and social factors. Scenarios are carefully selected and impacts to each line of business from each scenario are then analysed and determined, primarily leveraging the models and processes utilised in everyday management routines.

Impacts are assessed along with potential mitigating actions that may be taken in each scenario. Analysis from such stress scenarios is compiled for and reviewed through our Assets and Liabilities Committee (ALCO), and the Enterprise Risk Management Committee and serves to inform and be incorporated, along with other core business processes, into decision making by management and the Board. The Mortgage Bank would continue to invest in and improve stress testing capabilities as a core business process.
Our stress testing framework is designed to: contribute to the setting and monitoring of risk appetite, identify key risks to our strategy, financial position, and reputation, examine the nature and dynamics of the risk profile and assess the impact of stresses on our profitability and business plans ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing inform senior management and ensure adherence to regulatory requirements.

(e) Risk Management Philosophy, Culture, Appetite and Objectives

(i) Risk Management Philosophy and Culture

Risk management is at the core of the operating structure of the Mortgage Bank. We seek to limit adverse variations in earnings and capital by managing risk exposures within agreed levels of risk appetite. Our risk management approach includes minimising undue concentrations of exposure, limiting potential losses from stress events and the prudent management of liquidity.

Risk management is integral to the Mortgage Bank's decision-making and management process. It is embedded in the role and purpose of all employees via the organisational culture, thus enhancing the quality of strategic, capital allocation and day-to-day business decisions. FirstTrust Mortgage Bank Plc. considers risk management philosophy and culture as the set of shared beliefs, values, attitudes and practices that characterise how the Mortgage Bank considers risk in everything it does, from strategy development and implementation to its day-to-day activities. In this regard, the Mortgage Bank's risk management philosophy is that a moderate and guarded risk attitude ensures sustainable growth in shareholder value and reputation.
The Mortgage Bank believes that enterprise risk management provides the superior capabilities to identify and assess the full spectrum of risks and to enable staff at all levels to better understand and manage risks. This will ensure that:
- Risk acceptance is done in a responsible manner;
- The Executives and the Board of the Mortgage Bank have adequate risk management support;
- Uncertain outcomes are better anticipated;
- Accountability is strengthened; and
- Stewardship is enhanced.

The Mortgage Bank identifies the following attributes as guiding principles for its risk culture.

(a) *Management and staff:*
- Consider all forms of risk in decision-making;
- Create and evaluate business-unit risk profile to consider what is best for their individual business units/department and what is best for the Mortgage Bank as a whole;
- Adopt a portfolio view of risk in addition to understanding individual risk elements;
- Retain ownership and accountability for risk and risk management at the business unit or other point of influence level;

Management Discussion & Analysis (Cont'd)

- Accept that enterprise risk management is mandatory, not optional;
- Strive to achieve best practices in enterprise risk management;
- Document and report all significant risks and enterprise-risk management deficiencies;
- Adopt a holistic and integrated approach to risk management and bring all risks together under one or a limited number of oversight functions;
- Empower risk officers to perform their duties professionally and independently without undue interference;
- Ensure a clearly defined risk management governance structure;
- Ensure clear segregation of duties between market facing business units and risk management/control functions;
- Strive to maintain a conservative balance between risk and profit considerations; and
- Continue to demonstrate appropriate standards of behaviour in development of strategy and pursuit of objectives.

(b) Risk officers work as allies and thought partners to other stakeholders within and outside the Mortgage Bank and are guided in the exercise of their powers by a deep sense of responsibility, professionalism and respect for other parties

(c) Risk management is a shared responsibility. Therefore, the Mortgage Bank aims to build a shared perspective on risks that is based on consensus.

(d) Risk management is governed by well-defined policies, which are clearly communicated within the Mortgage Bank.

(e) Equal attention is paid to both quantifiable and non-quantifiable risks

(f) The Mortgage Bank avoids products and businesses it does not understand.

(ii) The Mortgage Bank risk oversight approach

Our oversight starts with the strategy setting and business planning process. These plans help us articulate our appetite for risk, which is then set as risk appetite limits for each business unit to work within.

The Mortgage Bank's risk management and compliance division provides a central oversight of risk management within the Mortgage Bank to ensure that the full spectrum of risks facing the Mortgage Bank are properly identified, measured, monitored and controlled in order to minimise adverse outcomes.

The division is complemented by the financial control and regulatory/reputation risk group in the management of strategic and reputational risks respectively. The Chief Risk Officer coordinates the process of monitoring and reporting risks across the Mortgage Bank. Internal audit has the responsibility of auditing the risk management and control function to ensure that all units charged with risk management perform their roles effectively on a continuous basis. Internal audit also tests the adequacy of internal control and makes appropriate recommendations where there are weaknesses.

(iii) Strategy and Business Planning

Risk management is embedded in our business strategy and planning cycle. Testament to this is the inclusion of risk management as one of our strategic priorities. By setting the business and risk strategy, we are able to determine appropriate capital allocation and target setting for the Mortgage Bank and each of our businesses.

All business units are required to consider the risk implications of their annual plans. These plans include analysis of the impact of risk exposure on objectives. Throughout the year, we monitored business performance regularly focusing both on financial performance and risk exposure. The aim is to continue the process of integrating risk management into the planning and management process and to facilitate informed decisions.

Through ongoing review, the links between risk appetite, risk management and strategic planning are embedded in the business so that key decisions are made in the context of the risk appetite for each business unit.

(iv) Risk Appetite

Risk appetite is an articulation and allocation of the risk capacity or quantum of risk the Mortgage Bank is willing to accept in pursuit of its strategy, duly set and monitored by the executive committee and the Board, and integrated into our strategy, business, risk and capital plans. Risk appetite reflects the Mortgage Bank's capacity to sustain potential losses arising from a range of potential outcomes under different stress scenarios.

The Mortgage Bank defines its risk appetite in terms of both volatility of earnings and the maintenance of minimum regulatory capital requirements under stress scenarios. Our risk appetite can be expressed in terms of how much variability of return the Mortgage Bank is prepared to accept in order to achieve a desired level of result. It is determined by considering the relationship between risk and return. We measure and express risk appetite qualitatively and in terms of quantitative risk metrics. The quantitative metrics include earnings at risk (or earnings volatility) and, related to this, the chance of regulatory insolvency, chance of experiencing a loss and economic capital adequacy. These comprise the Mortgage Bank's risk appetite metrics. In addition, a large variety of risk limits, triggers, ratios, mandates, targets and guidelines are in place for all the financial risks (e.g. credit, market and asset and liability management risks).

Management Discussion & Analysis (Cont'd)

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

(v) Risk management objectives

The broad risk management objectives of the Mortgage Bank are:

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

(vi) Responsibilities and functions

The responsibilities of the Risk Management and Compliance unit, the Financial Control unit, Strategy unit, Regulatory/Reputation Risk group with respect to risk management are highlighted below:

- Champion the implementation of the ERM Framework within the Mortgage Bank.
- Develop risk policies, principles, process and reporting standards that define the Mortgage Bank's risk strategy and appetite in line with the Mortgage Bank's overall business objectives.
- Ensure that controls, skills and systems are in place to enable compliance with the Mortgage Bank's policies and standards.
- Facilitate the identification, measurement, assessment, monitoring and control of the level of risks in the Mortgage Bank.
- Collect, process, verify, monitor and distribute risk information within the Mortgage Bank and other material risk issues to senior management, the Board and regulators.
- Monitor compliance within the Mortgage Bank risk policies and limits.
- Provide senior management with practical, cost effective recommendations for improvement of risk management.
- Act as a key contact for senior management who may wish to request ad hoc reviews/investigations.
- Ensure that laws, regulations and supervisory requirements are complied with including consequence management.
- Promote risk awareness and provide education on risk.
- Provide assurance on compliance with internal and external policies with respect to risk management.

(vii) Financial Control

- Prepare and monitor the implementation of the Mortgage Bank's strategic plan.
- Conduct strategic and operational review of the Mortgage Bank's activities.
- Conduct regular scanning of the Mortgage Bank's operating environment.
- Coordinate and monitor the Mortgage Bank's rating exercises by external rating agencies.
- Prepare business intelligence reports for the Mortgage Bank's management.
- Prepare periodic management reports on subsidiaries and associates.
- Perform competitive analysis in comparison with industry peers.
- Conduct strategic/operational review of branches.

(viii) Risk Management Governance Framework

- The enterprise-wide risk management and corporate governance committee forums.
- The executive management committees.
- Risk management responsibilities per risk area.
- Ensure that the Mortgage Bank implements a sound methodology that facilitates the identification, measurement, monitoring and control of credit risk.
- Ensure that detailed policies and procedures for credit risk exposure creation, management and recovery are in place.
- Appoint credit officers and delegate approval authorities to individuals and committees.

Management Discussion & Analysis (Cont'd)

(f) Board of Directors

The Board is made up of the Chairman, the Managing Director, an Executive Director and two (2) Non-Executive Directors. The directors are listed in the directors' report. The Board is made up of a crop of seasoned professionals who have excelled in their various professions including Mortgage Banking and law and possess the requisite integrity, skills and experience to bring independent judgment to bear on the Board's deliberations.

The primary purpose of the Board is to provide strategic direction for the Mortgage Bank in order to deliver long term value to shareholders through its oversight function of the Mortgage Bank's business.

Other functions of the Board include:
- to review management succession plans and determine their compensation;
- to ensure that the Mortgage Bank operates ethically and complies with applicable laws and regulations;
- to approve capital projects and investments;
- to consider and approve the annual budget of the Mortgage Bank and monitor its performance;
- to ensure that adequate system of internal control; financial reporting and compliance are in place;
- to ensure that an effective risk management process exists and is sustained; and
- to constitute board committees and determine their terms of reference and procedures; including reviewing and approving the reports of these committees.

The Board meets quarterly and additional meetings are convened as required. Decisions may be taken between meetings by way of written resolution, as provided for in the Articles of Association. The non-executive directors are provided with comprehensive Mortgage Bank information at each of the quarterly board meetings and are also briefed on business developments between board meetings.

The Board carries out the above responsibilities through its standing committees. All committees have clearly defined terms of reference, which set out their roles, responsibilities, functions and scope of authority. All committees in the exercise of their powers so delegated conform to the regulations laid down by the board. The committees render reports to the Board at its quarterly meetings.

(g) Whistle blowing

FirstTrust Mortgage Bank has a whistle-blowing policy which provides the procedure for reporting suspected breaches of their internal policies, laws and regulations. There is a special e-mail address and telephone hotline dedicated for whistle blowing. The Mortgage Bank's Chief Compliance Officer (CCO) is responsible for monitoring and reporting on whistle blowing.

Other National Disclosures

Other National Disclosures

Value Added Statement
for the year ended

	31 December 2019 ₦' 000	%	31 December 2018 ₦' 000	%
Gross income	1,799,872	261	1,537,763	9,111
Interest expense from deposits	(469,973)	(68)	(242,796)	(1,438)
Net impairment loss on financial assets	34,824	5	(817,019)	(4,841)
Brought in material - Local	(676,686)	(98)	(461,070)	(2,732)
Value added	688,037	100	16,878	100
Applied as follows:				
Employees				
Employees as wages, salaries and pensions	367,757	54	276,391	1,638
Government				
Tax expense	(1,875)	(0)	-	-
Minimum tax	9,245	2	19,331	114
To providers of finance:				
Interest on borrowings	484,608	70	276,369	1,637
Retained for maintenance and expansion:				
Depreciation on property and equipment	54,556	8	48,029	285
Amortisation of intangible assets	9,148	1	17,871	106
Increase in retained deficits	(235,402)	(34)	(621,113)	(3,680)
	688,037	100	16,878	100

Other National Disclosures

Financial Summary
Statement of financial position

In thousands of Naira	31 December 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
Assets:					
Cash and cash equivalents	370,512	1,675,457	1,175,655	1,532,283	1,176,461
Trading properties	8,175,444	607,525	883,213	1,157,292	1,203,774
Loans and advances to customers	13,552,217	8,516,947	8,538,433	6,459,990	4,947,876
Investment securities	1,269,534	1,353,852	1,304,034	1,142,348	922,880
Other assets	389,404	130,208	279,696	615,515	214,159
Property, plant and equipment	776,479	613,162	555,273	597,038	629,091
Intangible assets	2,266,452	17,048	24,209	42,673	64,588
Deferred tax assets	835,539	833,163	833,163	869,428	863,917
Total assets	27,635,581	13,747,362	13,593,676	12,416,567	10,022,746
Liabilities:					
Bank overdraft	1,964,302	821	-	-	-
Deposits from customers	11,202,755	3,262,179	2,489,843	2,319,102	2,108,928
Current tax liabilities	13,130	17,207	27,443	21,005	15,568
Other liabilities	1,953,695	1,285,293	1,044,817	747,811	391,559
Defined benefit obligations	-	-	87,242	58,605	80,485
Interest-bearing loans and borrowings	7,782,699	5,716,920	4,295,654	3,908,466	2,189,868
Total liabilities	22,916,581	10,282,420	7,944,999	7,054,989	4,786,408
Equity:					
Share capital	6,027,515	4,674,993	4,674,993	5,786,167	5,786,167
Share premium	2,737	2,737	2,737	679,734	679,734
Retained deficits	(3,446,951)	(2,403,100)	(886,298)	(2,177,418)	(1,779,658)
Other components of equity	2,135,699	1,190,312	1,857,245	1,073,095	550,095
Total equity	4,719,000	3,464,942	5,648,677	5,361,578	5,236,338
Total liabilities and equity	27,635,581	13,747,362	13,593,676	12,416,567	10,022,746

Statement of comprehensive income

In thousands of Naira	31 December 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
Gross revenue	1,814,214	1,542,036	1,618,126	1,412,760	1,141,693
(Loss)/Profit from continuing operations	(228,032)	(601,782)	154,798	148,200	90,828
Taxation	(7,370)	(19,331)	(52,704)	(46,768)	(37,170)
(Loss)/Profit from continuing operations	(235,402)	(621,113)	102,094	101,432	53,658
(Loss)/Profit from discontinued operations, net of tax	-	-	-	-	(8,784)
(Loss)/Profit for the year	(235,402)	(621,113)	102,094	101,432	44,874
Other comprehensive income/(loss), net of income tax:	136,775	(459)	194,146	42,168	(18,596)
Total comprehensive (loss)/income for the year	(98,626)	(621,572)	296,240	143,600	26,278
(Loss)/Earnings per share (kobo)	(4.70)	(13.29)	2.86	1.75	0.78

The financial information presented above reflects historical summaries based on International Financial Reporting Standards.

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