

**STERLING BANK PLC  
LAGOS, NIGERIA**

**REPORTS OF THE DIRECTORS, STATUTORY AUDIT COMMITTEE AND  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**STERLING BANK PLC**

**REPORT OF THE DIRECTORS AND STATUTORY AUDIT COMMITTEE**

**CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**Table of contents**

	Page
Report of the Directors	3
Corporate Governance Report	10
Statement of Directors' Responsibilities in Relation to the Preparation of the Consolidated and Separate Financial Statements	22
Report of the Statutory Audit Committee	23
Independent Auditors' Report	24
Consolidated and Separate Statements of Profit or Loss and Other Comprehensive Income	31
Consolidated and Separate Statements of Financial Position	32
Consolidated and Separate Statements of Changes in Equity	33
Consolidated and Separate Statements of Cash Flows	37
Statement of Prudential Adjustments	39
Notes to the Consolidated and Separate Financial Statements	40
Other National Disclosures:	
Statements of Value Added	201
Five-Year Financial Summary - Bank	202

## **STERLING BANK PLC**

### **REPORT OF THE DIRECTORS**

#### **FOR THE YEAR ENDED 31 DECEMBER 2018**

The Directors have pleasure in presenting to the members of Sterling Bank Plc ("the Bank") their report together with the audited consolidated and separate financial statements for the year ended 31 December 2018.

### **CORPORATE STRUCTURE AND BUSINESS**

#### Principal activity and business review

Sterling Bank Plc (formerly known as NAL Bank Plc) was the pioneer merchant bank in Nigeria, established on 25 November 1960 as a private limited liability company, and was converted to a public limited liability company in April 1992.

Sterling Bank Plc ("the Bank") is engaged in commercial banking with emphasis on retail and consumer banking, trade services, corporate, investment and non-interest banking activities. It also provides wholesale banking services including the granting of loans and advances, letter of credit transactions, money market operations, electronic and mobile banking products and other banking activities.

#### Legal form

Following the consolidation reforms introduced and driven by the Central Bank of Nigeria (CBN) in 2004, the Bank emerged from the consolidation of NAL Bank Plc, Indo-Nigerian Bank Limited, Magnum Trust Bank Plc, NBM Bank Limited and Trust Bank of Africa Limited. NAL Bank Plc as the surviving bank adopted a new name for the enlarged entity, 'Sterling Bank Plc'. The enlarged Bank commenced post-merger business operations on 3 January 2006 and the Bank's shares are currently quoted on the Nigerian Stock Exchange (NSE).

In October 2011, the Bank had a business combination with Equitorial Trust Bank Limited to re-position itself to better compete in the market space.

In compliance with the CBN guidelines on the review of the Universal Banking model, the Bank divested its interest from its four (4) subsidiaries and one associate company on 30 December 2011.

In 2016, Sterling Bank Plc registered Sterling Investment Management Plc ("the SPV") with the Corporate Affairs Commission as a public limited liability company limited by shares. The main objective of setting up the SPV was to raise or borrow money by the issuance of bonds or other debt instruments. The SPV is a subsidiary and is consolidated in the financial statements of the Bank. The Bank and its subsidiary is collectively referred to as "the Group".

The Bank has 180 branches and cash centres as at 31 December 2018.

**STERLING BANK PLC**

**REPORT OF THE DIRECTORS - Continued**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**OPERATING RESULTS**

Highlights of the Group and the Bank's operating results for the year ended 31 December 2018 are as follows:

<i>In millions of Naira</i>	Group 2018	Group 2017 Restated*	Bank 2018	Bank 2017 Restated*
Gross earnings	152,164 =====	133,490 =====	151,247 =====	133,022 =====
Profit before income tax	9,489	8,105	9,739	8,039
Income tax expense	(271) -----	(85) -----	(271) -----	(85) -----
Profit after income tax	9,218 =====	8,020 =====	9,468 =====	7,954 =====
Profit attributable to equity holders	9,218 =====	8,020 =====	9,468 =====	7,954 =====
Appropriation:				
Transfer to statutory reserve	1,420	1,268	1,420	1,268
Transfer to retained earnings	7,798 -----	6,752 -----	8,048 -----	6,686 -----
	9,218 =====	8,020 =====	9,468 =====	7,954 =====
Total non-performing loans as % of gross loans	8.69%	6.2%	8.69%	6.2%
Earnings per share (kobo) – Basic	32k	28k	33k	28k
Earnings per share (kobo) – Diluted	32k	28k	33k	28k

\*Certain amounts shown here do not correspond to the 2017 financial statements and reflect adjustments made, refer to Note 46 to the consolidated and separate financial statements

**STERLING BANK PLC**

**REPORT OF THE DIRECTORS - Continued**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

Directors who served during the year

The following Directors served during the year and as at the date of this report:

<b>Name</b>	<b>Designation</b>	<b>Date appointed/retired</b>	<b>Interest represented</b>
Mr. Asue Ighodalo	Chairman		Moehi Nigeria Limited
Mr. Rasheed Kolarinwa	Independent Director	Retired -26/10/2018	
Dr. (Mrs.) Omolara Akanji	Independent Director		
Mr. Michael Ajukwu	Independent Director	Appointed - 22/06/2018	
Mr. Olaitan Kajero	Non-Executive Director		Eba Odan Industrial & Commercial Company STB Building Society Limited Eltees Properties Rebounds Integrated Services Limited L.A Kings Limited
Mrs. Tairat Tijani	Non-Executive Director		Ess-ay Investment Limited
Mrs. Egbichi Akinsanya	Non-Executive Director	Retired - 22/05/2018	Asset Management Corporation of Nigeria (AMCON)
Mr. Michael Jituboh	Non-Executive Director		Dr. Mike Adenuga
Mr. Sujit Varma (Indian)	Non-Executive Director		State Bank of India
Mrs. Folasade Kilaso	Non-Executive Director	Appointed - 14/06/2018	Alfanoma Nigeria Limited Plural Limited Reduvita Limited Quakers Integrated Services Limited Concept Features Limited
Mr. Abubakar Suleiman	Managing Director/CEO		
Mr. Kayode Lawal	Executive Director	Retired - 31/08/2018	
Mr. Grama Narasimhan (Indian)	Executive Director		
Mr. Yemi Odubiyi	Executive Director		
Mr. Yemi Adeola	Managing Director/CEO	Retired - 1/04/2018	
Ms. Tamarakare Yekwe (MON)	Independent Director	Retired - 06/03/2018	
Mr. Emmanuel Emefienim	Executive Director	Appointed - 05/02/2018	

**STERLING BANK PLC**

**REPORT OF THE DIRECTORS - Continued**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**Going concern**

The Directors assess the Group and the Bank's future performance and financial position on an ongoing basis and have no reason to believe that the Group will not be a going concern in the next twelve months from the date of this report. For this reason, these consolidated and separate financial statements are prepared on a going-concern basis.

**Director's interests in shares**

Interest of directors in the issued share capital of the Bank as recorded in the Register of members and/or as notified by them for the purpose of Section 275 of the Companies and Allied Matters Act of Nigeria were as follows:

		31-Dec-18	31-Dec-18	31-Dec-17	31-Dec-17
	<b>Names</b>	Direct	Indirect	Direct	Indirect
1	Mr. Asue Ighodalo	-	62,645,242	-	62,645,242
2	Mr. Rasheed Kolarinwa	-	-	-	-
3	Mr Michael Jituboh	-	1,620,376,969	-	1,620,376,969
4	Dr. (Mrs) Omolara Akanji	-	-	-	-
5	Mr. Michael Ajukwu	-	-	-	-
6	Mr. Sujit Varma	-	2,549,505,026	-	2,549,505,026
7	Mr. Olaitan Kajero	-	1,582,687,059	-	1,582,687,059
8	Mrs. Tairat Tijani	-	1,149,566,801	-	1,444,057,327
9	Mrs. Folasade Kilaso	-	1,440,337,670	-	-
10	Mr. Abubakar Suleiman	28,108,227	-	25,157,631	-
11	Mr. Grama Narasimhan	-	-	-	-
12	Mr. Yemi Odubiyi	19,342,826	-	16,473,564	-
13	Mr. Emmanuel Emeferienim	12,158,681	-	-	-
14	Yemi Adeola	-	-	25,535,555	-
15	Tamarakare Yekwe (MON)	-	-	-	-
16	Mrs. Egbichi Akinsanya	-	-	-	1,685,614,073
17	Mr. Kayode Lawal	-	-	16,220,306	-

**Director's interests in contracts**

For the purpose of Section 277 of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, none of the current Directors had direct or indirect interest in contracts or proposed contracts with the Group during the year.

**Director's Remuneration**

The Bank ensures that remuneration paid to its Directors comply with the provisions of the codes of corporate governance issued by its regulators.

In compliance with Section 34 (5) of the Code of Corporate Governance for Public Companies issued by the Securities and Exchange Commission, the Bank hereby disclose the remuneration paid to its Directors as follows:

<b>Type of Package Fixed</b>	<b>Description</b>	<b>Timing</b>
Basic Salary	Part of gross salary package for Executive Directors only, reflects the banking industry competitive salary package and the extent to which the Bank's objectives have been met for the financial year	Paid monthly during the financial year
Other Allowances	Part of gross salary package for Executive Directors only, reflects the banking industry competitive salary package and the extent to which the Bank's objectives have been met for the financial year	Paid periodically during the financial year
Productivity Bonus	Paid to Executive Directors only and tied to performance of their line reports. It is also a function of the extent to which the Bank's objectives have been met for the financial year	Paid annually in arrears
Director Fees	Paid annually in July to Non-Executive Directors only	Paid annually in July
Sitting Allowances	Allowances paid to Non-Executive Directors only for attending and Board Committee meetings	Paid after each meeting

**Beneficial ownership**

The Bank is owned by Nigerian citizens, corporate bodies and foreign investors.

**STERLING BANK PLC**

**REPORT OF THE DIRECTORS - Continued**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

Analysis of shareholding

The range analysis of the distribution of the shares of the Bank as at 31 December 2018 is as follows:

Range of shares	Number of holders	%	Number of units	%
1 - 1,000	31,909	36.77%	14,391,739	0.05%
1001 - 5,000	26,238	30.24%	59,884,413	0.21%
5,000 - 10,000	8,912	10.27%	60,865,275	0.21%
10,001 - 20,000	7,053	8.13%	96,630,937	0.33%
20,001 - 50,000	4,826	5.56%	153,757,434	0.52%
50,001 - 100,000	2,688	3.10%	199,744,127	0.64%
100,001 - 200,000	2,022	2.33%	293,512,054	1.01%
200,001 - 500,000	1,612	1.86%	504,195,110	1.77%
500,001 - 10,000,000	1,389	1.60%	1,974,003,980	7.08%
Above 10,000,001	123	0.14%	14,798,036,648	51.24%
Foreign shareholding	5	0.01%	10,635,396,407	36.94%
	-----	-----	-----	-----
	86,777	100%	28,790,418,124	100.00%
	=====	=====	=====	=====

The following shareholders have shareholding of 5% and above as at 31 December 2018:

	31-Dec-18 Unit holding	31-Dec-18 % holding	31-Dec-17 Unit holding	31-Dec-17 % holding
Silverlake Investments Limited	7,197,604,531	25.00	7,197,604,531	25.00
State Bank of India	2,549,505,026	8.86	2,549,505,026	8.86
Sterling Bank Staff Investment Trust Fund	1,735,550,547	6.03	-	0.00
SNNL/Asset Management Corporation of Nigeria - Main	-	0.00	1,685,614,073	5.85
Dr. Mike Adenuga	1,620,376,969	5.63	1,620,376,969	5.63
Ess-ay Investments Limited	1,149,566,801	3.99	1,444,057,327	5.02

**Donations and Charitable Gifts**

The Bank during the year ended 31 December 2018 donated a total sum of N299million (for the year ended 31 December 2017: N346million) to various charitable organizations in Nigeria, details of which are shown below. No donation was made to any political organization.

Details of Donation	Purpose	Amount (N'm)
States' Investment Summit	Sponsorship	65.4
Arts and Book festival	Corporate Social Responsibility	35.0
Nigeria Economic Summit Group	Sponsorship/ CSR	33.7
States' Security Trust Fund	Corporate Social Responsibility	25.0
Teach for Nigeria	Corporate Social Responsibility	15.0
Leah Foundation - Production of movie on Breast and Cervical Cancer	Corporate Social Responsibility	15.0
Support for SMEs initiatives	Sponsorship	10.8
Department of Obstetrics and Gynecology (LUTH)	Corporate Social Responsibility	10.0
ICREATE Skills fest	Corporate Social Responsibility	8.5
Nationwide League One	Corporate Social Responsibility	8.1
Education support for Schools	Corporate Social Responsibility	8.0
One Million Teachers (1MT) partnership	Corporate Social Responsibility	6.0
Environmental sustainability partnership with States Government	Corporate Social Responsibility	5.9
Racing for Sustainable Development Goals	Corporate Social Responsibility	5.9
Training for Film Producers	Corporate Social Responsibility	5.0
Made in Nigeria Festival	Sponsorship	4.0
Other Donations and collaborations	Corporate Social Responsibility	37.8
		<b>299.01</b>

**STERLING BANK PLC****REPORT OF THE DIRECTORS - Continued****FOR THE YEAR ENDED 31 DECEMBER 2018**

## Gender Analysis of Staff

Analysis of staff employed by the Bank during the year ended 31 December 2018

<b>DESCRIPTION</b>	<b>NUMBER</b>	<b>% TO TOTAL STAFF</b>
Female new hire	165	38%
Male new hire	274	62%
	----	----
Total new hire	439	100%
	====	====
Female as at 31 December 2018	970	40.40%
Male as at 31 December 2018	1,431	59.60%
	-----	----
Total staff	2,401	100%
	====	====

Analysis of top management positions by gender as at 31 December 2018:

<b>GRADE</b>	<b>FEMALE</b>	<b>MALE</b>	<b>TOTAL</b>
Senior Management (AGM –GM)	12	31	43
Middle Management (DM – SM)	66	155	221
	----	-----	-----
TOTAL	78	186	264
	====	====	====

Analysis of Executive and Non-Executive positions by gender as at 31 December 2018:

<b>GRADE</b>	<b>FEMALE</b>	<b>MALE</b>	<b>TOTAL</b>
Executive Director	-	3	3
Managing Director	-	1	1
Non-Executive Director	3	5	8
	---	---	---
TOTAL	3	9	12
	====	====	====

**Acquisition of own shares**

The Bank did not acquire any of its shares during the year ended 31 December 2018 (2017: Nil).

**Property, plant and equipment**

Information relating to changes in property, plant and equipment is given in Note 23 to the consolidated and separate financial statements.



**STERLING BANK PLC**

**REPORT OF THE DIRECTORS - Continued**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

Employment and employees

Employment of disabled persons:

The Bank has a non-discriminatory policy on recruitment. Applications would always be welcomed from suitably qualified disabled persons and are reviewed strictly on qualification. The Bank's policy is that the highest qualified and most experienced persons are recruited for appropriate job levels irrespective of an applicant's state of origin, ethnicity, religion or physical condition.

Health, safety and welfare of employees:

Health and safety regulations are in force within the Bank's premises and employees are aware of existing regulations. The Bank provides subsidies to all levels of employees for medical expenses, transportation, housing, lunch, etc.

Employee training and development

The Bank is committed to keeping employees fully informed as much as possible regarding the Bank's performance and progress and seeking their opinion where practicable on matters which particularly affect them as employees.

Training is carried out at various levels through both in-house and external courses. Incentive schemes designed to encourage the involvement of employees in the Bank's performance are implemented whenever appropriate.

Events after the reporting date

Note 35 to the consolidated and separate financial statements disclose no events after the reporting date, that could have a material effect on the consolidated and separate financial position of the Group and the Bank as at 31 December 2018 or their profit for the year then ended.

Auditors

Messrs. Ernst & Young have indicated their willingness to continue in office as auditors of the Group in accordance with Section 357(2) of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004.

BY ORDER OF THE BOARD:



Justina Lewa  
Company Secretary  
FRC/2013/NBA/00000001255  
20 Marina, Lagos, Nigeria  
26 February 2019

## STERLING BANK PLC

### CORPORATE GOVERNANCE REPORT

#### FOR THE YEAR ENDED 31 DECEMBER 2018

The Bank complies with the relevant provisions of the Nigerian Securities & Exchange Commission (SEC) and the Central Bank of Nigeria (CBN) Codes of Corporate Governance.

#### Board of Directors

The Board of Directors (the "Board") is made up of the Non-Executive Chairman, Non-Executive Directors and Executive Directors who oversee the corporate governance of the Bank.

Attendance at Board meetings for the year ended 31 December 2018 are as follows:

Director		Attendance	No. of Meetings
1 Mr. Asue Ighodalo	Chairman	5	5
2 Mr. Rasheed Kolarinwa (Retired 26/10/18)	Independent Director	4	4
3 Dr. (Mrs.) Omolara Akanji	Independent Director	5	5
5 Mr. Olaitan Kajero	Non-Executive Director	5	5
6 Mrs. Tairat Tijani	Non-Executive Director	5	5
7 Mrs Tamarakare Yekwe (Retired 06/03/18)	Independent Director	2	2
8 Mrs. Egbichi Akinsanya (Retired 22/05/18)	Non-Executive Director	3	3
9 Mr. Michael Jituboh	Non-Executive Director	3	5
10 Mr. Sujit Varma	Non-Executive Director	1	5
11 Mrs. Folasade Kilaso (Appointed 14/06/18)	Non-Executive Director	2	2
12 Mr. Michael Ajukwu (Appointed 22/06/18)	Independent Director	2	2
13 Mr. Abubakar Suleiman	Managing Director / CEO	5	5
14 Mr Yemi Adeola (Retired 01/04/18)	Managing Director / CEO	1	1
15 Mr. Kayode Lawal (Retired 31/08/18)	Executive Director	3	3
16 Mr. Grama Narasimhan (Indian)	Executive Director	5	5
17 Mr. Yemi Odubiyi	Executive Director	5	5
18 Mr. Emmanuel Emefienim (Appointed (05/02/18)	Executive Director	4	4

#### Board Committees

The Board carries out its oversight functions through its various committees each of which has a clearly defined terms of reference and a charter which has been approved by the Central Bank of Nigeria. The Board has five (5) standing committees, namely: Board Credit Committee, Board Finance & General Purpose Committee, Board Risk Management Committee, Board Audit Committee, and Board Governance & Remuneration Committee. In line with best practice, the Chairman of the Board is not a member of any of the Committees. The composition and responsibilities of the committees are set out below:

#### Board Credit Committee

The Committee acts on behalf of the Board of Directors on credit matters, and reports to the Board for approval/ratification.

#### Terms of reference

- Consider credit proposals for approval on the recommendation of the Management Credit Committee (MCC).
- Recommend to the Board assignment of credit approval authority limits on the recommendation of the MCC.
- Review the Credit Policy Guidelines of the Bank as and when required by the dictates of the market and/or the corporate strategic intent on the recommendation of the MCC.

## STERLING BANK PLC

### CORPORATE GOVERNANCE REPORT - continued

#### FOR THE YEAR ENDED 31 DECEMBER 2018

##### Board Credit Committee - continued

- Approve credit facility requests above the limits set for Management, within limits defined by the Bank's credit policy and within the statutory requirements set by the regulatory/supervisory authorities.
- Review periodic credit portfolio reports and assess portfolio performance.
- Ensure compliance with the Bank's Credit Policies and statutory requirements prescribed by the regulatory/supervisory authorities.
- Recommend credit facility requests above the Committee's limit to the Board.
- Review and recommend to the Board for approval/ratification Management proposals on full and final settlements on non performing loans.
- Review and approve the restructure of credit facilities in line with the Credit Policy Guidelines.
- Review and approve credit proposals in line with the Bank's Risk Policy Guidelines.
- Review and recommend to the Board for approval proposals on write-offs.
- Periodic review of the recovery process to ensure compliance with the Bank's recovery policies, applicable laws and statutory requirements.
- Perform any other duties assigned by the Board from time to time.

The members and respective attendance in committee meetings are as follows:

		Attendance	No. of Meetings
1	Dr. (Mrs.) Omolara Akanji	4	4
2	Mr. Rasheed Kolarinwa (Retired 26/10/18)	4	4
3	Mr. Olaitan Kajero	4	4
4	Mr. Michael Ajukwu	2	2
5	Mr. Abubakar Suleiman	4	4
6	Mr. Grama Narasimhan (Indian)	4	4
7	Mr. Yemi Odubiyi	1	1
8	Mr. Emmanuel Emefienim	2	2

##### Board Finance and General Purpose Committee

The Committee acts on behalf of the Board of Directors on all matters relating to financial management, and reports to the Board for approval/ratification.

##### Terms of reference

- Establish the Bank's financial policies in relation to the operational plan, capital budgets, and the reporting of results.
- Monitor the progress and achievement of the Bank's financial targets.
- Review significant corporate financing and liquidity programs and tax plans.

## STERLING BANK PLC

### CORPORATE GOVERNANCE REPORT - continued

#### FOR THE YEAR ENDED 31 DECEMBER 2018

##### Board Finance and General Purpose Committee - continued

- Recommend major expenditure approvals to the Board.
- Review and consider the financial statements and make appropriate recommendation to the Board.
- Review annually the Bank's financial projections, as well as capital and operating budgets, and review on a quarterly basis with management, the progress of key initiatives including actual financial results against targets and projections.
- Review and recommend for Board approval, the Bank's capital structure, including but not limited to, allotment of new capital, debt limits and any changes to the existing capital structure.
- Recommend for Board approval, the Bank's dividend policy, including amount, nature and timing.
- Review and make recommendations to the Board regarding the Bank's investment strategy, policy and guidelines, its implementation and compliance with those policies and guidelines and the performance of the Bank's investment portfolio.
- Approve a comprehensive framework for delegation of authority on financial matters and enforce compliance with financial manual of authorities.
- Ensure cost management strategies are developed and implemented to monitor and control costs.
- Review major expense lines periodically and approve expenditure within the limit of the Committee as documented in the financial manual of authorities.
- Review contract awards for significant expenditure above EXCO limit.
- Review significant transactions and new business initiatives for the Board's approval.
- To perform any other duties assigned by the Board from time to time.

The members and respective attendance in committee meetings are as follows:

		Attendance	No. of Meetings	
1	Mrs. Tairat Tijani	Chairperson	4	4
2	Mrs. Egbichi Akinsanya (Retired 22/05/18)	Member	2	2
3	Mrs. Folasade Kilaso	Member	2	2
4	Mr. Michael Jituboh	Member	3	4
5	Mr. Abubakar Suleiman	Member	4	4
6	Mr. Yemi Odubiyi	Member	4	4

## STERLING BANK PLC

### CORPORATE GOVERNANCE REPORT - continued

#### FOR THE YEAR ENDED 31 DECEMBER 2018

#### Board Risk Management Committee

The Committee is responsible for evaluating and handling issues relating to risk management in the Bank.

#### Terms of reference

- Review and recommend to the Board the risk management policy including risk appetite, risk limits, tolerance and risk strategy.
- Review and recommend to the Board for approval the Bank's Enterprise-wide Risk Management Policy and other specific risk policies.
- Monitor the Bank's plan and progress in meeting regulatory risk based supervision requirements.
- Monitor implementation and migration to Basel II, III, and IV and other local and international risk management bodies as approved by the regulators.
- Review the organization's risk-reward profiles including credit, market and operational risk-reward profiles and where necessary, recommend strategies for improvement.
- Evaluate the risk profile and risk management plans drafted for major projects, acquisitions, new products and new ventures or services to determine the impact on the risk reward profile.
- Oversight of management's process for the identification of significant risks and the adequacy of prevention, detection and reporting mechanisms.
- Receive reports on, and review the adequacy and effectiveness of the Bank's risk and control processes to support its strategy and objectives.
- Endorse definition of risk and return preferences and target risk portfolio.
- Periodic review of changes in the economic and business environment, including emerging trends and other factors relevant to the Bank's risk profile.
- Ensure compliance with the Bank's credit policies, applicable laws and statutory requirements prescribed by the regulatory/supervisory authorities.
- Review the effectiveness of the risk management system on an annual basis.
- To perform any other duties assigned by the Board from time to time.

The members and respective attendance in committee meetings are as follows:

		Attendance	No. of Meetings	
1	Mr. Olaitan Kajero	Chairman	4	4
2	Mr. Rasheed Kolarinwa (Retired 26/10/18)	Member	4	4
3	Dr. (Mrs.) Omolara Akanji	Member	4	4
4	Mrs. Tairat Tijani	Member	4	4
5	Mr. Michael Jituboh	Member	2	4
6	Mr. Abubakar Suleiman	Member	4	4
7	Mr. Kayode Lawal (Retired 31/08/18)	Member	2	2
8	Mr. Yemi Odubiyi	Member	4	4
9	Mr. Emmanuel Emefienim	Member	2	2

## **STERLING BANK PLC**

### **CORPORATE GOVERNANCE REPORT - continued**

#### **FOR THE YEAR ENDED 31 DECEMBER 2018**

##### **Board Audit Committee**

The Committee acts on behalf of the Board of Directors on all audit matters. Decisions and actions of the Committee are presented to the Board for approval/ratification.

##### **Terms of reference**

- Review the appropriateness of accounting policies.
- Review the appropriateness of assumptions made by Management in preparing the financial statements.
  
- Review the significant accounting and reporting issues, and understand their impact on the financial statements;
  
- Review the quarterly and annual financial statements and consider whether they are complete, consistent with prescribed accounting and reporting standards.
- Obtain assurance from Management with respect to the accuracy of the financial statements.
- Review with management and the external auditors the results of external audit, including any significant issues identified.
- Review the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- Review the adequacy of the internal control system, including information technology security and control.
  
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
  
- Review the relevant policies and procedures in place and ensure they are up to date, and are complied with.
  
- Review and ensure the financial internal controls are operating efficiently and effectively.
- Review the Bank's compliance with the performance management and reporting systems;
- Review and ensure the performance reporting and information uses appropriate targets and benchmarks.
  
- Review the Internal Audit operations manual, budget, activities, staffing, skills and organizational structure of the Internal Audit;
- Review and approve the Internal Audit plan, its scope and any major changes to it, ensuring that it covers the key risks and that there is appropriate co-ordination with the Bank's External Auditors;
- Review and concur in the appointment, replacement, or dismissal of the Chief Internal Auditor;
- Resolve any difficulties or unjustified restrictions or limitations on the scope of Internal Audit work;
- Resolve any significant disagreements between Auditors and Management;
- Review the significant findings and recommendations by Internal Audit and Management responses thereof;
  
- Review the implementation of Internal Audit recommendations by Management;
- Review the performance of the Chief Internal Auditor;
- Review the effectiveness of the Internal Audit function, including compliance with acceptable International Standards for the Professional Practice of Internal Auditing.
- Review the external auditors' proposed audit scope, approach and audit fees for the year;
- Review the findings and recommendations by External Auditors and Management responses thereof;
- Review the implementation of External Auditors' recommendations by Management;

## STERLING BANK PLC

### CORPORATE GOVERNANCE REPORT - continued

#### FOR THE YEAR ENDED 31 DECEMBER 2018

##### Board Audit Committee - continued

- Review the performance of External Auditors;
- Ensure that there is proper coordination of audit efforts between Internal and External Auditors;
- Review the effectiveness of the system for monitoring compliance with laws and regulations;
- Review the findings of any examinations by regulatory agencies, and audit observations;
- Regularly report to the Board of Directors on Committee activities;
- Perform other duties as may be assigned by the Board of Directors;

The members and respective attendance in committee meetings are as follows:

		Attendance	No. of Meetings	
1	Mr. Michael Ajukwu	Chairman	2	2
2	Mr. Rasheed Kolarinwa (Retired 26/10/18)	Member	4	4
3	Dr. (Mrs.) Omolara Akanji	Member	4	4
4	Mrs. Tairat Tijani	Member	4	4
5	Mrs. Egbichi Akinsanya (Retired 22/05/18)	Member	2	2
6	Mr. Michael Jituboh	Member	3	4
7	Mrs. Folasade Kilaso	Member	2	2

##### Board Governance & Remuneration Committee

The Committee acts on behalf of the Board of Directors on all matters relating to the workforce.

##### Terms of reference

- Monitoring, reviewing and approving employee relations' issues such as compensation matters/bonus programs and profit sharing schemes;
- Advise the Board on recruitment, promotions and disciplinary issues affecting top management of the Bank from Assistant General Manager grade and above;
- Appraise the Managing Director & Chief Executive and Executive Directors annually for appropriate recommendation to the Board;
- Approve training programmes for Non-Executive Directors;
- The Committee shall review the need for appointments and note the specific experience and abilities needed for each Board Committee, consider candidates for appointment as either Executive or Non-Executive Directors and recommend such appointments to the Board.
- The Committee shall review the tenor of both Executive and Non-Executive Directors on the Board and Board Committees.
- The Committee shall recommend any proposed change(s) to the Board.

## STERLING BANK PLC

### CORPORATE GOVERNANCE REPORT - continued

#### FOR THE YEAR ENDED 31 DECEMBER 2018

##### Board Governance & Remuneration Committee - continued

- Recommend to the Board renewal of appointment of Executive and Non-Executive Directors based on the outcome of review of Directors performance.
- To make recommendations on experience required by Board Committee Members, Committee Appointments and Removal, Reporting and other Committee Operational matters.
- To ensure that the Board evaluation is carried out on an annual basis.
- To review and make recommendations to the Board for approval of the Bank's Organisational structure and any proposed amendments.
- Review and make recommendations on the Bank's succession plan for Directors and other senior management staff from Assistant General Manager grade and above.
- Regular monitoring of compliance with Bank's Code of Ethics and Business Conduct for Directors and Staff.
- The Committee shall determine the incentive arrangements and benefits of the Executive and Non-Executive Directors of the Bank for recommendation to the Board.
- Review and submit to the full Board, recommendations concerning Executive Directors Compensation plans, salaries and perquisites ensuring that the compensation packages are competitive.
- Review and submit to the full Board, recommendations concerning Non-Executive Directors remuneration.
- Review and recommend for Board approval stock-based compensation, share option, incentive bonus, severance benefits and perquisites for Executive Directors and employees.
- Ensure that the level of remuneration is sufficient to attract, retain and motivate Executive Directors and all employees of the Bank while ensuring that the Bank is not paying excessive remuneration.
- Recommend to the Board compensation payable to Executive Directors and Senior Management employees for any loss of office or termination of appointment.
- Develop, review and recommend the remuneration policy to the Board for approval.
- The Committee may engage a remuneration consultant at the expense of the Bank for the purpose of carrying out its responsibilities. Where such a consultant is engaged by the Committee, the consultant must be independent.
- To perform any other duties assigned by the Board from time to time.

The members and respective attendance in committee meetings are as follows:

		Attendance	No. of Meetings	
1	Mrs. Folasade Kilaso	Chairperson	2	2
2	Mr. Rasheed Kolarinwa (Retired 26/10/18)	Member	5	5
3	Dr. (Mrs.) Omolara Akanji	Member	5	5
4	Mr. Olaitan Kajero	Member	5	5
5	Mrs. Egbichi Akinsanya (Retired 22/05/18)	Member	3	3
6	Mrs. Tairat Tijani	Member	5	5
7	Mr. Michael Ajukwu	Member	2	2



## **STERLING BANK PLC**

### **CORPORATE GOVERNANCE REPORT - continued**

#### **FOR THE YEAR ENDED 31 DECEMBER 2018**

##### **Statutory Audit Committee**

The Committee is established in line with Section 359(6) of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004. The Committee's membership consists of three (3) representatives of the shareholders elected at the Annual General Meeting (AGM) and three (3) Non-Executive Directors. The Committee meets every quarter, but could also meet at any other time, as the need arise.

All members of the Committee are financially literate.

The membership of the Committee is as follows:

##### **Shareholders' Representative**

- 1 Alhaji Mustapha Jinadu
- 2 Mr. Idongesit Udoh
- 3 Ms. Christie Vincent

##### **Non-Executive Directors**

- 4 Mr. Olaitan Kajero
- 5 Mr. Rasheed Kolarinwa
- 6 Mr. Michael Jituboh

##### **Terms of reference**

- To make recommendations to the Board to be put to the Shareholders for approval at the AGM regarding the appointment, removal and remuneration of the external auditors of the Bank;
- To authorise the internal auditor to carry out investigations into any activities of the Bank which may be of interest or concern to the Committee;
- To review and approve the annual audit plan and ensure that it is consistent with the scope of audit engagement, having regard to the seniority, expertise and experience of the audit team;
- To review representation letter(s) requested by the external auditors before they are signed by Management;
- To review the Management Letter and Management's Response to the auditor's findings and recommendations;
- To assist in the oversight of the integrity of the Bank's financial statements, compliance with legal and other regulatory requirements, assessment of qualifications and independence of external auditor, and performance of the Bank's internal audit function as well as that of external auditors;
- To establish an internal audit function and ensure there are other means of obtaining sufficient assurance of regular review or appraisal of the system of internal controls in the Bank;
- To ensure the development of a comprehensive internal control framework for the Bank, obtain assurance and report annually in the financial report, on the operating effectiveness of the Bank's internal control framework;

## STERLING BANK PLC

### CORPORATE GOVERNANCE REPORT - continued

#### FOR THE YEAR ENDED 31 DECEMBER 2018

##### Statutory Audit Committee - continued

- To review such other matters in connection with overseeing the financial reporting process and the maintenance of internal controls as the Committee shall deem appropriate;
- To oversee management's process for the identification of significant fraud risks across the Bank and ensure that adequate prevention, detection and reporting mechanisms are in place;
- 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 Bank;
- Discuss the annual audited financial statements and half yearly unaudited financial statements with Management and external auditors;
- Discuss policies and strategies with respect to risk assessment and management;
- Meet separately and periodically with Management, internal auditors and external auditors;
- To review and ensure that adequate whistle-blowing procedures are in place;
- To review, with the external auditors, any audit scope limitations or problems encountered and management's responses to same;
- To review the independence of the external auditors and ensure that where non-audit services are provided by the external auditors, there is no conflict of interest;
- To consider any related party transactions that may arise within the Bank or Group;
- Invoke its authority to investigate any matter within its terms of reference for which purpose the Bank must make available the resources to the internal auditors with which to carry out this function, including access to external advice where necessary;
- Prepare the Committee's report for inclusion in the Bank's Annual Report; and
- Report to the Board regularly at such times as the Committee shall determine necessary.

The members and respective attendance in committee meetings are as follows:

		Attendance	No. of Meetings	
1	Mr. Olaitan Kajero	Chairman	4	4
2	Alhaji Mustapha Jinadu	Member	4	4
3	Mr. Idongesit Udoh	Member	4	4
4	Ms. Christie Vincent	Member	4	4
5	Mr. Rasheed Kolarinwa (Retired 26/10/18)	Member	2	2
6	Mr. Michael Jituboh	Member	1	2

## STERLING BANK PLC

### CORPORATE GOVERNANCE REPORT - continued

#### FOR THE YEAR ENDED 31 DECEMBER 2018

##### Dates for Board and Board Committee meetings held in 2018 financial year:

Meetings	Dates				
	26-Jan-18	6-Mar-18	22-May-18	14-Aug-18	22-Nov-18
Board	26-Jan-18	6-Mar-18	22-May-18	14-Aug-18	22-Nov-18
Board Credit Committee	16-Feb-18	25-Apr-18		13-Jul-18	15-Oct-18
Board Finance & General Purpose Committee	21-Feb-18	17-Apr-18		6-Jul-18	16-Oct-18
Board Audit Committee	22-Feb-18	26-Apr-18		18-Jul-18	22-Oct-18
Board Risk Management Committee	15-Feb-18	24-Apr-18		16-Jul-18	29-Oct-18
Board Governance & Remuneration Committee	11-Jan-18	20-Feb-18	23-Apr-18	17-Jul-18	18-Oct-18
Statutory Audit Committee	23-Feb-18	19-Apr-18		25-Jul-18	25-Oct-18

##### The Company Secretary

The Directors have separate and independent access to the Company Secretary. The Company Secretary is responsible for, among other things, ensuring that Board procedures are observed and that the Company's Memorandum and Articles of Association together with other relevant rules and regulations are complied with. She also assists the Chairman and the Board in implementing and strengthening corporate governance practices and processes, with a view to enhancing long-term shareholder value.

The Company Secretary assists the Chairman in ensuring good information flow within the Board and its committees and between Management and Non-Executive Directors. The Company Secretary also facilitates orientation of new Directors and coordinates the professional development of Directors.

The Company Secretary is responsible for designing and implementing a framework for the Bank's compliance with the listing rules of the Nigeria Stock Exchange, including advising Management on prompt disclosure of material information.

The Company Secretary attends and prepares the minutes for all Board meetings. As Secretary for all Board Committees, she assists in ensuring coordination and liaison between the Board, the Board Committees and Management. The Company Secretary also assists in the development of the agendas for the various Board and Board Committee meetings.

The appointment and removal of the Company Secretary are subject to the Board's approval.

##### Management Committees

###### 1 Executive Committee (EXCO)

The Committee provides leadership to the management team and ensures the implementation of strategies approved by the Board. It deliberates and takes decisions on the effective and efficient management of the Bank.

###### 2 Asset and Liability Committee (ALCO)

The Committee ensures adequate liquidity and the management of interest rate risk within acceptable parameters. It also reviews the economic outlook and its impact on the Bank's strategies.

## **STERLING BANK PLC**

### **CORPORATE GOVERNANCE REPORT - continued**

#### **FOR THE YEAR ENDED 31 DECEMBER 2018**

##### **Management Committees - continued**

###### **3 Management Credit Committee (MCC)**

The Committee approves new credit products and initiatives, minimum/prime lending rate and reviews the credit policy manual. It approves exposures up to its maximum limit and the risk asset acceptance criteria.

###### **4 Management Performance Review Committee (MPR)**

The Committee reviews the Bank's monthly performance on set targets and monitors budget achievement. It also assesses the efficiency of resource deployment in the Bank and re-appraises cost management initiatives.

###### **5 Criticised Assets Committee (CAC)**

The Committee reviews the Bank's credit portfolio and collateral documentation. It reviews the non-performing loans and recovery strategies for bad loans.

###### **6 Computer Steering Committee (CSC)**

The Committee establishes the overall technology priorities by identifying projects that support the Bank's business plan. It provides guidance in effectively utilizing technology resources to meet business and operational needs of the Bank.

###### **7 Management Risk Committee (MRC)**

The Committee is responsible for planning, management and control of the Bank's overall risks. It includes setting the Bank's risk philosophy, risk appetite, risk limits and risk policies.

##### **Succession Planning**

Sterling Bank Plc has a Succession Planning Policy which was approved by the Board of Directors in 2015. Succession Planning is aligned to the Bank's overall organisational development strategy. In line with this policy, a unit was set-up in the Human Capital Management Group to implement, amongst others, a Succession Plan for the Bank.

Successors are nominated based on experience, skills and competencies through an automated process by current role holders in conjunction with the Human Capital Management Group. Development initiatives have also been put in place to accelerate successors' readiness.

##### **Code of Ethics**

Sterling Bank has a Code of Ethics that specifies acceptable behaviour of its staff, in the staff handbook. It is a requirement that all staff should sign a confirmation that they have read and understood the document upon employment.

The Bank also has a Sanctions Manual which provides sample offences/violation and prescribes measures to be adopted in various cases. The Chief Human Resource Officer (CHRO) is responsible for the implementation and compliance to the "Code of Ethics".

## **STERLING BANK PLC**

### **CORPORATE GOVERNANCE REPORT - continued**

#### **FOR THE YEAR ENDED 31 DECEMBER 2018**

##### **Whistle Blowing Process**

The Bank is committed to the highest standards of openness, probity and accountability, hence the need for an effective and efficient whistle blowing process as a key element of good corporate governance and risk management.

Whistle blowing process is a mechanism by which suspected breaches of the Bank's internal policies, processes, procedures and unethical activities by any stakeholder (staff, customers, suppliers and applicants) are reported for necessary actions.

It ensures a sound, clean and high degree of integrity and transparency in order to achieve efficiency and effectiveness in our operations.

The reputation of the Bank is of utmost importance and every staff of the Bank has a responsibility to protect the Bank from any persons or act that might jeopardize its reputation. Staffs are encouraged to speak up when faced with information that would help protect the Bank's reputation.

An essential attribute of the process is the guarantee of confidentiality and protection of the whistle blower's identity and rights. It should be noted that the ultimate aim of this policy is to ensure efficient service to the customer, good corporate image and business continuity in an atmosphere compliant with best industry practice.

The Bank has a Whistle Blowing channel via the Bank's website, dedicated telephone hotlines and e-mail address in compliance with the guidelines for whistle blowing for Banks and Other Financial Institutions issued by the Central Bank of Nigeria (CBN) .

The Bank's Chief Compliance Officer is responsible for monitoring and reporting on whistle blowing.

Further disclosures are stated in Note 43 of the consolidated and separate financial statements.

##### **Securities Trading Policy**

The Bank has put in place a Policy on Trading on the Bank's Securities by Directors and other key personnel of the Bank.

During the year under review, the Directors and other key personnel of the Bank complied with the terms of the Policy and the provisions of Section 14 of the Amendment to the Listing Rules of The Nigerian Stock Exchange.

##### **Complaint Management Policy**

The Bank has put in place a Complaint Management Policy guiding the resolution of disputes with stakeholders on the issue relating to the Investment and Securities Act.

##### **Process of Board Appointments**

The Board Governance & Remuneration Committee has the responsibility for leading the process for Board appointments as either Executive or Non-Executive Directors.

The Committee, in performance of its duties under the Board Charter, shall review the need for appointments and recommend such appointments to the Board for approval. The Committee shall note the specific experience and abilities needed and shall identify, review and recommend to the Board candidates for potential appointment as Directors. In identifying suitable candidates, the Committee considers candidates on merit against objective criteria and with due regard for the benefit of diversity on the Board, including gender mix as well as the balance of appropriate skills and experience.

The appointment of Directors by the Board is subject to the approval of the Central Bank of Nigeria and Shareholders at the Annual General Meeting.

**STERLING BANK PLC**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO**

**THE PREPARATION OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

In accordance with the provisions of Sections 334 and 335 of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, and Sections 24 and 28 of the Banks and Other Financial Institutions Act, CAP B3 Laws of the Federation of Nigeria 2004, the Directors are responsible for the preparation of the consolidated and separate financial statements which present fairly, in all material respects, the financial position of the Group and the Bank, and of their financial performance for the year. The responsibilities include ensuring that:

- (a) appropriate internal controls are established both to safeguard the assets of the Group and to prevent and detect fraud and other irregularities;
- (b) the Group keeps accounting records which disclose with reasonable accuracy the financial position and performance of the Group and which ensure that the consolidated and separate financial statements comply with the International Financial Reporting Standards and the relevant requirements of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, Banks and Other Financial Institutions Act, CAP B3 Laws of the Federation of Nigeria 2004, the Financial Reporting Council of Nigeria Act No. 6, 2011, and relevant Central Bank of Nigeria circulars;
- (c) the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates.

The Directors accept responsibility for the consolidated and separate financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with International Financial Reporting Standards, the requirements of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, the Banks and Other Financial Institutions Act, CAP B3 Laws of the Federation of Nigeria 2004, the Financial Reporting Council of Nigeria Act No. 6, 2011 and relevant Central Bank of Nigeria circulars.

The Directors are of the opinion that the consolidated and separate financial statements present fairly, in all material respects, the financial position and the financial performance of the Group and the Bank as at and for the year ended 31 December 2018.

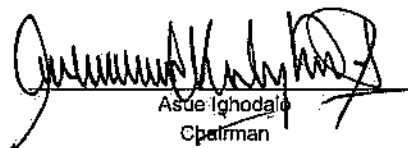
The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the consolidated and separate financial statements, as well as adequate systems of financial control.

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

Signed on behalf of the Directors by:



Abubakar Suleiman  
Managing Director/CEO  
FRC/2013/CIBN/0000001275



Asde Ighodalo  
Chairman  
FRC/2015/NBA/00000010680

26 February 2019

**STERLING BANK PLC**

**REPORT OF THE STATUTORY AUDIT COMMITTEE**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

**TO THE MEMBERS OF STERLING BANK PLC:**

In accordance with the provision of Section 359 (6) of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, the members of the Statutory Audit Committee of Sterling Bank Plc and its subsidiary hereby report as follows:

- We are of the opinion that the accounting and reporting policies of the Group are in accordance with International Financial Reporting Standards and legal requirements and agreed ethical practices.
- We believe that the scope and planning of both the external and internal audits for the year ended 31 December 2018 were satisfactory and reinforce the Group's internal control systems.
- We have deliberated with the External Auditors, who have confirmed that necessary co-operation was received from Management in the course of their audit and we are satisfied with Management's response to the External Auditors' recommendations on accounting and internal control matters.
- The Internal Control and Internal Audit functions were operating effectively.
- We have exercised our statutory functions under Section 359 (6) of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, and acknowledge the co-operation of Management and staff in the conduct of these responsibilities.

We are satisfied that the Bank has complied with the provision of the Central Bank of Nigeria Circular BSD/1/2004 dated 18 February 2004 on "Disclosure of Directors' related credits in the consolidated and separate financial statements of banks". We have reviewed insider-related credits of the Bank and found them to be as analysed in the consolidated and separate financial statements. The status of performance of these facilities is disclosed in Note 34 to the consolidated and separate financial statements.



Mr. Olaitan Kajero  
Chairman, Statutory Audit Committee      22 February 2019  
FRC/2018/CIBN/00000018913

Members of the Statutory Audit Committee are:

- |                           |                      |
|---------------------------|----------------------|
| 1. Mr. Olaitan Kajero     | Chairman             |
| 2. Alhaji Mustapha Jinadu | Member               |
| 3. Ms. Christie Vincent   | Member               |
| 4. Mr. Idongesit Udoh     | Member               |
| 5. Mr. Rasheed Kolarinwa  | Retired - 26/10/2018 |
| 6. Mr. Michael Jibutoh    | Member               |

In attendance:

Justina Lewa

Company Secretary

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE SHAREHOLDERS OF STERLING BANK PLC**

#### **Report on the Audit of the Consolidated and Separate Financial Statements**

##### **Opinion**

We have audited the consolidated and separate financial statements of Sterling Bank Plc (“the Bank”) and its subsidiary (collectively “the Group”) which comprise the consolidated and separate statements of financial position as at 31 December 2018, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Group and the Bank as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and the relevant provisions of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, the Banks and Other Financial Institutions Act, CAP B3 Laws of the Federation of Nigeria 2004, the Financial Reporting Council of Nigeria Act No. 6, 2011 and Central Bank of Nigeria circulars.

##### **Basis of Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of Sterling Bank Plc and its subsidiary. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of the Group. 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 judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



## **INDEPENDENT AUDITORS' REPORT**

### **TO THE SHAREHOLDERS OF STERLING BANK PLC – Continued**

#### **Report on the Audit of the Consolidated and Separate Financial Statements – Continued**

##### **Key Audit Matters - Continued**

We have fulfilled the responsibilities described in the Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

##### **Expected Credit Loss (ECL) assessment on financial instruments**

The Group has significant financial assets in its portfolio which are measured either at amortised cost, fair value through profit or loss or fair value through other comprehensive income. This represents about 94% of total assets, and the associated impairment provision are significant to the consolidated and separate financial statements. The adoption of the International Financial Reporting Standards (IFRS 9) - Financial Instrument Recognition and Measurement effective 01 January 2018 introduced an expected credit loss model (ECL) for recognizing impairment for financial instruments different from the incurred loss model under IAS 39.

The ECL involves the application of judgement and estimation in determining inputs for ECL calculation such as:

- Determining criteria for significant increase in credit risk (SICR) for staging purpose.
- Assessing the relationship between the quantitative factors such as default and qualitative factors such as macro-economic variables.
- Incorporating forward looking information in the model building process.
- Factors incorporated in determining the Probability of Default (PD), the Loss Given Default (LGD), the Recovery Rate and the Exposure at Default (EAD).
- Factors considered in cash flow estimation including timing and amount.
- Factors considered in collateral valuation.

These estimates are driven by a number of factors, changes in which might lead to a significant impact in the impairment value.

Adopting IFRS 9 also requires some judgements in taking certain key decisions which will impact the transitional disclosures as at 01 January 2018. Refer to Notes 3, 20 and 37 to the consolidated and separate financial statements.

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE SHAREHOLDERS OF STERLING BANK PLC - Continued**

#### **Report on the Audit of the Consolidated and Separate Financial Statements - Continued**

##### **Key Audit Matters - Continued**

This is considered a key audit matter in the consolidated and separate financial statements given the level of significance of the amount, the complexity and judgement involved in the process which required considerable audit time and expertise.

##### **How the matter was addressed in the audit**

Our audit approach was a mix of both control and substantive procedures.

- We reviewed the IFRS 9 model prepared by the management for computation of impairment on financial assets in line with the requirements of IFRS 9.
- We gained an understanding of how the Probability of Default (PD's) and Loss Given Default (LGD's) were derived by the system by performing a walkthrough using live data.
- For loans classified under stages 1 and 2, we selected material loans and reviewed the repayment history for possible repayment default. We challenged the various factors considered in classifying the loans within stages 1 and 2 and in the measurement of ECL.
- For stage 3 loans, we challenged all assumptions considered in the estimation of recovery cash flows, the discount factor, and the timing of realisation. In instances where we were not satisfied with the assumption used by the management in its cash flow estimation and discounting, we challenged management assumptions by re-computing the cash flows to determine the recoverable amounts.
- We focused on the most significant model assumptions including probability of default and loss given default.
- We performed detailed procedures on the completeness and accuracy of the information used.
- We used our internal specialists to assess the appropriateness of the models used and to perform an independent recalculation of the impairment provision for the selected portfolios.
- Other areas of complexities which include incorporating forward looking information such as macro-economic indicators like inflation, monetary policy rate (MPR), exchange rate, etc. were equally challenged for reasonableness taking into consideration available information in the public domain.
- We reviewed the qualitative and quantitative disclosures for reasonableness to ensure conformity with IFRS 7 - Financial Instruments Disclosures.

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE SHAREHOLDERS OF STERLING BANK PLC - Continued**

#### **Report on the Audit of the Consolidated and Separate Financial Statements - Continued**

##### **Other Information**

The Directors are responsible for the other information. The other information comprises the Report of the Directors and the Report of the Statutory Audit Committee as required by the Companies and Allied Matters Act, CAP C20 Laws of Federation of Nigeria (CAMA) 2004, the Statement of Value Added and the Five-Year Financial Summary as required by Companies and Allied Matters Act, CAP C20 Laws of Federation of Nigeria (CAMA) 2004 and the Financial Reporting Council of Nigeria, and the Corporate Governance Report as required by the Central Bank of Nigeria and the Nigerian Securities and Exchange Commission, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our Auditors' report thereon.

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

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

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

##### **Responsibilities of the Directors for the Consolidated and Separate Financial Statements**

The Directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the relevant provisions of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, the Banks and Other Financial Institutions Act, CAP B3 Laws of the Federation of Nigeria 2004, the Financial Reporting Council of Nigeria Act No. 6, 2011 and Central Bank of Nigeria circulars and for such internal control as the Directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE SHAREHOLDERS OF STERLING BANK PLC - Continued**

#### **Report on the Audit of the Consolidated and Separate Financial Statements – Continued**

##### *Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements*

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

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

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE SHAREHOLDERS OF STERLING BANK PLC - Continued**

#### **Report on the Audit of the Consolidated and Separate Financial Statements – Continued**

##### *Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements - Continued*

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors 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 Directors 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 Directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our Auditors' 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**

In accordance with the requirement of Schedule 6 of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, we confirm that:

- i. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- ii. In our opinion, proper books of account have been kept by the Group and the Bank, in so far as it appears from our examination of those books;
- iii. The Group and the Bank's consolidated and separate statements of financial position and consolidated and separate statements of profit or loss and other comprehensive income are in agreement with the books of account.



Building a better  
working world

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF STERLING BANK PLC - Continued

#### Report on Other Legal and Regulatory Requirements - Continued

In compliance with the Banks and Other Financial Institutions Act, CAP B3 Laws of the Federation of Nigeria 2004 and circulars issued by the Central Bank of Nigeria:

- i. The information required by the Central Bank of Nigeria Circular BSD/1/2004 on insider related credits is disclosed in Note 34b to the consolidated and separate financial statements.
- ii. As disclosed in Note 40 to the consolidated and separate financial statements, the Bank contravened certain circulars of the Central Bank of Nigeria.
- iii. Customer complaints are disclosed in Note 41 to the consolidated and separate financial statements in compliance with the Central Bank of Nigeria circular FPR/DIR/CIR/01/020.

Oluwasayo Elumaro, FCA  
FRC/2012/ICAN/00000000139  
For: Ernst & Young  
Lagos, Nigeria  
14 March 2019



**STERLING BANK PLC**

**CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

<i>In millions of Naira</i>	Note(s)	Group	Group	Bank	Bank
		31 Dec 2018	31 Dec 2017 Restated*	31 Dec 2018	31 Dec 2017 Restated*
Interest income	6	125,163	110,312	124,248	109,844
Interest expense	7	(69,882)	(60,138)	(68,733)	(59,736)
Net interest income		55,281	50,174	55,515	50,108
Fees and commission income	8	15,211	12,876	15,211	12,876
Net trading income	9	8,618	4,675	8,618	4,675
Other operating income	10	3,172	5,627	3,170	5,627
Operating income		82,282	73,352	82,514	73,286
Credit loss expense	11	(5,843)	(12,267)	(5,832)	(12,267)
Net operating income after credit loss expense		76,439	61,085	76,682	61,019
Personnel expenses	12	(13,194)	(11,545)	(13,194)	(11,545)
Other operating expenses	13.1	(16,715)	(15,284)	(16,715)	(15,284)
General and administrative expenses	13.2	(24,283)	(16,554)	(24,276)	(16,554)
Depreciation and amortisation	23&24	(5,730)	(4,995)	(5,730)	(4,995)
Other property, plant and equipment costs	13.4	(7,028)	(4,602)	(7,028)	(4,602)
Total expenses		(66,950)	(52,980)	(66,943)	(52,980)
Profit before income tax		9,489	8,105	9,739	8,039
Income tax expense	14a	(271)	(85)	(271)	(85)
Profit after income tax		9,218	8,020	9,468	7,954
Other comprehensive income:					
Items that will not be reclassified to profit or loss in subsequent period:					
Revaluation gains on equity instruments at fair value through other comprehensive income		(550)	-	(550)	-
Total items that will not be reclassified to profit or loss in subsequent period		(550)	-	(550)	-
Items that will be reclassified to profit or loss in subsequent period:					
Debt instruments at fair value through other comprehensive income**:					
- Net change in fair value during the year		(2,684)	-	(2,684)	-
- Changes in allowance for expected credit losses		(19)	-	(19)	-
Net losses on debt instruments at fair value through other comprehensive income		(2,703)	-	(2,703)	-
Available-for-sale financial assets**:					
Net gains on available-for-sale financial assets		-	8,755	-	8,755
Total items that will be reclassified to profit or loss in subsequent period		(2,703)	8,755	(2,703)	8,755
Other comprehensive (loss)/income for the year, net of tax		(3,253)	8,755	(3,253)	8,755
Total comprehensive income for the year, net of tax		5,965	16,775	6,215	16,709
Profit attributable to:					
Total equity holders of the Bank		9,218	8,020	9,468	7,954
Total comprehensive income attributable to:					
Total equity holders of the Bank		5,965	16,775	6,215	16,709
Earnings per share - basic (in kobo)	15	32k	28k	33k	28k
Earnings per share - diluted (in kobo)	15	32k	28k	33k	28k

\*Certain amounts shown here do not correspond to the 2017 consolidated and separate financial statements and reflect adjustments made, refer to Note 46 to the consolidated and separate financial statements.

\*\*Income from these instruments is exempted from tax.

The accompanying notes 1 to 46 form part of the consolidated and separate financial statements.

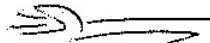
STERLING BANK PLC

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

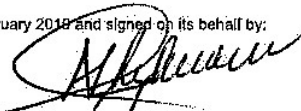
AS AT 31 DECEMBER 2018

In millions of Naira	Note(s)	Group	Group	Group	Bank	Bank	Bank
		31 Dec 2018	31 Dec 2017	1 Jan 2017	31 Dec 2018	31 Dec 2017	1 Jan 2017
			Restated*	Restated*		Restated*	Restated*
<b>ASSETS</b>							
Cash and balances with Central Bank of Nigeria	16	117,685	122,630	107,860	117,685	122,630	107,860
Due from banks	17	43,542	61,066	31,289	43,435	51,066	31,289
Pledged assets	18	11,423	145,179	86,864	11,423	145,179	86,864
Derivative financial assets		-	-	8	-	-	8
Loans and advances to customers	19	621,017	598,073	468,250	621,017	598,073	468,250
<i>Investments in securities:</i>							
- Financial assets at fair value through profit or loss	20(a)	4,110	6,883	1,653	4,110	6,883	1,653
- Debt instruments at fair value through other comprehensive income	20(c)	117,620	-	-	117,620	-	-
- Equity instruments at fair value through other comprehensive income	20(b)	4,011	-	-	4,011	-	-
- Debt instruments at amortised cost	20(d)	123,086	-	-	106,147	-	-
- Available for sale	20(e)	-	80,031	34,867	-	80,031	34,867
- Held to maturity	20(f)	-	24,075	58,113	-	20,671	54,725
Investment in subsidiary	21	-	-	-	1	1	1
Other assets	22	29,446	18,728	21,676	29,446	18,728	21,676
Property, plant and equipment	23	16,942	16,451	14,605	16,942	16,451	14,605
Intangible assets	24	1,850	2,114	2,036	1,850	2,114	2,036
Deferred tax assets	14(g)	6,971	6,971	6,971	6,971	6,971	6,971
		1,097,703	1,072,201	834,192	1,080,658	1,068,798	830,805
Non-current assets held for sale	25	5,218	-	-	5,218	-	-
<b>TOTAL ASSETS</b>		<b>1,102,921</b>	<b>1,072,201</b>	<b>834,192</b>	<b>1,085,876</b>	<b>1,068,798</b>	<b>830,805</b>
<b>LIABILITIES</b>							
Deposits from banks	26	-	11,048	23,769	-	11,048	23,769
Deposits from customers	27	760,608	684,834	584,734	760,608	684,834	584,734
Derivative financial liabilities		-	-	8	-	-	8
Current income tax payable	14(b)	405	232	941	405	232	941
Other borrowed funds	28	119,526	212,847	82,451	119,526	212,847	82,451
Debt securities issued	29	86,609	13,068	15,381	69,355	9,709	11,975
Other liabilities	30	37,678	48,234	41,744	37,678	48,234	41,743
Provisions	30.2	295	295	295	295	295	295
<b>TOTAL LIABILITIES</b>		<b>1,005,121</b>	<b>970,558</b>	<b>749,323</b>	<b>987,867</b>	<b>967,199</b>	<b>745,916</b>
<b>EQUITY</b>							
Share capital	31	14,395	14,395	14,395	14,395	14,395	14,395
Share premium		42,759	42,759	42,759	42,759	42,759	42,759
Retained earnings		(3,307)	6,991	5,434	(3,101)	6,944	5,452
Other components of equity	32.1	43,953	37,498	22,281	43,956	37,501	22,283
Total equity		97,800	101,643	84,869	98,009	101,599	84,889
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,102,921</b>	<b>1,072,201</b>	<b>834,192</b>	<b>1,085,876</b>	<b>1,068,798</b>	<b>830,805</b>

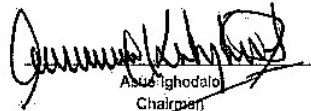
The consolidated and separate financial statements were approved by the Board of Directors on 26 February 2019 and signed on its behalf by:



Adebimpe Olambiwonnu  
Finance Controller  
FRC/2013/CAN/0000001253



Abubakar Suleiman  
Managing Director/ Chief Executive Officer  
FRC/2013/CIBN/0000001275



Abusayid Abdulkadir  
Chairman  
FRC/2013/NBA/00000010680

\*Certain amounts shown here do not correspond to the 2017 consolidated and separate financial statements and reflect adjustments made, refer to Note 46 to the consolidated and separate financial statement.

The accompanying notes 1 to 46 form part of the consolidated and separate financial statements.



STERLING BANK PLC

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

<i>In millions of Naira</i>	Share capital	Share premium	EQUITY RESERVES							Total other components of equity	Retained earnings	Total
			Fair value reserve	Share capital reserve	Regulatory risk reserve	SMEEIS reserve	AGSMEIS reserve	Statutory reserve				
<b>GROUP</b>												
Balance at 1 January 2018	14,395	42,759	(2,568)	5,276	15,878	235	-	18,678	37,498	6,991	101,643	
Impact of adopting IFRS 9 (Note 4.2)	-	-	1,224	-	-	-	-	-	1,224	(10,456)	(9,232)	
Transfers between reserves (Note 32.1)	-	-	-	-	(9,837)	-	-	-	(9,837)	9,837	-	
Restated opening balance under IFRS 9	14,395	42,759	(1,344)	5,276	6,041	235	-	18,678	28,885	6,372	92,411	
Comprehensive income for the year:												
Profit for the year	-	-	-	-	-	-	-	-	-	9,218	9,218	
Other comprehensive income for the year, net of tax:												
Net change in fair value of debt instrument at FVOCI	-	-	(2,684)	-	-	-	-	-	(2,684)	-	(2,684)	
Net change in fair value of equity instrument at FVOCI	-	-	(550)	-	-	-	-	-	(550)	-	(550)	
Changes in allowance for expected credit losses	-	-	(19)	-	-	-	-	-	(19)	-	(19)	
Total comprehensive income	-	-	(3,253)	-	-	-	-	-	3,253	9,218	5,965	
Transactions with equity holders, recorded directly in equity:												
Dividends to equity holders (Note 32)	-	-	-	-	-	-	-	-	-	(576)	(576)	
Transfer to regulatory risk and statutory risk reserves (Notes 32.1a, 32.1c & 32.1d)	-	-	-	-	16,219	-	682	1,420	18,321	(18,321)	-	
Balance at 31 December 2018	14,395	42,759	(4,597)	5,276	22,260	235	682	20,098	43,953	(3,307)	97,800	

The accompanying notes 1 to 46 form part of the consolidated and separate financial statements.

STERLING BANK PLC

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY - CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2018

<i>In millions of Naira</i>	Share capital	Share premium	EQUITY RESERVES							Retained earnings*	Total
			Fair value reserve	Share capital reserve	Regulatory risk reserve	SMEEIS reserve	AGSMEIS reserve	Statutory reserve	Total other components of equity		
<b>GROUP</b>											
Balance at 1 January 2017	14,395	42,759	(11,323)	5,276	10,683	235	-	17,410	22,281	6,227	85,662
Correction of errors (see Note 46)	-	-	-	-	-	-	-	-	-	(793)	(793)
Restated 1 January 2017	14,395	42,759	(11,323)	5,276	10,683	235	-	17,410	22,281	5,434	84,869
Comprehensive income for the year:											
Profit for the year as reported in the 2017 financial statement	-	-	-	-	-	-	-	-	-	8,521	-
Correction of error (Note 46)	-	-	-	-	-	-	-	-	-	(501)	-
Restated profit for the year	-	-	-	-	-	-	-	-	-	8,020	8,020
Other comprehensive income, net of tax											
Net changes in fair value of available for sale investment securities	-	-	8,755	-	-	-	-	-	8,755	-	8,755
Total comprehensive income	-	-	8,755	-	-	-	-	-	8,755	8,020	16,775
Transactions with equity holders, recorded directly in equity:											
Transfer to regulatory risk and statutory risk reserves (Notes 32.1a & 32.1c)	-	-	-	-	5,195	-	-	1,268	6,463	(6,463)	-
Balance at 31 December 2017	14,395	42,759	(2,568)	5,276	15,878	235	-	18,678	37,498	6,991	101,643

\*Certain amounts shown here do not correspond to the 2017 financial statements and reflect adjustments made, refer to Note 46. The accompanying notes 1 to 46 form part of the consolidated and separate financial statements.

STERLING BANK PLC

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY - CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2018

In millions of Naira	Share capital	Share premium	EQUITY RESERVES						Total other components of equity	Retained earnings	Total
			Fair value reserve	Share capital reserve	Regulatory risk reserve	SMEEIS reserve	AGSMEIS reserve	Statutory reserve			
BANK											
Balance at 1 January 2018	14,395	42,759	(2,568)	5,276	15,878	235	-	18,680	37,501	6,944	101,599
Impact of adopting IFRS 9 (Note 4.2)	-	-	1,224	-	-	-	-	-	1,224	(10,453)	(9,229)
Transfers between reserves (Note 32.1)	-	-	-	-	(9,837)	-	-	-	(9,837)	9,837	-
Restated opening balance under IFRS 9	14,395	42,759	(1,344)	5,276	6,041	235	-	18,680	28,888	6,328	92,370
Comprehensive income for the year:											
Profit for the year	-	-	-	-	-	-	-	-	-	9,468	9,468
Comprehensive income for the year:											
Net change in fair value of debt instrument at FVOCI	-	-	(2,684)	-	-	-	-	-	(2,684)	-	(2,684)
Net change in fair value of equity instrument at FVOCI	-	-	(550)	-	-	-	-	-	(550)	-	(550)
Changes in allowance for expected credit losses	-	-	(19)	-	-	-	-	-	(19)	-	(19)
Total comprehensive income	-	-	(3,253)	-	-	-	-	-	(3,253)	9,468	6,215
Transactions with equity holders, recorded directly in equity:											
Dividends to equity holders (Note 32)	-	-	-	-	-	-	-	-	-	(576)	(576)
Transfer to regulatory risk and statutory risk reserves (Notes 32.1a, 32.1c & 32.1d)	-	-	-	-	16,219	-	682	1,420	18,321	(18,321)	-
Balance at 31 December 2018	14,395	42,759	(4,597)	5,276	22,260	235	682	20,100	43,956	(3,101)	98,009

The accompanying notes 1 to 46 form part of the consolidated and separate financial statements.

STERLING BANK PLC

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY - CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2018

In millions of Naira	Share capital	Share premium	EQUITY RESERVES						Total other components of equity	Retained earnings*	Total
			Fair value reserve	Share capital reserve	Regulatory risk reserve	SMEEIS reserve	AGSMEIS reserve	Statutory reserve			
BANK											
Balance at 1 January 2017	14,395	42,759	(11,323)	5,276	10,683	235	-	17,412	22,283	6,245	85,682
Correction of errors (see Note 46)										(793)	(793)
Restated 1 January 2017	14,395	42,759	(11,323)	5,276	10,683	235	-	17,412	22,283	5,452	84,889
Comprehensive income for the year:											
Profit for the year as reported in the 2017 financial statement	-	-	-	-	-	-	-	-	-	8,455	-
Correction of error (Note 46)	-	-	-	-	-	-	-	-	-	(501)	-
Restated profit for the year	-	-	-	-	-	-	-	-	-	7,954	7,954
Other comprehensive income, net of tax											
Net changes in fair value of available for sale investment securities	-	-	8,755	-	-	-	-	-	8,755	-	8,755
Total comprehensive income	-	-	8,755	-	-	-	-	-	8,755	7,954	16,709
Transactions with equity holders, recorded directly in equity:											
Transfer to regulatory risk and statutory risk reserves (Notes 32.1a & 32.1c)	-	-	-	-	5,195	-	-	1,268	6,463	(6,463)	-
Balance at 31 December 2017	14,395	42,759	(2,568)	5,276	15,878	235	-	18,680	37,501	6,944	101,599

\*Certain amounts shown here do not correspond to the 2017 consolidated and separate financial statements and reflect adjustments made, refer to Note 46 to the consolidated and separate financial statements.

The accompanying notes 1 to 46 form part of the consolidated and separate financial statements.

STERLING BANK PLC

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

<i>In millions of Naira</i>	Note(s)	GROUP	GROUP	BANK	BANK
		2018	2017 Restated*	2018	2017 Restated*
Profit before income tax		9,489	8,105	9,739	8,039
Adjustments for non cash items:					
Credit loss expense	11	5,843	12,267	5,832	12,267
Depreciation and amortisation	23 & 24	5,730	4,995	5,730	4,995
Fair value changes recognised in profit or loss		-	11,323	-	11,323
Dividend income	10	(225)	(163)	(225)	(163)
Gain on disposal of property, plant and equipment	10	(46)	(55)	(46)	(55)
Gain on disposal of investment securities		-	(1,203)	-	(1,203)
Property and equipment written off		34		34	-
Write off of intangible assets		-	28	-	28
Net foreign exchange gain		(1,724)	(3,466)	(1,724)	(3,466)
		19,102	31,831	19,340	31,765
Changes in operating assets:					
Deposits with the Central Bank of Nigeria		(19,469)	20,498	(19,469)	20,498
Investment securities held for trading		2,773	5,230	2,773	5,230
Pledged assets		17,723	(58,315)	17,723	(58,315)
Loans and advances to customers		(23,100)	(140,863)	(23,100)	(140,863)
Derivative financial assets		-	(8)	-	(8)
Non-current assets held for sale		(5,218)	-	(5,218)	-
Other assets		(10,277)	2,491	(10,277)	2,491
		(18,467)	(139,136)	(18,228)	(139,203)
Changes in operating liabilities:					
Deposits from banks		(11,048)	(12,721)	(11,048)	(12,721)
Deposits from customers		75,774	100,100	75,774	100,100
Other liabilities		(10,556)	6,491	(10,556)	6,491
Derivative financial liabilities		-	(8)	-	(8)
Cash generated from operations		35,703	(45,274)	35,942	(45,341)
Vat paid		-	(492)	-	(492)
Income tax paid	14b	-	(710)	-	(710)
Net cash flows from/(used in) operating activities		35,703	(46,476)	35,942	(46,542)
Investing activities					
Purchase of property, plant and equipment	23	(5,789)	(6,334)	(5,789)	(6,334)
Purchase of intangible assets	24	(404)	(691)	(404)	(691)
Proceeds from sale of property, plant and equipment		249	133	249	133
Purchase of debt instruments at FVOCI		(363,551)	(50,712)	(363,551)	(50,712)
Proceeds from sale of debt instruments at FVOCI		334,671	54,640	334,671	54,640
Purchase of debt instruments at amortised cost		(11,412)	(34,083)	-	(34,016)
Redemption of debt instruments at amortised cost		3,032	10,207	3,032	10,207
Proceeds from sale of equity instrument at FVOCI		-	15	-	15
Dividends received	10	225	163	225	163
Net cash flows used in investing activities		(42,979)	(26,662)	(31,567)	(26,594)
Financing activities:					
Proceeds from other borrowed funds	28b	28,434	182,361	28,434	182,361
Proceeds from debts and securities issued	29	72,295	-	60,537	-
Repayment of debt and securities issued	29	(4,563)	(2,634)	(4,563)	(2,634)
Repayments of other borrowed funds	28b	(125,211)	(51,964)	(125,211)	(51,964)
Dividends paid	32	(576)	-	(576)	-
Net cash flows (used in)/from financing activities		(29,621)	127,763	(41,379)	127,762

STERLING BANK PLC

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS - Continued

FOR THE YEAR ENDED 31 DECEMBER 2018

<i>In millions of Naira</i>	GROUP 2018	GROUP 2017 Restated*	BANK 2018	BANK 2017 Restated*
Net (decrease)/increase in cash and cash equivalents	(36,897)	54,626	(37,004)	54,626
Effect of exchange rate changes on cash and cash equivalents	4,959	418	4,959	418
Cash and cash equivalents at 1 January	99,712	44,667	99,712	44,667
Cash and cash equivalents at 31 December	67,774	99,712	67,667	99,712
Operational cash flows from interest:				
Interest received	90,590	99,104	89,199	72,625
Interest paid	(67,573)	(43,115)	(66,259)	(58,220)

\*Certain amounts shown here do not correspond to the 2017 consolidated and separate financial statements and reflect adjustments made, refer to Note 46 to the consolidated and separate financial statements.

The accompanying notes 1 to 46 form part of the consolidated and separate financial statements.

**STERLING BANK PLC**

**STATEMENT OF PRUDENTIAL ADJUSTMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

The regulators, Central Bank of Nigeria and Nigeria Deposit Insurance Corporation, stipulate that impairment charges recognized in the Income Statement shall be determined based on the requirements of IFRS. The IFRS impairment should then be compared with the impairment provisions determined under the prudential guidelines as prescribed by CBN and the expected impact/changes should be treated as follows:

(i) Prudential provision is greater than IFRS provision - transfer the difference from Retained Earnings to a non-distributable Regulatory Risk Reserve.

(ii) Prudential provision is less than IFRS provision - the excess charges should be transferred from the Regulatory Risk Reserve to the Retained Earnings to the extent of the non-distributable reserve previously recognized.

<i>In millions of Naira</i>	Note(s)	As at 31 Dec 2018	As at 31 Dec 2017
<i>Transfer to Regulatory Risk Reserve</i>			
Prudential provision		43,332	37,220
Total Prudential provision		43,332	37,220
IFRS provision			
Impairment allowance on loans to corporate entities	19.1.1	17,991	-
Impairment allowance on loans to individuals	19.1.2	1,670	-
Individual impairment allowance	19.1.3	-	13,810
Collective impairment allowance	19.1.4	-	5,694
Allowance for impairment for other assets	22.1	834	1,275
Impairment allowance on debt instruments at amortised cost	18.3.2 & 20(h) 18.3.1 &	115	-
Impairment allowance on debt instruments at FVOCI	20(g)	167	268
Provisions for litigation, letters of credits and guarantees	30.2	295	295
		21,072	21,342
Difference in impairment provision balances		22,260	15,878
Movement in the Regulatory Risk Reserve:			
Balance at the beginning of the year		15,878	10,683
Impact of adopting IFRS 9 (Note 4.2)		(9,837)	-
Transfer to Regulatory Risk Reserve		16,219	5,195
		22,260	15,878

## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

#### 1. Corporate information

Sterling Bank Plc, (formerly known as NAL Bank Plc) was the pioneer merchant bank in Nigeria, established on 25 November 1960 as a private limited liability company, and was converted to a public limited liability company in April 1992.

Sterling Investment Management Plc (SPV) was established in 2016 to raise money by the issue of bonds and other debt instruments. The SPV is a subsidiary and is consolidated in the financial statements of the Bank.

Sterling Bank Plc (the "Bank") together with its subsidiary (collectively the "Group") is engaged in commercial banking with emphasis on retail and consumer banking, trade services, corporate, investment and non-interest banking activities. It also provides wholesale banking services including the granting of loans and advances, letter of credit transactions, money market operations, electronic and mobile banking products and other banking activities.

The consolidated and separate financial statements of Sterling Bank Plc and its subsidiary for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 26 February 2019.

#### 2. Accounting Policies

##### 2.1 Basis of preparation and statement of compliance

The consolidated and separate financial statements of the Bank and its subsidiary have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Companies and Allied Matters Act of Nigeria, The Financial Reporting Council of Nigeria Act No 6, 2011, the Banks and other Financial Institutions Act of Nigeria, and relevant Central Bank of Nigeria circulars.

The consolidated and separate financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities measured at fair value.

##### Functional and Presentation currency

The consolidated and separate financial statements are presented in Nigerian Naira, the Group's functional currency and all values are rounded to the nearest million (N'million) except when otherwise indicated.

##### (a) Presentation of financial statements

The Group presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 37 to the consolidated and separate financial statements.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated and separate statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any IFRS accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.



## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

#### 2.1 Basis of preparation and statement of compliance - continued

##### (b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2018. Sterling Bank consolidates a subsidiary when it controls it. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Bank may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Bank considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Bank can direct those activities
- Contractual arrangements such as call rights, put rights and liquidation rights
- Whether the Bank is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

#### 2.2 Summary of significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its financial statements:

##### 2.2.1 Taxes

Tax expense comprises current and deferred tax. Current tax and deferred taxes are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

##### (i) Current tax

Current tax is the expected tax payable on taxable profit or loss for the period determined in accordance with the Companies Income Tax Act (CITA), using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Tax assessments are recognized when assessed and agreed to by the Group with the Tax authorities, or when appealed, upon receipt of the results of the appeal.

##### (ii) Deferred tax

Deferred tax is recognised on 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 the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets or liabilities in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

2.2.1 Taxes

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Unrecognised deferred tax assets are reviewed at each reporting date and are recognised to the extent that it is probable that future taxable profits will be available against which can be used.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

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

2.2.2 Financial instruments

(i) Recognition and initial measurement

Regular purchases and sales of financial assets and liabilities are recognised on the trade date. A financial asset or financial liability is measured initially at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, direct and incremental transaction costs that are directly attributable to its acquisition or issue. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss at initial recognition. Financial assets that are transferred to third parties but do not qualify for derecognition are presented in the statement of financial position as "pledged asset", if the transferee has the right to sell or re-pledge them.

(ii) Classification of financial instruments

Policy applicable from 1 January 2018

The Group classified its financial assets under IFRS 9, into the following measurement categories:

- Those to be measured at fair value through other comprehensive income (FVOCI) (either with or without recycling). Included in this classification are debt instruments at FVOCI and equity instruments at FVOCI.
- Those to be measured at fair value through profit or loss (FVTPL); and
- Those to be measured at amortised cost. Included in this classification are debt instruments at amortised cost, loans and receivables e.t.c

The classification depends on the Group's business model for managing financial assets and the contractual terms of the financial assets cash flow (i.e solely payments of principal and interest- SPPI test). Directors determine the classification of the financial instruments at initial recognition.

The Group classifies its financial liabilities as liabilities at fair value through profit or loss and liabilities at amortised cost.

Policy applicable prior to 1 January 2018

The Group classified its financial assets under IAS 39 as financial assets at Fair value through profit or loss, Loans and receivables, Held to Maturity investments and Available for Sale financial assets.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

(iii) Subsequent measurement

Financial assets - policy applicable from 1 January 2018

(i) *Debt instruments*

The subsequent measurement of financial assets depend on its initial classification:

**Amortised cost:** A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is determined using the effective interest method and reported in profit or loss as 'Interest income'.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The Group's financial assets at amortised cost includes cash and balances with Central Bank of Nigeria, due from banks, loans and advances to customers, and other debt instruments at amortised cost

**Fair value through other comprehensive income (FVOCI):** Investment in debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The debt instrument is subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income (OCI) and accumulated in a separate component of equity. Impairment gains or losses, interest revenue and foreign exchange gains and losses are recognised in profit and loss. Upon disposal or derecognition, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other operating income. Interest income from these financial assets is determined using the effective interest method and recognised in profit or loss as 'Interest income'.

The measurement of credit impairment is based on the three-stage expected credit loss model as applied to financial assets at amortised cost.

The Group's financial assets at fair value through other comprehensive income includes equity instruments at FVOCI, treasury bills, government bonds and corporate bonds.

**Fair value through profit or loss (FVTPL):** Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. The gain or loss arising from changes in fair value of a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is included directly in the profit or loss and reported as 'Net trading income' in the period in which it arises. Interest income from these financial assets is recognised in profit or loss as 'Interest income'.

The Group's financial assets at fair value through profit or loss are treasury bills.

(ii) *Equity instruments*

The Group subsequently measures all equity investments at fair value. For equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

(iii) Subsequent measurement: Equity instruments- continued

Dividends from such investments continue to be recognised in profit or loss as other operating income when the Group's right to receive payments is established unless the dividend clearly represents a recovery of part of the cost of the investment. All equity financial assets are classified as measured at FVOCI. Where the Bank has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss.

Business model assessment

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

- 1) The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- 2) How the performance of the portfolio is evaluated and reported to the Group's management;
- 3) 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;
- 4) 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
- 5) The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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 profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

(iii) Subsequent measurement: Equity instruments- continued

The Group holds a portfolio of long-term fixed rate loans for which the Group has the option to revise the interest rate at future dates. These reset rights are limited to the market rate at the time of revision. The right to reset the rates of the loans based on the revision in market rates are part of the contractually agreed terms on inception of the loan agreement, therefore the borrowers are obligated to comply with the reset rates without any option of repayment of the loans at par at any reset date. The Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies with the interest rate in a way that is considered a consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

b. Financial assets - policy applicable prior to 1 January 2018

(i) Financial assets at fair value through profit or loss

This category has two sub-categories; financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as effective hedging instruments.

Financial assets may be designated at fair value through profit or loss when: the designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on different basis; or group of financial assets is managed and its performance evaluated on a fair value basis.

Subsequent to initial recognition, the fair values are re-measured at each reporting date. All gains and losses arising from changes therein are recognised in the profit or loss in 'net trading income' for trading assets, and for financial assets designated at fair value through profit or loss at inception.

Interest earned and dividends received while holding trading assets at fair value through profit or loss are included in net trading income. Trading assets are not reclassified subsequent to their initial recognition.

(ii) Available-for-sale financial assets

Available-for-sale investments are non-derivative investments that were designated by the Group as available-for-sale or are not classified as another category of financial assets, or strategic capital investments held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Unquoted equity securities whose fair value cannot reliably be measured were carried at cost. All other available-for-sale investments were carried at fair value.

Interest income on available-for-sale debt instrument is recognised in profit or loss using the effective interest method. Dividend income is recognised in the profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

b. Financial assets - policy applicable prior to 1 January 2018 continued

(iii) Held to maturity

Held-to-maturity investments are non-derivative assets with fixed determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity.

Held-to-maturity investments are carried at amortised cost, using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

Federal Government Bonds are mainly classified as held to maturity.

(iv) Loans and receivables

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Loans and advances include loans granted to customers and corporate entities.

c. Financial liabilities - policy applicable for current and comparative periods

The Group classifies financial liabilities into financial liabilities at amortised cost and fair value through profit or loss. Financial liabilities are derecognised when extinguished, ie when the obligation specified in the contract is discharged or cancelled or expires.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by the Group.

Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the profit or loss and are reported as 'Net trading income on financial instruments classified as held for trading'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'.

From 1 January 2018, under IFRS 9, where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

c. Financial liabilities - policy applicable for current and comparative periods- continued

(ii) Financial liabilities at amortised cost

Financial liabilities that are not classified at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

(iv) Reclassifications

Policy applicable from 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets that are debt instruments. A change in the objective of the Group's business occurs only when the Group either begins or ceases to perform an activity that is significant to its operations (e.g., via acquisition or disposal of a business line).

The following are not considered to be changes in the business model:

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

When reclassification occurs, the Group reclassifies all affected financial assets in accordance with the new business model. Reclassification is applied prospectively from the 'reclassification date'. Reclassification date is 'the first day of the first reporting period following the change in business model. Gains, losses or interest previously recognised are not restated when reclassification occurs.

The Group may only sell insignificant portion of debt instruments measured at amortised cost frequently without triggering a change in business model. If the Group sells significant portions, this will not be more than twice a year subject to cases of unlikely to reoccur events such as:

- Run on the Bank/stressed liquidity scenarios
- Credit risk event i.e. perceived issuer default
- In the event of merger and takeover, the Bank may sell portion of the portfolio if the security holdings violates set limits
- Other one-off events

Significance is defined to mean 5% of the portfolio value and subject to the policy on frequency above.

The Group may sell debt instruments measured at amortised cost without triggering a change in business model if the sale is due to deterioration in the credit quality of the financial assets or close to maturity. A financial asset is said to be close to maturity if the outstanding tenor of the financial asset from the time of issue is 25% or less of the original tenor.

Sales close to maturity are acceptable if the proceeds from the sales approximate the collection of the remaining contractual cash flows. At the point of sale an assessment will be conducted to determine whether there is more than 10% different from the remaining cash flows.

(v) Modifications of financial assets and financial liabilities

(i) Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

(v) Modifications of financial assets and financial liabilities- continued

Any difference between the amortised cost and the present value of the estimated future cash flows of the modified asset or consideration received on derecognition is recorded as a separate line item in profit or loss as 'gains and losses arising from the derecognition of financial assets measured at amortised cost'. If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss as part of impairment charge for the year.

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

Qualitative criteria

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

- Conversion of a bullet repayment financial asset to amortising financial asset or vice versa
- Extension of financial asset's tenor
- Reduction in repayment of principals and interest
- Capitalisations of overdue repayments into a new principal amount
- Change in frequency of repayments i.e. change of monthly repayments to quarterly or yearly repayments
- Reduction of financial asset's tenor

On occurrence of any of the above factors, the Group will perform a 10% test (see below) to determine whether or not the modification is substantial.

Scenarios where modification will not lead to derecognition of existing financial assets are:

- Change in interest rate arising from a change in MPR which is a benchmark rate that drives borrowing rates in Nigeria
- Bulk repayment of financial asset

Quantitative criteria

A modification would lead to derecognition of existing financial asset and recognition of a new financial asset, i.e. substantial modification, if:

- The discounted present value of the cash flows under the new terms, including any fees received net of any fees paid and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

A modification would not lead to derecognition of existing financial asset if:

- the discounted present value of the cash flows under the new terms, including any fees received net of any fees paid and discounted using the original effective interest rate, is less than 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see below) and Expected credit losses (ECL) are measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset



NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

Quantitative criteria- continued

- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flows from existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from existing financial asset that are discounted from expected date of derecognition to the reporting date using original effective interest rate of the existing financial asset.

(ii) Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. This occurs when the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment (i.e the modified liability is not substantially different), any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(vi) Impairment of financial assets

See also Note 37(i) on Credit risk disclosure

(i) Policy applicable from 1 January 2018

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments. The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Risk free and gilt edged 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 Group considers a risk free and gilt edged debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued  
(vi) Impairment of financial assets- continued

1. Measurement of Expected Credit loss (ECL)

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- a. Financial assets that are not credit-impaired at the reporting date: ECL is 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 Group expects to receive);
- b. Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit impaired financial assets) : ECL represents the difference between the gross carrying amount and the present value of estimated future cash flows;
- c. Undrawn loan commitments: ECL is the present value of the difference between the contractual cash flows that are due to Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- d. Financial guarantee contracts: This is the expected payments to reimburse the holder less any amounts that the Group expects to recover.

2. Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:

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

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, loans that are more than 90 days overdue are considered impaired except for specialised loans in which the Group has rebutted the 90 days past due presumptions. The specialised loans include:

1. Project financing: >180 days past due backstop
2. Object financing (producing real estate and commercial real estate financing): > 180 days past due backstop;
3. Commodity finance:> 180 days past due backstop
4. Income producing real estate: >180 days past due backstop

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

(vi) Impairment of financial assets- continued

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

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

3. Presentation of allowance for ECL in the statement of financial position

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

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

4. Write-off

After a full evaluation of a non-performing exposure, in the event that either one or all of the following conditions apply, such exposure is recommended for write-off (either partially or in full):

- continued contact with the customer is impossible;
- recovery cost is expected to be higher than the outstanding debt;
- amount obtained from realisation of credit collateral security leaves a balance of the debt; or
- it is reasonably determined that no further recovery on the facility is possible.

All credit facility write-offs require endorsement at the board level, as defined by the Group. Credit write-off approval is documented in writing and properly initialed by the Credit collection and recoveries.

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

(vi) Impairment of financial assets- continued

(ii) Impairment - Policy applicable before 1 January 2018

(a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event'), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The following factors are considered in assessing objective evidence of impairment:

whether the customer is more than 90 days past due; the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated material forgiveness of debt or postponement of scheduled payments;

or there is an observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest and similar income. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process which considers asset type, industry, geographic location, collateral type, past-due status and other relevant factors).

These characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

To the extent a loan is irrecoverable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off would be recognised as other income in the income statement.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

(vi) Impairment of financial assets- continued

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

(b) Assets classified as available for sale

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have an impact on the future cash flows of the asset. In addition, an available for- sale equity instrument is generally considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred.

Where an available-for-sale asset, which has been re-measured to fair value directly through equity, is impaired, the impairment loss is recognised in profit or loss. If any loss on the financial asset was previously recognised directly in equity as a reduction in fair value, the cumulative net loss that had been recognised in equity is transferred to profit or loss and is recognised as part of the impairment loss. The amount of the loss recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any previously recognised impairment loss.

If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized in the income statement, where the instrument is a debt instrument, the impairment loss is reversed through profit or loss. An impairment loss in respect of an equity instrument classified as available for sale is not reversed through profit or loss but accounted for directly in equity.

Federal government securities, corporate and Euro bonds are classified as Available for sale debt instruments, while investment in equity are also classified under this category.

(c) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate (EIR) as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to individual or collective impairment assessment, calculated using the loan's original EIR.

(d) Collateral valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, and other non-financial assets such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and then revalued on periodic basis as deemed necessary, however, some collateral, for example, cash or securities relating to margin requirements, are valued daily.

To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

(e) Collateral repossessed

Repossessed collateral are land and buildings repossessed from a customer and used to settle the customer's outstanding obligation. When collaterals are repossessed in satisfaction of a loan, the receivable is written down against the allowance for losses. Repossessed collaterals are included in the financial statement based on how the Bank intends to realize benefit from such collateral such as Non current assets held for sale and carried at the lower of cost or estimated fair value less costs to sell.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

(vii) Embedded derivatives

Policy applicable after 1 January 2018

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument. Where a hybrid contains a host that is a financial asset in the scope of IFRS 9, the entire hybrid contract, including the embedded features, is assessed for classification under IFRS 9. The embedded derivative in such host contracts that are financial assets are not separated for accounting purposes.

(viii) Offsetting financial instruments - policy applicable for current and comparative periods

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

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

(ix) Derivative financial instruments: policy applicable for current and comparative periods

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset where there is a legal right of offset of the recognised amounts and the parties intend to settle the cash flows on a net basis, or realise the asset and settle the liability simultaneously.

(x) De-recognition of financial instruments - policy applicable for current and comparative periods

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

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

(xi) Financial guarantees and loan commitments

(i) Policy applicable before 1 January 2018

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, which is the amount received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and amount initially recognised less when appropriate, cumulative amortisation recognised in accordance with IAS 18. Crystallised financial guarantees are included within other liabilities.

(ii) Policy applicable after 1 January 2018

The date that the entity becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of applying the impairment requirements. Financial guarantees issued are initially measured at fair value and the fair value is amortised over the life of the guarantee. Subsequently, the financial guarantees are measured at the higher of this amortised amount and the amount of expected loss allowance (See Note 33(c) ). The Group also recognises loss allowance for its loan commitments (See Note 33(c) ). The expected loss allowance for the Loan commitment is calculated as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

The Group has issued no loan commitment that is measured at FVTPL.

2.2.3 Revenue recognition

Interest income and expense

(i) Policy applicable from 1 January 2018

Interest income and expenses 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 credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees 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.

a. 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 the initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

Revenue recognition- continued

b. Calculation of interest income and expenses

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.

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 are 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.

c. Presentation

Interest income and expense presented in the profit or loss includes:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in Net trading income on financial instruments classified as held for trading.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in interest income or interest expense.

d. Non-interest income and non -interest expense

Sharia compliant income

Included in interest income and expense are sharia compliant income and expense. The Group's income as a fund manager (mudharib) consists of income and expense from Mudaraba and Hajj transactions, income from profit sharing of Sukuk and Mudaraba financing and other operating income.

Mudaraba income by deferred payment or by installment is recognised during the period of the contract based on effective method (annuity).

Profit sharing income from Mudaraba is recognised in the period when the rights arise in accordance with agreed sharing ratio, and the recognition based on projection of income is not allowed.

e. Fees and commission income and expense

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

Other fees and commissions which relates mainly to transaction and service fees, including loan account structuring and service fees are recognised as the related services are performed.

f. Net trading income

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



NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

Revenue recognition- continued

g. Dividend income

Dividend income is recognised when the right to receive income is established. Dividends on trading equities are reflected as a component of net trading income. Dividend income on equity instruments classified and measured at fair value through OCI (FVOCI) are recognised as a component of other operating income.

(ii) Policy applicable before 1 January 2018

a. Interest income and interest expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale, 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 the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments but not future credit losses.

The calculation of the effective interest rate takes into account contractual terms which includes prepayment options, claw-back, contractual fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the profit or loss include:

- interest income and expense on financial assets and liabilities measured at amortised cost calculated on an effective interest rate basis.
- interest income and expense on available-for-sale investment securities calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Non-interest income and non -interest expense

Sharia income

Mudaraba income by deferred payment or by installment is recognised during the period of the contract based on effective method (annuity).

Profit sharing from Mudaraba is recognised in the period when the rights arise in accordance with agreed sharing ratio, and the recognition based on projection of income is not allowed.

b. Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management and other fiduciary activity fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

#### 2.2 Summary of significant accounting policies - continued

##### Revenue recognition- continued

##### c. Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest income on financial assets at fair value through profit or loss and foreign exchange differences.

##### d. Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends on trading equities are reflected as a component of net trading income. Dividend income on available-for-sale securities are recognised as a component of other operating income.

#### 2.2.4 Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with central banks, operating accounts with other banks, amount due from other banks and highly liquid financial assets with original maturities of three months or less from the acquisition date, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost.

For the purposes of the statement of cash flows, cash and cash equivalents include cash and non-restricted balances with central bank, balances held with local banks, balances with foreign banks and money market placements.

#### 2.2.5 Property, plant and equipment

##### (i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and is recognised in other income/other expenses in profit or loss.

##### (ii) Subsequent costs

The cost of replacing a component 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 Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

##### (iii) Depreciation

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

## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

#### 2.2 Summary of significant accounting policies - continued Property, plant and equipment- continued

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 -Noncurrent Assets Held for Sale and Discontinued Operations. A non-current asset or disposal group is not depreciated while it is classified as held for sale.

The estimated useful lives for property, plant and equipment are as follows:

Leasehold land	over the lease period
Leasehold buildings	50 years
Computer equipment	3 years
Furniture, fittings & equipment	5 years
Motor vehicles	4 years
Leasehold improvements	10 years

Capital work in progress consists of items of property, plant and equipment that are not yet available for use. Capital work in progress is not depreciated, it is transferred to the relevant asset category upon completion.

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

#### (iv) De-recognition

An item of property, plant 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 period the asset is derecognised.

#### 2.2.6 Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

#### 2.2.7 Intangible assets

##### Software

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

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is five years. Amortisation method, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

#### 2.2.8 Leased assets

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies - continued

Leased assets- continued

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfer substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Leases that do not transfer to the Group substantially all the risks and rewards incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

Group as a lessor

Leases where the Group does not transfer substantially all of the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Rents are recognised as revenue in the period in which they are earned.

2.2.9 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. 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. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

#### 2.2 Summary of significant accounting policies - continued

##### 2.2.10 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 plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than 12 months after the end of the period in which the employees render the service are discounted to their present value at the reporting date.

The Group operates a funded defined contribution retirement benefit scheme for its employees under the provisions of the Pension Reform Act 2014. The employer and the employee contributions are 10% and 8%, respectively of the qualifying employee's monthly basic, housing and transport allowance. Obligations in respect of the Group's contributions to the scheme are recognised as an expense in the profit or loss account on an annual basis.

###### (ii) Short-term benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

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

##### 2.2.11 Contingencies

###### (i) Contingent asset

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 entity.

A contingent asset is disclosed when an inflow of economic benefit is probable. When the realisation of income is virtually certain, then the related asset is not contingent and its recognition is appropriate. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

#### 2.2 Summary of significant accounting policies - continued

##### Contingencies- continued

##### (ii) Contingent liability

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 entity; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefit is remote. A provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable is recognised, except in the extremely rare circumstances where no reliable estimate can be made.

Contingent liabilities are assessed continually to determine whether an outflow of economic benefit has become probable.

#### 2.2.12 Share capital

##### (i) Share issue costs

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

##### (ii) Share premium

Any excess of the fair value of the consideration received over the par value of shares issued is recognised as share premium.

##### (iii) Dividend on ordinary shares

Dividends on the Group's ordinary shares are recognised in equity in the period in which they are approved and declared by the Group's shareholders.

#### 2.2.13 Equity reserves

##### (i) Fair value reserve

The fair value reserve includes the net cumulative change in the fair value of available-for-sale investments until the investment is derecognized or impaired.

##### (ii) Share capital reserve

The share capital reserve represents the surplus nominal value of the shares of the Group which were reconstructed in June 2006 after the merger.

##### (iii) Regulatory risk reserve

The regulatory risk reserve warehouses the difference between the impairment on loans and advances computed based on the Central Bank of Nigeria Prudential Guidelines compared with the incurred loss model used in calculating the impairment under IFRS.

## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

#### 2.2 Summary of significant accounting policies - continued Equity reserves- continued

##### (iv) SMEEIS reserve

The SMEEIS reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside a percentage of the profit after tax in a fund to be used to finance equity investment in qualifying small and medium scale enterprises.

##### (vi) Statutory reserve

This represents regulatory appropriation to statutory reserves of 30% of profit after tax if the statutory reserve is less than paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid up share capital.

##### (vii) AGSMEIS reserve

The Banker's committee at its 331st meeting held on 9 February 2017 approved the Agric-Business, Small and Medium Investment Scheme (AGSMEIS) to support Federal Government efforts at promoting Agricultural businesses/Small and Medium Enterprises (SMEs). All deposit money banks are required to set aside 5% of Profit After Tax (PAT) annually after their financial statements have been audited by external auditors and approved by Central Bank of Nigeria (CBN) for publication and remit to CBN within 10 working days after the Annual General Meeting.

#### 2.2.14 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

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.

#### 2.2.15 Segment reporting

An operating segment is a component of the 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 Group's other components, whose operating results are reviewed regularly by the Group's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. The Group segment reporting is based on the following operating segments: Retail banking, Commercial banking, Institutional banking, Corporate & Investment banking, Non-Interest Banking and Special Purpose Vehicle (SPV).

#### 2.2.16 Foreign currency translation

The Group's functional and presentation currency is Nigerian Naira ("N"). Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of exchange at the reporting date. Differences arising from translation of monetary items are recognised in other operating income in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in Other Comprehensive Income (OCI) or profit or loss are also recognised in OCI or profit or loss, respectively).

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

2.2 Summary of significant accounting policies - continued

2.2.17 Pledged financial assets

Financial assets pledged as collateral are classified separately from other assets when the counterparty has the right to sell or re-pledge the collateral (by custom or contract) and so debt instruments at FVOCI, and debt instruments at amortised cost are shown separately in the statement of financial position if they can be sold or pledged by the transferee.

Financial investments available for sale pledged as collateral are measured at fair value while financial investments held to maturity are measured at amortised cost.

2.2.18 Fair value definition and measurement

The Group measures financial instruments at fair value at each statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in the following notes:

Disclosures for valuation methods, significant estimates and assumptions are in Note 3.

Quantitative disclosures of fair value measurement hierarchy are in Note 39

Financial instruments (including those carried at amortised cost) are in Note 39

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: In the principal market for the asset or liability and in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.2.19 Non interest banking

Brief explanation for each type of sharia financing is as follows:

Mudaraba financing is a co-operation for certain project between first party (Malik, Shahibul or mal ) as owner of fund and second party (Amil, Mudharib or debtors) as fund manager whereas the profit will be shared in accordance with percentage as stated in the agreement, meanwhile losses will be borne by the Bank except if the second party acts in negligence, error or violates the agreement. Mudaraba financing is reported at the outstanding financing balance less allowance for incurred losses.



## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

#### 2.2 Summary of significant accounting policies - continued Non interest banking- continued

Ijarah receivables are the financing on the availability of fund in relation to transferring the right to use and benefit of a good and service based on rental transaction which was not followed by transfer of the goods ownership to the lessee. Ijarah muntahiyah bittamlik is an agreement on the availability of fund in relation to transferring the use right and benefit of a good or service based on rental transaction with an option to transfer the ownership title of goods to the lessee. Ijarah receivables are recognised at due date at the amount of lease income not yet received and presented at its net realisable value, which is the outstanding balance of the receivables.

Mudaraba and Ijarah receivables are classified as debt instruments at amortised cost. Refer to Note 2.2.2 for the accounting policy on debt instruments at amortised cost.

#### (i) Deposit Liabilities

Deposits liabilities on non-interest banking are classified as financial liabilities at amortised cost. Incremental costs directly attributable to acquisition of deposits on non-interest banking are included in the amount of deposits and amortised over the expected life of the deposits. Refer to Note 2.2.3c(ii) for the accounting policy for financial liabilities at amortised cost above.

Included in the deposits liabilities are non interest banking deposits in form of *haji deposits*, *trust deposits*, and Certificates Mudharabah Investment Bank (SIMA). SIMA is an investment certificate issued by the bank which adopts profit sharing practice and in form of placement. SIMA financing period ranges from over one year.

#### 2.3 Changes in accounting policies and disclosures

The following are the standards, pronouncements and amendments effective for annual periods beginning on or after 1 January 2018.

- > IFRS 9 Financial Instruments
- > IFRS 15 Revenue from Contracts with Customers
- > IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- > Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
- > Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4
- > Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28
- > Transfers of Investment Property – Amendments to IAS 40
- > AIP IAS 28 - Investment in Associates
- > AIP IFRS 1 First-time Adoption of IFRS - Deletion of short-term exemptions for first-time adopters

The Group applied for the first time, the standards and amendments that are applicable. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below:

##### 2.3.1 IFRS 9 Financial instruments

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation of certain investments in equity instruments not held for trading at FVOCI.

If a risk free and gilt edged debt instrument has low credit risk equivalent to investment grade at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since initial recognition.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.3 Changes in accounting policies - continued

In accordance with the transition requirements for classification and measurement and impairment, the Group has not restated comparative periods. As a consequence:

- Any adjustments to carrying amounts of financial assets or liabilities are recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings (or another component of equity as appropriate).
- Financial assets are not reclassified in the statement of financial position for the comparative period.
- Allowance for impairment has not been restated in the comparative period.

New accounting policies have been disclosed, and references to the old policies included, which are applied to the amounts presented in the comparative period.

Investments in financial assets are classified as either debt or equity investments in accordance with IAS 32 Financial Instruments: Presentation.

The Group adopted the general Expected Credit Loss (ECL) model for loans and advances to banks, loans and advances to customers, other debt instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income, loan commitments and financial guarantees. ECL model is not applied to equity instruments.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

a. Classifications of financial assets and financial liabilities

The Group classified its financial assets as subsequently measured at either amortised cost or fair value depending on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The following summarises the key changes:

- The held-to-maturity and available-for-sale financial assets categories were removed.
- A new asset category measured at fair value through other comprehensive income (FVOCI) was introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. All of the Group's available-for-sale debt instruments were classified in this category.
- A new asset category for non-traded equity investments measured at FVOCI was introduced. All of the Group's available-for-sale equity instruments were classified in this category.
- Derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9, are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.3 Changes in accounting policies - continued

Classification of financial liabilities remained largely unchanged for the Group. Financial liabilities continue to be measured at either amortised cost or FVTPL. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- The amount of changes in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies its financial assets and financial liabilities under IFRS 9, see the Note on adoption of IFRS 9 in the financial statements.

b. Impairment of financial assets

IFRS 9 impairment requirements are based on an expected credit loss model, replacing the incurred loss model under IAS 39. Key changes in the Group's accounting policy for impairment of financial assets are listed below.

The Group applies a three-stage approach to measuring expected credit losses (ECL) on debt instruments accounted for at amortised cost, FVOCI, loan commitment and financial guarantee contracts. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

i) Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised. Interest revenue is calculated by applying the effective interest rate to the gross carrying amount.

ii) Stage 2: Lifetime ECL - not credit-impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL is recognised. Interest revenue is calculated by applying the effective interest rate to the gross carrying amount.

iii) Stage 3: Lifetime ECL - credit-impaired

Financial assets are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group's methodology for specific provisions remains unchanged. For financial assets that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost rather than the gross carrying amount.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in credit quality of a financial asset.

The Group assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2.3 Changes in accounting policies - continued

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive. The amount of the loss is recognised using an allowance for credit losses account.

The Group considers its historical loss experience and adjusts this for current observable data. In addition, the Group uses reasonable and supportable forecasts of future economic conditions including experience judgment to estimate the amount of an expected impairment loss. IFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, unemployment, interest rates, gross domestic product, inflation and commercial property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, depending on the stage of the life time (stage 2 or stage 3) of the ECL bucket, the Group would continue to monitor such financial assets for a probationary period of 90 days to confirm if the risk of default has decreased sufficiently before upgrading such exposure from life time ECL (Stage 2) to 12- months ECL (Stage 1). In addition to 90 days probationary period above, the Group also observes a further probationary period of 90 days to upgrade from Stage 3 to 2. This means a probationary period of 180 days will be observed before upgrading financial assets from lifetime ECL (Stage 3) to 12 months ECL (Stage 1).

In the case of the new asset category for debt instruments measured at FVOCI, the measurement of ECL is based on the three-stage approach as applied to financial assets at amortised cost. The Group recognises the impairment charge in profit or loss, with the corresponding amount recognised in other comprehensive income, with no reduction in the carrying amount in the statement of financial position.

Overall, impairment under IFRS 9 results in earlier recognition of credit losses than under IAS 39. For explanation of how the Group applies the impairment requirements of IFRS 9, see the Note on adoption of IFRS 9 in the financial statements.

2.3.2 IFRS 7 Revised (IFRS 7R)

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Group has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 4.2, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 37.1. Reconciliation from opening to closing ECL allowance are set out in Note 18, 19 & 20.

2.3.3 IFRS 15 Revenue from contracts with customers

The Group adopted IFRS 15 Revenue from contracts with customers on its effective date of 1 January 2018. IFRS 15 replaces IAS 18 Revenue and establishes a five-step model to account for revenue arising from contracts with customers. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. The five-step model requires the Group to (i) identify the contract with the customer, (ii) identify each of the performance obligations included in the contract, (iii) determine the amount of consideration in the contract, (iv) allocate the consideration to each of the identified performance obligations and (v) recognise revenue as each performance obligation is satisfied.

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

2.3 Changes in accounting policies - continued

There are no significant impacts from the adoption of IFRS 15 in relation to the timing of when the Group recognises revenues or when revenue should be recognised gross as a principal or net as an agent. Therefore, Sterling Bank will continue to recognise fee and commission income charged for services provided by the Group as the services are provided (for example on completion of the underlying transaction). Revenue recognition for trading income and net investment income are recognised based on requirements of IFRS 9. In addition, guidance on interest and dividend income have been moved from IAS 18 to IFRS 9 without significant changes to the requirements.

2.3.4 Impact of adoption of new standard on the third statement of financial position

The Group adopted new IFRS standards during the period which led to changes in its accounting policies. The Group applied these changes in accounting policies using the modified retrospective approach and as such it is not expected to present a third statement of financial position. However, the third statement of financial position is not presented because the retrospective adjustments have no impact on the third statement of financial position. This is because the Group opted not to restate the comparative figures as permitted by IFRS 9.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated and separate financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the accompanying disclosure, as well as the disclosure of contingent liability about these assumptions and estimates that could result in outcome that require a material adjustment to the carrying amount of assets and liabilities affected in future periods.

Management discusses with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

3.1 Estimates and Assumptions

The key assumption concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumption about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(i) Depreciation and carrying value of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated useful lives of items of property, plant and equipment will have an impact on the carrying value of these items. See Note 23 for further disclosure on intangible assets.

(ii) Amortisation and carrying value of intangible assets

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated useful lives of items of intangible assets will have an impact on the carrying value of these items. See Note 24 for further information disclosure on intangible assets.

(iii) Determination of impairment of property, plant and equipment, and intangible assets

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. The Group applies the impairment assessment to its separate cash generating units. This requires management to make significant judgements and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realisable values. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3.1 Estimates and Assumptions- continued

(iv) Determination of collateral value

Management monitors market value of collateral on a regular basis. Management uses its experienced judgement or independent opinion to adjust the fair value to reflect the current circumstances. The amount and collateral required depend on the assessment of credit risk of the counterparty. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Group's quarterly reporting schedule, however some collateral, for example, cash or securities relating to margin requirements, is valued daily. To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources. See Note 37 for further disclosure on collateral value.

(v) Business model assessment

For financial assets that are held for the purpose of collecting contractual cash flows, the Group has assessed whether the contractual terms of these assets are solely payments of principal and interest on the principal amount outstanding.

Allowances for credit losses

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and advances. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

A collective assessment of impairment takes into account data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), and concentrations of risk and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

These critical assumptions have been applied consistently to all periods presented, except as follows:

The Group applied the impairment requirements under IFRS 9 from 1 January 2018 resulting in changes to the assumptions used for the calculation for allowance for impairment using the expected credit loss model. The comparative period has not been restated for IFRS 9. The key change under the IFRS 9 expected credit loss model is the use of forecast of future economic conditions including macroeconomic factors. These have been discussed in note 3.1.1 above – Changes in accounting policies

Impairment of financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3.1 Estimates and Assumptions- continued

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Life time Expected credit losses (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

(vi) Fair value of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of techniques as described in accounting policy Note 2.2.18. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(vii) Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that the future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. Tax losses can be used indefinitely. See Note 14 for further information on judgment and estimates relating to deferred tax assets.

3.2 Judgments

Judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. In the process of applying the Group's accounting policies, management has made the following judgements, which have significant effect on the amount recognised in the financial statements:

(i) Going Concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in the business for the next 12 months from issuance of this report. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated and separate financial statements continue to be prepared on the going concern basis.

(ii) Deferred tax asset

Management uses its experienced judgement in not recognizing additional deferred tax assets. The amount of those items that give rise to the unrecognized deferred tax asset are disclosed in Note 14 of the financial statements.

## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

#### 4 New standards and interpretations

##### 4.1 New standards and interpretation issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

##### IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.



NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4.1 New standards and interpretation issued but not yet effective- continued

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Bank plans to adopt IFRS 16 on the required effective date, as the Bank has leases that qualify to be treated in line with this standard. The Bank is currently assessing the impact of this standard.

**IFRS 17 Insurance Contracts**

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

IFRS 17 will have no impact on the Bank, as it does not issue insurance contract.

**IFRIC Interpretation 23 Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4.1 New standards and interpretation issued but not yet effective- continued

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply the interpretation from its effective date. Since the Bank operates in a complex multinational tax environment, applying the Interpretation may affect its financial statements. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis. The Bank is still assessing the impact of these amendments.

**Amendments to IFRS 9: Prepayment Features with Negative Compensation**

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. The Bank is still assessing the impact of these amendments.

**Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments will currently have no impact on the financial statements of the Bank.

The Bank will apply these amendments when they become effective.

**Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4.1 New standards and interpretation issued but not yet effective- continued

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. The Bank does not expect any effect on its financial statements. These amendments will not have any impact on the Bank.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. The Bank does not have any investment in associate and joint venture, the amendments will not have an impact on its financial statements.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

• IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to 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 2019, with early application permitted. These amendments do not have any impact on the Bank.

• IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3.

The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Bank but may apply to future transactions.

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

4.1 New standards and interpretation issued but not yet effective- continued

• IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. The Bank is still assessing the impact of these amendments.

• IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

• Definition of Material – Amendments to IAS 1 and IAS 8

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. Material information may, for instance, be obscured if information regarding a material item, transaction or other event is scattered throughout the financial statements, or disclosed using a language that is vague or unclear. Material information can also be obscured if dissimilar items, transactions or other events are inappropriately aggregated, or conversely, if similar items are inappropriately disaggregated.

• Definition of Material – Amendments to IAS 1 and IAS 8

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE NOTES TO THE FINANCIAL STATEMENTS - Continued

4.2 TRANSITION DISCLOSURES

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs. The Group adopted IFRS 9 using the modified retrospective approach. A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

Group	Notes	IAS 39 measurement		Reclassification	Re-measurement		IFRS 9	
		Category	Amount		ECL	Other	Amount	Category
<i>In millions of Naira</i>								
Financial assets								
Cash and balances with Central Bank of Nigeria	a	Loans and receivables	122,630	-	-	-	122,630	Amortised cost
Due from banks	a	Loans and receivables	51,066	-	-	-	51,066	Amortised cost
Loans and advances to customers	a,e	Loans and receivables	598,073	-	(9,720)	-	588,353	Amortised cost
Other assets: Account receivables	a,e	Loans and receivables	6,179	-	(18)	-	6,161	Amortised cost
Debt instruments at amortised cost	a,e	HTM		24,075	(172)	-	23,903	Amortised cost
<i>From: Investment securities held to maturity (HTM)</i>		HTM		24,075				Amortised cost
Total financial assets measured at amortised cost			<u>777,948</u>	<u>24,075</u>	<u>(9,910)</u>	<u>-</u>	<u>792,113</u>	
Equity instruments at fair value through other comprehensive income (FVOCI)	b	N/A		2,671	-	696	3,367	Fair value through OCI (FVOCI)
<i>From: Investment securities - Available for sale (AFS)</i>		AFS		2,671				Fair value through OCI (FVOCI)
				<u>2,671</u>		<u>696</u>	<u>3,367</u>	Fair value through OCI (FVOCI)
Debt instruments at fair value through other comprehensive income (FVOCI)	a	N/A		77,360			77,360	Fair value through OCI (FVOCI)
<i>From: Investment securities - Available for sale (AFS)</i>		AFS		77,360				Fair value through OCI (FVOCI)
				<u>77,360</u>			<u>77,360</u>	Fair value through OCI (FVOCI)

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE NOTES TO THE FINANCIAL STATEMENTS - Continued

4.2 TRANSITION DISCLOSURES

Group	Notes	IAS 39 measurement			Re-measurement		IFRS 9	
		Category	Amount	Reclassification	ECL	Other	Amount	Category
<i>In millions of Naira</i>								
Investment securities - Fair value through profit or loss (FVPL) Held for trading		Fair value through profit or loss (FVPL)	6,883	-	-	-	6,883	Fair value through profit or loss (FVPL) (mandatory)
Pledged assets	a,e		145,179		(67)	-	145,112	
Debt instruments at amortised cost		HTM	83,506		(67)	-	83,439	Amortised cost
Debt instruments at fair value through other comprehensive income (FVOCI)		AFS	61,673		-	-	61,673	Fair value through OCI (FVOCI)
			<u>145,179</u>	<u>-</u>	<u>(67)</u>	<u>-</u>	<u>145,112</u>	
Investment securities : Available for sale (AFS)	a	AFS	80,031	(80,031)			N/A	
To: Equity instruments at fair value through other comprehensive income (FVOCI)				(2,671)				
To: Debt instruments at fair value through other comprehensive income (FVOCI)				(77,360)				
			<u>80,031</u>	<u>(80,031)</u>				
Investment securities: Held to maturity (HTM)	a	HTM	24,075	(24,075)			N/A	
To: Debt instruments at amortised cost				(24,075)				
			<u>24,075</u>	<u>(24,075)</u>				

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE NOTES TO THE FINANCIAL STATEMENTS - Continued

4.2 TRANSITION DISCLOSURES

Group	Notes	IAS 39 measurement		Reclassification	Re-measurement		IFRS 9	
		Category	Amount		ECL	Other	Amount	Category
<i>In millions of Naira</i>		IAS 39 measurement			Re-measurement		IFRS 9	
		Category	Amount	Reclassification	ECL	Other	Amount	Category
<i>In thousand of Nigerian naira</i>								
Financial liabilities								
Deposits from banks	a	Other financial liabilities	11,048	-	-	-	11,048	Amortised cost
Deposits from customers	a	Other financial liabilities	684,834	-	-	-	684,834	Amortised cost
Other borrowed funds	a	Other financial liabilities	212,847	-	-	-	212,847	Amortised cost
Debt securities issued	a	Other financial liabilities	13,068	-	-	-	13,068	Amortised cost
Other liabilities	a	Other financial liabilities	48,149	-	-	-	48,149	Amortised cost
			<u>969,946</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>969,946</u>	
<i>Non-financial liabilities</i>								
Provision	d		<u>295</u>	<u>-</u>	<u>17</u>	<u>-</u>	<u>312</u>	N/A

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE NOTES TO THE FINANCIAL STATEMENTS - Continued

4.2 TRANSITION DISCLOSURES

Bank	Notes	IAS 39 measurement			Re-measurement		IFRS 9	
		Category	Amount	Reclassification	ECL	Other	Amount	Category
<i>In millions of Naira</i>								
Financial assets								
Cash and balances with Central Bank of Nigeria	a	Loans and receivables	122,630	-	-	-	122,630	Amortised cost
Due from banks	a	Loans and receivables	51,066	-	-	-	51,066	Amortised cost
Loans and advances to customers	a,e	Loans and receivables	598,073	-	(9,720)	-	588,353	Amortised cost
Other assets: Account receivables	a,e	Loans and receivables	6,179	-	(18)	-	6,161	Amortised cost
Debt instruments at amortised cost	a,e	N/A		20,671	(169)	-	20,502	Amortised cost
<i>From: Investment securities held to maturity (HTM)</i>		HTM		20,671				Amortised cost
Total financial assets measured at amortised cost			<u>777,948</u>	<u>20,671</u>	<u>(9,907)</u>	<u>-</u>	<u>788,712</u>	
Equity instruments at fair value through other comprehensive income (FVOCI)	b	N/A		2,671	-	696	3,367	Fair value through OCI (FVOCI)
<i>From: Investment securities - Available for sale (AFS)</i>		AFS		2,671				Fair value through OCI (FVOCI)
				<u>2,671</u>		<u>696</u>	<u>3,367</u>	Fair value through OCI (FVOCI)
Debt instruments at fair value through other comprehensive income (FVOCI)	a	N/A		77,360			77,360	Fair value through OCI (FVOCI)
<i>From: Investment securities - Available for sale (AFS)</i>		AFS		77,360				Fair value through OCI (FVOCI)
				<u>77,360</u>			<u>77,360</u>	Fair value through OCI (FVOCI)
Investment securities - Fair value through profit or loss (FVPL) Held for trading		Fair value through profit or loss (FVPL)	6,883	-	-	-	6,883	Fair value through profit or loss (FVPL) (mandatory)



STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE NOTES TO THE FINANCIAL STATEMENTS - Continued

4.2 TRANSITION DISCLOSURES

Bank	Notes	IAS 39 measurement		Re-measurement			IFRS 9	
		Category	Amount	Reclassification	ECL	Other	Amount	Category
<i>In millions of Naira</i>								
Pledged assets	a,e		145,179		(67)	-	145,112	
Debt instruments at amortised cost		HTM	83,506		(67)	-	83,439	Amortised cost
Debt instruments at fair value through OCI (FVOCI)		AFS	61,673		-	-	61,673	Fair value through OCI (FVOCI)
			<u>145,179</u>	-	<u>(67)</u>	-	<u>145,112</u>	
Investment securities : Available for sale (AFS)	a	AFS	80,031	(80,031)			N/A	
To: Equity instruments at fair value through other comprehensive income (FVOCI)				(2,671)				
To: Debt instruments at fair value through other comprehensive income (FVOCI)				(77,360)				
			<u>80,031</u>	<u>(80,031)</u>				
Investment securities: Held to maturity (HTM)		HTM	20,671	(20,671)			N/A	
To: Debt instruments at amortised cost	a			(20,671)				

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE NOTES TO THE FINANCIAL STATEMENTS - Continued

4.2 TRANSITION DISCLOSURES

Bank	Notes	IAS 39 measurement		Reclassification	Re-measurement		IFRS 9	
		Category	Amount		ECL	Other	Amount	Category
<i>In millions of Naira</i>								
<b>Financial liabilities</b>								
Deposits from banks	a	Other financial liabilities	11,048	-	-	-	11,048	Amortised cost
Deposits from customers	a	Other financial liabilities	684,834	-	-	-	684,834	Amortised cost
Other borrowed funds	a	Other financial liabilities	212,847	-	-	-	212,847	Amortised cost
Debt securities issued	a	Other financial liabilities	9,709	-	-	-	9,709	Amortised cost
Other liabilities	a	Other financial liabilities	48,149	-	-	-	48,149	Amortised cost
			<u>966,587</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>966,587</u>	
<b>Non-financial liabilities</b>								
Provision	d		<u>295</u>	<u>-</u>	<u>17</u>	<u>-</u>	<u>312</u>	N/A

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE NOTES TO THE FINANCIAL STATEMENTS - Continued**

4.2 Transition disclosures continued

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

**Group**

<i>In millions of Naira</i>	Reserves and retained earnings
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	(2,568)
Recognition of fair value gains on equity investments previously carried at cost	1,037
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	187
Sub-total	1,224
Deferred tax in relation to the above	-
Opening balance under IFRS 9 (1 January 2018)	(1,344)
Non-distributable regulatory risk reserve	
Closing balance under IAS 39 (31 December 2017)	15,878
Excess charges from IFRS 9 ECL computation (see below)	(9,837)
Opening balance under IFRS 9 (1 January 2018)	6,041
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	6,991
Recognition of IFRS 9 ECLs including those measured at FVOCI, loan commitments and financial guarantee contracts (see below)	(10,114)
Derecognition of unquoted equity as at 1 January 2018	(610)
Transfer from non-distributable regulatory risk reserve	9,837
Reversal of Impairment previously charged on equity instruments carried at cost	268
Deferred tax in relation to the above	-
Opening balance under IFRS 9 (1 January 2018)	6,372
Total change in equity due to adopting IFRS 9	(9,232)

The following table reconciles the aggregate opening allowance for impairment under IAS 39- Financial instruments and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 - Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9.

<i>In millions of Naira</i>	Allowance for impairment under IAS 39/IAS 37 at 31 December 2017	Re-measurement	ECLs under IFRS 9 at 1 January 2018
<i>Impairment allowance for</i>			
Loans and advances to customers	19,504	9,720	29,224
Other assets	1,275	18	1,293
Held to maturity debt investment securities per IAS 39/Debt instruments at amortised cost under IFRS 9	-	172	172
Available-for-sale debt investment securities per IAS 39/debt financial assets at FVOCI under IFRS 9	-	187	187
	<u>20,779</u>	<u>10,097</u>	<u>30,876</u>
Financial guarantees	-	13	13
Letters of credit for customers	-	4	4
	-	17	17
	<u>20,779</u>	<u>10,114</u>	<u>30,893</u>

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE NOTES TO THE FINANCIAL STATEMENTS - Continued**

4.2 Transition disclosures continued

**Bank**

<i>In millions of Naira</i>	Reserves and retained earnings
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	(2,568)
Recognition of fair value gains on equity investments previously carried at cost	1,037
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	187
Sub-total	<u>1,224</u>
Deferred tax in relation to the above	-
Opening balance under IFRS 9 (1 January 2018)	<u><u>(1,344)</u></u>
<b>Non-distributable regulatory risk reserve</b>	
Closing balance under IAS 39 (31 December 2017)	15,878
Excess charges from IFRS 9 ECL computation (see below)	(9,837)
<b>Opening balance under IFRS 9 (1 January 2018)</b>	<u><u>6,041</u></u>
<b>Retained earnings</b>	
Closing balance under IAS 39 (31 December 2017)	6,944
Recognition of IFRS 9 ECLs including those measured at FVOCI, loan commitments and financial guarantee contracts (see below)	(10,111)
Derecognition of unquoted equity as at 1 January 2018	(610)
Transfer from non-distributable regulatory risk reserve	9,837
Reversal of Impairment previously charged on equity instruments carried at cost	268
Deferred tax in relation to the above	-
Opening balance under IFRS 9 (1 January 2018)	<u>6,328</u>
Total change in equity due to adopting IFRS 9	<u><u>(9,229)</u></u>

The following table reconciles the aggregate opening allowance for impairment under IAS 39- Financial instruments and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 - Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9.

<i>In millions of Naira</i>	Allowance for impairment under IAS 39/IAS 37 at 31 December 2017	Re-measurement	ECLs under IFRS 9 at 1 January 2018
<b>Impairment allowance for</b>			
Loans and advances to customers	19,504	9,720	29,224
Other assets	1,275	18	1,293
Held to maturity debt investment securities per IAS 39/Debt instruments at amortised cost under IFRS 9	-	169	169
Available-for-sale debt investment securities per IAS 39/debt financial assets at FVOCI under IFRS 9	-	187	187
	<u>20,779</u>	<u>10,094</u>	<u>30,873</u>
Financial guarantees	-	13	13
Letters of credit for customers	-	4	4
	<u>-</u>	<u>17</u>	<u>17</u>
	<u>20,779</u>	<u>10,111</u>	<u>30,890</u>

## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE NOTES TO THE FINANCIAL STATEMENTS - Continued

#### 4.2 Transition disclosures - continued

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

##### a. Reclassification from retired categories with no change in measurement

The following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were 'retired', with no changes to their measurement basis:

- (i) those previously classified as available for sale and now classified as measured at FVOCI;
- (ii) those previously classified as held to maturity and now classified as measured at amortised cost; and
- (iii) those previously classified as loans and receivables and now classified as measured at amortised cost.
- (iv) those previously classified as other financial liabilities and now classified as measured at amortised cost.

##### b. Designation of equity instruments at FVOCI

The Bank has elected to irrevocably designate investments in equity with a gross carrying amount of N2.9 billion in a portfolio of non-trading equity securities at FVOCI as permitted under IFRS 9. These securities were previously classified as available-for-sale and measured at cost less impairment.

The cumulative fair value gains of N1.037 billion has been recognised at 1 January 2018 since they were previously measured at cost less impairment.

##### c. Deferred tax implication of IFRS 9

Deferred tax assets have not been recognised in respect of the impact of IFRS 9 at the date of initial application; as there is no evidence that there will be sufficient taxable profits available to the Bank in future periods to utilize the asset. If the Bank were able to recognise all deferred tax assets related to the impact of transition, the Bank's equity would increase by N3.2billion.

##### d. ECL computation on loan commitment and financial guarantee contracts under IFRS 9

Provision for financial guarantee contracts and other contingent liabilities were previously determined in accordance with IAS 37 - Provisions Contingent Liabilities and Contingent Assets. The impairment computation for loan commitments and financial guarantee contracts is now in accordance with IFRS 9. As at 1 January 2018, the Bank recognised additional impairment of N17million on these instruments in accordance with IFRS 9.

##### e. ECL Computation on loans and advances to customers, account receivables, debt instruments at amortised cost and debt instruments at FVOCI under IFRS 9

Impairment allowance on loans and advances was previously determined in accordance with the incurred loss model of IAS 39 Financial Instruments - Recognition and measurement. There was no impairment charge on account receivables, debt instruments classified at held to maturity and debt instruments classified as available for sale under IAS 39. Effective 1 January 2018, the impairment computation for all these instruments is determined in accordance with the expected credit loss model under IFRS 9. As at 1 January 2018, the Bank adopted the general approach for these instruments in accordance with IFRS 9 and recognised an additional impairment of N10.097billion.

## 5 Segment Information

Segment information is presented in respect of the Group's strategic business units which represents the segment reporting format and is based on the Group's management and reporting structure.

(a) All non-current assets are located in the country of domicile and revenues earned are within same country.

##### (b) Reportable segment

The Group has six reportable segments; Retail Banking, Commercial banking, Institutional Banking, Corporate & Investment Banking, Non-interest Banking (NIB), and Special Purpose Vehicle (SPV) which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Executive Management Committee reviews internal management reports on a monthly basis.

The following summary describes the operations in each of the Group's reportable segments:

- o Corporate banking provides banking solutions to multinationals companies and other financial institutions.
- o Retail and Commercial banking provides banking solutions to individuals, small businesses, partnerships and commercial entities among
- o Non-Interest banking provides solutions that are consistent with Islamic laws and guided by Islamic economics.
- o The Special Purpose Vehicle is used to borrow funds through the issue of debt securities.

All transactions between business segments are conducted on an arm's length basis, internal charges and transfer pricing adjustments are reflected in the performance of each business.

The Executive Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the financial statements.

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE NOTES TO THE FINANCIAL STATEMENTS - Continued**

5 Segment Information - continued

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2018 (2017: none).

The activity of the segments are centrally financed, thus the cash flow for the Bank is presented in the Statement of cash flows.

31 December 2018 <i>In millions of Naira</i>	Retail Banking	Commercial Banking	Institutional Banking	Corporate & Investment Banking	Non-interest Banking	SPV	Total
Interest and Non-interest income	7,822	18,625	25,749	68,357	3,695	915	125,163
Interest and Non-interest expense	(10,445)	(10,160)	(8,919)	(37,558)	(1,650)	(1,149)	(69,882)
Net interest and Non-interest margin	(2,623)	8,464	16,830	30,799	2,045	(234)	55,281
Net fees and commission income	7,063	1,208	4,102	2,838	-	-	15,211
Credit loss expense	1,214	(2,161)	(495)	(4,246)	(143)	(11)	(5,843)
Depreciation and Amortization	(3,308)	(598)	(322)	(1,390)	(111)	-	(5,730)
Operating expenses	(5,005)	(8,196)	(14,426)	(33,009)	(570)	(7)	(61,213)
Segment profit/(loss)	3,710	(50)	7,556	(2,831)	1,343	(239)	9,489
Assets as at 31 December 2018							
Capital expenditures: Additions during the year							
Property, plant and equipment & Intangible assets	5,275	20	264	201	28	-	5,789
Other intangible assets	404	-	-	-	-	-	404
Total Assets	84,701	126,892	169,774	653,908	50,584	17,061	1,102,921
Total Liabilities	294,127	192,764	215,556	239,450	45,971	17,252	1,005,121

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE NOTES TO THE FINANCIAL STATEMENTS - Continued

31 December 2017 <i>In millions of Naira</i>	Retail Banking	Commercial & Institutional Banking	Corporate & Investment Banking	Non-interest Banking	SPV	Total
Interest and Non - interest income	12,421	44,032	49,328	3,150	1,381	110,312
Interest and Non - interest expense	(6,570)	(22,445)	(27,936)	(1,872)	(1,315)	(60,138)
Net interest and Non - interest margin	5,851	21,587	21,392	1,278	66	50,174
Net fees and commission income	3,406	4,257	5,172	41	-	12,876
Net impairment charge	(3,415)	(9,620)	1,115	(347)	-	(12,267)
Depreciation and Amortization	(1,238)	(1,902)	(1,801)	(54)	-	(4,995)
Operating Expenses	(2,512)	(20,808)	(24,217)	(448)	-	(47,985)
Segment profit/(loss)	4,588	(4,412)	7,393	470	66	8,105
Assets as at 31 December 2017						
Capital expenditure: Additions during the year						
Property, plant and equipment & Intangible assets	989	81	4,932	332	-	6,334
Other intangible assets	-	-	691	-	-	691
Total Assets	159,607	343,564	529,008	31,442	8,580	1,072,201
Total Liabilities	172,645	299,594	460,958	29,152	8,210	970,558

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

<i>In millions of Naira</i>		Group 2018	Group 2017	Bank 2018	Bank 2017
6	Interest income				
	Loans and advances to customers	95,227	78,379	95,227	78,379
	Investment securities	28,964	24,984	28,049	24,516
	Cash and cash equivalents	972	2,092	972	2,092
	Interest on impaired loans	-	4,857	-	4,857
		<u>125,163</u>	<u>110,312</u>	<u>124,248</u>	<u>109,844</u>
	Interest from investment securities were derived from:				
	Debt instruments at fair value through other comprehensive income	16,742	-	16,742	-
	Debt instruments at amortised cost	12,222	-	11,307	-
	Available for sale	-	13,600	-	13,600
	Held to maturity	-	11,384	-	10,916
		<u>28,964</u>	<u>24,984</u>	<u>28,049</u>	<u>24,516</u>

<i>In millions of Naira</i>		Group 2018	Group 2017	Bank 2018	Bank 2017
7	Interest expense				
	Deposits from customers	49,178	37,166	49,178	37,165
	Debts issued	10,327	2,162	9,178	1,760
	Other borrowed funds expense	8,939	17,744	8,939	17,745
	Deposits from banks	1,438	3,066	1,438	3,066
		<u>69,882</u>	<u>60,138</u>	<u>68,733</u>	<u>59,736</u>

- 8 Fees and commission income  
Fee and commission income is disaggregated below and includes a total fees in scope of IFRS 15, Revenues from Contracts with Customers:

Group & Bank	2018						2017
	Retail banking	Commercial banking	Institutional banking	Corporate & Investment banking	Non-interest banking	Total	Total
<i>In millions of Naira</i>							
E-business commission and fees	4,835	12	-	2	-	4,848	-
Account maintenance fees	820	373	693	81	-	1,966	1,441
Commissions and similar income	522	76	-	1,008	-	1,606	4,135
Facility management fees	277	277	476	430	-	1,460	1,008
Other fees and commissions (Note 8.1)	224	250	2,822	1,156	-	4,452	5,467
Total revenue from contracts with customers	6,678	987	3,991	2,676	-	14,332	12,051
Other non-contract fee income:							
Commissions on letter of credit transactions	386	221	111	161	-	879	825
Total fees and commission income	<u>7,063</u>	<u>1,208</u>	<u>4,101</u>	<u>2,838</u>	<u>-</u>	<u>15,211</u>	<u>12,876</u>

- 8.1 Other fees and commission includes mostly advisory fees of (N 3.8billion) (2017:N 3.7billion).

Fees and commissions above exclude amounts included in determining the effective interest rate on financial assets that are not at fair value through profit or loss.

<i>In millions of Naira</i>		Group 2018	Group 2017	Bank 2018	Bank 2017
9	Net trading income				
	Foreign exchange trading	7,605	3,466	7,605	3,466
	Treasury bills	873	1,784	873	1,784
	Bonds	139	(581)	139	(581)
	Financial asset held for trading	1	6	1	6
		<u>8,618</u>	<u>4,675</u>	<u>8,618</u>	<u>4,675</u>

Foreign exchange trading income includes gains and losses from spot and forward contracts and other currency derivatives. Other foreign exchange differences arising on non-trading activities are taken to other operating income/expense in the profit or loss.

The net trading loss on bonds is as a result of decline in the fair value of Federal Government of Nigeria securities as at 31 December 2017.



STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

<i>In millions of Naira</i>	Group 2018	Group 2017	Bank 2018	Bank 2017
10 Other operating income				
Cash recoveries on previously written off accounts	1,539	4,656	1,539	4,656
Other sundry income (Note 10.1)	1,188	652	1,186	652
Rental income	174	101	174	101
Dividends on FVOCI equity investments	225	163	225	163
Gains on disposal of property, plant and equipment	46	55	46	55
	<u>3,172</u>	<u>5,627</u>	<u>3,170</u>	<u>5,627</u>

10.1 Other sundry income includes income from cashless policy and other sources. Cashless policy was introduced by the Central Bank of Nigeria in 2015. The policy stipulates 3 per cent charge would be administered by banks for daily individual cumulative or single cash withdrawals in excess of N500,000, and 5 per cent charge on daily cumulative or single cash withdrawals by company in excess of N3million.

11 Credit loss expense

The table below shows the ECL charges/(reversals) on financial instruments for the year 31 December 2018 recorded in profit or loss:

<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers	(1,461)	163	7,435	6,137
Debt instruments measured at FVOCI	(25)	-	-	(25)
Debt instruments measured at amortised cost	(61)	-	-	(61)
Other assets	(192)	-	-	(192)
Financial guarantees	(13)	-	-	(13)
Letters of credit	(3)	-	-	(3)
Total credit loss expense	<u>(1,755)</u>	<u>163</u>	<u>7,435</u>	<u>5,843</u>

<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers	(1,472)	163	7,435	6,126
Debt instruments measured at FVOCI	(25)	-	-	(25)
Debt instruments measured at amortised cost	(61)	-	-	(61)
Other assets	(192)	-	-	(192)
Financial guarantees	(13)	-	-	(13)
Letters of credit	(3)	-	-	(3)
Total credit loss expense	<u>(1,766)</u>	<u>163</u>	<u>7,435</u>	<u>5,832</u>

**STERLING BANK PLC**
**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

<i>In millions of Naira</i>		Group	Group	Bank	Bank
		2018	2017	2018	2017
			Restated*		Restated*
11	Credit loss expense				
(i)	Loan impairment				
	Impairment allowance on loans to corporate entities	12,836	-	12,836	-
	Impairment allowance on loans to individuals	648	-	648	-
	- Individual impairment	-	10,889	-	10,889
	- Collective impairment	-	1,418	-	1,418
	Bad debts written off	611	463	611	463
	Allowances no longer required	(7,958)	(981)	(7,958)	(981)
		<u>6,137</u>	<u>11,789</u>	<u>6,137</u>	<u>11,789</u>
(ii)	Impairment charge on other assets (note 22.1)	(217)	457	(217)	457
(iii)	Impairment charge on investment securities	(61)	21	(72)	21
(iii)	Letters of credit and guarantees	(16)	-	(16)	-
		<u>(294)</u>	<u>478</u>	<u>(305)</u>	<u>478</u>
		<u>5,843</u>	<u>12,267</u>	<u>5,832</u>	<u>12,267</u>
12	Personnel expenses				
	Wages and salaries	11,920	10,244	11,920	10,244
	Defined contribution plan	1,274	1,301	1,274	1,301
		<u>13,194</u>	<u>11,545</u>	<u>13,194</u>	<u>11,545</u>
13.1	Other operating expenses				
	Contract services	5,525	4,291	5,525	4,291
	AMCON surcharge (See (a) below)	6,000	4,711	6,000	4,711
	Insurance	3,486	3,865	3,486	3,865
	Net foreign exchange loss	764	1,372	764	1,372
	Net loss on trading securities	16	-	16	-
	Other professional fees (See (b) below)	924	1,045	924	1,045
		<u>16,715</u>	<u>15,284</u>	<u>16,715</u>	<u>15,284</u>

**(a) AMCON sinking fund contribution**

This represents the Bank's contribution to a fund established by the Asset Management Corporation of Nigeria (AMCON) for the year ended 31 December 2018. Effective 1 January 2013, the Bank is required to contribute an equivalent of 0.5% (2017: 0.5%) of its total assets plus 0.5% of all contingent assets as at the preceding year end to AMCON's sinking fund in line with existing guidelines. This contribution is meant to be for 10 years from the effective date of December 2010. It is non-refundable and does not represent any ownership interest.

**(b) Other professional fees include legal charges and filing fees.**

<i>In millions of Naira</i>		Group	Group	Bank	Bank
		2018	2017	2018	2017
13.2	General and administrative expenses				
	Administrative expenses	5,222	3,022	5,222	3,022
	Office expenses	3,535	3,020	3,535	3,020
	E-business expense	3,456	2,119	3,456	2,119
	Communication cost	1,487	1,207	1,487	1,207
	Rents and rates	1,634	1,112	1,634	1,112
	Advertising and business promotion	2,985	1,062	2,985	1,062
	Other general expenses (Note 13.3)	1,412	888	1,405	888
	Branding expenses	377	783	377	783
	Seminar and conferences	1,209	728	1,209	728
	Security	466	552	466	552
	Cash handling and cash processing expenses	772	508	772	508
	Transport, travel, accomodation	520	503	520	503
	Directors other expenses	371	281	371	281
	Annual general meeting expenses	55	108	55	108
	Stationery and printing	246	195	246	195
	Audit fees	220	215	220	215
	Membership and subscription	253	194	253	194
	Directors fee	41	46	41	46
	Fines and penalties	20	8	20	8
	Newspapers and periodicals	2	3	2	3
		<u>24,283</u>	<u>16,554</u>	<u>24,276</u>	<u>16,554</u>

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

13.3 Included in the amount of other general expenses are loan recovery expenses, custodial services, debt capital expenses, miscellaneous office expenses, etc.

<i>In millions of Naira</i>		Group 2018	Group 2017	Bank 2018	Bank 2017
13.4	Other property, plant and equipment (PPE) costs				
	Repairs and maintenance of PPE	7,028	4,602	7,028	4,602
		<u>7,028</u>	<u>4,602</u>	<u>7,028</u>	<u>4,602</u>
<i>In millions of Naira</i>		Group 2018	Group 2017	Bank 2018	Bank 2017
14	Income tax				
a	Current income tax expense:				
	Income tax (note 14d(i))	173	-	173	-
	Education tax (note 14d(ii))	-	-	-	-
		<u>173</u>	<u>-</u>	<u>173</u>	<u>-</u>
	Information Technology levy (note 14e)	98	85	98	85
		<u>271</u>	<u>85</u>	<u>271</u>	<u>85</u>
	Deferred tax expense:				
	Origination of temporary differences (note 14g)	-	-	-	-
	Total income tax expense	<u>271</u>	<u>85</u>	<u>271</u>	<u>85</u>
b	Current income tax payable				
	The movement on this account during the year was as follows:				
	Balance, beginning of the year	232	941	232	941
	Estimated charge for the year (see (14a) above)	173	-	173	-
	Payments during the year	-	(710)	-	(710)
	Balance, end of the year	<u>405</u>	<u>232</u>	<u>405</u>	<u>232</u>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

<i>In millions of Naira</i>	Group 2018		Group 2017		Bank 2018		Bank 2017	
14 Income tax - continued								
c Reconciliation of total tax charge								
	%		%		%		%	
Profit before income tax	100%	9,489	100%	8,105	100%	9,739	100%	8,039
	===	=====	===	=====	===	=====	===	=====
Income payable @ statutory tax rate of 30%	30%	2,847	30%	2,432	30%	2,922	30%	2,412
Tax effect of:								
Non-deductible expenses	33%	3,241	58%	4,914	33%	3,166	58%	4,914
Tax-exempt Income	-103%	(9,946)	-107%	(9,106)	-102%	(9,946)	-106%	(9,086)
Education tax	-	-	-	-	-	-	-	-
Information Technology Levy (NITDA)	1%	98	1%	85	1%	98	1%	85
Minimum tax	-	-	-	-	-	-	-	-
Unrecognised tax loss	40%	3,858	19%	1,610	40%	3,858	19%	1,610
Tax on dividend paid basis	-	173	-	-	-	173	-	-
	-----	-----	-----	-----	-----	-----	-----	-----
Effective tax rate/ Income tax expense	3%	271	1%	85	3%	271	1%	85
	===	=====	===	=====	===	=====	===	=====

- d(i) The basis of income tax for (2018) is 30% of N575,808,363 which was dividend paid to shareholders in 2018 and relating to the 2017 financial year results. This is in compliance with Section 15A of Company Income Tax Act which states that where there is no taxable profit or total profit is less than the amount of dividend paid, the company shall be charged as if the dividend is the total profits of the company for the year of assessment to which the accounts, out of which dividend is declared relates. The Bank was not liable to Company Income Tax in 2017 as the Bank did not have taxable profit, did not pay dividend in 2017 and has more than 25% imported equity capital as at the reporting date (i.e. 31 December 2017). Hence, the Bank was exempted from minimum tax as stated in Section 33(3) of CITA as amended 2007.
- d(ii) The basis of the Education Tax is 2% of assessable profit which is nil (2017:Nil). An Education Tax of 2% of assessable profits is imposed on all companies incorporated in Nigeria. This tax is viewed as a social obligation placed on all companies in ensuring that they contribute their own quota in developing educational facilities in the country. There was no Education tax for the year because the Bank had an assessable loss.
- e The National Information Technology Agency Act (NITDA) 2007 stipulates that specified companies contribute 1% of their profit before tax to the National Information Development Agency. In line with the Act, the Bank has provided for Information technology levy at the specified rate.
- f The provisions of the Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order, 2011 grants exemption to income from bonds and treasury bills from tax for a period of 10 years.

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

## 14 Income tax

## g. Deferred tax assets and liabilities

31 December 2018	Balance at 31 December 2017	Recognised in profit or loss	Balance at 31 December 2018
<i>In millions of Naira</i>			
Property, plant and equipment and software	2,742	(2,000)	742
Unutilised tax credit (capital allowance)	(4,609)	1,201	(3,408)
Tax loss	(5,141)	841	(4,300)
Provisions	37	(42)	(5)
	<u>(6,971)</u>	<u>-</u>	<u>(6,971)</u>

31 December 2017	Balance at 31 December 2016	Recognised in profit or loss	Balance at 31 December 2017
<i>In millions of Naira</i>			
Property, plant and equipment and software	2,599	143	2,742
Unutilised tax credit (capital allowance)	(4,687)	78	(4,609)
Tax loss	(5,031)	(110)	(5,141)
Provisions	148	(111)	37
	<u>(6,971)</u>	<u>-</u>	<u>(6,971)</u>

The Bank has unutilized capital allowance of N42,205,728,033 (2017: N21,652,598,187), unused tax losses carried forward available of N46,812,538,168 (2017: N24,152,957,225) and deductible temporary differences of N86,329,545,876 (2017: N173,147,704) to be offset against future taxable profits. However no deferred tax asset has been recognised in respect of these items due to uncertainties regarding the timing and amount of future taxable profits. There is no expiry date for the utilization of these items.

The Bank has been incurring taxable losses primarily because of the tax exemption on income on government securities. The provisions of the Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order, 2011 grants exemption to income from bonds and treasury bills from tax for a period of 10 years. The expiry date of the circular would be in year 2021 and this trend would continue until the expiration of the tax holiday. Thus, the Bank has applied caution by not recognizing additional deferred tax assets which is not considered capable of recovery. The management's judgment is that the deferred tax recognized in the book is recoverable after the expiration of exemption granted on Government securities. The Bank will have taxable profit upon this expiration.

## 15 Earnings per share (basic and diluted)

The calculation of basic earnings per share as at 31 December 2018 was based on the profit attributable to ordinary shareholders of N9,218million (2017: N8,020million, as restated) and weighted average number of ordinary shares outstanding calculated as follows:

	Group 2018 Unit ('millions)	Group 31 Dec 2017 Restated* Unit ('millions)	Bank 2018 Unit ('millions)	Bank 31 Dec 2017 Restated* Unit ('millions)
a Issued ordinary shares as at 1 January	28,790	28,790	28,790	28,790
Weighted average number of ordinary shares	28,790	28,790	28,790	28,790
b Profit for the year attributable to equity holders of the Bank	9,218	8,020	9,468	7,954
Basic earnings per share	32k	28k	33k	28k
Diluted earnings per share	32k	28k	33k	28k

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

	Group 2018	Group 2017	Bank 2018	Bank 2017
<i>In millions of Naira</i>				
16				
Cash and balances with Central Bank of Nigeria				
Cash and foreign monies	20,772	15,404	20,772	15,404
Unrestricted balances with Central Bank of Nigeria	3,460	33,242	3,460	33,242
Deposits with the Central Bank of Nigeria	93,453	73,984	93,453	73,984
	<u>117,685</u>	<u>122,630</u>	<u>117,685</u>	<u>122,630</u>

Deposits with the Central Bank of Nigeria represent mandatory reserve deposits and are not available for use in the Bank's day-to-day operations. It does not form part of cash and cash equivalents in the statement of cash flows.

	Group 2018	Group 2017	Bank 2018	Bank 2017
<i>In millions of Naira</i>				
17				
Due from banks				
Balances held with banks outside Nigeria	22,954	30,368	22,954	30,368
Money market placements	8,690	20,698	8,690	20,698
Balances held with local banks	11,898	-	11,791	-
	<u>43,542</u>	<u>51,066</u>	<u>43,435</u>	<u>51,066</u>

Included in balances with banks outside Nigeria is the Naira equivalent of foreign currency balances held on behalf of customers in respect of letters of credit. The corresponding liabilities are included in other liabilities (see Note 30). These balances are not available for the day to day operations of the Bank.

Money market placements are placement for varying periods between one day to three months, depending on the immediate cash requirements of the Bank and earn interest at the prevailing market rate.

	Group 2018	Bank 2018
<i>In millions of Naira</i>		
18		
Pledged assets		
18.1		
<i>Debt instruments at Fair value through other comprehensive income (FVOCI)</i>		
Treasury bills FVOCI (see note (a) below)	7,063	7,063
<i>Total debt instruments measured at FVOCI</i>	<u>7,063</u>	<u>7,063</u>
18.2		
<i>Pledged assets Debt instruments at amortised cost</i>		
Government bonds Amortised cost (see note (b) below)	4,255	4,255
Other pledged assets (see note (c) below)	108	108
Sub-total	4,363	4,363
Less: Allowance for impairment losses	(3)	(3)
<i>Total debt instruments measured at amortised cost</i>	<u>4,360</u>	<u>4,360</u>
<i>Total pledged assets</i>	<u>11,423</u>	<u>11,423</u>

Pledge assets as at 31 December 2017

	Group 2017	Bank 2017
<i>In millions of Naira</i>		
Treasury bills AFS (see note (a) below)	7,619	7,619
Government bonds HTM (see note (b) below)	83,307	83,307
Government bonds AFS (see note (b) below)	40,380	40,380
Euro Bond AFS (see note (b) below)	13,674	13,674
Other pledged assets (see note (c) below)	199	199
	<u>145,179</u>	<u>145,179</u>

The Bank pledges assets that are on its statement of financial position in various day-to-day transactions that are conducted under the usual terms and conditions applying to such agreements.

- Pledged for clearing activities, as collection bank for government taxes and Interswitch electronic card transactions.
- Pledged as security for long term loan from Citibank International, standing facilities (expanded discount window) with Central Bank of Nigeria, clearing activities with First Bank of Nigeria Limited and loan facility from Bank of Industry and Secured bond takings under repurchase agreements.
- Included in other pledged assets are cash collateral for letters of credit and visa card transactions. The deposits are not part of the fund used by the Bank for day to day activities.

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

18.3 Impairment losses on pledged assets subject to impairment assessment

18.3.1 Pledged assets measured at FVOCI

The table below shows the fair value of the Bank's pledged assets instruments measured at FVOCI by credit risk, based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 37 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 2.2.2:

<i>Group and Bank</i>				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	7,063	-	-	7,063
Total	7,063	-	-	7,063

An analysis of changes in the fair value and the corresponding ECLs is, as follows:

<i>Group and Bank</i>				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Fair value as at 1 January 2018	61,673			61,673
New assets originated or purchased	-	-	-	-
Assets derecognised or matured (excluding write-offs)	(54,654)	-	-	(54,654)
Change in fair value	44	-	-	44
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not derecognised	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	7,063	-	-	7,063

<i>Group and Bank</i>				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018	50	-	-	50
New assets originated or purchased	-	-	-	-
Assets derecognised or matured (excluding write offs)	(45)	-	-	(45)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	1	-	-	1
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	6	-	-	6

18.3.2 Pledged assets instruments measured at Amortised cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 37:

<i>Group and Bank</i>				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	4,363	-	-	4,363
Total	4,363	-	-	4,363

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

<i>Group and Bank</i>				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	83,506	-	-	83,506
New assets originated or purchased	-	-	-	-
Assets derecognised or matured (excluding write-offs)	(79,143)	-	-	(79,143)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not derecognised	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	4,363	-	-	4,363

<i>Group and Bank</i>				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018	67	-	-	67
New assets purchased	-	-	-	-
Assets derecognised or matured (excluding write offs)	(65)	-	-	(65)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	1	-	-	1
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	3	-	-	3

<i>In millions of Naira</i>	Group 2018	Group 2017	Bank 2018	Bank 2017
19 Loans and advances to customers				
Loans to corporate entities and other organizations	621,257	602,472	621,257	602,472
Loans to individuals	19,421	15,106	19,421	15,106
	640,678	617,578	640,678	617,578
Less:				
Impairment allowance on loans to corporate entities	(17,991)	-	(17,991)	-
Impairment allowance on loans to individuals	(1,670)	-	(1,670)	-
Individual impairment allowance	-	(13,810)	-	(13,810)
Collective impairment allowance	-	(5,694)	-	(5,694)
	621,017	598,073	621,017	598,073

19.1 Impairment allowance for loans and advances to customers

19.1.1 Loans to corporate entities and other organizations

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 37 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 2.2.2

<i>Group and Bank</i>	31 December 2018					31 December 2017
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	POCI	Total	Total
External rating grade						
RR1-RR2	103,548	-	-	-	103,548	109,523
RR3-RR4	361,401	-	-	-	361,401	394,287
RR5-RR6	64,388	55,313	-	-	119,701	62,405
RR7	-	-	43	-	43	14,224
RR8	-	-	15,915	-	15,915	6,803
RR9	-	-	20,648	-	20,648	15,229
Total	529,337	55,313	36,607	-	621,257	602,472

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Corporate lending is, as follows:

<i>Group and Bank</i>	31 December 2018				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 1 January 2018	546,887	21,279	34,306	-	602,472
New assets originated or purchased	204,081	-	-	-	204,081
Assets derecognised or repaid (excluding write offs)	(131,435)	(56,464)	(20,308)	-	(208,206)
Transfers to Stage 1	14,441	(13,855)	(586)	-	-
Transfers to Stage 2	(99,373)	99,413	(40)	-	-
Transfers to Stage 3	(11,236)	(3,473)	14,709	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	14	-	-	-	14
Amounts written off	-	-	(12,347)	-	(12,347)
Foreign exchange adjustments	23,841	7,511	3,891	-	35,243
At 31 December	547,220	54,411	19,625	-	621,257



## STERLING BANK PLC

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

Group and Bank In millions of Naira	31 December 2018				
	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 1 January 2018 under IFRS 9	2,494	70	23,719	-	26,283
New assets originated or purchased	66	-	-	-	66
Assets derecognised or repaid (excluding write offs)	(1,970)	(46)	(6,843)	-	(8,859)
Transfers to Stage 1	431	(22)	(409)	-	-
Transfers to Stage 2	(129)	165	(36)	-	-
Transfers to Stage 3	(78)	(20)	98	-	-
Impact on year end ECL of exposures transferred between stages during the period	56	246	6,989	-	7,291
Unwind of discount	372	17	1,541	-	1,930
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Changes to models and inputs used for ECL calculations	(297)	(20)	2,227	-	1,910
Amounts written off	-	-	(12,347)	-	(12,347)
Foreign exchange adjustments	82	0	1,635	-	1,717
At 31 December	1,027	390	16,575	-	17,991

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity was N5.37billion at 31 December (2017:N6.76billion).

The decrease in ECLs of the portfolio was driven by write-offs and recoveries on the gross size of the portfolio.

## 19.1.2 Loans to Individuals

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 37 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 2.2.2

Group and Bank In millions of Naira	31 December 2018					31 December 2017	
	Stage 1	Stage 2	Stage 3	POCI	Total	Total	Total
Internal rating grade							
RR1-RR2	5,185	-	-	-	5,185	787	
RR3-RR4	10,008	-	-	-	10,008	8,906	
RR5-RR6	949	547	-	-	1,496	1,251	
RR7	-	-	415	-	415	1,422	
RR8	-	-	1,942	-	1,942	1,746	
RR9	-	-	376	-	376	994	
Total	16,141	547	2,733	-	19,421	15,106	

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to individual lending is, as follows:

Group and Bank In millions of Naira	31 December 2018				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at					
1 January 2018	9,974	971	4,161	-	15,106
New assets originated or purchased	12,589	-	-	-	12,589
Assets derecognised or repaid (excluding write offs)	(3,597)	(1,407)	(2,759)	-	(7,762)
Transfers to Stage 1	377	(40)	(337)	-	-
Transfers to Stage 2	(765)	959	(194)	-	-
Transfers to Stage 3	(1,497)	(65)	1,562	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Amounts written off	-	-	(511)	-	(511)
Foreign exchange adjustments	-	-	-	-	-
At 31 December	17,081	418	1,922	-	19,421

Group and Bank In millions of Naira	31 December 2018				
	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as at 1 January 2018 under IFRS 9	181	6	2,755	-	2,942
New assets originated or purchased	18	-	-	-	18
Assets derecognised or repaid (excluding write offs)	(151)	(35)	(1,209)	-	(1,395)
Transfers to Stage 1	285	(1)	(285)	-	-
Transfers to Stage 2	(13)	207	(194)	-	-
Transfers to Stage 3	(26)	(1)	27	-	-
Impact on year end ECL of exposures transferred between stages during the period	(247)	(129)	431	-	55
Unwind of discount	16	25	164	-	205
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Changes to models and inputs used for ECL calculations	(11)	6	361	-	357
Amounts written off	-	-	(511)	-	(511)
Foreign exchange adjustments	-	-	-	-	-
At 31 December	53	78	1,539	-	1,670

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

The decrease in ECLs of the portfolio was driven by write-offs and recoveries on the gross size of the portfolio.

Loans and advances are granted at different interest rates across the various products.

<i>In millions of Naira</i>	Group 2017	Bank 2017
19.1.3 Impairment allowance on loans and advances to customers		
Individual impairment allowance		
Balance, beginning of year	4,188	4,188
Impairment charge for the year (note 11)	10,889	10,889
Reversal for the year (note 11)	(981)	(981)
Write-offs	(286)	(286)
Balance, end of year	<u>13,810</u>	<u>13,810</u>
19.1.4 Collective impairment allowance		
Balance, beginning of year	4,276	4,276
Impairment charge for the year (note 11)	1,418	1,418
Balance, end of year	<u>5,694</u>	<u>5,694</u>

<i>In millions of Naira</i>	Group 2017	Bank 2017
19.1.5 Classification of loans and advances by category		
1. Individually Impaired	22,443	22,443
2. Past due but not impaired	16,025	16,025
3. Neither past due nor impaired	579,110	579,110
	<u>617,578</u>	<u>617,578</u>

<i>In millions of Naira</i>	Group 2018	Group 2017	Bank 2018	Bank 2017
19.1.6 Classification of loans and advances by rating				
Rating				
RR1-RR2	108,732	107,722	108,732	107,722
RR3-RR4	371,409	405,854	371,409	405,854
RR5-RR6	121,197	65,535	121,197	65,535
RR7	263	16,235	263	16,235
RR8	16,950	2,278	16,950	2,278
RR9	22,127	19,954	22,127	19,954
	<u>640,678</u>	<u>617,578</u>	<u>640,678</u>	<u>617,578</u>
19.1.7 Classification of loans and advances by security				
Cash	113,764	148,711	113,764	148,711
Real estate	224,679	198,379	224,679	198,379
Stocks/shares	3,261	3,350	3,261	3,350
Debentures	106,357	156,030	106,357	156,030
Other securities	157,302	108,296	157,302	108,296
Unsecured	35,316	2,812	35,316	2,812
	<u>640,678</u>	<u>617,578</u>	<u>640,678</u>	<u>617,578</u>

Other securities includes domiciliation of proceeds, personal guarantees, negative pledge, etc.

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

19.1.8 Classification of loans and advances per performance  
31 December 2017

Rating	INDIVIDUALLY IMPAIRED	PAST DUE BUT NOT IMPAIRED	NEITHER PAST DUE NOR IMPAIRED	TOTAL
	N'millions	N'millions	N'millions	N'millions
31 December 2017				
RR1	-	-	65,143	65,143
RR2	-	-	42,579	42,579
RR3	-	-	176,651	176,651
RR4	-	-	229,204	229,204
RR5	-	-	65,490	65,490
RR6	-	-	44	44
RR7	2,358	13,878	-	16,236
RR8	1,445	833	-	2,278
RR9	18,640	1,314	-	19,954
	<u>22,443</u>	<u>16,025</u>	<u>579,110</u>	<u>617,578</u>

	Group 2018	Group 2017	Bank 2018	Bank 2017
<i>In millions of Naira</i>				
19.1.9 Classification of loans and advances by				
Agriculture	22,785	19,244	22,785	19,244
Communication	16,653	17,287	16,653	17,287
Consumer	11,914	5,720	11,914	5,720
Education	646	885	646	885
Finance and insurance	32,096	32,124	32,096	32,124
Government	74,547	69,571	74,547	69,571
Manufacturing	4,078	6,680	4,078	6,680
Mining & quarrying	391	768	391	768
Mortgage	5,857	8,877	5,857	8,877
Oil and gas	273,742	251,590	273,742	251,590
Others	57,140	64,706	57,140	64,706
Power	16,638	22,665	16,638	22,665
Real estate & construction	56,531	70,283	56,531	70,283
Transportation	32,226	20,681	32,226	20,681
Non-interest banking	35,435	26,496	35,435	26,496
	<u>640,678</u>	<u>617,578</u>	<u>640,678</u>	<u>617,578</u>

	Group 2018	Group 2017	Bank 2018	Bank 2017
<i>In millions of Naira</i>				
20 Investment securities:				
(a) <i>Financial instrument held at fair value through profit or loss (FVTPL)</i>				
Treasury bills	4,110	6,883	4,110	6,883
Total financial assets measured at FVTPL	<u>4,110</u>	<u>6,883</u>	<u>4,110</u>	<u>6,883</u>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

	Group 2018	Bank 2018
<i>In millions of Naira</i>		
(b) <i>Equity instrument at fair value through other comprehensive income</i>		
Lotus Capital Halal	245	245
Africa Export/Import Bank	190	190
Nigeria Interbank Settlement System plc	594	594
Africa Finance Corporation	1,826	1,826
Unified Payment System	95	95
Investment in AGSMEIS	682	682
Nigeria Mortgage Refinancing Corporation	379	379
Total equity instruments at FVOCI	4,011	4,011
(c) <i>Debt instruments at fair value through other comprehensive income</i>		
Treasury bills	33,879	33,879
Government bonds	82,829	82,829
Corporate bonds	912	912
Total debt instruments measured at FVOCI	117,620	117,620
(d) <i>Debt instruments at amortised cost</i>		
Government bonds	122,502	105,581
Corporate bonds	678	678
Treasury bills	32	-
	123,212	106,259
Less: Allowance for Impairment losses	(126)	(112)
Total debt instruments measured at amortised cost	123,086	106,147

	Group 2017	Bank 2017
<i>In millions of Naira</i>		
(e) <i>Available for sale</i>		
Equity securities	2,939	2,939
Allowance for impairment on AFS	(268)	(268)
	2,671	2,671
Treasury bills	69,097	69,097
Government bonds	7,091	7,091
Euro bonds	621	621
Corporate bonds	551	551
	80,031	80,031

	Group 2017	Bank 2017
<i>In millions of Naira</i>		
(f) <i>Held to maturity</i>	23,207	19,845
Government bonds	826	826
Corporate bonds	41	-
Treasury Bills	24,075	20,671

Impairment losses on financial investments subject to impairment assessment

(g) Debt instruments measured at FVOCI  
The table below shows the fair value of the Bank's debt instruments measured at FVOCI by credit risk, based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 37 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 2.2.2:

<i>Group and Bank</i>				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	114,101	-	-	114,101
RR3-RR4	2,608	-	-	2,608
RR5-RR6	912	-	-	912
Total	117,620	-	-	117,620

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

An analysis of changes in the fair value and the corresponding ECLs is, as follows:

<i>Group and Bank</i>				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Fair value as at 1 January 2018	80,031	-	-	80,031
New assets originated or purchased	109,020	-	-	109,020
Assets derecognised or matured (excluding write-offs)	(71,315)	-	-	(71,315)
Change in fair value	(116)	-	-	(116)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not derecognised	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	117,620	-	-	117,620

<i>Group and Bank</i>				
<i>In millions of Naira</i>	Stage 1 individual	Stage 2 Individual	Stage 3	Total
ECL allowance as at 1 January 2018 under IFRS 9	137	-	-	137
New assets purchased	21	-	-	21
Assets derecognised or matured (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during	-	-	-	-
Unwind of discount (recognised in interest income)	4	-	-	4
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	161	-	-	161

(h) Debt instruments measured at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 37 and policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 2.2.2:

<i>Group</i>				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	120,265	-	-	120,265
RR3-RR4	2,335	-	-	2,335
RR5-RR6	260	352	-	612
RR7	-	-	-	-
RR8	-	-	-	-
RR9	-	-	-	-
Total	122,860	352	-	123,212

<i>Bank</i>				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
RR1-RR2	103,311	-	-	103,311
RR3-RR4	2,335	-	-	2,335
RR5-RR6	261	352	-	613
RR7	-	-	-	-
RR8	-	-	-	-
RR9	-	-	-	-
Total	105,907	352	-	106,259

<i>Group</i>				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	20,310	490	-	20,800
New assets originated or purchased	104,013	-	-	104,013
Assets derecognised or matured (excluding write-offs)	(1,463)	(138)	-	(1,601)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not derecognised	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	122,860	352	-	123,212

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

<i>Bank</i>				
<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	20,310	490	-	20,800
New assets originated or purchased	87,060	-	-	87,060
Assets derecognised or matured (excluding write-offs)	(1,463)	(138)	-	(1,601)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not derecognised	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	105,907	352	-	106,259

<i>Group</i>				
<i>In millions of Naira</i>	Stage 1		Stage 3	Total
	individual	Stage 2 Individual		
ECL allowance as at 1 January 2018	61	43	-	104
New assets purchased	31	-	-	31
Assets derecognised or matured (excluding write offs)	-	(12)	-	(12)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	2	1	-	3
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Changes due to modification not derecognised	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At 31 December 2018	94	32	-	126

<i>Bank</i>				
<i>In millions of Naira</i>	Stage 1		Stage 3	Total
	individual	Stage 2 Individual		
ECL allowance as at 1 January 2018	59	43	-	102
New assets purchased	20	-	-	20
Assets derecognised or matured (excluding write offs)	-	(12)	-	(12)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	1	1	-	2
Changes due to modifications not resulting in derecognition	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Changes due to modification not derecognised	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At 31 December 2018	80	32	-	112

**STERLING BANK PLC**
**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

<i>In millions of Naira</i>	Group 2018	Group 2017	Bank 2018	Bank 2017
(h) Allowance for impairment on Investment securities				
Allowance for Instrument held at FVOCI				
Balance, beginning of year	268	247	268	247
Reversal of impairment	(268)	21	(268)	21
Balance, end of year	-	268	-	268

**21 Investment in Subsidiary**

In 2016, Sterling Bank Plc registered Sterling Investment Management Plc (the SPV) with the Corporate Affairs Commission as a public limited liability company limited by shares with authorised capital of N2,000,000 @ N1.00 per share. Total number of issued share capital is 500,000, with 499,999 shares held by Sterling Bank Plc and 1 share held by the Managing Director Mr. Abubakar Suleiman. The main objective of setting up the SPV is to raise or borrow money by the issue of bonds or other debt instruments.

Name of company	<i>Ownership/Percentage interest</i>	1	1
Sterling Investment Management Plc	99.9 percent	1	1

Condensed Statement of profit or loss for the Year ended 31 December 2018	Group N'million	Elimination Entries N'million	Bank N'million	Sterling SPV N'million
Operating Income	82,282	(2,883)	82,514	2,651
Operating expenses	(66,950)	2,883	(66,943)	(2,890)
Credit loss expense	(5,843)	(11)	(5,832)	-
Profit/(loss) for the year before tax	9,489	-	9,739	(239)
Income tax expense	(271)	-	(271)	-
Profit/(loss) for the year after tax	9,218	-	9,468	(239)
Condensed statement of financial position As at 31 December 2018				
Assets:				
Cash and balances with Central Bank of Nigeria	117,685	-	117,685	-
Due from banks	43,542	-	43,435	107
Pledged assets	11,423	-	11,423	-
Loans and advances to customers	621,017	(25,717)	621,017	25,717
Investments in securities:	-	-	-	-
- Financial assets at fair value through profit or loss	4,110	-	4,110	-
- Debt instruments at fair value through other comprehensive income	117,620	-	117,620	-
- Equity instruments at fair value through other comprehensive income	4,011	-	4,011	-
- Debt instruments at amortised cost	123,086	-	106,147	16,939
Investment in subsidiary	-	(1)	1	-
Other assets	29,446	-	29,446	-
Property, plant and equipment	16,942	-	16,942	-
Intangible assets	1,850	-	1,850	-
Deferred tax assets	6,971	-	6,971	-
	1,097,703	(25,718)	1,080,658	42,764
Non-current assets held for sale	5,218	-	5,218	-
<b>TOTAL ASSETS</b>	<b>1,102,921</b>	<b>(25,718)</b>	<b>1,085,876</b>	<b>42,764</b>
LIABILITIES & EQUITY				
Deposits from customers	760,608	-	760,608	-
Current income tax payable	405	-	405	-
Other borrowed funds	119,526	-	119,526	-
Debt securities issued	86,609	(25,717)	69,355	42,970
Other liabilities	37,678	-	37,678	-
Provisions	295	-	295	-
Share capital	14,395	(1)	14,395	1
Share premium	42,759	-	42,759	-
Retained earnings	(3,307)	-	(3,101)	(206)
Other components of equity	43,953	(3)	43,956	-
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,102,921</b>	<b>(25,721)</b>	<b>1,085,876</b>	<b>42,764</b>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

21 Investment in Subsidiary - Continued

Condensed statement of cash flows Year ended 31 December 2018	Group N'million	Elimination Entries N'million	Bank N'million	Sterling SPV N'million
Net cash flows from/(used in) operating activities	35,703	-	35,942	(239)
Net cash flows used in investing activities	(42,979)	(11,758)	(31,567)	346
Net cash flows used in financing activities	(29,621)	11,758	(41,379)	-
Net decrease in cash and cash equivalents	(36,897)	-	(37,004)	107
Exchange rate movements on cash and cash equivalents	4,959	-	4,959	-
Cash and cash equivalents, beginning of the year	99,712	-	99,712	-
Cash and cash equivalents, end of the year	<u>67,774</u>	<u>-</u>	<u>67,667</u>	<u>107</u>
<b>Condensed Statement of profit or loss for the Year ended 31 December 2017</b>				
Operating Income	73,352	(1,315)	73,286	1,381
Operating expenses	(52,980)	1,315	(52,980)	(1,315)
Credit loss expense	(12,267)	-	(12,267)	-
Profit for the year before income tax	8,105	-	8,039	66
Income tax expense	(85)	-	(85)	-
	<u>8,020</u>	<u>-</u>	<u>7,954</u>	<u>66</u>
<b>Condensed statement of financial position As at 31 December 2017</b>				
<b>Assets:</b>				
Cash and balances with Central Bank of Nigeria	122,630	-	122,630	-
Due from banks	51,066	-	51,066	-
Pledged assets	145,179	-	145,179	-
Loans and advances to customers	598,073	(5,146)	598,073	5,146
Investments in securities:				
- Held for trading	6,883	-	6,883	-
- Available for sale	80,031	-	80,031	-
- Held to maturity	24,075	-	20,671	3,404
Investment in subsidiary	-	(1)	1	-
Other assets	18,728	-	18,728	-
Property, plant and equipment	16,451	-	16,451	-
Intangible assets	2,114	-	2,114	-
Deferred tax assets	6,971	-	6,971	-
<b>TOTAL ASSETS</b>	<u>1,072,201</u>	<u>(5,147)</u>	<u>1,068,798</u>	<u>8,550</u>
<b>LIABILITIES &amp; EQUITY</b>				
Deposits from banks	11,048	-	11,048	-
Deposits from customers	684,834	-	684,834	-
Current income tax payable	232	-	232	-
Other borrowed funds	212,847	-	212,847	-
Debt securities issued	13,068	(5,142)	9,709	8,501
Other liabilities	48,234	-	48,234	-
Provisions	295	-	295	-
Share capital	14,395	(1)	14,395	1
Share premium	42,759	-	42,759	-
Retained earnings	6,991	-	6,944	48
Other components of equity	37,498	(3)	37,501	-
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>1,072,201</u>	<u>(5,147)</u>	<u>1,068,798</u>	<u>8,550</u>



## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

## 21 Investment in Subsidiary - Continued

Condensed statement of cash flows Year ended 31 December 2017	Group N'million	Elimination Entries N'million	Bank N'million	Sterling SPV N'million
Net cash flows (used in)/from operating activities	(46,476)	-	(46,542)	66
Net cash flows used in investing activities	(26,662)	(68)	(26,594)	-
Net cash flow from financing activities	127,763	1	127,762	-
Net increase in cash and cash equivalents	54,626	(67)	54,626	66
Exchange rate movements on cash and cash equivalents	418	-	418	-
Cash and cash equivalents, beginning of the year	44,667	-	44,667	-
Cash and cash equivalents, end of the year	99,712	(67)	99,712	66
<i>In millions of Naira</i>				
22 Other assets				
Financial assets				
Accounts receivable (see note (i))	10,720	6,179	10,720	6,179
Contribution to AGSMEIS (see note (iii) below)	-	259	-	259
Non-financial assets				
Prepayments and other debit balances (see note (ii) below)	17,643	10,534	17,643	10,534
Prepaid staff cost	1,401	2,205	1,401	2,205
Stock of cheque books and administrative stationeries	516	826	516	826
Gross other assets	30,280	20,003	30,280	20,003
Allowance for impairment on other assets (note 22.1)	(834)	(1,275)	(834)	(1,275)
	29,446	18,728	29,446	18,728

i Included in accounts receivable are forex deliverables due from CBN for the Bank's customers.

ii Included in prepayments are Bank premises rent and insurance.

iii The Banker's Committee at its 331st meeting held on 9 February 2017 approved the Agric-Business, Small and Medium Investment Scheme (AGSMEIS) to support the Federal Government effort's at promoting Agricultural businesses/Small and Medium Enterprises (SMEs). All deposit money banks are required to set aside 5% of Profit After Tax (PAT) after the approval of the financial statements by Central Bank of Nigeria.

<i>In millions of Naira</i>	Group 2018	Group 2017	Bank 2018	Bank 2017
Balance, beginning of year	1,275	879	1,275	879
Charge on other assets (note 11)	(217)	457	(217)	457
Write offs	(224)	(61)	(224)	(61)
Balance, end of year	834	1,275	834	1,275

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

23 Property, plant and equipment

GROUP & BANK

The movement during the year was as follows:

31 December 2018	Leasehold land	Leasehold building	Leasehold improvements	Furniture, fittings and equipment	Computer equipment	Motor vehicles	Capital work-in-progress	Total
<i>In millions of Naira</i>								
(a) Cost								
Beginning at 1 January 2018	1,966	3,690	3,299	9,839	8,818	3,407	684	31,703
Additions	181	144	234	544	2,547	1,619	520	5,789
Reclassifications	-	75	15	226	42	-	(358)	-
Disposals	(19)	(5)	(7)	(104)	(4)	(792)	-	(931)
Written off	-	-	-	-	-	-	(34)	(34)
Balance at 31 December 2018	2,128	3,904	3,541	10,505	11,403	4,234	812	36,527
(b) Accumulated depreciation and impairment								
Beginning at 1 January 2018	154	351	1,955	6,085	4,612	2,095	-	15,252
Charge for the year	41	76	263	1,603	2,323	756	-	5,062
Disposals	-	(1)	-	(101)	(3)	(623)	-	(728)
Balance at 31 December 2018	195	426	2,218	7,587	6,932	2,228	-	19,585
Net book value								
Balance at 31 December 2018	1,933	3,478	1,323	2,918	4,471	2,006	812	16,942
Balance at 31 December 2017	1,812	3,339	1,344	3,754	4,206	1,312	684	16,451

i) The gross carrying amount of fully depreciated property, plant and equipment that is still in use is N8.7billion (2017: N5.5billion).

ii) The write off of N34million from capital work-in-progress relates to expenditure for branch development which was stalled. This is because the location is no longer viable for business.

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

23 Property, plant and equipment - continued

GROUP & BANK

The movement on these accounts during the year was as follows:

31 December 2017								
<i>In millions of Naira</i>	Leasehold land	Leasehold building	Leasehold improvements	Furniture, fittings and equipment	Computer equipment	Motor vehicles	Capital work-in-progress	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
(a) Cost								
Beginning at 1 January 2017	1,234	2,837	4,584	12,827	8,001	4,698	2,132	36,313
Additions	161	177	102	714	4,446	566	168	6,334
Reclassifications	571	676	6	305	45	13	(1,616)	-
Disposals	-	-	-	(139)	(13)	(648)	-	(800)
Written off	-	-	(1,393)	(3,868)	(3,661)	(1,222)	-	(10,144)
Balance at 31 December 2017	<u>1,966</u>	<u>3,690</u>	<u>3,299</u>	<u>9,839</u>	<u>8,818</u>	<u>3,407</u>	<u>684</u>	<u>31,703</u>
(b) Accumulated depreciation and impairment								
Beginning at 1 January 2017	127	287	3,026	8,428	6,790	3,050	-	21,708
Charge for the year	27	64	322	1,660	1,496	841	-	4,410
Written off	-	-	(1,393)	(3,868)	(3,661)	(1,222)	-	(10,144)
Disposals	-	-	-	(135)	(13)	(574)	-	(722)
Balance at 31 December 2017	<u>154</u>	<u>351</u>	<u>1,955</u>	<u>6,085</u>	<u>4,612</u>	<u>2,095</u>	<u>-</u>	<u>15,252</u>
Net book value								
Balance at 31 December 2017	<u>1,812</u>	<u>3,339</u>	<u>1,344</u>	<u>3,754</u>	<u>4,206</u>	<u>1,312</u>	<u>684</u>	<u>16,451</u>
Balance at 31 December 2016	<u>1,107</u>	<u>2,550</u>	<u>1,558</u>	<u>4,399</u>	<u>1,211</u>	<u>1,648</u>	<u>2,132</u>	<u>14,605</u>

i) Assets that have been fully depreciated (acquired between the year of 2000 to 2010) were written off in 2017, as no future economic benefits can be derived from its use or disposal.

ii) The gross carrying amount of fully depreciated property, plant and equipment that is still in use is N5.5billion (2016: N12.4billion).

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

<i>In millions of Naira</i>		Group	Group	Bank	Bank
		2018	2017	2018	2017
24	Intangible assets				
	Purchased software				
(a)	Cost				
	Balance at beginning	3,720	3,871	3,720	3,871
	Additions	404	691	404	691
	Written off	-	(842)	-	(842)
	Balance end of year	4,124	3,720	4,124	3,720
(b)	Accumulated amortisation and impairment				
	Beginning of year	1,606	1,835	1,606	1,835
	Amortisation for the year	668	585	668	585
	Written off	-	(815)	-	(815)
	Balance end of year	2,274	1,606	2,274	1,606
	Balance as at 31 December	1,850	2,114	1,850	2,114

<i>In millions of Naira</i>		Group	Group	Bank	Bank
		2018	2017	2018	2017
25	Non-current assets held for sale				
	Additions	5,218	-	5,218	-
	Disposal	-	-	-	-
		5,218	-	5,218	-

Non-financial assets acquired in exchange for loans as part of an orderly realization are recorded as non-current assets held for sale. If the carrying amounts of the assets are recovered principally through sale, the assets are available for sale in their present condition, and their sale is highly probable. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is charged in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognized in profit or loss, in 'Other operating expenses'. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognized in 'Other operating income', together with any realized gains or losses on disposal.

<i>In millions of Naira</i>		Group	Group	Bank	Bank
		2018	2017	2018	2017
26	Deposits from banks				
	Money Market	-	9,479	-	9,479
	Due to local banks	-	1,569	-	1,569
		-	11,048	-	11,048
27	Deposits from customers				
	Current accounts	361,212	254,476	361,212	254,476
	Savings accounts	89,546	60,687	89,546	60,687
	Term deposits	234,437	275,141	234,437	275,141
	Pledged deposits	75,413	94,530	75,413	94,530
		760,608	684,834	760,608	684,834

Pledged deposits represent contracted cash deposits with the Bank that are held as security for loans granted to customers by the Bank.

<i>In millions of Naira</i>		Group	Group	Bank	Bank
		2018	2017	2018	2017
28	Other borrowed funds				
	Due to Standard Chartered Bank (see (28(i) )	-	11,756	-	11,756
	Due to CBN-Agric-Fund (see (28(ii))	49,800	56,824	49,800	56,392
	Due to Citibank (see (28(iii))	-	7,664	-	7,664
	Due to CBN-State ECA secured loans (see (28 (iv))	14,119	14,454	14,119	14,454
	Due to Islamic Corporation (see (28(v))	6,831	14,712	6,831	14,712
	Due to Bank of Industry - manufacturing (see (28(vi))	-	1,678	-	1,678
	Due To Nigeria Mortgage Refinance Company (see (28(vii))	2,472	1,622	2,472	1,622
	Due to CBN - ABP (see (28(viii))	436	-	436	432
	Due to ABSA Bank (see (28(ix))	17,975	-	17,975	-
	Due to Counter Party - CBN (See 28(x))	-	84,173	-	84,173
	Due to AFREXIM (see note 28 (xi)	15,263	19,963	15,263	19,963
	Due to CBN - RSSF Fund (See (xii) below)	7,605	-	7,605	-
	Due to CBN - NESF Fund (See (xiii) below)	5,025	-	5,025	-
		119,526	212,847	119,526	212,847

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

28 Other borrowed funds - continued

28b Movement on other borrowed funds:

<i>In millions of Naira</i>	Group 2018	Group 2017	Bank 2018	Bank 2017
Beginning of year	212,847	82,451	212,847	82,451
Additions during the year	28,434	182,361	28,434	182,361
Repayment during the year	(125,211)	(51,964)	(125,211)	(51,964)
Foreign exchange loss	3,235	-	3,235	-
Accrued interest	221	-	221	-
	<u>119,526</u>	<u>212,847</u>	<u>119,526</u>	<u>212,847</u>

28(i) Due to Standard Chartered Bank

This represents short-term finance facility obtained from Standard Chartered Bank, London. Three loans were granted in 2016 for the purpose of providing dollar liquidity for the Bank. The rate of interest on the loans is the aggregate of the applicable margin and Libor. This facility was fully repaid on 25 June 2018.

28(ii) Due to CBN-Agric Fund

Central Bank of Nigeria (CBN) in collaboration with the Federal Government of Nigeria (FGN) represented by the Federal Ministry of Agriculture and Water Resources (FMA & WR) established a Commercial Agricultural Credit Scheme, (CACS) to promote commercial agricultural enterprise in Nigeria. The Bank obtained the loan on behalf of the customer at two (2) percent for on lending to customers at a rate of 9%. Repayment proceeds from CACS projects are repatriated to CBN on quarterly basis. Loans under the agriculture scheme are expected to terminate on 30 September 2025.

28(iii) Due to Citibank International Plc

This represents the Naira equivalent of a USD95,000,000 credit facility granted to the Bank by Citibank International Plc payable in 4 years commencing October 2008 and interest is payable quarterly at LIBOR plus a margin of 475 basis point. The facility was renegotiated in 2013 to mature in June 2018 at a fixed rate of 6.2% annually. The effective interest rate of the loan is 6.9% per annum. Principal shall be payable at maturity. This facility was fully repaid on 25 June 2018.

28(iv) Due to CBN-State ECA secured loans

This is a facility granted as a result of the decision made during the June 2015 National Economic Council (NEC) meeting for deposit money banks to extend concessionary loans to state governments using the balance in the Excess Crude Account (ECA) as collateral. Osun and Kwara State Government, indicated their willingness to work with Sterling Bank Plc on the transaction. The Osun State Government applied for N10billion while Kwara State Government applied for N5billion. The facility was approved at the June 2015 National Economic Council meeting. The purpose of the loan is for developmental and infrastructure projects in the States. CBN is granting the loan to the the States at 9% annually for 20 years.

28(v) Due to Islamic Corporation

This represents Naira equivalent of \$18.75 million amortizing Murabaha financing facilities granted by Islamic Corporation for the development of the private sector for a period of two years. The facility attracts a margin of 6.25%.

28(vi) Due to Bank of Industry - Manufacturing

This is a facility made available to the Bank on May 2014 from Bank of Industry under Central Bank of Nigeria N200billion Intervention Fund for refinancing and restructuring of banks' existing loan portfolios to Nigeria SME/Manufacturing sector. The facility is administered at an all-in interest rate and charge of 7% per annum payable on quarterly basis. The managing agent (BOI) is entitled to a 1% management fee and the Bank a 6% spread. Loans have a maximum tenor of 15 years. Loans can be accessed as working capital facility for 1 year with an option of rollover. Principal and interest shall be payable quarterly.

28(vii) Due to Nigeria Mortgage Refinance Company

This represents a loan agreement between the Bank and Nigeria Mortgage Refinance Company PLC (NMRC) for NMRC to refinance from time to time Mortgage Loans Originated by the Bank with full recourse to the Bank on the terms and conditions stated in the agreement. The facility was obtained during the year 2016 at an interest rate of 15.5% per annum to mature 7 September 2031.

28(viii) Due to Central Bank of Nigeria - Anchor Borrower's Fund (ABP)

Anchor Borrowers Programme (ABP) is an initiative of the Central Bank of Nigeria and was launched by President Muhammadu Buhari in November, 2015 in Kebbi State. CBN earmarked N40bn out of N220bn Micro, Small and Medium Enterprises Development Fund (MSMEDF) to be given to farmers in cooperative at a single rate of 9% and the amount is dependent on the economics of production of each commodity. It is aimed at creating an ecosystem to link small holder farmers (borrowers) and processors (anchor) in the agricultural value chain to achieve job creation, increase domestic production of agric commodities/raw materials, improve farmers income and reduce import duty.

28(ix) Due to ABSA

This represents a US\$50million trade finance facility obtained from Absa Bank for a period of one year. The facility attracts an interest rate of 3months' Libor plus margin of 1.5%. Interest is payable quarterly while the principal is payable at maturity.

28(x) Due to Counter Party - CBN

This represents "Fixed tenor repo" standing facilities granted by the CBN under its expanded discount window operations scheme. These facilities have tenors of 60 and 90 days with interests rates set at 19% and 19.5% per annum. Federal Government bonds were pledged to the CBN with a commitment to repurchase these instruments at a markup at the expiration of the facility tenor. See FGN bonds pledged in Note 18b.

28(xi) Due to AFREXIM

This represents the outstanding Naira equivalent of \$50 million medium term amortizing and short term trade loans granted by African Export- Import Bank for a period of five (5) years. The facilities attracts a fixed margin of 7.25% per annum respectively. Interest payable under the agreement is calculated based on the actual number of days elapsed in a year. The Bank will also pay a one - off facility fee charge of 0.5% flat upon facility signing or at disbursement.

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

28 Other borrowed funds - continued

28(xii) Due to CBN - RSSF Fund

The Central Bank of Nigeria, as part of the efforts to unlock the potential of the real sector to engender output growth, value added productivity and job creation has established a N300 billion Real Sector Support Facility (RSSF). The Facility will be used to support large enterprises for start-ups and expansion financing needs of N500 million up to a maximum of N10.0 billion. The loan tenor is 10 years with moratorium and at all in rate of 9%.

28(xiii) Due to CBN - NESF Fund

Non-Oil Support Export Stimulation Facility (NESF) is designed to redress the declining export credit and reposition the sector to increase its contribution to revenue generation and economic development. Its designed to be accessed by exporters at a single digit of 9% and maximum obligor limit of N5bn. It aimed at improving export financing and additional opportunities for exporters to upscale and expand their businesses in improving their competitiveness. The general aim is to diversify the revenue base of the country from mono economy i.e oil.

<i>In millions of Naira</i>	Group 2018	Group 2017	Bank 2018	Bank 2017
29 Debt securities issued				
13% Debt securities carried at amortised cost (See (i) below)	-	4,563	-	4,563
18.86% Debt securities carried at amortised cost (See (ii) below)	-	-	5,171	5,146
17.55% Debt securities carried at amortised cost (See (iii) below)	-	-	20,546	-
Commercial paper (See (iv) below)	43,638	-	43,638	-
16.5% Debt securities carried at amortised cost (See (v) below)	8,503	8,503	-	-
16.25% Debt securities carried at amortised cost (See (vi) below)	34,468	-	-	-
	<u>86,609</u>	<u>13,068</u>	<u>69,355</u>	<u>9,709</u>
Movements in debt securities issued				
At beginning of the year	13,068	15,381	9,709	11,975
Additions	72,295	-	60,537	-
Repayments	(4,563)	(2,634)	(4,563)	(2,634)
Accrued interest	5,809	321	3,672	368
	<u>86,609</u>	<u>13,068</u>	<u>69,355</u>	<u>9,709</u>

i This represents N4.562 billion 7-year 13% subordinated unsecured non-convertible debenture stock issued by the Bank and approved on 19 December 2011 and 30 December 2011 by the Central Bank of Nigeria and the Securities & Exchange Commission respectively. The Bank is obliged to pay the Trustee (Skye Bank Plc) interest semi-annually on the non-convertible debenture stock due 2018 until all the entire stock have been redeemed. The effective interest rate is 13.42% per annum. The debenture note was fully repaid on 30 December 2018.

ii This represents N4.7 billion 7-year 18.86% fixed rate subordinated notes issued by the Bank and approved on 25 August 2016 and 3 August 2016 by the Central Bank of Nigeria and the Securities & Exchange Commission respectively. Interest is payable to the Joint Trustees semi-annually while principal is payable at maturity. The note issued was purchased by Sterling Investment Management SPV Plc.

iii This represents N19.739 billion 7-year 17.55% fixed rate subordinated notes issued by the Bank and approved on 27 November 2018 and 5 October 2018 by the Central Bank of Nigeria and the Securities & Exchange Commission respectively. Interest is payable to the Joint Trustees semi-annually while principal is payable at maturity. The note issued was purchased by Sterling Investment Management SPV Plc.

iv This represents tranche 6 N14.4 billion 177-day and tranche 7 N32.5 billion 268-day Commercial Papers issued on 7 August 2018 with implied yields of 13.63% and 13.96%, respectively. The Commercial papers are quoted and traded on the FMDQ OTC Exchange.

v This represents a N7.9 billion 7-year 16.50% subordinated unsecured non-convertible debenture stock issued by the subsidiary, and approved on 25 August 2016 and 3 August 2016 by the Central Bank of Nigeria and the Securities & Exchange Commission, respectively. Interest is payable semi-annually on the non-convertible debenture stock due in 2023. The effective interest rate is 17.16% per annum, and until the entire stock has been redeemed, the Issuer (Sterling Investment Management SPV Plc) is obliged to pay interest to the Trustees on behalf of the bond holders.

vi This represents a N32.899 billion 7-year 16.25% subordinated unsecured non-convertible debenture stock issued by the Company, and approved on 27 November 2018 and 5 October 2018 by the Central Bank of Nigeria and the Securities & Exchange Commission, respectively. Interest is payable semi-annually on the non-convertible debenture stock due in 2025. The effective interest rate is 16.887% per annum, and until the entire stock has been redeemed, the Issuer (Sterling Investment Management SPV Plc) is obliged to pay interest to the Trustees on behalf of the bond holders.

<i>In millions of Naira</i>	Group 2018	Group 2017	Bank 2018	Bank 2017
30 Other liabilities				
Financial Liabilities				
Other credit balances (note 30.1)	10,108	21,249	10,108	21,249
Customers' deposits for foreign trade	12,147	15,203	12,147	15,203
Certified cheques	3,065	2,508	3,065	2,508
Creditors and accruals	12,260	9,189	12,260	9,189
	<u>37,580</u>	<u>48,149</u>	<u>37,580</u>	<u>48,149</u>
Non Financial Liabilities				
Information technology levy	98	85	98	85
Total Other Liabilities	<u>37,678</u>	<u>48,234</u>	<u>37,678</u>	<u>48,234</u>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

30 Other liabilities - continued

30.1 Other credit balances includes mostly deposit secured with bonds of N10.8billion and ATM unsettled transactions of N892million. It also includes upfront fees on financial guarantee contract such as Advance Payment Guarantee and Bid bond, etc. The upfront fees are amortised using the maturity date of the guarantees.

	Group 2018	Group 2017	Bank 2018	Bank 2017
<i>In millions of Naira</i>				
30.2 Provisions				
Provisions for litigations and claims	295	295	295	295
	<u>295</u>	<u>295</u>	<u>295</u>	<u>295</u>
Balance, beginning of year 1 January 2018	295	295	295	295
Impact of adopting IFRS 9 (Note 4.2)	17		17	
Reversal of provision	(17)		(17)	
	<u>295</u>	<u>295</u>	<u>295</u>	<u>295</u>

Provision for litigations: This is provision for litigations and claims against the Bank as at 31 December 2018. These claims arose in the normal course of business and are being contested by the Bank. The Directors, having sought advice of professional counsels, are of the opinion that this provision is adequate for liability that have crystalized from these claims. There is no expected reimbursement in respect of this provision.

	Group 2018	Group 2017	Bank 2018	Bank 2017
<i>In millions of Naira</i>				
31 Capital and equity reserves				
<i>Share capital</i>				
(a) Authorised:				
32,000,000,000 Ordinary shares of 50k each	16,000	16,000	16,000	16,000
	<u>16,000</u>	<u>16,000</u>	<u>16,000</u>	<u>16,000</u>
(b) Issued and fully-paid:				
28.79 billion (2018: 28.79 billion) Ordinary shares of 50k each	14,395	14,395	14,395	14,395
	<u>14,395</u>	<u>14,395</u>	<u>14,395</u>	<u>14,395</u>
(i) Ordinary shareholding:				
The holders of ordinary shares are entitled to receive dividend as declared from time to time and are entitled to vote at meeting of the Bank. All ordinary shares rank pari-passu with the same rights and benefits at meetings of the Bank.				
(ii) Movement in issued and fully paid share capital is as follows:				

	Group 2018	Group 2017	Bank 2018	Bank 2017
<i>In millions of units</i>				
28.79 billion (2017: 28.79 billion) Ordinary shares of 50k each	14,395	14,395	14,395	14,395
	<u>14,395</u>	<u>14,395</u>	<u>14,395</u>	<u>14,395</u>
Movement in nominal share capital in units				
Balance at beginning and ending of the year	28,790	28,790	28,790	28,790
	<u>28,790</u>	<u>28,790</u>	<u>28,790</u>	<u>28,790</u>

32 Dividends

In respect of 2018, the Directors have not declared any proposed dividend for the year. In 2017, the Directors declared a dividend of 2 Kobo per share, amounting to N576 Million. This was approved by members at the Annual General Meeting dated May 17 2018.

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

32.1 Other components of equity

<i>In millions of Naira</i>	Fair value reserve	Share capital reserve	Regulatory risk reserve	SMEEIS reserve	AGSMEIS reserve	Statutory reserve	Total other components of equity
(a) GROUP							
Balance at 1 January 2018	(2,568)	5,276	15,878	235	-	18,678	37,498
Impact of adopting IFRS 9 (Note 4.2)	1,224	-	-	-	-	-	1,224
Transfers between reserves	-	-	(9,837)	-	-	-	(9,837)
Restated opening balance under IFRS 9	(1,344)	5,276	6,041	235	-	18,678	28,885
Comprehensive income for the year:							
Other comprehensive income net of tax							
Net change in fair value of debt instrument at FVOCI	(2,684)	-	-	-	-	-	(2,684)
Net change in fair value of equity instrument at FVOCI	(550)	-	-	-	-	-	(550)
Changes in allowance for expected credit losses	(19)	-	-	-	-	-	(19)
Transfers for the year	-	-	16,219	-	682	1,420	18,321
Balance at 31 December 2018	(4,597)	5,276	22,260	235	682	20,098	43,953
Balance at 1 January 2017	(11,323)	5,276	10,683	235	-	17,410	22,281
Comprehensive income for the year:							
Profit for the year	-	-	-	-	-	-	-
Other comprehensive income net of tax							
Net changes in fair value of AFS financial assets	8,755	-	-	-	-	-	8,755
Transfers for the year	-	-	5,195	-	-	1,268	6,463
Balance at 31 December 2017	(2,568)	5,276	15,878	235	-	18,678	37,498



STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

32.1 Other components of equity - continued

<i>In millions of Naira</i>	Fair value reserve	Share capital reserve	Regulatory risk reserve	SMEEIS reserve	AGSMEIS reserve	Statutory reserve	Total other components of equity
(b) BANK							
Balance at 1 January 2018	(2,568)	5,276	15,878	235		18,680	37,501
Impact of adopting IFRS 9 (Note 4.2)	1,224	-	-	-		-	1,224
Transfers between reserves (Note 32)	-	-	(9,837)	-		-	(9,837)
Restated opening balance under IFRS 9	(1,344)	5,276	6,041	235	-	18,680	28,888
Comprehensive income for the year:							
Profit for the year	-	-	-	-		-	-
Other comprehensive income net of tax							-
Net change in fair value of debt instrument at FVOCI	(2,684)	-	-	-		-	(2,684)
Net change in fair value of equity instrument at FVOCI	(550)	-	-	-		-	(550)
Changes in allowance for expected credit losses	(19)	-	-	-		-	(19)
Transfers for the year	-	-	16,219	-	682	1,420	18,321
31 December 2018	(4,597)	5,276	22,260	235	682	20,100	43,956
Balance at 1 January 2017	(11,323)	5,276	10,683	235		17,412	22,283
Comprehensive income for the year:							
Profit for the year	-	-	-	-		-	-
Other comprehensive income net of tax							
Net changes in fair value of AFS financial assets	8,755	-	-	-		-	8,755
Transfers for the year	-	-	5,195	-		1,268	6,463
31 December 2017	(2,568)	5,276	15,878	235	-	18,680	37,501

## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

#### 32.1 Other components of equity - continued

##### a. Statutory reserve

Nigerian banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by Section 16(1) of the Banks and Other Financial Institution Act of Nigeria, an appropriation of 30% of profit after tax is made if the statutory reserve is less than paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid up share capital. Amount transferred to statutory reserve for the year ended 31 December 2018 was (15% of N9.485 billion) N1.423 billion (2017: N1.268 billion).

##### b. Share capital reserve

The share capital reserve represents the surplus nominal value of the shares of the Bank which were reconstructed in June 2006.

##### c. AGSMEIS reserve

The Banker's committee at its 331st meeting held on 9 February 2017 approved the Agric-Business, Small and Medium Investment Scheme (AGSMEIS) to support Federal Government efforts at promoting Agricultural businesses/Small and Medium Enterprises (SMEs). All deposit money banks are required to set aside 5% of Profit After Tax (PAT) annually after their financial statements have been audited by external auditors and approved by Central Bank of Nigeria (CBN) for publication and remit to CBN within 10 working days after the Annual General Meeting.

##### d. Regulatory risk reserve

The Central Bank of Nigeria stipulates that impairment provisions recognized in the profit or loss account shall be determined based on the requirements of International Financial Reporting Standards ("IFRS"). The IFRS impairment provisions should be compared with provisions determined under Prudential Guidelines and the expected impact/changes in Retained Earnings should be treated as follows:

- Where Prudential impairment provision is greater than IFRS impairment provision; transfer the difference from the Retained Earnings to a non-distributable Regulatory Risk Reserve.

- Where Prudential impairment provision is less than IFRS impairment provision; the excess charges resulting should be transferred from the Regulatory Risk Reserve account to the Retained Earnings to the extent of the non-distributable reserve previously recognized.

Refer to Note 2.2.13 on accounting policies on fair value and equity reserves.

##### e. SMEEIS reserve

The SMEEIS reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside a portion of the profit after tax in a fund to be used to finance equity investment in qualifying small and medium scale enterprises. Under the terms of the guideline (amended by CBN letter dated 11 July 2006), the contributions will be 10% of profit after tax and shall continue after the first 5 years but banks' contributions shall thereafter reduce to 5% of profit after tax. However, this is no longer mandatory. The Group has suspended further appropriation to SMEEIS (now known as Microcredit Fund) reserve account in line with the decision reached at the Banker's Committee meeting and approved by CBN.

#### 33 Commitments and Contingencies

##### a. Litigations and claims

There are litigations and claims against the Bank as at 31 December 2018. These claims arose in the normal course of business and are being contested by the Group. The Directors, having sought advice of professional counsels and are of the opinion that no significant liability will crystallise from these claims. Provisions of N295million at 31 December 2018 (2017: N295million) have been made in these financial statements on crystallised claims, refer to note 30.2.

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

33 Commitments and Contingencies - continued

b Contingent liabilities and commitments

The Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. Contingent liabilities and commitments comprise performance bonds, acceptances, guarantees and letters of credit.

Nature of instruments:

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. These consist of financial guarantees and letters of credits. These obligations are not recognised on the statement of financial position because the risk has not crystallised and we have not identified any factor to suggest the probability that the risk will crystallise.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

The following tables summarise the nominal principal amount of contingent liabilities and commitments with off- financial position risk:

<i>In millions of Naira</i>	Group 2018	Group 2017	Bank 2018	Bank 2017
Bonds, guarantees and indemnities	97,396	95,078	97,396	95,078
Letters of credit	32,951	26,102	32,951	26,102
Others	-	9,926	-	9,926
	<u>130,347</u>	<u>131,106</u>	<u>130,347</u>	<u>131,106</u>

Above balances represent contingent liabilities for which the customers have not defaulted. As stated in Note 2.2.13, any portion that is due for which the Group has become liable are recognised in Other Liabilities (Note 30).

c. Impairment losses on guarantees and other commitments

An analysis of changes in the gross carrying amount and the corresponding allowance for impairment losses in relation to guarantees and other commitments is, as follows:

Financial guarantees

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification.

<i>In millions of Naira</i>	2018			2017	
	Stage 1	Stage 2	Stage 3	Total	
Internal rating grade					
RR1-RR2	66,434	-	-	66,434	52,126
RR3-RR4	30,963	-	-	30,963	42,951
Total	<u>97,396</u>	<u>-</u>	<u>-</u>	<u>97,396</u>	<u>95,078</u>

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows:

<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure as at 1 January 2018	95,078	-	-	95,078
New exposures	72,394	-	-	72,394
Exposure derecognised or matured/lapsed (excluding write offs)	(70,076)	-	-	(70,076)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	<u>97,396</u>	<u>-</u>	<u>-</u>	<u>97,396</u>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

33 Commitments and Contingencies - continued

<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018	13	-	-	13
New exposures	0	-	-	0
Exposure derecognised or matured (excluding write offs)	(13)	-	-	(13)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	-	-	-	-

Letters of credit

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification.

<i>In millions of Naira</i>	2018				2017
	Stage 1	Stage 2	Stage 3	Total	
Internal rating grade					
RR1-RR2	32,951	-	-	32,951	26,102
Total	32,951	-	-	32,951	26,102

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows:

<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure as at 1 January 2018	26,102	-	-	26,102
New exposures	32,951	-	-	32,951
Exposure derecognised or matured/lapsed (excluding write offs)	(26,102)	-	-	(26,102)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	32,951	-	-	32,951

<i>In millions of Naira</i>	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2018	4	-	-	4
New exposures	0	-	-	0
Exposure derecognised or matured (excluding write offs)	(4)	-	-	(4)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount (recognised in interest income)	-	-	-	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	-	-	-	-

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

34a Related party transactions

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 directors and key management personnel among others.

	Group 2018	Group 2017	Bank 2018	Bank 2017
<i>In millions of Naira</i>				
(i) Transactions with the related parties				
Loans and advances				
a. Secured loans and advances	3,223	6,070	3,223	6,070
b. Contingent liabilities	11,633	7,487	11,633	7,487
c. Transactions and balances with the Bank's subsidiary Sterling Investment Management Plc Debt instrument issued by the Bank	-	-	25,237	5,146
Interest expense	-	-	2,334	1,760

(ii) Transactions with key management personnel

Key management personnel has been defined as the executive directors and non-executive directors of the Group. Key management personnel and their close family members engaged in the following transactions with the Group during the year:

	Group 2018	Group 2017	Bank 2018	Bank 2017
<i>In millions of Naira</i>				
Secured loans and advances	242	280	242	280
Deposit liabilities (related parties and key management personnel)	7,148	8,579	7,148	8,579

(iii) Compensation of key management personnel

The amounts disclosed in the table below are the amounts recognised as an expense during the year related to key executive directors.

	Group 2018	Group 2017	Bank 2018	Bank 2017
<i>In millions of Naira</i>				
Executive compensation	124	158	124	158
Pension contributions	11	14	11	14
	135	172	135	172

(iv) Directors' remuneration below relates to payment made to non-executive directors and charged as expense during the year. The non-executive directors do not receive pension entitlements from the Bank.

	Group 2018	Group 2017	Bank 2018	Bank 2017
<i>In millions of Naira</i>				
Directors' remuneration				
Fees as directors	85	85	85	85
Other emoluments	40	48	40	48
	125	133	125	133

(v) Terms and conditions of transactions with related parties

The above-mentioned outstanding balances arose from the ordinary course of business. The interest rates charged to and by related parties are at normal commercial rates. Outstanding balances at the year-end are secured. For the year ended 31 December 2018, the related parties facilities are performing and the Group has not made any provision for impairment on the facilities. (2017: Nil).

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

34b Insider Related Credits

Insider Related Credits are disclosed below in accordance to Central Bank of Nigeria Circular BSD/1/2004

The Group granted various credit facilities to meeting the definition of insider related credits at rates and terms comparable to other facilities in the Bank's portfolio. An aggregate of N3.2billion (2017: N6.1billion) relating to the Directors only was outstanding on these facilities at the end of the period/year. Details of these related party loans are:

31 December 2018

NAME OF BORROWERS	RELATIONSHIP TO REPORTING INSTITUTION	NAME OF THE RELATED INTEREST	DATE GRANTED	EXPIRY DATE	FACILITY LIMIT (N'million)	OUTSTANDING CREDIT (N'million)	STATUS	PERFECTED SECURITY/ NATURE	FACILITY TYPE
CONOIL PLC	Related to a Director	Michael Jituboh	22-Feb-18	1-Sep-19	12,187	355	PERFORMING	Negative Pledge	OVERDRAFT
RITE FOODS LIMITED	Related to a Director	Tairat Tijani	31-Jul-14	30-Jun-21	1,000	600	PERFORMING	Legal Mortgage and Debenture	OTHER LOANS
FTA ASSOCIATES LIMITED	Related to a Director	Michael Jituboh	28-Jun-18	14-Jan-19	12	1	PERFORMING	Legal Mortgage	TERM LOAN
OSUNSADE OLUFUNMILOLA	Related to a Director	Michael Jituboh	9-Aug-17	31-Jul-20	2	2	PERFORMING	Personal Guarantee	OTHER LOANS
LENOX AND BLAIR ESTATE LTD	Related to a Management Staff	Tunde Adeola	24-Oct-18	14-May-19	1,000	1,021	PERFORMING	Cash Deposit	TERM LOAN
AMBY BUILDMART LIMITED	Related to a Management Staff	Adebimpe Olambiwonnu	18-Dec-18	18-Jun-19	5	3	PERFORMING	Keyman Insurance/Personal Guarantee	OVERDRAFT
COMMERCIAL STAFF LOAN	Employees	Employees	NA	NA	1,671	1,242	PERFORMING	Lien on entitlements/indemnity	OTHER LOANS
TOTAL					15,877	3,223			

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

34b Insider Related Credits - Continued

Contingents

NAME OF BORROWERS	RELATIONSHIP TO REPORTING INSTITUTION	NAME OF THE RELATED INTEREST	DATE GRANTED	EXPIRY DATE	APPROVED CREDIT LIMIT (N'million)	OUTSTANDING CREDIT/ PERFORMING (N'million)	PERFECTED SECURITY/ NATURE	PERFECTED SECURITY/VALUE (N'million)	PURPOSE
CONOIL PLC	Related to a Director	Michael Jituboh	22-Aug-18	26-Apr-19	7,022	7,022	Negative Pledge	-	LETTER OF CREDIT
RITE FOODS LIMITED	Related to a Director	Tairat Tijani	8-Dec-14	2-Mar-21	1,244	1,244	Legal Mortgage and Debenture	3,508	BANK GUARANTEE
RITE FOODS LIMITED	Related to a Director	Tairat Tijani	2-Jul-18	21-Feb-19	2,562	2,562	Legal Mortgage, Debenture and Cash collateral	3,629	LETTER OF CREDIT
AUDEO CLOTHING COMPANY LTD	Related to a Management Staff	Tunde Adeola	8-Oct-13	23-Dec-24	76	76	Legal Mortgage	30	BANK GUARANTEE
LOTUS CAPITAL	Related to a Management Staff	Tunde Adeola	19-Oct-16	18-Oct-21	500	500	Lien on Cash Deposit	500	BANK GUARANTEE
LENOX AND BLAIR ESTATE LTD	Related to a Management Staff	Tunde Adeola	29-Feb-16	24-Feb-21	9	9	Equitable Mortgage	-	BANK GUARANTEE
STATE BANK OF INDIA	Related to a Director	Grana Narasimhar	1-Feb-18	30-Jul-20	221	221	Corporate Guarantee	-	BANK GUARANTEE
TOTAL					11,633	11,633			

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

34b Insider Related Credits - Continued

31 December 2017

NAME OF BORROWERS	RELATIONSHIP TO REPORTING INSTITUTION	NAME OF THE RELATED INTEREST	DATE GRANTED	EXPIRY DATE	FACILITY LIMIT (N'million)	OUTSTANDING CREDIT (N'million)	STATUS	PERFECTED SECURITY/ NATURE	FACILITY TYPE
CONOIL PLC	Related to a Director	Michael Jituboh	22-Mar-17	19-Feb-18	15,500	4,257	PERFORMING	Negative Pledge	OVERDRAFT
RITE FOODS LIMITED	Related to a Director	Tairat Tijani	31-Jul-14	30-Jun-21	1,000	879	PERFORMING	Legal Mortgage and Debenture	OTHER LOANS
FTA ASSOCIATES LIMITED	Related to a Director	Michael Jituboh	30-Jun-17	28-Jun-18	12	9	PERFORMING	Legal Mortgage	TERM LOAN
MARGARET OLUYEMISI LABINJO	Related to a Staff	Bukola Awosanya	17-Jul-17	12-Feb-18	15	11	PERFORMING	Cash / Personal Guarantee	OVERDRAFT
OSUNSADE OLUFUNMILOLA	Related to a Director	Michael Jituboh	16-Jul-15	28-Jul-17	2	1	PERFORMING	Personal Guarantee	OVERDRAFT
COMMERCIAL STAFF LOAN	Employees	Employees			1,204	913	PERFORMING	Lien on entitlements/indemnity	OTHER LOANS
TOTAL					17,733	6,070			



**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

34b Insider Related Credits - Continued

Contingents

NAME OF BORROWERS	RELATIONSHIP TO REPORTING INSTITUTION	NAME OF THE RELATED INTEREST	DATE GRANTED	EXPIRY DATE	APPROVED CREDIT LIMIT (N'million)	OUTSTANDING CREDIT/ PERFORMING (N'million)	PERFECTED SECURITY/ NATURE	PERFECTED SECURITY/VALUE (N'million)	PURPOSE
CONOIL PLC	Related to a Director	Michael Jituboh	10-Nov-17	9-Jan-18	2,832	2,832	Negative Pledge	-	LETTER OF CREDIT
CONOIL PLC	Related to a Director	Michael Jituboh	10-Nov-17	9-Jan-18	2,807	2,807	Negative Pledge	-	BANK GUARANTEE
RITE FOODS LIMITED	Related to a Director	Tairat Tijani	8-Dec-14	2-Mar-21	1,244	1,244	Legal Mortgage and Debenture	3,508	BANK GUARANTEE
LOTUS CAPITAL	Related to a Director	Yemi Adeola	19-Oct-16	18-Oct-21	500	500	Lien on Cash Deposit	500	BANK GUARANTEE
AUDEO CLOTHING COMPANY LTD	Related to a Director	Yemi Adeola	8-Oct-13	23-Dec-24	76	76	Legal Mortgage	30	BANK GUARANTEE
GLOBACOM LIMITED	Related to a Director	Michael Jituboh	25-Jan-16	22-Jan-18	19	19	Cash Backed	19	BANK GUARANTEE
MARGARET OLUYEMISI LABINJO	Related to a Staff	Bukola Awosanya	22-Mar-17	22-Mar-18	10	10	Cash / Personal Guarantee	3	BANK GUARANTEE
TOTAL					7,487	7,487			

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

35 Events after reporting date

There were no events after the reporting date which could have a material effect on the financial position of the Group as at 31 December 2018 and profit and other comprehensive income attributable to equity holders on that date which have not been adequately adjusted for or disclosed.

<i>In millions of Naira</i>	Group 2018	Group 2017	Bank 2018	Bank 2017
36 Cash and cash equivalents				
Cash and foreign monies	20,772	15,404	20,772	15,404
Unrestricted balances with Central Bank of Nigeria	3,460	33,242	3,460	33,242
Balances held with local banks	11,898	-	11,791	-
Balances held with banks outside Nigeria	22,954	30,368	22,954	30,368
Money market placements	8,690	20,698	8,690	20,698
	<u>67,774</u>	<u>99,712</u>	<u>67,667</u>	<u>99,712</u>

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial Risk Management

(a) Introduction and overview

Risks are inherent in the lending, trading and all other intermediation activities of the Group. In managing these risks, the Group has adopted an Enterprise Risk Management philosophy of building a sound, safe and stable financial institution through the efficient management of risks. In achieving this, the Group has adopted a standard template and common methodology for risk identification, measurement, management and control.

The Group is exposed to various risks including Credit Risk, Liquidity Risk, Market Risk and Operational Risk in the trading book and banking book. The Group has put in place approved policies, procedures and guidelines for identifying, measuring, management and control of these risks.

**Risk management framework**

The Group has adopted Enterprise Risk Management philosophy of building a sound, safe and stable financial institution through efficient management of risks.

To achieve its risk management objectives, the Group has a risk management framework that comprises the following elements:

- Risk management objectives and philosophy
- Governance structure
- Roles and responsibilities for managing risks
- Risk management process

**Three Lines of Defense**

The philosophy of three lines defense have been adopted in the Group for proactive and efficient identification and management of risks inherent in the Group's activities, processes, system, products and external events as follows:

**First line of defence – Strategic Business Functions**

This consists of business units and line functions with primary responsibilities for risk management. The first line of defense includes business owners who execute transactions in the Bank with the following risk management responsibilities;

- Identify emerging risks at the transaction/business unit level and conduct material risk assessments at least annually;
- Imbibe risk culture in order to align risk management with business objectives; and
- Implement controls to reduce the likelihood and impact of risks.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

(a) Introduction and overview - continued

Second line of defense – Independent Risk and Control Oversight

This consists of functions responsible for providing independent oversight over key risks like credit, market, liquidity and operational risk and facilitating the implementation of risk controls to ensure that the business and process owners operate within the defined risk appetite and align with approved policies and procedures. They formulate risk management policies, processes and controls, provide guidance and coordination of activities of all other monitoring functions within the Group and identify enterprise trends, synergies and opportunities for change.

Third line of defense – Independent Assurance

This consists of all functions with primary responsibilities for evaluating and providing independent assurance on the adequacy, appropriateness and effectiveness of the risk management process and policy. This function is performed by internal and external audit.

(b) Risk Management Structure

The responsibility for management of risk exposure of the Group rests with the Board, this responsibility is delegated to various committees of the Board.

The Board Risk Management Committee (BRMC) is designated with the responsibility of managing the overall risk exposure of the Group. The Committee reviews and recommends risk management policies and procedures for Board approval.

The Board Credit Committee (BCC) acts on behalf of the Board of Directors on all credit matters. It considers and approves lending exposures, treasury investments exposures, as well as other credit exposures that exceed the mandated approval limit of Management.

The Management Risk Committee (MRC) is responsible for planning and management of the Group's overall risk profile; including the determination of the Group's risk philosophy, appetite, limits and policies.

The Management Credit Committee (MCC) is vested with the responsibility of credit policy articulation and credit approval that falls within the mandated approval limit. It reviews and recommends credit policy direction to the BCC.

The Assets and Liability Committee ensures that the Group has adequate liquidity to meet the funding need of the Group, and also manages the interest rate and foreign exchange risk of the Group. The Committee also reviews the economic outlook and its likely impact on the Group's current and future performance.

The Criticised Assets Committee (CAC) reviews the non-performing loans and recommends strategies for recovery of bad loans. The Committee also reviews the Group's loan portfolio and validates collateral documentation.

The Enterprise Risk Management Group is saddled with the responsibility of implementing and supervising all risk management policies, guidelines, and procedures.

The Conduct and Compliance Department monitors compliance with risk principles, policies and limits across the Group. Exceptions are reported on a daily basis to management and appropriate action are taken to address the threats.

The Internal Audit Department as part of its annual audit programme, examines the adequacy and level of compliance with the procedures. Result of assessments, findings and recommendations are discussed with the relevant departments, and reported to the Board Audit Committee.

(c) Risk measurement and reporting systems

Quantitative and qualitative assessment of credit risks is carried out through a rigorous internal ratings system. The Group also carries out scenario analysis as stated in the Group's credit policy guide and stressed testing to identify potential exposure under stress market situations.

Monitoring and controlling of risk is done by ensuring that limits established are strictly complied with and that such limit reflects both the quantitative and qualitative risk appetite of the Group. Particular emphasis is placed on the Risk Acceptance Criteria (RAC). Furthermore, the Group's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Risk Information compiled from all business activities of the Group is analyzed and processed on a timely basis for informed management decision. The Management Risk Committee (MRC) and the Board Risk Management Committee (BRMC) which constitute the supervisory body are updated on the risk profile of the Group through regular risk reports.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

(d) Risk Mitigation

The Group has in place a set of management actions to prevent or mitigate the impact of business risks on earnings. Business risk monitoring, through regular reports and oversight, results in corrective actions to plans and ensure reductions in exposures where necessary. Credit control and mitigation policies are also in place. Collateral policies are designed to ensure that the Group's exposure is secured, and to minimize the risk of credit losses to the Group in the event of decline in quality or delinquency of assets.

Guidelines for accepting credit collateral are documented and articulated in the Credit Policy Guidelines (CPG). These include;

- a. Acceptable collateral for each credit product;
- b. Required documentation/perfection of collaterals;
- c. Conditions for waiver of collateral requirement and approval of collateral waiver; and
- d. Acceptance of cash and other forms of collateral denominated in foreign currency.

Finally, master netting arrangements for credit facilities collateralised partly with deposits are settled by set-off based on underlying set-off agreement.

(e) Risk Appetite

The Group's risk appetite is an expression of the maximum level of risk the group is willing and able to accept in pursuit of its strategic and financial objectives expressed in the strategic plan.

The risk appetite statement expresses the degree of risk acceptable to the group in achieving its strategic plan. The group shall consider the following in defining the Risk Appetite Statement:

- Strategic Objectives
- Management perspective
- Economic conditions
- Stakeholders expectations
- Target benchmarking
- Regulatory threshold

The methodology described below is used in updating Sterling Bank's risk appetite framework.



## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

#### 37 Financial risk management - continued

##### (f) Concentration Risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid concentration risk, credit concentration limits are set and monitored along industries and sectors, geography, collaterals and products. The ultimate objective of managing credit portfolio concentration risk is to ensure proper diversification of the risk assets portfolio. Concentration limits are also in place to manage Investment Portfolio and customer deposit concentration in the management of liquidity risk.

##### (g) Credit Risk Management

The Group's credit risk management activities are based on certain fundamental principles.

The effectiveness of risk management process throughout the Group is based on a formal governance structure with systemic reporting processes within a well-defined control environment.

The Group's risk policy allows its personnel take initiatives and responsibility towards proactive identification of risks in products and services delivered to the market.

The Group's risk assets are managed to help provide the liquidity to meet deposit withdrawals, cover all expenses, and still make sufficient profit.

Credit risks are examined for all credit-related transactions including investments and trading transactions. Credit risks are examined and managed for unfunded loan commitments in addition to funded loans and leases.

##### (h) Risk Management Architecture

Risks are managed such that the risk profile and the Group's reputation are aligned with the Group's objective of conservative risk appetite, balanced against a desire for reasonable returns.

##### (i) Organization Structure

Sterling Bank is a national bank having divested its subsidiaries and affiliates following receipt of its new national commercial banking license in 2011 financial year. Sterling Bank has restructured its business activities along business lines with primary focus on the following market segments:

- Corporate and Investment Banking
- Commercial and Institutional Banking and
- Retail Banking
- Non Interest Banking
- Sterling Investment Management Plc

Corporate and Investment Banking – The Corporate and Investment Banking Group provides services to corporate entities with annual turnover greater than N5 billion. The target market covers the following sectors: oil and gas, public sector, manufacturing, power and utilities, telecommunications and financial institutions.

## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

#### 37 Financial risk management - continued

##### (i) Organization Structure - continued

Commercial and Institutional Banking –. The Commercial and Institutional Banking Group provides services to businesses with turnover above N600 million and below N5 Billion and public sector entities.

The Retail Banking –Retail Banking Group serves individuals consisting of mass market, affluent, youths and high net worth. The Retail Banking Group customer segmentation consist of:

- High net-worth individuals who earn N30 million (thirty million naira) and above annually or have net investable assets of \$150,000 (one hundred and fifty thousand US dollars) and above
- Mass affluent professionals who earn between N6 million (six million naira) and N30million (thirty million naira) annually
- Mass market professionals who earn less than N6 million (six million naira) annually
- Youth below 25 years of age

The Bank's product include: savings accounts, current accounts, fixed deposit accounts, e-banking, local and international funds transfer, trade finance, project finance, mortgage finance, bankers' acceptances and commercial paper.

In addition to the business segments, the Bank is also supported by the activities of the following Strategic Resource Functions:

- Enterprise Risk Management
- Internal Audit
- Strategy and Communication
- Finance and Performance Management
- General Internal Services
- Human Capital Management
- Channel Operations
- Trade Services
- Information Technology
- Customer Experience Management
- Legal and Company
- Conduct & Compliance
- Centralised Processing
- Health, Safety and Environment
- Enterprise Quality Assurance

##### (j) Methodology for Risk Rating

The Group has a credit rating and scoring system developed for rating exposures. They were developed in line with international best practice. Exposures are created by Corporate, Commercial and Retail business segments. The credit risk rating system assigns scores using various risk parameters based on the information provided by the borrower.

The rating is derived by adding the scores from all the risk parameters and the outcome of the rating is important for approval / rejection of the loan request.

##### Retail Loans:

Retail loans are governed by standard credit product programs and categorized as Consumer & MSME loans. Consumer loans are availed to individuals while MSME loans are granted to unstructured businesses. Unstructured businesses are small and medium scale businesses that rarely keep proper accounting records. Retail and SME scorecards are used for assessing Consumer and MSME loans respectively.

##### Commercial and Corporate Loans:

Commercial and Corporate Customers are rated using risk rating models. Depending on the underlying business transaction, Specialized Lending Models are also used for assessing specialized loans to Corporate and Commercial Customers. The rating methodology is based on both quantitative and qualitative factors. Quantitative factors are mainly the financial ratios, account conduct among others. Qualitative factors are based on the following risk categories: a. Business Risk b. Industry Risk c. Management Risk

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial risk management - continued

(j) Methodology for risk rating - continued

Credit Scoring System:

The risk rating methodology is based on the following fundamental analyses (financial analysis and non- financial analysis):

Structured Businesses

The factors to be considered are:

Quantitative factors are basically the financial ratios which include:

- a. Leverage ratios
- b. Liquidity ratios
- c. Profitability ratios
- d. Interest Coverage ratios

Qualitative factors. These include:

- a. Industry
  - i. Size of the business
  - ii. Industry growth
  - iii. Market Competition
  - iv. Entry/Exit barriers
- b. Management:
  - i. Experience of the management team
  - ii. Succession Planning
  - iii. Organizational structure
- c. Security:
  - i. Collateral type
  - ii. Collateral coverage
  - iii. Guarantee i.e. the worth of Personal Guarantee/Corporate Guarantee pledged as support.
- d. Relationship with the Bank:
  - i. Account turnover (efficiency ratio)
  - ii. Account conduct
  - iii. Compliance with covenants/conditions
  - iv. Personal deposits with the bank.

Unstructured Businesses:

These are customers that rarely keep proper accounting records, hence the maximum limit that can be availed to them is restricted to N20m.

The factors to be considered are:

Quantitative factors. These include:

- i)
  - a) Contract related transactions
  - a) Net Profit Margin
  - b) Counterparty – Nature/Financial capacity of the Principals
- ii)
  - a) Account turnover
  - b) Repayment history

Qualitative factors. These include:

Management:

- i. Experience/Technical competence with evidence
- ii. Succession Planning



## STERLING BANK PLC

### NOTES TO THE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

(j) Methodology for Risk Rating - continued

- i. Industry
- ii. Industry growth
- iii. Share of the market
- iv. Regulations: Whether the industry is regulated or not
- v. Entry/Exit

In general, the following are considered in assessing facility request

(i) Character

Fundamental to every credit decision is the honesty and integrity of the individuals to whom the Group lends directly or who manage the enterprises to which the Group lends. Character is the single most important factor in the credit decision.

(ii) Capacity

The acceptance of a credit depends upon an objective evaluation of the customer's ability to repay the borrowed funds. To establish this, profitability and liquidity ratios are used as part of the assessment.

(iii) Capital

The borrower must provide capital for anticipated adversity. The index to determine capital should be leverage for overdraft, lease and term loan facilities.

(iv) Cash Collateralised Facilities

Cash collateralised facilities are not to be subjected to this scoring method, unless the character of the customer is questionable, in which case, the application is rejected. For cash collateralised facilities, the key issue is safety margin. Local cash deposits shall provide 110% coverage for the Bank's exposure. Foreign currency deposits pledged shall provide minimum 120% coverage for the Bank's exposure.

(v) Pricing

The pricing of facilities is done to reflect the inherent risks for accepting the exposure by the Group. The average score computed often determines the minimum level of interest chargeable. This interest rate determined would be a guide. For the purposes of clarity, a prime rate is determined by Asset and Liability Management Department and other rates are either above or below it. The average score computed often determine the minimum level of interest chargeable. This interest rate determined would be a guide.

(vi) Collateral/Security

Collateral, often referred to as credit risk mitigant, gives additional assurance to recovering loans granted to customers. The pledged collateral is documented and continuously reviewed as to its value and marketability.

Collaterals/securities are reviewed and scored based on the following parameters:

- Whether secured or not secured
- If secured, what type of security
- Perfectible legal mortgage
- Equitable mortgage
- Chattel mortgages
- Location of security/collateral
- Loan to value ratio of collateral offered
- Marketability of security/collateral
- Whether collateral is a specialised asset or general purpose - type asset.
- Depreciating or appreciating value over time.

## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

#### 37 Financial risk management - continued

##### Enterprise risk review

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Risks are an inevitable consequence of being in business.

The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by Enterprise Risk Management Group (ERM) within the policies approved by the Board of Directors. The ERM group identifies, evaluates and manages respective aspects of financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as liquidity risk, foreign exchange risk, interest rate risk, credit risk, market risk and operational risk. In addition, the Inspectorate Division is responsible for the independent review of risk management and the control environment. The most important types of risk are Credit risk, Liquidity risk, Market risk and Operational risk. Market risk includes currency risk, interest rate and other price risk.

#### 37.1 Credit risk

Credit exposures arise principally in lending activities carried out through loans and advances, debt securities and other instruments in the Group's risk asset portfolio. Credit risk is also inherent in off-balance sheet financial instruments.

The Group manages credit risks, which has been defined as the potential for a counterparty to default on financial obligations leading to financial losses. Credit risk is the principal source of risk to the Bank arising from loans and advances extended to customers under the corporate, commercial, and retail business lines.

There is also credit risk in off-balance sheet financial instruments. The credit risk is managed by two departments - Credit Risk Assessment and Credit Administration Departments. They report to the MD/Chief Executive Officer who in turn reports to the Board of Directors.

Purpose: Main Characteristics and Elements of Credit Risk Management;

##### (a) Risk Portfolio Planning

In line with the Group's planning cycle, risk portfolio plans are developed and approved at the overall Group and individual business unit level.

Risk portfolio planning entails definition and agreement of target risk asset threshold for different sectors, definition of target markets and criteria for risk acceptance at the corporate level and across each risk creating business unit in the Group.

##### (b) Exposure Development and Creation

Exposure Development and creation incorporates the procedures for preliminary screening of facility requests, detailed credit risk analysis and risk rating, risk triggered review and approval of facilities, and controlled credit avilment of approved facilities, processes and guidelines for developing credit opportunities and creating quality risk assets in line with the Bank's risk management policies.

##### (c) Exposure Management

To minimize the risk and occurrence of loss as a result of decline in quality and non-performance of risk assets, clear guidelines for management of the risk asset portfolio and individual risk exposures are defined. Exposure management entails collateral management, facility performance monitoring, quality reviews, risk asset classification and reporting

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

Credit risk - continued

(d) Delinquency Management/Loan Workout

In the undesired event of decline in risk asset quality, prompt identification and management of delinquent loans significantly reduces credit risk losses in the Group. The delinquency management/loan workout module of the integrated risk management framework outlines the approach for identification and management of declining credit quality. This also covers loan workout where all activities are geared towards resuscitating non-performing loans, and the first stage in the process of recognizing possible credit loss.

(e) Credit Recovery

Deliberate actions are taken proactively to minimize the Group's loss on non-performing loans. Directions are provided in the Credit Policy guide for winding down the Group's exposure, waivers, write-offs, etc. In the event of recovery, process for recognizing income and previously written-off amounts is also defined.

The Group's Risk Management Objectives and Policies

The Group's risk management objectives and policies for credit risk include the following:

1. To ensure optimal earnings through high quality risk portfolio.
2. Clear articulation of criteria for decision making.
3. Description of specific activities and tasks with respect to the creation and management of risk assets.
4. Definition of Past due loans as those with interest and principal repayment outstanding for 90 days or more.
5. Other criteria are also defined for determining impaired loans. These include:
  - Borrower's business recording consistent losses which might impair the cash flow, and loan repayment.
  - Borrower's networth being grossly eroded due to some macroeconomic events.
  - Lack of communication from the borrower.
  - Security offered has deteriorated in value and full payment cannot be guaranteed from normal operating sources.
  - Where the Bank consents to loan restructuring, resulting in diminished financial obligation.
  - Demonstrated material forgiveness of debt or postponement of scheduled payment.

Categorization of collaterals to determine the acceptable security for the mitigation of impairment impact on the Income Statement.

(f) Risk Management Architecture

Risks are managed such that the risk profile and the Bank's reputation are aligned with the Group's objective of conservative risk appetite, balanced against a desire for reasonable returns.

(ii) Credit risk measurement

Before a sound and prudent credit decision can be made, the credit risk of the borrower or counterparty must be accurately assessed. Each application is analyzed and assigned one of 9 (nine) grades using a credit rating system developed by the Group for all exposures to credit risk. Each grade corresponds to a borrower's or counterparty's probability of default.

The Group's credit risk management activities are based on certain fundamental principles.

The effectiveness of risk management process throughout the Group is based on a simple formal governance structure with regular reporting processes within a well-defined control environment.

The Group's risk policy allows its personnel take initiatives and responsibility to proactively identify risks in delivering products and services to the market in a value-added manner.

The Group's risk assets are managed to help provide the liquidity to meet deposit withdrawals, cover all expenses, and still earn sufficient profit to make returns which are competitive with other investments.

Credit risks are examined for all credit-related transactions including investments and trading transactions, in addition to loans and leases. Credit risks are examined and managed for unfunded loan commitments in addition to funded loans and leases.

CONSOLIDATED AND SEPARATE NOTES TO THE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

(iii) Credit granting process

Credit granting decisions are based on the results of the risk assessment. In addition, to the client's solvency, credit granting decisions are also influenced by factors such as available collateral, transaction compliance with policies and standards, procedures and the Group's overall risk-adjusted returns objective. Each credit granting decision is made by authorities within the risk management teams and management who are independent of the business units and are at a reporting level commensurate with the size of the proposed credit transaction and the associated risk.

(a) Loans and advances

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Group reflects the following components:

- (i) the character and capacity of the client or counterparty to pay down on its contractual obligations;
- (ii) current exposures to the counterparty and its likely future development;
- (iii) credit history of the counterparty; and
- (iv) the likely recovery ratio in case of default obligations -using value of collateral and other ways out.

The Group's rating scale, which is shown below, reflects the range of scores defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their credit risk changes.

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

Risk Rating	External Rating	Score	Remarks
	Equivalent	Range	
RR -1	AAA TO AA-	90-100	Superior
RR -2	A+ TO A-	80-89.99	Strong
RR -3	BBB+ TO BB-	70-79.99	Good
RR -4	BB+ TO BB-	50-69.99	Satisfactory
RR -5	B+ TO B-	40-49.99	High risk
RR -6	CCC+ TO CCC	30-39.99	Watch list
RR -7	CC+ TO C	20-29.99	Substandard
RR -8	D	10-19.99	Doubtful
RR -9	D	<10	Lost

(b) Debt Securities and Other Bills

For debt securities and other bills, external rating such as Augusto rating or their equivalents are used by Treasury Department primarily to manage their liquidity risk exposures.

(iv) Credit Risk Control & Mitigation policy

The Group manages concentration risks to counterparties, groups, sectors and countries. The level of credit risk undertaken is controlled by setting limits on exposures to individuals, groups, geographical and sectoral segments and facilitate continuous monitoring of adherence to set limits. The limits set are reviewed periodically and approved by the Board of Directors.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or groups of borrowers (single obligor limits), and to geographical and sectoral segments. Such risks are monitored on a revolving basis. Limits on the level of credit risk by industry sector and by geography are reviewed and approved quarterly by the Board of Directors.

The exposure to any borrower including banks and brokers is further restricted by sub-limits covering on- and off balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

## STERLING BANK PLC

### CONSOLIDATED AND SEPARATE NOTES TO THE FINANCIAL STATEMENTS - Continued

- 37 Financial risk management - continued  
Enterprise risk review - continued

(iv) Credit Risk Control & Mitigation policy

The Group also sets internal credit approval limits for various levels in the credit process and is shown in the

Authority level	Approval limit (Naira)
Full Board	Above 1,500,000,000
Board, Credit Committee	1,500,000,000
Management Credit Committee	750,000,000
Managing Director	500,000,000
Executive Director	150,000,000

Approval limits are set by the Board of Directors and reviewed from time to time as the circumstances demand. Some other specific control and mitigation measures are outlined below:

(a) Collateral Acceptability

The guiding principles behind collateral acceptability are adequacy and marketability. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- i. Mortgages over residential properties;
- ii. Charges over business assets such as premises, inventory and accounts receivable;
- iii. Charges over financial instruments such as debt securities and equities.

Long-term finance and lending to corporate entities as well as individuals are generally secured. However, in order to minimize losses, the Group will seek additional collateral from the counterparty when there are indicators of devaluation in existing collateral value.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The fair value of any collateral and other security enhancements held against loans and advances to customers and banks is shown below:

The following table shows the maximum exposure to credit risk by class of financial asset. It also shows the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

**STERLING BANK PLC****NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

## 37 Financial risk management - continued

## (b) Master Netting Arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if default occurs, all amounts with the counterparty are settled on net basis.

The following gross amounts are subject to a master netting arrangement between the Bank and counter parties.

<i>In millions of Naira</i>	2018	2017
Financial assets:		
Loans and advances	113,723	148,444
Financial liabilities:		
Collateralised deposits	107,061	123,070

These amounts are currently not presented net on the statement of financial position due to the performing status of the facilities; If the items were to be netted, the following net asset will be presented on the statement of financial position:

<i>In millions of Naira</i>	2018	2017
Net financial assets/ liabilities:		
Loans and advances	6,662	25,374

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial risk management - continued

Enterprise risk review - continued

(c) Credit-related Commitments

The primary purpose of these instruments is to create other avenues for lending. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore, carry less risk than a direct loan.

(d) Credit Concentration

The Group 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:

Breakdown of Exposures by Geographic Areas  
31 December 2018

S/N	Region	2018 (N'million)	2017 (N'million)
1	Abuja	8,487	9,420
2	Lagos	488,435	489,264
3	North Central	1,188	902
4	North East	2,690	3,847
5	North West	2,532	2,392
6	South East	694	1,071
7	South South	83,207	58,804
8	South West	53,445	51,877
	Grand Total	640,678	617,577

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

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

The Bank's maximum exposure to credit risk as at 31 December 2018 and 31 December 2017 is represented by the net carrying amounts of the financial assets set out below:

Group

Type of collateral or credit enhancement

31 December 2018	Fair value of collateral and credit enhancements held								
	Maximum exposure to credit risk	Cash	Secured against Real Estate	Stocks/shares	Debenture	Others	Total collateral value	Net exposure	Associated ECLs
	N'million	N'million	N'million	N'million	N'million	N'million	N'million	N'million	N'million
Financial assets									
Cash and balances with Central Bank of Nigeria	117,685	-	-	-	-	-	-	117,685	-
Due from banks	43,542	-	-	-	-	4,191	4,191	39,351	-
Pledged assets	11,423	-	-	-	-	-	-	11,423	9
Loans and advances to customers									
- Corporate loans	621,257	106,670	214,076	3,870	1,051,614	-	1,376,231	(754,974)	17,991
- Individual/retail loans	19,421	391	13,902	-	-	-	14,294	5,127	1,670
Debt instruments at amortised cost	123,212	-	-	-	-	-	-	123,212	126
Total financial assets at amortised cost	936,539	107,061	227,979	3,870	1,051,614	4,191	1,394,715	(458,176)	19,796
- Financial assets at fair value through profit or loss	117,620	-	-	-	-	-	-	117,620	-
Total financial instruments at fair value through profit or loss	117,620	-	-	-	-	-	-	117,620	-
- Debt instruments at fair value through other comprehensive income	4,110	-	-	-	-	-	-	4,110	161
Total debt instruments at fair value through other comprehensive income	4,110	-	-	-	-	-	-	4,110	161
Financial guarantees	97,396	10,128	6,280	-	9,161	-	25,569	71,827	-
Letters of credit for customers	32,951	2,413	-	-	235	-	2,648	30,303	-
	1,188,616	119,602	234,259	3,870	1,061,010	4,191	1,422,932	(234,316)	19,957



STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

Bank

Type of collateral or credit enhancement

31 December 2018

	Fair value of collateral and credit enhancements held								
	Maximum exposure to credit risk N'million	Cash N'million	Secured against Real Estate N'million	Stocks/shares N'million	Debenture N'million	Others N'million	Total collaterals N'million	Net exposure N'million	Associated ECLs N'million
Financial assets									
Cash and balances with Central Bank of Nigeria	117,685	-	-	-	-	-	-	117,685	-
Due from banks	43,542	-	-	-	-	4,191	4,191	39,351	-
Pledged assets	11,423	-	-	-	-	-	-	11,423	9
Loans and advances to customers									
- Corporate loans	621,257	106,670	214,076	3,870	1,051,614	-	1,376,231	(754,974)	17,991
- Individual/retail loans	19,421	391	13,902	-	-	-	14,294	5,127	1,670
Debt instruments at amortised cost	106,259	-	-	-	-	-	-	106,259	112
Total financial assets at amortised cost	919,586	107,061	227,979	3,870	1,051,614	4,191	1,394,715	(475,129)	19,782
Derivative financial assets	-	-	-	-	-	-	-	-	-
- Financial assets at fair value through profit or loss	117,620	-	-	-	-	-	-	117,620	-
Total financial instruments at fair value through profit or loss	117,620	-	-	-	-	-	-	117,620	-
- Debt instruments at fair value through other comprehensive income	4,110	-	-	-	-	-	-	4,110	161
Total debt instruments at fair value through other comprehensive income	4,110	-	-	-	-	-	-	4,110	161
Financial guarantees	97,396	10,128	6,280	-	9,161	-	25,569	71,827	-
Letters of credit for customers	32,951	2,413	-	-	235	-	2,648	30,303	-
Other commitments	-	-	-	-	-	-	-	-	-
	<b>1,171,663</b>	<b>119,602</b>	<b>234,259</b>	<b>3,870</b>	<b>1,061,010</b>	<b>4,191</b>	<b>1,422,932</b>	<b>(251,269)</b>	<b>19,943</b>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

Group

Type of collateral or credit enhancement

31 December 2017

	Fair value of collateral and credit enhancements held								
	Maximum exposure to credit risk	Cash	Secured against Real Estate	Stocks/shares	Debenture	Others	Total collaterals	Net exposure	Associated ECLs
	N'million	N'million	N'million	N'million	N'million	N'million	N'million	N'million	N'million
Financial assets									
Cash and balances with Central Bank of Nigeria	122,630						-	122,630	
Due from banks	51,066						-	51,066	
Pledged assets	145,179						-	145,179	
Loans and advances to customers									
- Corporate loans	602,471	124,054	283,238	3,479	1,156,877	-	1,567,648	(965,177)	
- Individual/retail loans	15,106	161	21,095	15	-	-	21,272	(6,166)	
Debt instruments at amortised cost									
Held to maturity investments	110,988								
Total financial assets at amortised cost	1,047,440	124,215	304,333	3,494	1,156,877	-	1,588,920	(652,468)	-
Derivative financial assets									
Debt instruments at fair value through profit or loss									
Held for trading investment	6,883							6,883	
Total financial instruments at fair value through profit or loss	6,883	-	-	-	-	-	-	6,883	-
Debt instruments at fair value through OCI									
Available for sale investment	80,031							80,031	
Total debt instruments at fair value through OCI	80,031	-	-	-	-	-	-	80,031	-
Financial guarantees	95,078	9,775	8,883	1,424			20,082	74,995	
Letters of credit for customers	26,102	790	130	60			980	25,122	
Other commitments	-	-	-	-	-	-	-	-	-
	1,255,533	134,780	313,346	4,978	1,156,877	-	1,609,981	(465,436)	-

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

Bank

Type of collateral or credit enhancement  
31 December 2017

	Fair value of collateral and credit enhancements held								
	Maximum exposure to credit risk N'million	Cash N'million	Secured against Real Estate N'million	Stocks/shares N'million	Debenture N'million	Others N'million	Total collaterals N'million	Net exposure N'million	Associated ECLs N'million
Financial assets									
Cash and balances with Central Bank of Nigeria	122,630						-	122,630	
Due from banks	51,066						-	51,066	
Pledged assets	145,179						-	145,179	
Loans and advances to customers									
- Corporate loans	602,471	124,054	283,238	3,479	1,156,877	-	1,567,648	(965,177)	
- Individual/retail loans	15,106	161	21,095	15	-	-	21,272	(6,166)	
Debt instruments at amortised cost	-	-	-	-	-	-	-	-	-
Held to maturity investments	107,585								
Total financial assets at amortised cost	1,044,037	124,215	304,333	3,494	1,156,877	-	1,588,920	(652,468)	-
Derivative financial assets									
Debt instruments at fair value through profit or loss									
Held for trading	6,883							6,883	
Total financial instruments at fair value through profit or loss	6,883	-	-	-	-	-	-	6,883	-
Debt instruments at fair value through OCI									
Available for Sale investment	80,031							80,031	
Total debt instruments at fair value through OCI	80,031	-	-	-	-	-	-	80,031	-
Financial guarantees	95,078	9,775	8,883	1,424			20,082	74,995	
Letters of credit for customers	26,102	790	130	60			980	25,122	
Other commitments	-	-	-	-	-	-	-	-	-
	1,252,130	134,780	313,346	4,978	1,156,877	-	1,609,981	(465,436)	-

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

Credit concentrations

The Group monitors concentrations of credit risk by sector and by geographical location. An analysis of concentrations of credit risk at 31 December 2018, is set out below:

Group	Cash and bank balances N'million	Due from banks N'million	Pledged assets N'million	Loans and advances N'million	Debt	Debt instruments at amortised cost N'million	Debt	Financial guarantees N'million	Letters of credit for customers N'million	Total N'million
					instruments at fair value through profit or loss N'million		instruments at fair value through OCI N'million			
31 December 2018										
Carrying amount, net of allowance for impairment										
<i>Concentration by sector:</i>										
Corporate	-	-	-	-	-	677	912	50	-	1,639
Agriculture	-	-	-	22,703	-	-	-	-	14	22,717
Capital Market	-	-	-	-	-	-	-	395	-	395
Communication	-	-	-	16,593	-	-	-	3,913	-	20,506
Consumer	-	-	-	10,491	-	-	-	-	-	10,491
Education	-	-	-	646	-	-	-	-	-	646
Finance and Insurance	-	43,542	-	31,601	-	-	116,708	2,300	78	194,230
Government	117,685	-	11,423	74,453	4,110	122,409	-	2,547	6,477	339,103
Manufacturing	-	-	-	4,076	-	-	-	-	7,539	11,615
Mining & Quarrying	-	-	-	391	-	-	-	-	-	391
Mortgage	-	-	-	5,613	-	-	-	3,322	-	8,936
Oil & Gas	-	-	-	-	-	-	-	-	10,552	10,552
Other Public Utilities	-	-	-	265,895	-	-	-	10,357	-	276,252
Others	-	-	-	55,305	-	-	-	13	7,468	62,786
Power	-	-	-	16,637	-	-	-	65,365	771	82,773
Real Estate & Construction	-	-	-	55,957	-	-	-	9,134	51	65,141
Transportation	-	-	-	25,487	-	-	-	-	-	25,487
Non-Interest Banking	-	-	-	35,168	-	-	-	-	-	35,168
	117,685	43,542	11,423	621,017	4,110	123,086	117,620	97,396	32,951	1,168,830
<i>Concentration by location:</i>										
Nigeria	117,685	20,575	11,423	621,017	4,110	123,086	117,620	97,396	32,951	1,145,863
America	-	11,881	-	-	-	-	-	-	-	11,881
Europe	-	11,063	-	-	-	-	-	-	-	11,063
Africa	-	21	-	-	-	-	-	-	-	21
Asia	-	2	-	-	-	-	-	-	-	2
	117,685	43,542	11,423	621,017	4,110	123,086	117,620	97,396	32,951	1,168,830

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

Bank	Cash and bank balances		Due from banks	Pledged assets	Loans and advances	Debt instruments at fair value through profit or loss	Debt instruments at amortised cost	Debt instruments at fair value through OCI	Financial guarantees	Letters of credit for customers	Total
31 December 2018	N'million	N'million	N'million	N'million	N'million	N'million	N'million	N'million	N'million	N'million	N'million
Carrying amount, net of allowance for impairment											-
<i>Concentration by sector:</i>											
Corporate	-	-	-	-	-	677	912	50	-	14	1,639
Agriculture	-	-	-	22,703	-	-	-	-	-	-	22,717
Capital Market	-	-	-	-	-	-	-	395	-	-	395
Communication	-	-	-	16,593	-	-	-	3,913	-	-	20,506
Consumer	-	-	-	10,491	-	-	-	-	-	-	10,491
Education	-	-	-	646	-	-	-	-	-	-	646
Finance and Insurance	-	43,435	-	31,601	-	-	116,708	2,300	-	78	194,123
Government	117,685	-	11,423	74,453	4,110	105,470	-	2,547	6,477	-	322,164
Manufacturing	-	-	-	4,076	-	-	-	-	-	7,539	11,615
Mining & Quarrying	-	-	-	391	-	-	-	-	-	-	391
Mortgage	-	-	-	5,613	-	-	-	3,322	-	-	8,936
Oil & Gas	-	-	-	-	-	-	-	-	10,552	-	10,552
Other Public Utilities	-	-	-	265,895	-	-	-	10,357	-	-	276,252
Others	-	-	-	55,305	-	-	-	13	7,468	-	62,786
Power	-	-	-	16,637	-	-	-	65,365	771	-	82,773
Real Estate & Construction	-	-	-	55,957	-	-	-	9,134	51	-	65,141
Transportation	-	-	-	25,487	-	-	-	-	-	-	25,487
Non-Interest Banking	-	-	-	35,168	-	-	-	-	-	-	35,168
	117,685	43,435	11,423	621,017	4,110	106,147	117,620	97,396	32,951	-	1,151,784
<i>Concentration by location:</i>											
Nigeria	117,685	20,468	11,423	621,017	4,110	106,147	117,620	97,396	32,951	-	1,128,817
America	-	11,881	-	-	-	-	-	-	-	-	11,881
Europe	-	11,063	-	-	-	-	-	-	-	-	11,063
Africa	-	21	-	-	-	-	-	-	-	-	21
Asia	-	2	-	-	-	-	-	-	-	-	2
	117,685	43,435	11,423	621,017	4,110	106,147	117,620	97,396	32,951	-	1,151,784

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

Group	Cash and bank balances N'million	Due from banks N'million	Pledged assets N'million	Loans and advances N'million	Investment securities N'million
31 December 2017					
Carrying amount, net of allowance for impairment	122,630	51,066	145,179	598,073	110,989
<i>Concentration by sector:</i>					
Corporate	-	-	-	-	1,447
Agriculture	-	-	-	18,871	-
Communication	-	-	-	17,136	-
Consumer	-	-	-	5,351	-
Education	-	-	-	330	-
Finance and Insurance	-	51,066	53,954	31,895	-
Government	122,630	-	91,225	68,642	109,542
Manufacturing	-	-	-	5,423	-
Mining & Quarrying	-	-	-	613	-
Mortgage	-	-	-	8,057	-
Oil & Gas	-	-	-	243,950	-
Others	-	-	-	60,504	-
Power	-	-	-	22,488	-
Real Estate & Construction	-	-	-	68,557	-
Transportation	-	-	-	20,132	-
Non-Interest Banking	-	-	-	26,126	-
	122,630	51,066	145,179	598,073	110,989
<i>Concentration by location:</i>					
Nigeria	122,630	20,698	145,179	598,073	110,989
America	-	4,733	-	-	-
Europe	-	19,866	-	-	-
Africa	-	5,769	-	-	-
Asia	-	-	-	-	-
	122,630	51,066	145,179	598,073	110,989

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial risk management - continued

Enterprise risk review - continued

Bank	Cash and bank balances N'million	Due from banks N'million	Pledged assets N'million	Loans and advances N'million	Investment securities N'million
31 December 2017					
Carrying amount, net of allowance for impairment	122,630	51,066	145,179	598,073	107,585
<i>Concentration by sector:</i>					
Corporate	-	-	-	-	1,447
Agriculture	-	-	-	18,871	-
Capital Market	-	-	-	-	-
Communication	-	-	-	17,136	-
Consumer	-	-	-	5,351	-
Education	-	-	-	330	-
Finance and Insurance	-	51,066	53,954	31,895	-
Government	122,630	-	91,225	68,642	106,138
Manufacturing	-	-	-	5,423	-
Mining & Quarrying	-	-	-	613	-
Mortgage	-	-	-	8,057	-
Oil & Gas	-	-	-	243,950	-
Other Public Utilities	-	-	-	-	-
Others	-	-	-	60,504	-
Power	-	-	-	22,488	-
Real Estate & Construction	-	-	-	68,557	-
Transportation	-	-	-	20,132	-
Non-Interest Banking	-	-	-	26,126	-
	122,630	51,066	145,179	598,073	107,585
<i>Concentration by location:</i>					
Nigeria	122,630	20,698	145,179	598,073	107,585
America	-	4,733	-	-	-
Europe	-	19,866	-	-	-
Africa	-	5,769	-	-	-
Asia	-	-	-	-	-
	122,630	51,066	145,179	598,073	107,585

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

Exposure to credit risk - continued

Commitments and Guarantees

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are, therefore, part of the overall risk of the Group.

The table below shows the Group's maximum credit risk exposure for commitments and guarantees. The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Group could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the statement of financial position.

GROUP & BANK	2018	2017
<i>In millions of Naira</i>		
Bonds, guarantees and indemnities	97,395	95,078
Letters of credit	32,951	26,102
Others	-	9,926
	<u>130,346</u>	<u>131,106</u>

Maturity profile of contingents and commitments

As at 31 December 2018	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
<i>In millions of Naira</i>						
Bonds, guarantees and indemnities	-	10,638	38,677	44,421	3,658	97,395
Letters of credit	-	32,951	-	-	-	32,951
Total undiscounted financial assets ( A)	-	<u>43,589</u>	<u>38,677</u>	<u>44,421</u>	<u>3,658</u>	<u>130,346</u>

As at 31 December 2017	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
	N'000	N'000	N'000	N'000	N'000	N'000
Bonds, guarantees and indemnities	-	11,976	52,400	21,452	9,249	95,078
Letters of credit	-	26,102	-	-	-	26,102
Others	-	8,692	1,054	181	-	9,926
Total undiscounted financial assets ( A)	-	<u>46,770</u>	<u>53,454</u>	<u>21,633</u>	<u>9,249</u>	<u>131,106</u>



**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial Risk Management - continued

Enterprise Risk Review - continued

Exposure to Credit Risk - continued

CREDIT QUALITY OF FINANCIAL ASSETS - continued

The Standardized Approach has been used in assessing the Bank's capital requirement and all corporate exposures were classified as unrated in line with regulatory guidelines. Credit assessments applied to items in the Group's book and trading book are assigned in accordance with the regulatory guidelines

31 December 2018				
Assets	carrying values of:			Net values
	Defaulted exposures	Non defaulted exposures	Allowances/ impairments	
<i>In millions of Naira</i>				
Loans	39,340	601,337	(19,661)	621,017
Debt Securities	-	25,717	-	25,717
Off Balance sheet exposures	-	130,347	-	130,347
<b>Total</b>	<b>39,340</b>	<b>757,402</b>	<b>(19,661)</b>	<b>777,081</b>

<i>In millions of Naira</i>	RR1 - RR2	RR3 - RR4	RR5 - RR6	RR7 - RR9	Total	Carrying Amount
Balances with Central Bank of Nigeria	117,685	-	-	-	117,685	117,685
Due from banks	43,435	-	-	-	43,435	43,435
Pledged assets	11,432	-	-	-	11,432	11,423
Loans and advances	108,732	371,409	121,197	39,340	640,678	621,017
Held for trading	4,110	-	-	-	4,110	4,110
Investments securities - FVOCI	117,781	-	-	-	117,781	117,620
Investments securities - AMORTISED	123,212	-	-	-	123,212	123,086
Other assets- Account Receivables	-	10,720	-	-	10,720	9,886
<b>Total</b>	<b>526,388</b>	<b>382,129</b>	<b>121,197</b>	<b>39,340</b>	<b>1,069,054</b>	<b>1,048,262</b>

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial risk management - continued

Enterprise risk review - continued

Exposure to credit risk - continued

CREDIT QUALITY OF FINANCIAL ASSETS - continued

The Standardized Approach has been used in assessing the Group's capital requirement and all corporate exposures were classified as unrated in line with regulatory guidelines.

31 December 2017

Assets

<i>In millions of Naira</i>	carrying values of:			Net values
	Defaulted exposures	Non defaulted exposures	Allowances/ impairments	
Loans	38,467	579,110	(19,504)	598,073
Debt Securities	-	5,146	-	5,146
Off Balance sheet exposures	-	131,105	-	131,105
<b>Total</b>	<b>38,467</b>	<b>715,361</b>	<b>(19,504)</b>	<b>734,324</b>

<i>In millions of Naira</i>	RR1 - RR2	RR3 - RR4	RR5 - RR6	RR7 - RR9	Total	Carrying Amount
Balances with Central Bank of Nigeria	122,630	-	-	-	122,630	122,630
Due from banks	51,066	-	-	-	51,066	51,066
Pledged assets	145,179	-	-	-	145,179	145,179
Loans and advances	107,721	405,854	65,536	38,467	617,578	598,073
Held for trading	6,883	-	-	-	6,883	6,883
Investments securities available for sale	80,031	-	-	-	80,031	80,031
Investments securities held to maturity	24,075	-	-	-	24,075	24,075
Other assets- Account Receivables	-	6,438	-	-	6,438	5,163
<b>Total</b>	<b>537,585</b>	<b>412,292</b>	<b>65,536</b>	<b>38,467</b>	<b>1,053,880</b>	<b>1,033,100</b>

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial risk management - continued

Enterprise risk review - continued

Exposure to credit risk - continued

Credit Mitigation Techniques

The Group has in place a set of management actions to prevent or mitigate the impact on earnings of business risks. Business risk monitoring, through regular reports and oversight, results in corrective actions to plan and ensure reductions in exposures where necessary. Credit control and mitigation policies are also in place. Collateral policies are designed to ensure that the Group's exposure is secured, and to minimize the risk of credit losses to the Group in the event of decline in quality or delinquency of assets.

Guidelines for accepting credit collateral are documented and articulated in the Credit Policy Guidelines (CPG). These include;

- Acceptable collateral for each credit product.
- Required documentation/perfection of collaterals
- Conditions for waiver of collateral requirement and approval of collateral waiver.
- Acceptance of cash and other forms of collateral denominated in foreign currency.

31 December 2018

			Exposure unsecured	Exposures secured by collateral	Exposures secured by collateral of which: Secured	Exposures secured by financial guarantees	Exposures secured by financial guarantees of which: secured
Assets							
<i>In millions of Naira</i>							
Loans and advances			35,311	605,367	368,633	-	-
Debt Securities			25,237	-	-	-	-
Total			60,548	605,367	368,633	-	-
of which defaulted			8,027	21,862	25,967	-	-

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

Exposure to credit risk - continued

Credit Risk Exposure and Credit Risk Mitigation (CRM)

Asset Classes	Exposures pre Credit Conversion Factor and Credit Risk Mitigation		Exposures post Credit Conversion Factor and Credit Risk Mitigation		
	on balance sheet	off- balance sheet	on balance sheet	off- balance sheet	Risk Weighted Assets (RWA)
<i>In millions of Naira</i>					
Sovereigns and their central Banks	338,038	-	338,038	-	-
Non-central government public sector entities	79,895	17,578	46,502	3,056	49,256
Supervised institutions	23,124	865	23,124	-	4,737
Corporates	370,227	95,811	300,896	1,120	302,016
Regulatory retail portfolios	8,031	11	7,972	-	5,979
Secured by residential property	67,147	-	67,115	-	62,328
Secured by commercial real estate	80,946	-	80,928	-	80,928
Past due loans	21,123	-	21,123	-	21,002
Higher –risk categories	4,091	-	4,091	-	6,136
Other assets	84,510	16,081	84,510	3,868	57,985
Total	1,077,131	130,346	974,298	8,044	590,367

31 December 2017

Assets	Exposure unsecured	Exposures secured by collateral	Exposures secured by collateral of which: Secured	Exposures secured by financial guarantees	Exposures secured by
					financial guarantees of which: secured
<i>In millions of Naira</i>					
Loans and advances	2,811	614,766	392,304	-	-
Debt Securities	5,146	-	-	-	-
Total	7,957	614,766	392,304	-	-
of which defaulted	20	38,098	30,277	-	-

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

Exposure to credit risk - continued

Credit Risk Exposure and Credit Risk Mitigation (CRM)

Asset Classes	Exposures pre CCF and CRM		Exposures post CCF and CRM		Risk Weighted Assets (RWA)
	on balance sheet	off- balance sheet	on balance sheet	off- balance sheet	
<i>In millions of Naira</i>					
Sovereigns and their central Banks	364,086	-	364,086	-	-
Non-central government public sector entities	77,587	1,055	43,336	528	42,413
Supervised institutions	35,599	752	35,588	-	13,710
Corporates	338,713	129,293	260,638	7,205	267,843
Regulatory retail portfolios	4,096	4	4,036	-	3,027
Secured by residential property	68,708	-	68,708	-	61,965
Secured by commercial real estate	93,677	-	93,677	-	93,677
Past due loans	23,901	-	23,901	-	30,298
Higher –risk categories	2,101	-	2,101	-	3,152
Other assets	51,244	-	51,244	-	35,840
<b>Total</b>	<b>1,059,712</b>	<b>131,105</b>	<b>947,315</b>	<b>7,733</b>	<b>551,925</b>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

Exposure to credit risk - continued

EXPOSURE BY ASSET CLASSES AND RISK WEIGHTS

31 December 2018							Total Credit
In millions of Naira							Exposure
Risk weight	0%	20%	50%	75%	100%	150%	Amount (Post CCF and Post CRM)
Sovereigns	338,038	-	-	-	-	-	338,038
Non-central government public sector entities (PSEs)	-	3,433	-	-	46,125	-	49,558
Multilateral development Banks (MDBs)	-	-	-	-	-	-	-
Supervised Institutions	-	22,956	45	-	123	-	23,124
Corporates	-	1,120	-	-	300,896	-	302,016
Regulatory Retail Portfolios	-	-	-	7,972	-	-	7,972
Secured by Mortgages on Residential Properties	-	-	-	19,146	47,968	-	67,114
Exposures Secured by Mortgages on Commercial Real Estates	-	-	-	-	80,928	-	80,928
Past due loans	-	-	1,094	-	19,176	852	21,123
Higher –risk categories	-	-	-	-	-	4,091	4,091
Other assets	20,772	12,414	3,480	-	51,712	-	88,378
<b>Total</b>	<b>358,810</b>	<b>39,923</b>	<b>4,619</b>	<b>27,118</b>	<b>546,929</b>	<b>4,943</b>	<b>982,342</b>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

Exposure to credit risk - continued

COUNTERPARTY CREDIT RISK EXPOSURES BY REGULATORY PORTFOLIO AND RISK WEIGHTS

31 December 2018

In millions of Naira

Risk weight	0%	20%	50%	75%	100%	150%	Total credit exposure amount (Pre CCF and CRM)
Sovereigns	338,038	-	-	-	-	-	338,038
Non-central government public sector entities (PSEs)	-	15,656	2,300	-	79,518	-	97,474
Multilateral development Banks (MDBs)	-	-	-	-	-	-	-
Supervised institutions	-	22,956	910	-	123	-	23,989
Corporates	-	15,097	80,714	-	370,227	-	466,038
Regulatory retail portfolios	-	-	11	8,031	-	-	8,042
Secured by Mortgages on Residential Properties	-	-	-	19,178	47,968	-	67,147
Exposures Secured by Mortgages on Commercial Real Estates	-	-	-	-	80,946	-	80,946
Past due loans	-	-	1,094	-	19,176	852	21,123
Higher –risk categories	-	-	-	-	-	4,091	4,091
Other assets	20,772	14,601	13,505	-	51,712	-	100,591
<b>Total</b>	<b>358,810</b>	<b>68,310</b>	<b>98,534</b>	<b>27,209</b>	<b>649,671</b>	<b>4,943</b>	<b>1,207,477</b>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

Exposure to credit risk - continued

EXPOSURE BY ASSET CLASSES AND RISK WEIGHTS

31 December 2017

In millions of Naira

Risk weight							Total Credit
	0%	20%	50%	75%	100%	150%	Exposure Amount (Post CCF and Post CRM)
Sovereigns	364,086	-	-	-	-	-	364,086
Non-central government public sector entities (PSEs)	-	1,813	528	-	41,523	-	43,864
Multilateral development Banks (MDBs)	-	-	-	-	-	-	-
Supervised Institutions	-	22,321	8,042	-	5,225	-	35,588
Corporates	-	7,205	-	-	260,638	-	267,843
Regulatory Retail Portfolios	-	-	-	4,036	-	-	4,036
Secured by Mortgages on Residential Properties	-	-	-	26,973	41,735	-	68,708
Exposures Secured by Mortgages on Commercial Real Estates	-	-	917	-	93,677	-	94,594
Past due loans	-	-	-	-	9,272	13,712	22,984
Higher –risk categories	-	-	-	-	-	2,101	2,101
Other assets	15,404	-	-	-	35,840	-	51,244
<b>Total</b>	<b>379,490</b>	<b>31,339</b>	<b>9,487</b>	<b>31,009</b>	<b>487,910</b>	<b>15,813</b>	<b>955,048</b>



STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Enterprise risk review - continued

Exposure to credit risk - continued

COUNTERPARTY CREDIT RISK EXPOSURES BY REGULATORY PORTFOLIO AND RISK WEIGHTS

31 December 2017

In millions of Naira

	0%	20%	50%	75%	100%	150%	Total credit exposure amount (Pre CCF and CRM)
Sovereigns	364,086	-	-	-	-	-	364,086
Non-central government public sector entities (PSEs)	-	1,813	1,055	-	75,774	-	78,642
Multilateral development Banks (MDBs)	-	-	-	-	-	-	-
Supervised institutions	-	22,332	8,794	-	5,225	-	36,351
Corporates	-	36,027	93,266	-	338,713	-	468,006
Regulatory retail portfolios	-	-	4	4,096	-	-	4,100
Secured by Mortgages on Residential Properties	-	-	-	26,973	41,735	-	68,708
Exposures Secured by Mortgages on Commercial Real Estates	-	-	-	-	93,677	-	93,677
Past due loans	-	-	917	-	9,272	13,712	23,901
Higher –risk categories	-	-	-	-	-	2,101	2,101
Other assets	15,404	-	-	-	35,840	-	51,244
<b>Total</b>	<b>379,490</b>	<b>60,173</b>	<b>104,036</b>	<b>31,069</b>	<b>600,236</b>	<b>15,813</b>	<b>1,190,817</b>

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial Risk Management - continued  
Exposure to Credit Risk - continued  
Impairment assessment (Policy applicable from 1 January 2018)

The references below show where the Group's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments (except for specialised lending facilities where the 90 days past due is rebutted and 180 days past due is used instead). The Group considers treasury and interbank balances defaulted and takes immediate action when the required intra-day payments are not settled by the close of business as outlined in the individual agreements.

As a part of the qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default (debt service default or technical default) or past due event.
- The Bank, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the Bank would not otherwise consider.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.
- Overdrafts will be considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than current outstanding.
- The Bank puts the credit obligation on non-accrued status.
- The Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or (where relevant) fees.
- The Bank has filed for the obligor's bankruptcy or a similar order in respect of the obligor's credit obligation to the Bank.

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 90 consecutive days. The decision whether to classify an asset as Stage 2 or Stage 1 once cured, depends on the updated credit grade at the time of the cure, and whether this indicates there has been a significant reduction in credit risk. The following probationary period is applied in transferring financial asset back to a lower stage following a significant reduction in credit risk:

- When there is evidence of a significant reduction in credit risk for a financial instrument in stage 2, a probationary period of 90 days will be applied to confirm if the risk of default on such financial instrument has decreased sufficiently before upgrading such exposure to stage 1.
- When there is evidence that a financial asset in stage 3 (other than originated or purchased credit impaired financial asset) is no longer credit impaired and also that there is a significant reduction in credit risk for a financial instrument in stage 3, a probationary period of 90 days will be applied to confirm if the risk of default on such financial instrument has decreased sufficiently before upgrading such exposure to stage 2.
- When there is evidence that a financial asset in stage 3 (other than originated or purchased credit impaired financial asset) is no longer credit impaired and also that there is a significant reduction in credit risk for a financial instrument in stage 3, a probationary period of 180 days will be applied to confirm if the risk of default on such financial instrument has decreased sufficiently before upgrading such exposure to stage 1.

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial Risk Management - continued

**The Bank's internal rating and PD estimation process**

The Group runs separate models for its key portfolios in which its customers are rated from RR-1 to RR-9 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplementary external information that could affect the borrower's behaviour. These information sources are first used to determine the ratings within the Bank's risk management framework. The internal credit grades are assigned based on these assessments. PDs are also measured based on the historical default data of the Bank are then adjusted for IFRS 9 ECL calculations by incorporating forward looking information. This is further assessed based on three economic scenarios (Base, Upturn and Downturn) with appropriate probability weights assigned to derive the probability weighted ECLs.

**Treasury, trading and interbank relationships**

The Group's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Group analyses available information such as financial information and other external data to conduct credit assessments and assign internal ratings.

**Corporate lending**

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Group. The credit risk assessment is based on a credit rating model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond.
- Any macro-economic or geopolitical information, e.g., GDP growth for the specific industry and geographical segments where the client operates. • Industry or sector information to assess the competitive position of the obligors with regards to market share.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Group and the complexity and size of the customer. Some of the less complex small business loans are rated within the Group's models for retail products.

**Retail/MSME lending**

Retail lending comprises, asset finance, unsecured personal loans, credit cards and overdrafts. These products, along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool. Key inputs into the models are:

- Consumer/Retail lending products: personal income/salary levels based on records of current accounts, personal indebtedness, demographic information and loan-to-value ratios (mortgages).
- MSMEs: financial, management and industry information. In addition, historical account performance is evaluated.

**The Bank's internal credit rating grades**

Internal risk rating grade	External rating equivalent	Remarks
RR -1	AAA TO AA-	Superior
RR -2	A+ TO A-	Strong
RR -3	BBB+ TO BB-	Good
RR -4	BB+ TO BB-	Satisfactory
RR -5	B+ TO B-	High Risk
RR -6	CCC+ TO CCC	Watch List
RR -7	CC+ TO C	Substandard
RR -8	D	Doubtful
RR -9	D	Lost

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial Risk Management - continued

**Exposure at default**

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12m ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the reporting date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and purchased or originated credit impaired (POCI) financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding to multiple scenarios.

**Loss given default**

LGD is the portion of the loan determined to be irrecoverable at the time of loan default. The Group estimates the general Life Time LGD curves based on an Intensity Matrix, which is built on top of the actual migration of exposure in between the Credit Risk States (buckets). The secured portion of the LGD adjusted for collateral values while recovery data is observed for the unsecured portion of the LGD. The models in calculating the LGD considers in its computation a wider set of transaction characteristics (e.g. product type, collateral, recovery cost, time to recovery e.t.c.).

The Group segments its products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Further, recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in collateral values, including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses.

**Significant increase in credit risk**

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or Lifetime (LT) ECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers both qualitative and quantitative factors in assessing whether credit risk has increased significantly on any exposure. Some of these factors include significant increase in PD since initial recognition, expectation of forbearance and restructuring due to financial difficulties.

Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 19c), the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

**Analysis of inputs to the ECL model under multiple economic scenarios**

An overview of the approach to estimating ECLs is set out in Note 2.2 Summary of significant accounting policies and in Note 3.0 Significant accounting judgements, estimates and assumptions. To ensure completeness and accuracy, the Group obtains the data used from third party sources (Central Bank of Nigeria, Nigeria Bureau of Statistics, BMI Research, Trading Economics etc.) and a team of expert within its Enterprise Risk Management Department verifies the accuracy of inputs to the Group's ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Group's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios as at 31 December 2017 and 2018.

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario.

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial Risk Management - continued  
The Group and Bank

31 December 2018								
Key drivers	ECL Scenario	Assigned probabilities %	2019	2020	2021	2022	2023	Subsequent years
GDP growth rate%	Upside	23%	2.75%	5.06%	5.61%	4.51%	4.95%	4.95%
	Base Case	58%	2.50%	4.60%	5.10%	4.10%	4.50%	4.50%
	Downside	20%	2.25%	4.14%	4.59%	3.69%	4.05%	4.05%
Exchange rate	Upside	23%	338.27	387.43	398.84	399.27	399.69	399.69
	Base Case	58%	375.86	430.47	443.16	443.63	444.10	444.10
	Downside	20%	413.40	473.50	487.50	488.00	488.50	488.50
Inflation rate %	Upside	23%	12.60%	11.70%	7.20%	7.20%	7.20%	7.20%
	Base Case	58%	14.00%	13.00%	8.00%	8.00%	8.00%	8.00%
	Downside	20%	15.40%	14.30%	8.80%	8.80%	8.80%	8.80%

Analysis of inputs to the ECL model under multiple economic scenarios - continued								
1 January 2018								
Key drivers	ECL Scenario	Assigned probabilities %	2019	2020	2021	2022	2023	Subsequent years
GDP growth rate%	Upside	23%	1.87%	4.62%	5.61%	4.51%	4.95%	4.95%
	Base Case	58%	1.70%	4.20%	5.10%	4.10%	4.50%	4.50%
	Downside	20%	1.53%	3.78%	4.59%	3.69%	4.05%	4.05%
Exchange rate	Upside	23%	324.00	330.30	398.84	399.27	399.69	399.69
	Base Case	58%	360.00	367.00	443.16	443.63	444.10	444.10
	Downside	20%	396.00	403.70	487.50	488.00	488.50	488.50
Inflation rate %	Upside	23%	9.72%	11.52%	7.20%	7.20%	7.20%	7.20%
	Base Case	58%	10.80%	12.80%	8.00%	8.00%	8.00%	8.00%
	Downside	20%	11.88%	14.08%	8.80%	8.80%	8.80%	8.80%

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial Risk Management - continued

At the beginning of each year, the key economic indicators used in ECL models for the Group are always reassessed to reflect current and accurate data. The following tables outline the impact of multiple scenarios on the allowance:

Group

31 December 2018	Debt instruments at FVOCI	Debt instruments at amortised cost	Corporate lending	Individual/Retail lending	Financial guarantee	Letter of credit
In MILLIONS						
Upside (23%)	92	68	4,096	380	0	0
Base (58%)	56	43	10,358	961	0	0
Downside (19%)	22	15	3,537	328	0	0
Total	170	126	17,991	1,670	0	0

1 January 2018	Debt instruments at FVOCI	Debt instruments at amortised cost	Corporate lending	Individual/Retail lending	Financial guarantee	Letter of credit
In thousands						
Upside (23%)	104	94	5,984	670	3	1
Base (58%)	60	55	15,132	1,694	7	2
Downside (19%)	23	22	5,168	578	3	1
Total	187	171	26,283	2,942	13	4

Bank

31 December 2018	Debt instruments at FVOCI	Debt instruments at amortised cost	Corporate lending	Individual/Retail lending	Financial guarantee	Letter of credit
In thousands						
Upside (23%)	92	63	4,096	380	0	0
Base (58%)	56	38	10,358	961	0	0
Downside (19%)	22	11	3,537	328	0	0
Total	170	112	17,991	1,670	0	0

1 January 2018	Debt instruments at FVOCI	Debt instruments at amortised cost	Corporate lending	Individual/Retail lending	Financial guarantee	Letter of credit
In thousands						
Upside (23%)	104	94	5,984	670	3	1
Base (58%)	60	54	15,132	1,694	7	2
Downside (19%)	23	21	5,168	578	3	1
Total	187	169	26,283	2,942	13	4

Overview of modified financial assets

From a risk management point of view, once an asset is forborne or modified, the Group's credit recovery department for distressed assets continues to monitor the exposure until it is completely and ultimately derecognised.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification gain earned by the Bank.

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial Risk Management - continued

<i>Group</i>	<u>2018</u>
Amortised costs of financial assets modified during the period	33,946
Net modification loss	<u>28</u>
Amortised cost after modification	<u>33,974</u>
 <i>Bank</i>	 <u>2018</u>
Amortised costs of financial assets modified during the period	33,946
Net modification loss	<u>28</u>
Amortised cost after modification	<u>33,974</u>

The table below shows the gross carrying amount of previously modified financial assets for which loss allowance has changed to 12m ECL measurement during the period:

31 December 2018	Post-modification		Pre-modification	
	Gross carrying amount	Corresponding ECL	Gross carrying amount	Corresponding ECL
<i>In millions of Naira</i>				
Facilities that have cured since modification and are now measured using 12 months ECLs (Stage 1)	-	-	-	-
Facilities that reverted to (Stage 2/3) LT ECLs having once cured	-	-	-	-

## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

#### 37 Financial risk management - continued

Enterprise risk review - continued

Age analysis for financial assets that are past due but not impaired:

<i>In millions of Naira</i>	Group 2017	Bank 2017
Past due days		
1 - 30 days	798	798
31 - 60 days	43	43
Above 90 days	15,184	15,184
	<u>16,025</u>	<u>16,025</u>

#### (e) Liquidity risk

Liquidity risk and Funding Management: The Group is exposed to two types of liquidity risk;

- 1 Market/Trading Liquidity Risk;-This is the risk of inability to conduct transaction at current market price because of the size of the transaction, this type of liquidity risk comes to play when certain assets cannot be liquidated at short notice due to market illiquidity.
- 2 Funding Liquidity Risk relates to the Group's ability to raise the necessary cash to roll over its debt; to meet the cash, margin, and collateral requirements of counterparties; and to satisfy capital withdrawals. Funding liquidity risk is managed through holding cash and cash equivalents, setting credit lines in place, and monitoring buying power. (Buying power refers to the amount a trading counterparty can borrow against assets under stressed market conditions).

The Asset & Liability Committee (ALCO) is responsible for managing the liquidity of the Group, this function is delegated to the Asset & Liability Management (ALM) Department that manage the day-to-day liquidity requirements of the Group, and also act as secretariat to ALCO. Liquidity risk is assessed by comparing the expected outflows with expected inflows, and liquidity risk arises when there is a mismatch arising between the inflow and outflow, also when there is unexpected delay in repayment of loans(term liquidity risk) or unexpectedly high payment outflow(withdrawal/call risk).

In line with the Liquidity Risk Management Framework, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Net liquid assets consist of cash, short-term bank placements and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month.

Presented below is the process used in managing liquidity:

Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in money markets to enable this to happen;

Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

Monitoring balance sheets liquidity ratios against internal and regulatory requirements (in conjunction with Financial and Regulatory Reporting Department).



**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial risk management - continued

Liquidity risk - continued

(e) Liquidity Risk Measurement Techniques

Liquidity positions are measured by calculating the net liquidity gap and by comparing selected ratios with targets as specified in the liquidity risk management policy

The key measure used by the Group 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 Government Bonds for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitment. A similar calculation is used to measure the Group's compliance with the liquidity limit established by the CBN.

The following table reflects the Group's regulatory liquidity ratio for the years indicated.

	As at 31 December 2018	As at 31 December 2017
At end of year	42.19%	33.20%
Average for the year	36.60%	30.80%
Maximum for the year	43.60%	38.50%
Minimum for the year	30.60%	22.30%

In addition to the above, the Group also applies the following metrics in measuring liquidity risk and ensuring that day-to-day funding requirements are met.

- 1 Liquidity Coverage Ratio (LCR) - The LCR aims to ensure that the Group has sufficient unencumbered high-quality liquid assets ('HQLA') to withstand a stressed 30-day funding scenario. HQLA consist of cash or assets that can easily be converted into cash at little or no loss of value to cover any net outflow. The minimum requirement is 100%.

On a Business-As-Usual (BAU) basis, the Group's LCR as at 31st December 2018 was 118%. The LCR indicates that the Group has adequate liquidity to support its current level of growth.

Liquidity Risk Management Governance

- 2 Net Stable Funding Ratio (NSFR) – The Net Stable Funding Ratio (NSFR) is a longer-term structural ratio designed to reduce funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress.

It measures the amount of available stable funding relative to the required stable funding. This ratio should be equal to at least 100% on an ongoing basis. It is designed to complement the LCR.

The Group's NSFR of 136.30% as at 31 December 2018, was well above the Basel requirement of 100% and internal risk tolerance level.

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

3 Liquidity Gap: Liquidity Gap describe a discrepancy or mismatch in the supply or demand for cash inflows and outflows. The ALM Team use maturity gap analysis to compare cash inflows and outflows daily and over a series of time-bands. The liquidity gap reports are prepared using the projection worksheets created for different scenarios and stress levels. For each scenario, the assumptions used were approved by the ALCO. For liquidity in the normal or ordinary course of business, the minimum levels of projected liquidity shall be maintained. For liquidity in all other scenarios and stress levels, the ALCO establishes minimum guidance levels.

4 Liquidity Ratios: Liquidity ratios describe the structure and shape of the balance sheet in business-as-usual conditions and allow the ALCO to monitor changes in structural liquidity. The Group establishes various liquidity ratios to indicate the business’s ability to meet short-term obligations with liquid assets, identify any mismatches between long-term funding sources and uses and review the ability of the banking business to fund loans through customer deposits.

The ALCO sets the internal liquidity ratios targets aimed at ensuring that the Group meets its liquidity needs under going concern and stressed market conditions.

Please find below key liquidity risk metrics as at 31st December 2018

	As at 31 December 2018	As at 31 December 2017
Liquidity Ratio	42.19%	33.20%
Net Interbank Borrowing / Total Deposit	0.00%	1.60%
Loan/ Deposit Ratio	70.61%	66.30%
Current and Savings Account/Total Deposit	59.26%	46.00%

5 Stress Testing: In addition, stress testing and scenario analysis are used to assess the financial and management capabilities of the Group to continue operating effectively under extreme but still viable trading conditions. A liquidity stress test is conducted, at least monthly, reviewing the impact of an accelerated run-off from funding sources and changes in normal business situation.

The ALCO integrates the results of the stress testing process into the Group’s strategic planning process (e.g. Management could adjust its asset-liability composition) and the firm’s day-to-day risk management practices (e.g. through monitoring sensitive cash flows or reducing concentration limits).

To ensure that liquidity risk is controlled within the Group, limits and triggers are set. These limits serve to control the overall extent and composition of liquidity risk taken by managing exposure to particular sources of liabilities, asset-liability mismatches and counterparty concentrations.

These limits include liquidity ratio limits (Loan/Deposit, Liquid Assets/Customer Liabilities, Medium Term Funding Ratio, Core Funding Ratio etc.), Maturity Mismatch limits, Cumulative Outflow limit as well as Concentration limits. Furthermore, diversification of the Group’s funding profile in terms of investor types, regions, products and instruments is also an important element of controlling liquidity risk.

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

Liquidity Contingency Funding Plan

The Group has an approved liquidity Contingency Funding Plan (CFP or the Plan) for managing unanticipated stressful scenarios that could result in a significant erosion of group-specific or general market liquidity. The Plan details the policies, procedures and actions for responding to contingent liquidity events as well as incorporates early warning indicators to monitor market conditions.

Such early warning indicators include, among others, decline in the liquidity ratio below approved limits for a prescribed period, delays in disbursements of statutory allocations beyond a prescribed period, negative clearing balances for a prescribed period or a branch running out of physical cash.

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.

In the period between 31 December 2017 and 31 December 2018, the Group's total deposit base grew on a yearly basis by 11% from N684billion to N760billion. It is instructive to note that 60% of the customer deposits were Demand deposits.

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial Risk Management - continued

Enterprise Risk Review - continued

(e) Liquidity Risk

Group

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

31 December 2018	Note	Carrying amount N'million	Gross nominal Inflow/(outflow) N'million	Less than 3 months N'million	3-6 months N'million	6-12 months N'million	1 - 5 years N'million	More than 5 years N'million
<b>Financial assets</b>								
Cash and balances with central bank	16	117,685	117,685	24,233				93,452
Due from banks	17	43,542	43,542	43,542	-	-	-	-
Pledged assets	18	11,423	11,665	2,165		5,500		4,000
Loans and advances to customers	19	621,017	743,967	50,318	44,519	124,682	448,337	76,111
<b>Investment securities:</b>								
- Financial assets at fair value through profit or loss	20a	4,110	4,110	1,128	2,982	-	-	-
- Debt instruments at fair value through other comprehensive income	20c	117,620	180,188	18,420	1,650	35,049	56,138	68,932
- Equity instruments at fair value through other comprehensive income	20b	4,011	4,011					4,011
- Debt instruments at amortised cost	20d	123,086	156,547	5,224	9,424	7,828	54,933	79,137
		<b>1,042,494</b>	<b>1,261,715</b>	<b>145,029</b>	<b>58,575</b>	<b>173,059</b>	<b>559,408</b>	<b>325,644</b>
<b>Financial liabilities</b>								
Deposits from Banks	26	-	-	-	-	-	-	-
Deposits from customers	27	760,608	822,317	309,618	43,803	78,832	219,812	170,253
Debt securities issued & other borrowed funds	28&29	206,135	220,120	106,471	29,733	21,414	12,768	49,735
Other liabilities - Customers' deposits for foreign trade	30	12,147	12,147	12,147	-	-	-	-
Creditors & accruals	30	10,966	10,966	10,966	-	-	-	-
		<b>989,856</b>	<b>1,065,551</b>	<b>439,202</b>	<b>73,536</b>	<b>100,245</b>	<b>232,580</b>	<b>219,988</b>
Gap (asset - liabilities)		<b>52,638</b>	<b>196,164</b>	<b>(294,173)</b>	<b>(14,961)</b>	<b>72,814</b>	<b>326,828</b>	<b>105,656</b>
Cumulative liquidity gap				<b>(294,173)</b>	<b>(309,134)</b>	<b>(236,320)</b>	<b>90,508</b>	<b>196,164</b>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial Risk Management - continued

Enterprise Risk Review - continued

(e) Liquidity Risk - continued

Group

31 December 2017	Note	Carrying amount N'million	Gross nominal Inflow/(outflow) N'million	Less than 3 months N'million	3-6 months N'million	6-12 months N'million	1 - 5 years N'million	More than 5 years N'million
<b>Financial assets</b>								
Cash and balances with central bank	16	122,630	122,630	48,646	-	-	-	73,984
Due from banks	17	51,066	51,066	51,066	-	-	-	-
Pledged assets	18	145,179	242,825	8,228	764	24,279	98,856	110,699
Loans and advances to customers	20	598,073	963,165	468,610	23,868	80,979	277,570	112,138
Investment securities	21	110,988	342,522	41,398	27,128	41,288	109,805	122,904
		<u>1,027,936</u>	<u>1,722,208</u>	<u>617,948</u>	<u>51,760</u>	<u>146,546</u>	<u>486,230</u>	<u>419,725</u>
<b>Financial liabilities</b>								
Deposits from Banks	25	11,048	11,111	11,111	-	-	-	-
Deposits from customers	26	684,834	763,214	723,142	23,396	2,955	10,400	3,321
Debt securities issued & other borrowed funds	27&28	225,912	232,764	126,067	-	5,310	33,878	67,508
Other liabilities - Customers' deposits for foreign trade	29	15,203	15,203	15,203	-	-	-	-
Creditors & accruals	29	8,345	8,345	8,345	-	-	-	-
		<u>945,342</u>	<u>1,030,637</u>	<u>883,868</u>	<u>23,396</u>	<u>8,265</u>	<u>44,278</u>	<u>70,829</u>
Gap (asset - liabilities)		<u>82,594</u>	<u>691,571</u>	<u>(265,920)</u>	<u>28,364</u>	<u>138,281</u>	<u>441,952</u>	<u>348,896</u>
Cumulative liquidity gap				<u>(265,920)</u>	<u>(237,556)</u>	<u>(99,276)</u>	<u>342,676</u>	<u>691,572</u>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial Risk Management - continued

Enterprise Risk Review - continued

(e) Liquidity Risk - continued

Bank								
31 December 2018								
	Note	Carrying amount N'million	Gross nominal Inflow/(outflow) N'million	Less than 3 months N'million	3-6 months N'million	6-12 months N'million	1 - 5 years N'million	More than 5 years N'million
<b>Financial assets</b>								
Cash and balances with central bank	16	117,685	117,685	24,233				93,452
Due from banks	17	43,435	43,435	43,435	-	-	-	-
Pledged assets	18	11,423	11,665	2,165		5,500		4,000
Loans and advances to customers	19	621,017	743,967	50,318	44,519	124,682	448,337	76,111
<b>Investment securities:</b>								
- Financial assets at fair value through profit or loss	20a	4,110	4,110	1,128	2,982	-	-	-
- Debt instruments at fair value through other comprehensive income	20c	117,620	180,188	18,420	1,650	35,049	56,138	68,932
- Equity instruments at fair value through other comprehensive income	20b	4,011	4,011					4,011
- Debt instruments at amortised cost	20d	106,147	139,607	5,224	9,424	7,828	54,933	62,197
		<b>1,025,448</b>	<b>1,244,668</b>	<b>144,922</b>	<b>58,575</b>	<b>173,059</b>	<b>559,408</b>	<b>308,704</b>
<b>Financial liabilities</b>								
Deposits from Banks	26		-					
Deposits from customers	27	760,608	822,317	309,618	43,803	78,832	219,812	170,253
Debt securities issued & other borrowed funds	28&29	188,881	202,386	92,136	29,733	21,414	12,768	46,336
Other liabilities - Customers' deposits for foreign trade	30	12,147	12,147	12,147	-	-	-	-
Creditors & accruals	30	10,966	10,966	10,966	-	-	-	-
		<b>972,602</b>	<b>1,047,817</b>	<b>424,867</b>	<b>73,536</b>	<b>100,245</b>	<b>232,580</b>	<b>216,589</b>
Gap (asset - liabilities)		<b>52,846</b>	<b>196,851</b>	<b>(279,945)</b>	<b>(14,961)</b>	<b>72,814</b>	<b>326,828</b>	<b>92,115</b>
Cumulative liquidity gap				<b>(279,945)</b>	<b>(294,906)</b>	<b>(222,092)</b>	<b>104,736</b>	<b>196,851</b>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial Risk Management - continued

Enterprise Risk Review - continued

(e) Liquidity Risk - continued

Bank

31 December 2017	Note	Carrying amount N'million	Gross nominal Inflow/(outflow) N'million	Less than 3 months N'million	3-6 months N'million	6-12 months N'million	1 - 5 years N'million	More than 5 years N'million
<b>Financial assets</b>								
Cash and balances with central bank	16	122,630	122,630	48,646	-	-	-	73,984
Due from banks	17	51,066	51,066	51,066	-	-	-	-
Pledged assets	18	145,179	242,825	8,228	764	24,279	98,856	110,699
Loans and advances to customers	20	598,073	963,165	468,610	23,868	80,979	277,570	112,138
Investment securities	21	107,585	342,522	41,398	27,128	41,288	109,805	122,904
		-	-	-	-	-	-	-
		<u>1,024,533</u>	<u>1,722,208</u>	<u>617,948</u>	<u>51,760</u>	<u>146,546</u>	<u>486,231</u>	<u>419,725</u>
<b>Financial liabilities</b>								
Deposits from Banks	25	11,048	11,111	11,111	-	-	-	-
Deposits from customers	26	684,834	763,214	723,142	23,396	2,955	10,400	3,321
Debt securities issued & other borrowed funds	19	222,556	229,407	126,067	-	5,310	33,878	64,151
Other liabilities - Customers' deposits for foreign trade	27&28	15,203	15,203	15,203	-	-	-	-
Creditors & accruals	29	8,345	8,328	8,328	-	-	-	-
		<u>941,986</u>	<u>1,027,263</u>	<u>883,851</u>	<u>23,396</u>	<u>8,265</u>	<u>44,278</u>	<u>67,472</u>
Gap (asset - liabilities)		<u>82,547</u>	<u>694,945</u>	<u>(265,903)</u>	<u>28,364</u>	<u>138,281</u>	<u>441,953</u>	<u>352,253</u>
Cumulative liquidity gap				<u>(265,903)</u>	<u>(237,539)</u>	<u>(99,258)</u>	<u>342,695</u>	<u>694,948</u>

While there is a negative cumulative liquidity gap within one year, it does not reflect the actual liquidity position of the Bank as most of the term deposits from customers maturing within one year are historically being rolled over.

37 Financial risk management - continued

(f) Market Risk

Market risk is the risk that earnings or capital would be adversely affected by changes in the level, correlation or volatility of market factors. Market factors include interest rates, foreign exchange rates, equity prices, and commodity prices. This risk arises mainly from trading activities as well as through non-traded risk in the banking book.

The Group's objective is to control and manage market risk exposures within the acceptable risk appetite approved by the Board while optimizing returns. The Group's ability to effectively identify, assess, monitor and manage market risks involved in its activities is critical to its soundness and profitability. Its strategy is to invest its own capital on a limited and carefully selected basis in transactions, underwritings and other activities that involve market risk.

Central to the Group's market risk management is the deployment of appropriate tools and methodologies tailored towards identifying, measuring, monitoring, controlling and reporting the Group's exposure to each market risk factor.

Market Risk Management and Control Framework

The Group has put in place a robust and clearly defined market risk management framework, which essentially provides the Board and Management with guidance on market risk management processes. All teams involved in the management and control of market risk are required to fully comply with the policy statements to ensure the Group is not exposed to market risk beyond the qualitative and quantitative risk tolerances.

ALCO manages market and liquidity risks across the Group and meets monthly to review, approve and make recommendations concerning the risk profile including limits, utilization and strategy. They also recommend, to the Board, amendments to the market risk policy.

A dedicated market risk team, independent of the trading and business units, is responsible for implementing the market risk control framework and assumes day-to-day responsibility for market risk management. A limit framework is set within the context of the approved market risk appetite while daily market risk dashboard and stress testing reports are generated.

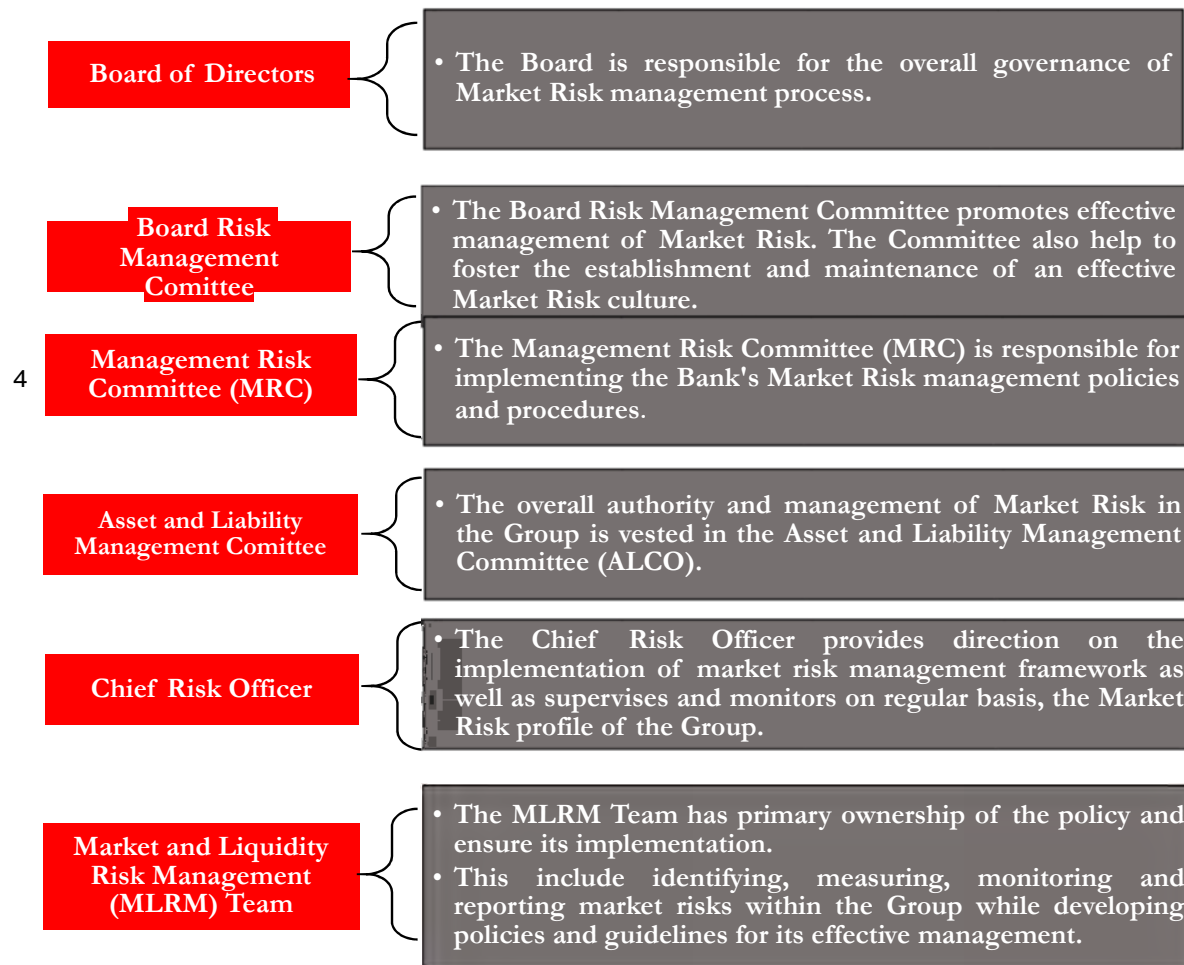
Risk limits, which are monitored daily by the Market Risk team include stop loss limits, unhedged open positions, VaR, duration amongst others. Daily positions of the Group's trading and FVTOCI portfolios are marked-to-market to enable the Group have an accurate view of its trading exposures.



37 Financial risk management - continued

(f) Market Risk

Market Risk Governance Structure



37 Financial risk management - continued

Market Risk Measurement Techniques

The major measurement techniques used by the Group to monitor and control Market Risk exposures are outlined below.

1 Value at Risk (VaR): Is a technique that produces estimates of the potential change in the market value of a portfolio over a specified time horizon at a given confidence level. In line with the Group's policy, VaR assumes a time horizon of one trading day and a confidence level of 99% for internal risk management purposes bearing in mind present market realities, the Group's level of exposure as well as the composition of its portfolio.

However, the Group equally computes an S-VaR (stressed VaR). The VaR model is based on the Historical simulation model, utilising data across a minimum of 252 trading days. VaR is computed on all trading portfolio i.e. fixed income securities and foreign exchange trading position. The model, which is validated, is an important market risk measurement and control tool.

The Group's trading VaR for the financial year is reflected in the table below.

2018 (all figures in N'million)	Interest Rate	Foreign Exchange
VaR as at 31 Dec 2018	22	39

Back-testing

In order to verify that the results acquired from VaR calculations are consistent and reliable, the model is always back-tested. Back-testing is an integral part of VaR reporting in the Group's risk management processes. Back-testing is a procedure where actual profits and losses are compared to projected VaR estimates aimed at ensuring that the model yields accurate risk estimates.

We would expect, on average, to see two or three profits and two or three losses in excess of VaR at the 99% confidence level over a one-year period. The actual number of profits or losses in excess of VaR over this period can therefore be used to measure how well the models are performing.

All exceptions generated from the back-testing process are documented with suitable explanation. Based on the exception classification, necessary action is taken on risk models by the Market & Liquidity Risk Management Team with directive from the ALCO.

2 Stress Testing: Due to volatilities in the operating environment, the Group conducts stress tests to evaluate the potential losses originating from impact of market risk factors under extreme market conditions. The stress testing includes the impact of exceptional changes in market rates and prices on the fair value of the Trading and Available-for-Sale ("AFS") portfolios. The Group calculates:

- > risk factor stress testing, where stress movements are applied to each risk ;
- > historical stress tests where shocks based on historical movements are assumed and applied; and
- > ad-hoc stress testing, which includes applying possible stress events to specific positions.

The results of the stress tests are reviewed by the ALCO who may respond by modifying the portfolio and taking other strategic steps to reduce the expected impact in the event that these risks crystallizes. The stress test results may also be presented to the Board.

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial Risk Management - continued

f(ii) Foreign Currency Risk

Foreign exchange risk is the risk that fluctuations in the prevailing foreign exchange rates would affect the value of the Group's assets and liabilities as well as off-balance sheet items. This also includes positions in local currency that are indexed to foreign exchange rate. Financial Instruments that are exposed to this risk includes; foreign currency denominated loans and advances, securities, future cash flows in foreign currencies arising from foreign currency transactions. Exposures to foreign exchange risk are consistently monitored by limit structures for overnight and intraday positions.

The ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily since an effective overview of such risk is a critical element of the Group's asset/liability risk management. The Board defines the overall risk tolerance levels and expectations for foreign exchange risk management and Management aims to ensure that the risk tolerance is maintained at prudent levels.

Foreign exchange risk is quantified using the net balance of assets and liabilities in each currency, and their total sum. This net open position is measured on a daily basis and is to be kept within set limits. The assets and liabilities include current positions, forward positions, commitments, and the market value of derivatives in a foreign currency.

The table below summarises the Group's exposure to foreign exchange risk at 31st December 2018.

(a) Foreign Currency Concentrations risk as at 31 December 2018

Group	Naira N'million	Dollar N'million	GBP N'million	Euro N'million	Others N'million	Total N'million
<b>Assets</b>						
Cash and balance with Central Bank	103,373	4,073	399	6,380		114,225
add un-restricted balance	3,460					3,460
Due from other banks	16,268	24,719	415	2,053	88	43,542
Financial assets to maturity pledged as collateral	11,315	108				11,423
Loans and advances to customer	432,522	188,976	0	0	-	621,498
Financial assets held for trading	4,110					4,110
- Debt instruments at fair value through other comprehensive income	121,631					121,631
Debt instrument at amortised cost	123,087					123,087
Other assets	16,715	12,115	13	0	123	28,966
<b>Total financial assets ( A )</b>	<b>832,481</b>	<b>229,991</b>	<b>827</b>	<b>8,432</b>	<b>211</b>	<b>1,071,942</b>
<b>Liabilities</b>						
Due to banks	-	-				-
Due to customers	561,071	194,109	2,892	2,535	0	760,608
Debt issued and other borrowed funds	172,890	33,245				206,135
Other financial liabilities	24,801	9,173	172	2,044	195	36,384
<b>Total financial liabilities ( B )</b>	<b>758,762</b>	<b>236,526</b>	<b>3,064</b>	<b>4,580</b>	<b>195</b>	<b>1,003,127</b>
<b>Net financial assets/ (liabilities)</b>	<b>73,719</b>	<b>(6,535)</b>	<b>(2,237)</b>	<b>3,853</b>	<b>16</b>	<b>68,815</b>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial Risk management - continued

f(ii) Foreign Currency Risk

(a) Foreign currency concentrations risk as at 31 December 2018

SENSITIVITY ANALYSIS OF FOREIGN CURRENCY BALANCE SHEET

Currency	Dollar	GBP	Euro	Total
	N'000	N'000	N'000	N'000
Net On Balance Sheet Position	(6,535)	(2,237)	3,853	(4,920)
Closing Exchange Rate(Naira/Currency)	359	459	411	
10% Currency Appreciation(-)	323	413	370	
10% Currency Depreciation(+)	395	505	452	
Effect of 10% appreciation on Profit	653	224	(385)	492
Effect of 10% depreciation on Profit	(653)	(224)	385	(492)

Group

31 December 2017

Assets	Naira N'million	Dollar N'million	GBP N'million	Euro N'million	Others N'million	Total N'million
Cash and balance with Central Bank	83,947	4,618	325	498	-	89,388
add un-restricted balance	33,242	-	-	-	-	33,242
Due from other banks	26,993	20,786	1,044	2,122	122	51,066
Financial assets to maturity pledged as collateral	131,429	13,750	-	-	-	145,179
Loans and advances to customer	399,124	198,776	173	-	-	598,073
Financial assets held for trading	6,883	-	-	-	-	6,883
Financial assets available for sale	79,409	621	-	-	-	80,031
Financial investment held to maturity	24,075	-	-	-	-	24,075
Other assets	15,389	3,334	6	-	-	18,728
Total financial assets ( A)	800,490	241,885	1,547	2,620	122	1,046,665

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

f(ii) Foreign currency risk

31 December 2017

	Naira N'million	Dollar N'million	GBP N'million	Euro N'million	Others N'million	Total N'million
<b>Liabilities</b>						
Due to banks	1,569	9,479				11,048
Due to customers	570,234	110,045	2,875	1,680	-	684,834
Debt issued and other borrowed funds	171,818	54,095	-	-	-	225,913
Other financial liabilities	19,811	25,748	82	1,503	94	47,237
<b>Total financial liabilities ( B)</b>	<b>763,432</b>	<b>199,367</b>	<b>2,957</b>	<b>3,183</b>	<b>94</b>	<b>969,032</b>
<b>Net financial assets/ (liabilities)</b>	<b>37,058</b>	<b>42,519</b>	<b>(1,409)</b>	<b>(563)</b>	<b>28</b>	<b>77,632</b>

SENSITIVITY ANALYSIS OF FOREIGN CURRENCY BALANCE SHEET

Currency	Dollar N'000	GBP N'000	Euro N'000	Total N'000
Net On Balance Sheet Position	42,519	(1,409)	(563)	40,546
Closing Exchange Rate(Naira/Currency)	306	414	367	-
10% Currency Appreciation(-)	276	373	330	-
10% Currency Depreciation(+)	337	455	404	-
Effect of 10% appreciation on Profit	(4,252)	141	56	(4,055)
Effect of 10% depreciation on Profit	4,252	(141)	(56)	4,055

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

f(ii) Foreign currency risk

(a) Foreign Currency Concentrations Risk as at 31 December 2018

Bank

31 December 2018						
	Naira N'million	Dollar N'million	GBP N'million	Euro N'million	Others N'million	Total N'million
Cash and balance with Central Bank	103,373	4,073	399	6,380		114,225
add un-restricted balance	3,460					3,460
Due from other banks	16,161	24,719	415	2,053	88	43,435
Financial assets to maturity pledged as collateral	11,315	108				11,423
Loans and advances to customer	432,042	188,976	0	0	-	621,018
Financial assets held for trading	4,110					4,110
- Debt instruments at fair value through other comprehensive income	121,631					121,631
Debt instrument at amortised cost	106,147					106,147
Other assets	16,715	12,115	13	0	123	28,966
<b>Total financial assets ( A )</b>	<b>814,954</b>	<b>229,991</b>	<b>827</b>	<b>8,432</b>	<b>211</b>	<b>1,054,415</b>
<b>Liabilities</b>	<b>Naira N'000</b>	<b>Dollar N'000</b>	<b>GBP N'000</b>	<b>Euro N'000</b>	<b>Others N'000</b>	<b>Total N'000</b>
Due to banks	-	-	-	-	-	-
Due to customers	561,071	194,109	2,892	2,535	0	760,608
Debt issued and other borrowed funds	155,156	33,245				188,401
Other financial liabilities	24,801	9,173	172	2,044	195	36,384
<b>Total financial liabilities ( B )</b>	<b>741,028</b>	<b>236,526</b>	<b>3,064</b>	<b>4,580</b>	<b>195</b>	<b>985,393</b>
<b>Net financial assets/ (liabilities)</b>	<b>73,926</b>	<b>(6,535)</b>	<b>(2,237)</b>	<b>3,853</b>	<b>16</b>	<b>69,022</b>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial Risk Management - continued

f(ii) Foreign currency risk

SENSITIVITY ANALYSIS OF FOREIGN CURRENCY BALANCE SHEET

Currency	Dollar N'000	GBP N'000	Euro N'000	Total N'000
Net On Balance Sheet Position	(6,535)	(2,237)	3,853	(4,920)
Closing Exchange Rate(Naira/Currency)	359	459	411	-
10% Currency Appreciation(-)	323	413	370	-
10% Currency Depreciation(+)	395	505	452	-
Effect of 10% appreciation on Profit	653	224	(385)	492
Effect of 10% depreciation on Profit	(653)	(224)	385	(492)

31 December 2017	Naira N'million	Dollar N'million	GBP N'million	Euro N'million	Others N'million	Total N'million
<b>Assets</b>						
Cash and balance with Central Bank	83,947	4,618	325	498	-	89,388
add un-restricted balance	33,242	-	-	-	-	33,242
Due from other banks	26,993	20,786	1,044	2,122	122	51,066
Financial assets to maturity pledged as collateral	131,429	13,750	-	-	-	145,179
Loans and advances to customer	399,124	198,776	173	-	-	598,073
Financial assets held for trading	6,883	-	-	-	-	6,883
Financial assets available for sale	79,409	621	-	-	-	80,031
Financial investment held to maturity	20,671	-	-	-	-	20,671
Other assets	15,389	3,334	6	-	-	18,728
Total financial assets ( A)	797,086	241,885	1,547	2,620	122	1,043,261
<b>Liabilities</b>						
Due to banks	1,569	9,479	-	-	-	11,048
Due to customers	570,234	110,045	2,875	1,680	-	684,834
Debt issued and other borrowed funds	168,461	54,095	-	-	-	222,556
Other financial liabilities	19,811	25,748	82	1,503	94	47,237
Total financial liabilities ( B)	760,075	199,367	2,957	3,183	94	965,675
Net financial assets/ (liabilities)	37,011	42,519	(1,409)	(563)	28	77,585

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

f(ii) Foreign currency risk

SENSITIVITY ANALYSIS OF FOREIGN CURRENCY BALANCE SHEET

Currency	Dollar	GBP	Euro	Total
	N'000	N'000	N'000	N'000
Net On Balance Sheet Position	42,519	(1,409)	(563)	40,546
Closing Exchange Rate(Naira/Currency)	306	414	367	-
10% Currency Appreciation(-)	276	373	330	-
10% Currency Depreciation(+)	337	455	404	-
Effect of 10% appreciation on Profit	(4,252)	141	56	(4,055)
Effect of 10% depreciation on Profit	4,252	(141)	(56)	4,055



**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial Risk Management - continued  
Enterprise Risk Review - continued

f(i) Interest Rate Risk

Interest rate risk in the banking book is the risk of an adverse impact on earnings or capital due to changes in market interest rates. Changes in interest rates affect earnings by changing its net interest income and the level of other interest sensitive income and operating expenses. Changes in interest rates also affect the underlying value of the assets, liabilities, and off-balance-sheet instruments because the present value of future cash flows (and in some cases, the cash flows themselves) change when interest rates change.

The Group's objective for management of interest rate risk in the banking book is to ensure a higher degree of interest rate mismatch margin stability and lower interest rate risk over an interest rate cycle. This is achieved by hedging material exposures with the external market.

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or in differing amounts. In the case of floating rate assets and liabilities, the Group is also exposed to basis risk, which can arise due to the movement in the various floating rate indices, such as the savings rate and the 90-day NIBOR, until maturity. Non-traded interest rate risk arises in the group's book from the provision of retail and wholesale banking products and services, as well as from certain structural exposures within the balance sheet, mainly due to the fact that assets, liabilities and equity may be re-priced at different times. These risks impact both the earnings and the economic value of the Group.

Overall, management of the Group's non-trading interest rate risk positions lies with the ALCO. In addition to various strategies, the ALCO defines the internal transfer pricing framework constructed to ensure that interest rate risk arising from mismatches in the maturity profile of assets and liabilities is managed to achieve a balanced repricing cumulative gap position that is in line with the limits set by the Board. The ALCO also makes judgmental assumptions about the behaviour of assets and liabilities that do not have specific contractual maturity or re-pricing dates.

**Measurement of Interest Rate Risk in the Banking Book**

Generally, the primary source of interest rate risk is the differences in the timing of the repricing of the assets, liabilities and off-balance sheet instruments. Repricing mismatches generally occur from borrowing short term to fund long term assets or borrowing long term to fund long term assets. These activities can expose an institutions earnings and economic value of equity (EVE) to changes in market interest rate.

The measures applied by the Group in monitoring and controlling interest rate risk in the banking book includes:

**Net Interest Income (NII) Sensitivity** – An integral part of the Group's management of non-traded interest rate risk is to monitor the sensitivity of expected net interest income while applying different rate scenarios (simulation modelling) where other macro-economic metrics are held constant. This monitoring is undertaken at the ALCO level. The Group applies a combination of scenarios and assumptions relevant to our peculiar businesses in forecasting one-year net interest income sensitivities across a range of interest rate scenarios.

**Economic Value of Equity (EVE)** - EVE represents the present value of the future banking book cash flows that could be distributed to equity providers under a managed run-off scenario, i.e. the current book value of equity plus the present value of future net interest income in this scenario. This can be used to assess the economic capital required to support interest rate risk in the banking book (IRRBB). An EVE sensitivity is the extent to which the EVE value will change due to a pre-specified movement in interest rates, where all other economic variables are held constant. Operating entities are required to monitor EVE sensitivity as a percentage of capital resources.

The following tables provide information on the extent of the Group's interest rate exposure. The assets and liabilities are grouped into brackets defined by their time to maturity or the date of the interest rate adjustment. The difference, or gap, between assets and liabilities in each time bracket makes the Bank sensitive to interest rate fluctuations. The amounts are based on interest rate maturities. However, saving and current accounts have a non-defined interest maturity. A quantitative assessment of the interest rate sensitivity of our saving accounts and current accounts has been executed. The outcome of this assessment is used in the calculations for interest rate risk.

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial Risk Management - continued

(f) Market risks - continued

(f(i) Interest Rate Risk - continued

Group	Notes	RATE SENSIVITY OF ASSETS AND LIABILITIES					Total N'million
		Less than 3 months N'million	3-6 months N'million	6-12 months N'million	1 - 5 years N'million	More than 5 years N'million	
(a) 31 December 2018							
Due from banks	17	8,690	-	-	-	-	8,690
Loans and advances to customers	20	43,708	21,008	79,650	341,876	87,537	573,779
Investment securities :							-
- Financial assets at fair value through profit or loss	21a	1,128	2,982	-	-	-	4,110
- Debt instruments at fair value through other comprehensive income	21b	13,857	28,027	379	46,570	28,787	117,620
- Debt instruments at amortised cost	21c	-	-	2,123	35,033	85,692	122,847
		-	67,382	52,017	82,152	423,479	827,046
Non-derivative liabilities:							
Deposits from Banks	25	-	-	-	-	-	-
Deposits from Customers	26	381,439	30,550	75,650	134,467	138,502	760,608
Other borrowed fund & Debt securities issued	27 & 28	-	43,638	17,974	22,081	45,443	129,136
		-	381,439	74,188	93,624	183,945	889,744
Total interest sensitivity gap		-	(314,057)	(22,170)	(11,473)	266,930	18,071
							(62,698)

Impact of Standardized Interest Rate Shock on Earnings

Time Band	No. of Days	Upward 2%	Downward - 2%	Interest Rate Gap (Net Positions)	Impact of upward movement	Impact of Downward movement
Up to 1 month	365	0.02	-0.02	(153,526)	(3,070.52)	3,070.52
from 1 to 3 months	335	0.02	-0.02	(62,891)	(1,154.44)	1,154.44
from 3 to 6 months	275	0.02	-0.02	(15,004)	(226.09)	226.09
from 6 to 12 months	185	0.02	-0.02	(11,516)	(116.74)	116.74
Total				(242,938)	(4,568)	4,568

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial Risk Management - continued

(f) Market Risks - continued

(f(i) Interest Rate Risk - continued

Impact of Standardized Interest Rate Shock on Equity

Time Band	Weighting factor	Interest Rate Gap (Net Positions)	Impact on Equity
Up to 1 month	0.08%	(153,525.97)	(123)
from 1 to 3 months	0.32%	(62,891.22)	(201)
from 3 to 6 months	0.72%	(15,004.42)	(108)
from 6 to 12 months	1.43%	(11,516.17)	(165)
1 year to 2 years	2.77%	31,020.50	859
2 year to 3 years	4.49%	101,595.89	4,562
3 year to 4 years	6.14%	12,681.10	779
4 year to 5 years	7.71%	22,757.55	1,755
5 year to 7 years	10.15%	37,664.28	3,823
7 year to 10 years	13.26%	(16,879.05)	(2,238)
10 year to 15 years	17.84%	(7,616.22)	(1,359)
15 year to 20 years	22.43%	(5,073.86)	(1,138)
More than 20 years	26.03%	-	-
<b>Total</b>		<b>(66,788)</b>	<b>6,445</b>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial Risk Management - continued

(f) Market Risks - continued

f(i) Interest Rate Risk - continued

Group	Notes	RATE SENSIVITY OF ASSETS AND LIABILITIES					Total
		On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	
(a) 31 December 2017		N'million	N'million	N'million	N'million	N'million	N'million
<b>Financial assets</b>							
Due from other banks		30,368	20,698	-	-	-	51,066
Pledged assets		-	3,818	7,776	39,892	93,693	145,179
Financial assets held for trading		-	2,204	4,679	-	-	6,883
Loans and advances		-	141,058	68,971	280,487	107,557	598,073
Investment securities available for sale		-	26,059	44,639	4,818	4,515	80,031
Investment securities held to maturity		-	41	650	23,383	-	24,075
<b>Total financial assets ( A )</b>		<b>30,368</b>	<b>193,878</b>	<b>126,716</b>	<b>348,580</b>	<b>205,764</b>	<b>905,306</b>
<b>Financial Liabilities</b>							
Due to banks		-	11,048	-	-	-	11,048
Due to customers		19,343	400,559	28,511	234,000	2,421	684,834
Debt securities issued and other borrowed funds		-	103,593	-	39,238	83,082	225,913
<b>Total financial Liabilities ( B )</b>		<b>19,343</b>	<b>515,200</b>	<b>28,511</b>	<b>273,238</b>	<b>85,503</b>	<b>921,795</b>
<b>Net financial assets/ (liabilities)</b>		<b>11,025</b>	<b>(321,322)</b>	<b>98,205</b>	<b>75,342</b>	<b>120,262</b>	<b>(16,489)</b>
<b>Net financial assets/(liabilities) excluding AFS</b>		<b>11,025</b>	<b>(462,380)</b>	<b>29,234</b>	<b>(205,145)</b>	<b>12,705</b>	<b>(614,562)</b>

	Increase /Decrease in bp	Net Gap	Cumulative Gap	Sensitivity on	Sensitivity on	Sensitivity	Sensitivity	Annualized Period
				Profit (+2%)	Profit (-2%)	Equity (+2%)	Equity (-2%)	
On Demand	+/-200bp	11,025	11,025	19	(19)	-	-	One Month
Less than 3 months	+/-200bp	(321,322)	(310,297)	(1,585)	1,585	129	(129)	Three month
3-12 Months	+/-200bp	98,205	(212,092)	1,964	(1,964)	893	(893)	One Year
1-5 Yrs	+/-200bp	75,342	(136,750)	1,507	(1,507)	96	(96)	
Over 5 Yrs	+/-200bp	120,262	(16,489)	2,405	(2,405)	90	(90)	

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial Risk Management - continued

(f) Market Risks - continued

f(i) Interest Rate Risk - continued

Bank	Notes	RATE SENSIVITY OF ASSETS AND LIABILITIES					Total N'million
		Less than 3 months N'million	3-6 months N'million	6-12 months N'million	1 - 5 years N'million	More than 5 years N'million	
31 December 2018							
Non-derivative assets:							
Due from banks	17	8,690		-	-	-	8,690
Loans and advances to customers	19	43,708	21,008	79,650	341,876	87,537	573,779
Investment securities :	21						-
- Financial assets at fair value through profit or loss		1,128	2,982	-	-	-	4,110
- Debt instruments at fair value through other comprehensive income		13,857	1,508	26,897	46,570	28,787	117,620
- Debt instruments at amortised cost		-	-	2,123	31,308	72,477	105,907
		-	67,382	25,499	108,670	419,754	188,801
Non-derivative liabilities:							
Deposits from Banks	25	-	-	-	-	-	-
Deposits from Customers	26	381,439	30,550	75,650	134,467	138,502	760,608
Other borrowed fund & Debt securities issued	27 & 28	-	43,638	17,974	22,095	27,709	111,416
		-	381,439	74,188	93,624	156,562	166,211
Total interest sensitivity gap		-	(314,057)	(48,689)	15,045	263,192	22,590
							(61,918)

Impact of Standardized Interest Rate Shock on Earnings

Time Band	No. of Days	Upward 2%	Downward - 2%	Interest Rate Gap (Net Positions)	Impact of upward movement	Impact of Downward movement
Up to 1 month	365	0.02	-0.02	(152,632)	(3,052.64)	3,052.64
from 1 to 3 months	335	0.02	-0.02	(63,552)	(1,166.58)	1,166.58
from 3 to 6 months	275	0.02	-0.02	(12,255)	(184.67)	184.67
from 6 to 12 months	185	0.02	-0.02	28,571	289.63	(289.63)
Total				(199,868)	(4,114)	4,114

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial Risk Management - continued

(f) Market Risks - continued

(f(i) Interest Rate Risk - continued

Impact of Standardized Interest Rate Shock on Equity

Time Band	Weighting factor	Interest Rate Gap (Net Positions)	Impact on Equity
Up to 1 month	0.08%	(152,631.99)	(122)
from 1 to 3 months	0.32%	(63,552.46)	(203)
from 3 to 6 months	0.72%	(12,255.11)	(88)
from 6 to 12 months	1.43%	28,571.37	409
1 year to 2 years	2.77%	31,020.50	859
2 year to 3 years	4.49%	101,595.89	4,562
3 year to 4 years	6.14%	8,956.18	550
4 year to 5 years	7.71%	22,757.55	1,755
5 year to 7 years	10.15%	52,088.86	5,287
7 year to 10 years	13.26%	(20,603.98)	(2,732)
10 year to 15 years	17.84%	(11,341.14)	(2,023)
15 year to 20 years	22.43%	(8,224.82)	(1,845)
More than 20 years	26.03%	-	-
<b>Total</b>		<b>(23,619)</b>	<b>6,407</b>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial Risk Management - continued

- (f) Market Risks - continued  
 f(i) Interest Rate Risk - continued

Bank

RATE SENSITIVITY OF ASSETS AND LIABILITIES

As at 31 December 2017	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
	N'million	N'million	N'million	N'million	N'million	N'million
<b>Financial assets</b>						
Due from other banks	30,368	20,698	-	-	-	51,066
Pledged assets	-	3,818	7,776	39,892	93,693	145,179
Financial assets held for trading	-	2,204	4,679	-	-	6,883
Loans and advances	-	141,058	68,971	280,487	107,557	598,073
Investment securities available for sale	-	26,059	44,639	4,818	4,515	80,031
Investment securities held to maturity	-	-	-	650	20,021	20,671
<b>Total financial assets ( A )</b>	<b>30,368</b>	<b>193,837</b>	<b>126,066</b>	<b>325,846</b>	<b>225,785</b>	<b>901,902</b>
<b>Financial Liabilities</b>						
Due to banks	-	11,048	-	-	-	11,048
Due to customers	19,343	400,559	28,511	234,000	2,421	684,834
Debt securities issued and other borrowed funds	-	103,593	-	39,238	79,725	222,556
<b>Total financial Liabilities ( B )</b>	<b>19,343</b>	<b>515,200</b>	<b>28,511</b>	<b>273,238</b>	<b>82,146</b>	<b>918,439</b>
<b>Net financial assets/ (liabilities)</b>	<b>11,025</b>	<b>(321,363)</b>	<b>97,555</b>	<b>52,609</b>	<b>143,640</b>	<b>(16,537)</b>
<b>Net financial assets/(liabilities) excluding AFS</b>	<b>11,025</b>	<b>(462,421)</b>	<b>28,584</b>	<b>(227,878)</b>	<b>36,083</b>	<b>(614,610)</b>

	Increase /Decrease in bp	Net Gap	Cumulative Gap	Sensitivity on Profit (+2%)	Sensitivity on Profit (-2%)	Sensitivity Equity (+2%)	Sensitivity Equity (-2%)	Annualized Period
On Demand	+/-200bp	11,025	11,025	19	(19)	-	-	One Month
Less than 3 months	+/-200bp	(321,363)	(310,339)	(1,585)	1,585	-	-	Three month
3-12 Months	+/-200bp	97,555	(212,784)	1,951	(1,951)	521	(521)	One Year
1-5 Yrs	+/-200bp	52,609	(160,175)	1,052	(1,052)	893	(893)	
Over 5 Yrs	+/-200bp	143,640	(16,535)	2,873	(2,873)	96	(96)	

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

(g) Operational Risk Management - continued

Operational risk in the Group is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risks.

Operational risk exists in all activities, processes, products and systems. The Group aims to maintain operational risk within its risk appetite through a strategy anchored on the sustenance of a strong risk culture of individual and collective awareness and understanding of operational risk, accountability and transparency on operational risk issues at all levels, deployment of robust operational risk policies, processes and tools, and collaboration across all the business units and support functions in managing operational risk.

Operational Risk Governance Structure

Operational risk is managed in the Group along three lines of defense. The first line consists of the business units who own and are directly responsible for managing the risk. They identify and report operational risks in their activities and communicate these risks to the second line of defense which includes the independent risk management and control functions. This line formulates the risk management policies, processes and tools, and provides support in enhancing and monitoring the effectiveness of controls in the business units and support functions, while the third line of defense, the Internal Audit department, provides independent assurance on the adequacy, appropriateness and effectiveness of the risk management policies and process on an ongoing basis.

The Group maintains a dedicated Operational Risk Management (ORM) function which formulates the operational risk management strategy, policy and framework. The department, through the Chief Risk Officer, has a reporting line to the Executive Management, Management Risk Committee and Board Risk Management Committee, depicting a robust governance structure. The Board approves the Group's ORM policy and appetite. The Management Risk Committee reviews operational risk management reports quarterly and defines action plans to minimize material risks to acceptable levels. In addition, the ORM department collaborates with the Conduct and Compliance Division to ensure effective implementation of the ORM framework in the business units and support functions. It also works closely with the business units to manage operational risk based on the outcomes of the monitoring activities of the Conduct and Compliance Division. The ORM department is audited regularly by the Group's internal and external auditors.

Operational Risk Management Framework

The Group has a robust framework for managing operational risk. The framework defines the core governing principles and processes for the effective identification, assessment, mitigation, and monitoring of operational risks in line with regulatory requirements and international best practices. The key processes and tools in the ORM framework include the following:

(g) Operational Risk Management - continued

1 Risk and Control Self-Assessment

The Group's Risk and Control Self-Assessment (RCSA) program provides a structured approach for business owners to identify material risks in their business areas, assess the effectiveness of controls in mitigating the risks and implement actions to proactively address the identified vulnerabilities. RCSA helps senior management to assess the overall effectiveness of the control environment, improve risk decision making, and optimize controls to meet business objectives.

The RCSA is also a rich source of information for developing heat maps that highlight the Group's areas of vulnerability, risk concentration and materiality.

The RCSA program was redesigned and enhanced in the third quarter of the year to improve the risk identification and control assessment process, ensure ownership of risks at senior levels within the business, and enhance the monitoring and resolution of issues.

Risk assessments of new and existing products, processes and applications are also conducted to identify material operational risks and ensure adequacy and effectiveness of implemented mitigating controls.

2 Key risk indicators

The Group uses Key Risk Indicators which provide early warning signals of changes in the risk profile to monitor and mitigate key threats to the achievement of strategic goals. Material breaches are reported monthly and quarterly to Management for timely remediation.

3 Operational Risk Event Data Collection

The Group maintains a comprehensive internal loss database aligned with regulatory and Basel standards for collecting, analyzing and reporting operational risk events and losses. The data on the Group's historical loss experience provides meaningful information for assessing the exposure to operational risk, developing risk scenarios, prioritizing risk decisions, and implementing controls to mitigate risks. Strict reporting requirements are in place to ensure that operational risk incidents are escalated to relevant stakeholders for timely decision making. Adequate risk transfer mechanisms including insurance and outsourcing are in place to minimize the impact of operational risk events on the Group. The lessons learnt from operational risk events and losses are communicated across the Bank and used in improving the control environment.

4 Scenario Analysis

The Operational Risk Management department utilizes scenario analysis of the Group's internal historical losses and material external risk events in modelling tail risk events, determining the potential impact on the organization, and proactively developing action plans to mitigate the risks.

(g) Operational Risk Management - continued

Business Continuity Management

The Group obtained the Business Continuity Management System (BCMS) certification (ISO 22301) within the year in line with international principles and standards. This certification indicates that a comprehensive Business Continuity Plan and robust recovery processes and systems are in place to build resilience, safeguard the Bank's employees and assets, maintain strategic communications, minimize service disruption and losses, and ensure timely recovery and resumption of operations and technology infrastructure in the event of a disaster. The Bank's dedicated Business Continuity Manager coordinates the activities of the BCMS and ensures the development, implementation and testing of the BCP is in line with international standards and best practices.

The Operational Risk Management framework is supported by other departmental policies and procedures that guide the daily activities of the business units and functions and ensure adequate controls are implemented to mitigate risks. The policies and procedures are regularly reviewed and updated, and the processes redesigned or automated where required, to improve operational efficiency and the effectiveness of controls across the Bank.

Periodic reports on the identified operational risks are circulated to the relevant stakeholders for timely remediation of issues, enhancement of controls and to increase awareness of operational risk across the Bank.



NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

Operational Risk Capital Charge

The Bank uses the Basic Indicator Approach for computing the capital charge for operational risk in line with regulatory requirements.

31 December 2018

Nature of item	capital charge factor	First year (N'million)	Second year (N'million)	Third year (N'million)	Aggregate Gross Income (years 1 to 3) (N'million)	Capital charges (N'million)
Basic Indicator Approach (BIA)						
Gross Income	15%	68,264	73,231	82,468	223,963	33,594
Number of years with positive annual gross income						3
Mean Average of Aggregate Capital						11,198
Calibrated Risk Weighted Amount (BIA)						139,977

(g) Operational Risk Management - continued

31 December 2017

Nature of item	capital charge factor	First year (N'million)	Second year (N'million)	Third year (N'million)	Aggregate Gross Income (years 1 to 3) (N'million)	Capital charges (N'million)
Basic Indicator Approach (BIA)						
Gross Income	15%	67,448	68,264	73,231	208,942	31,341
Number of years with positive annual gross income						3
Mean Average of Aggregate Capital						10,447
Calibrated Risk Weighted Amount (BIA)						130,589

(h) Capital management

(a) Regulatory capital

The Central Bank of Nigeria, sets and monitors capital requirements for the Bank. The banking operations are directly supervised by the Central Bank of Nigeria. In implementing current capital requirements, the Central Bank of Nigeria requires the Bank to maintain a 10% minimum ratio for total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

Tier 2 capital, which includes qualifying subordinated liabilities, allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. The qualifying Tier 2 capital is limited to 33.3% of Tier 1 capital.

Banking operations are categorised mainly as trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets.

(h) Capital management

(a) Regulatory capital

The CBN in its circular BSD/DIR/GEN/LAB/07/021 effective 5 August 2014 informs banks on the exclusion of the following reserves in the computation of total qualifying capital:

- Regulatory Risk Reserve created pursuant to Section 12.4 (a) of the Prudential Guidelines,
- Collective impairment on loans and receivables and other financial assets,
- Other Comprehensive Income (OCI) Reserves will be recognized as part of Tier 2 capital subject to the limits set in paragraph 3.2 of the CBN Guidance, and Notes on the Calculation of Regulatory Capital

(b) Capital Adequacy Ratio

In accordance with Central Bank of Nigeria regulations, a minimum threshold of 10% is to be maintained when computing the ratio qualifying capital to risk weighted assets.

The capital adequacy computation for the year ended 31 December 2018 is in line with revised guidance notes on implementation and the reporting template for capital adequacy ratio issued by Central Bank of Nigeria, referenced BSD/DIR/GEN/BAS/08/031 and dated 24 June 2015. The computations are consistent with the requirements of Pillar I of Basel II Accord (International Convergence of Capital Measurement and Capital Standards). Although the guidelines comply with the requirements of the Basel II accords, certain sections were adjusted to reflect the peculiarities of the Nigerian environment.

Sterling Bank, in line with the directives from the Central Bank of Nigeria (CBN), has adopted the following approaches for its Pillar 1 capital calculations:

- Credit Risk – Standardised Approach
- Market Risk – Standardised Approach
- Operational Risk – Basic indicator approach, which is 15% of the average gross income for the past 3 year.

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

37 Financial risk management - continued

(h) Capital management - continued

(b) Capital Adequacy Ratio - continued

Constituents of Capital		Group 2018 (N'million)	Group 2017 (N'million)	Bank 2018 (N'million)	Bank 2017 (N'million)
Tier 1 capital	<i>Note</i>				
Paid-up share capital	30	14,395	14,395	14,395	14,395
Share premium		42,759	42,759	42,759	42,759
General reserve (Retained earnings)		(3,307)	6,991	(3,101)	6,944
SMEEIS reserve		235	235	235	235
AGSMEIS reserve		682	-	682	-
Statutory reserve		20,098	18,678	20,100	18,680
Other reserves		5,276	5,276	5,276	5,276
Tier 1 Capital Before Regulatory Deduction		80,138	88,334	80,346	88,289
Regulatory Deduction					
Deferred tax asset		(6,971)	(6,971)	(6,971)	(6,971)
Other intangible assets		(1,850)	(2,114)	(1,850)	(2,114)
Total Regulatory Deduction		(8,821)	(9,085)	(8,821)	(9,085)
Tier 1 Capital after Regulatory Deduction		71,317	79,249	71,525	79,204
Tier 2 capital: Instruments & Reserves					
Sub-ordinated debt *		28,370	8,505	24,203	5,146
Other Comprehensive Income		(4,597)	(2,568)	(4,597)	(2,568)
Eligible Tier 2 Capital		23,773	5,937	19,606	2,578
<b>Total regulatory capital</b>		<b>95,090</b>	<b>85,186</b>	<b>91,131</b>	<b>81,782</b>
Risk-weighted assets		712,395	708,144	712,374	708,114
Total tier 1 and tier 2 capital expressed as a percentage of risk-weighted assets		13.35%	12.03%	12.79%	11.55%

\*Recognition of capital instrument in Tier 2 capital in its final five years to maturity is amortized on a straight-line basis by 20% per annum.

**STERLING BANK PLC****NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial risk management - continued

(h) Capital management - continued

(b) Capital Adequacy Ratio - continued

## Description of Tier 2 Capital (Sub-ordinated debt)

Particulars	Place	Issue date	Date of maturity	Coupon rate	N'million
Non- convertible debenture stock	Nigeria	25 August 2016	25 August 2023	18.86%	5,171
Non- convertible debenture stock	Nigeria	5 October 2018	5 October 2025	17.55%	20,546

## Internal Capital Adequacy Assessment Process (ICAAP).

The Bank has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy. The framework includes a comprehensive internal capital adequacy assessment process (ICAAP) conducted annually which determines the adequate level of capitalization for the bank to meet regulatory requirements for current and future business needs, including under stress scenarios. The framework has been structured in line with CBN requirements to identify the risks inherent in the Bank's business and sets out the Bank's philosophy, processes, and techniques for managing risks across the Bank. Furthermore, it describes the controls management has implemented to reduce the likelihood of occurrence and minimize the the impact of risk events on the business and includes information on the Bank's governance structure, and policies that support risk and capital management systems.

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

(h) Capital management - continued

(b) Capital Adequacy Ratio - continued

Internal Capital Adequacy Assessment Process (ICAAP).

Risk Weighted Assets and Capital Requirement per Credit Exposure

S/N	Exposure	Risk Weighted Assets	Capital requirements
		(N'million)	(N'million)
1	Credit Risk		
1.01	Sovereign		
1.02	Public Sector Entities	4,742	480
1.03	State and Local Government	41,459	4,192
1.04	Multilateral Development Bank	-	-
1.05	Supervised Institutions	4,737	479
1.06	Corporate and Other Persons	300,896	30,426
1.07	Regulatory Retail Portfolio	5,979	605
1.08	Secured by Mortgages on Residential Properties	62,328	6,303
1.09	Exposures Secured by Mortgages on Commercial Real Estates	80,928	8,183
1.10	Past Due	21,002	2,124
1.11	Higher Risk Exposures	6,136	620
1.12	Other Balance Sheet Exposures	54,117	5,472
1.13	Off Balance Sheet Exposures	8,044	813
1.14	Regulatory Adjustment	(22,259)	-
2	Market risk		
2.01	Interest Rate Risk	265	21
2.02	Foreign Exchange Risk	4,024	322
3	Operational risk		
3.01	Basic Indicator Approach	139,977	11,198
4	Capital Adequacy Ratio		
4.01	Tier 1 Capital Adequacy Ratio	10.04%	
4.02	Total Capital Adequacy Ratio	12.79%	

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

37 Financial risk management - continued

(h) Capital management - continued

(iii) Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives.

38 Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled as at 31 December 2018

- Group

Maturity analysis of assets and liabilities	Less than 3 months N'million	3-6 months N'million	6-12 months N'million	1 - 5 years N'million	More than 5 years N'million	Total N'million
Assets						
Cash and balances with Central Bank of Nigeria	24,233	-	-	-	93,452	117,685
Due from banks	43,542	-	-	-	-	43,542
Pledged assets	2,120	-	5,386	-	3,917	11,423
Loans and advances to Customers	43,708	21,008	95,397	357,622	103,282	621,017
Investment in securities :						
- Financial assets at fair value through profit or loss	1,128	2,982	-	-	-	4,110
- Debt instruments at fair value through other comprehensive income	13,857	28,027	379	46,570	28,787	117,620
- Equity instruments at fair value through other comprehensive income	-	-	-	-	4,011	4,011
- Debt instruments at amortised cost	-	-	2,123	35,033	85,931	123,086
Other assets	-	-	-	29,446	-	29,446
Property, plant and equipment	-	-	2,395	8,498	6,049	16,942
Intangible assets	-	-	-	1,850	-	1,850
Deferred tax assets	-	-	-	-	6,971	6,971
Non-current assets held for sale	-	-	5,218	-	-	5,218
Total	128,587	52,017	110,896	479,019	332,401	1,102,921

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

38 Maturity Analysis of Assets and Liabilities- continued

- Group	Less than 3		6-12 months	1 - 5 years	More than 5	
	months	3-6 months			years	Total
	N'million	N'million	N'million	N'million	N'million	N'million
<b>Liabilities</b>						
Deposits from customers	381,439	30,550	75,650	134,467	138,502	760,608
Debts issued and other borrowed funds	99,706	27,844	20,053	11,957	46,575	206,135
Current income tax liabilities	-	-	-	405	-	405
Other liabilities	-	-	-	37,678	-	37,678
Provisions	-	-	-	295	-	295
<b>Total</b>	<b>481,145</b>	<b>58,393</b>	<b>95,703</b>	<b>184,802</b>	<b>185,077</b>	<b>1,005,121</b>
<b>Net</b>	<b>(352,558)</b>	<b>(6,376)</b>	<b>15,193</b>	<b>294,217</b>	<b>279,024</b>	<b>97,800</b>
<b>31 December 2017</b>						
Cash and balances with Central Bank of Nigeria	48,646	-	-	-	73,984	122,630
Due from banks	51,066	-	-	-	-	51,066
Pledged assets	3,818	4,955	2,822	39,892	93,693	145,179
Loans and advances to Customers	141,058	27,368	41,603	280,487	107,557	598,073
Investment in securities	36,776	26,771	38,472	7,792	1,178	110,989
Other assets	-	-	-	18,728	-	18,728
Property, plant and equipment	-	-	-	16,451	-	16,451
Intangible assets	-	-	-	2,114	-	2,114
Deferred tax assets	-	-	-	-	6,971	6,971
<b>Total</b>	<b>281,364</b>	<b>59,094</b>	<b>82,896</b>	<b>365,464</b>	<b>283,383</b>	<b>1,072,201</b>
Deposits from bank	11,048	-	-	-	-	11,048
Deposits from customers	419,903	27,252	1,258	234,000	2,421	684,834
Debts issued and other borrowed funds	103,593	-	-	39,238	83,084	225,915
Current income tax liabilities	232	-	-	-	-	232
Other liabilities	-	48,234	-	-	-	48,234
Provisions	-	-	-	295	-	295
<b>Total</b>	<b>534,776</b>	<b>75,486</b>	<b>1,258</b>	<b>273,533</b>	<b>85,505</b>	<b>970,558</b>
<b>Net</b>	<b>(253,411)</b>	<b>(16,392)</b>	<b>81,638</b>	<b>91,931</b>	<b>10,293</b>	<b>101,643</b>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

38 Maturity Analysis of Assets and Liabilities- continued

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled as at 31 December 2018

- Bank

Maturity analysis of assets and liabilities	Less than 3 months N'million	3-6 months N'million	6-12 months N'million	1 - 5 years N'million	More than 5 years N'million	Total N'million
<b>Assets</b>						
Cash and balances with Central Bank of Nigeria	24,233	-	-	-	93,452	117,685
Due from banks	43,435	-	-	-	-	43,435
Pledged assets	2,120	-	5,386	-	3,917	11,423
Loans and advances to Customers	43,708	21,008	95,397	357,622	103,282	621,017
Investment in securities :						
- Financial assets at fair value through profit or loss	1,128	2,982	-	-	-	4,110
- Debt instruments at fair value through other						
comprehensive income	13,857	28,027	379	46,570	28,787	117,620
- Equity instruments at fair value through other						
comprehensive income		-			4,011	4,011
- Debt instruments at amortised cost	-	-	2,123	35,033	68,992	106,147
Investment in subsidiary	-	-	-	-	1	1
Other assets	-	-	-	29,446	-	29,446
Property, plant and equipment	-	-	2,395	8,498	6,049	16,942
Intangible assets	-	-	-	1,850	-	1,850
Deferred tax assets	-	-	-	-	6,971	6,971
Non-current assets held for sale	-	-	5,218	-	-	5,218
<b>Total</b>	<b>128,480</b>	<b>52,017</b>	<b>110,896</b>	<b>479,019</b>	<b>315,463</b>	<b>1,085,876</b>
Deposits from customers	381,439	30,550	75,650	134,467	138,502	760,608
Debts issued and other borrowed funds	99,706	27,844	20,053	12,437	28,841	188,881
Current income tax liabilities	-	-	-	405	-	405
Other liabilities	-	-	-	37,678	-	37,678
Provisions	-	-	-	295	-	295
<b>Total</b>	<b>481,145</b>	<b>58,393</b>	<b>95,703</b>	<b>185,282</b>	<b>167,343</b>	<b>987,867</b>
<b>Net</b>	<b>(352,665)</b>	<b>(6,376)</b>	<b>15,193</b>	<b>293,737</b>	<b>148,120</b>	<b>98,009</b>

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

38 Maturity Analysis of Assets and Liabilities- continued

Bank

31 December 2017	Less than 3 months N'million	3-6 months N'million	6-12 months N'million	1 - 5 years N'million	More than 5 years N'million	Total N'million
Maturity analysis of assets and liabilities						
Cash and balances with Central Bank of Nigeria	48,646	-	-	-	73,984	122,630
Due from banks	51,066	-	-	-	-	51,066
Pledged assets	3,818	4,955	2,822	39,892	93,693	145,179
Loans and advances to Customers	141,058	27,368	41,603	280,487	107,557	598,073
Investment in securities	36,734	26,771	38,472	4,429	1,178	107,585
Investment in subsidiary	-	-	-	-	1	1
Other assets	-	-	-	18,728	-	18,728
Property, plant and equipment	-	-	-	16,451	-	16,451
Intangible assets	-	-	-	2,114	-	2,114
Deferred tax assets	-	-	-	-	6,971	6,971
<b>Total</b>	<b>281,322</b>	<b>59,094</b>	<b>82,896</b>	<b>362,101</b>	<b>283,384</b>	<b>1,068,798</b>
Deposits from Bank	11,048	-	-	-	-	11,048
Deposits from customers	419,903	27,252	1,258	234,000	2,421	684,834
Debts issued and other borrowed funds	103,593	-	-	39,238	79,725	222,556
Current income tax liabilities	232	-	-	-	-	232
Other liabilities	-	48,234	-	-	-	48,234
Provisions	-	-	-	295	-	295
<b>Total</b>	<b>534,776</b>	<b>75,486</b>	<b>1,258</b>	<b>273,533</b>	<b>82,146</b>	<b>967,199</b>
Net	(253,453)	(16,392)	81,638	88,568	201,238	101,599



**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

39 Fair Value of financial instruments- continued

The Group's accounting policy on fair value measurements is discussed under note 2.2.18. The Group measures fair values using the following fair value hierarchy that reflects the nature and process used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

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

Level 3: Valuation techniques using inputs that are not based on observable market data, i.e., unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value measurement hierarchy for assets & liabilities as at 31 December 2018

- GROUP

		Level 1 N'million	Level 2 N'million	Level 3 N'million	Total N'million
<b>Assets measured at fair value</b>					
Pledged assets – FVOCI	18.1		7,063		7,063
Debt instrument at FVTPL	20(a)		4,110		4,110
Debt instrument measured at FVOCI	21(c)		117,620		117,620
- Equity instruments at fair value through other comprehensive income			4,011		4,011
<b>Assets for which fair value are disclosed</b>					
Due from banks			-		-
Pledged assets at Amortised cost			2,579		2,579
Loans and advances			794,744		794,744
Debt instrument at Amortised cost			80,912		80,912
<b>Liabilities for which fair values are disclosed:</b>					
Deposits from customers			720,414		720,414
Other borrowed funds			106,623		106,623
Debt securities issued			83,223		83,223
<b>- 31 December 2017</b>					
<b>Assets measured at fair value</b>					
Pledged assets – Available for sale	18.2	-	61,673	-	61,673
Financial assets held for trading	20(a)	-	6,883	-	6,883
Financial assets available for sale	21(e)	-	80,029	-	80,029
<b>Assets for which fair value are disclosed</b>					
Due from banks		-	11,048	-	11,048
Pledged assets held to maturity		-	83,307	-	83,307
Loans and advances		-	712,318	-	712,318
Held to maturity		-	24,075	-	24,075
<b>Liabilities for which fair values are disclosed:</b>					
Deposits from customers		-	677,260	-	677,260
Other borrowed funds		-	214,065	-	214,065
Debt securities issued		-	13,066	-	13,066

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

39 Fair Value of financial instruments- continued

Fair value measurement hierarchy for assets & liabilities as at 31 December 2018

- BANK

Assets measured at fair value	Level 1 N'million	Level 2 N'million	Level 3 N'million	Total N'million
Pledged assets – FVOCI	18.1	7,063		7,063
Debt instrument at FVTPL	20(a)	4,110		4,110
Debt instrument measured at FVOCI	21(c)	117,620		117,620
- Equity instruments at fair value through other comprehensive income		4,011		4,011
<hr/>				
Assets for which fair value are disclosed				
Due from banks				-
Pledged assets at Amortised cost		2,579		2,579
Loans and advances		794,744		794,744
Debt instrument at Amortised cost		67,369		67,369
<hr/>				
Liabilities for which fair values are disclosed:				
Deposits from customers		720,414		720,414
Other borrowed funds		106,623		106,623
Debt securities issued		68,795		68,795

- 31 December 2017

Assets measured at fair value

Pledged assets – Available for sale	18.2	-	61,673	-	61,673
Financial assets held for trading	20(a)	-	6,883	-	6,883
Financial assets available for sale	21(e)	-	80,029	-	80,029
<hr/>					
Assets for which fair value are disclosed					
Due from banks		-	11,048	-	11,048
Pledged assets held to maturity		-	83,307	-	83,307
Loans and advances		-	712,318	-	712,318
Held to maturity		-	20,671	-	20,671
<hr/>					
Liabilities for which fair values are disclosed:					
Deposits from customers		-	677,260	-	677,260
Other borrowed funds		-	214,065	-	214,065
Debt securities issued		-	10,660	-	10,660

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

39 Fair Value of financial instruments - continued

Group	Carrying amount		Fair value amount	
	2018 N'million	2017 N'million	2018 N'million	2017 N'million
<b>Financial assets</b>				
Cash and balances with Central Bank of Nigeria	117,685	122,630	117,685	122,630
Due from banks	43,542	51,066	43,542	51,066
Pledged assets	11,423	145,179	11,423	145,179
Loans and advances to customers	621,497	598,073	794,744	712,318
Investment in securities:				
- Financial assets at fair value through profit or loss	4,110		4,108	
- Debt instruments at fair value through other comprehensive income	117,620		112,280	
- Equity instruments at fair value through other comprehensive income	4,011		3,765	
- Debt instruments at amortised cost	123,086		80,912	
- Held for trading		6,883		6,883
- Available for sale		80,031		80,029
- Held to maturity		24,075		24,075
<b>Total</b>	<b>1,042,974</b>	<b>1,027,937</b>	<b>1,168,459</b>	<b>1,138,759</b>
<b>Financial liabilities</b>				
Deposits from banks	-	11,048	-	11,048
Deposits from customers	760,608	684,834	720,414	677,260
Other borrowed funds	119,526	212,847	106,623	214,065
Debt securities issued	86,609	13,068	83,223	14,017
Customer deposits for foreign trade	12,147	15,203	12,147	15,203
Creditors and accruals	10,966	7,895	10,966	7,895
<b>Total</b>	<b>989,856</b>	<b>944,895</b>	<b>933,373</b>	<b>939,488</b>

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

39 Fair Value of financial instruments - continued

Bank	Carrying amount		Fair value amount	
	2018 N'million	2017 N'million	2018 N'million	2017 N'million
<b>Financial assets</b>				
Cash and balances with Central Bank of Nigeria	117,685	122,630	117,685	122,630
Due from banks	43,435	51,066	43,435	51,066
Pledged assets	11,423	145,179	11,423	145,179
Loans and advances to customers	621,017	598,073	794,744	712,318
Investment in securities:	-	-	-	-
- Financial assets at fair value through profit or loss	4,110	-	4,108	-
- Debt instruments at fair value through other comprehensive income	117,620	-	112,280	-
- Equity instruments at fair value through other comprehensive income	4,011	-	3,765	-
- Debt instruments at amortised cost	106,147	-	68,795	-
- Held for trading	-	6,883	-	6,883
- Available for sale	-	80,031	-	80,029
- Held to maturity	-	20,671	-	20,671
<b>Total</b>	<b>1,025,448</b>	<b>1,024,533</b>	<b>1,156,235</b>	<b>1,138,775</b>
<b>Financial liabilities</b>				
Deposits from banks	-	11,048	-	11,048
Deposits from customers	760,608	684,834	720,414	677,260
Other borrowed funds	119,526	212,847	106,623	214,065
Debt securities issued	69,355	9,709	68,795	10,660
Customer deposits for foreign trade	12,147	15,203	12,147	15,203
Creditors and accruals	10,966	8,345	10,966	8,345
<b>Total</b>	<b>972,602</b>	<b>941,986</b>	<b>918,945</b>	<b>936,581</b>

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

39 Fair Value of financial instruments - continued

The following methods and assumptions were used to estimate the fair values:

Assets for which fair value approximates carrying value

The management assessed that cash and balances with Central Bank of Nigeria, creditors & accruals and customer deposit for foreign trade approximate their carrying amounts largely due to the short-term maturities of these instruments. For financial assets and financial liabilities that are without a specific maturity; it is assumed that the carrying amounts approximates their fair value.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the quoted bonds and treasury bills are based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The fair values of the remaining FVOCI financial assets are measured using quoted market prices in active markets which are adjusted for using the accrued interest to date.

The fair values of the Group's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2018 was assessed to be insignificant.

For loans and receivables, a discounted cash flow model is used based on various fair value of the loan portfolio by discounting the future cash flows on these loans using interest rates on loans and remaining days to maturity of each of the cash flows.

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits and debt issued are based on discounted cash flows using prevailing money-market interest rates for deposits and debts with similar credit risk and maturity.

**STERLING BANK PLC**

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued**

40 Compliance with banking regulations

Included in fines and penalties are contraventions with certain Central Bank of Nigeria's guidelines and circulars listed below:

Circular/Letters	Nature of contravention	Penalty N'million
Standard & Guideline on ATM Operations in Nigeria Section 3.5 (a)	Delay in resolving Customer complaints	2.00
Prudential Guidelines Section 3.8	Non adherence to minimum information on credit printout	2.00
Guideline on Issuance and treatment of Bankers Acceptance & Commercial Papers of November 2009 Section 22.1	Departure from approved treatment of Bankers Acceptance	2.00
Guide to Charges by banks and Other Financial Institutions (GCBOFIs) Section 11.7 December 22 2017	Excess charge on Status Enquiry	2.00
BOFIA - Section 20 (2) (F)	Construction of Bank's Head Office Annex prior to approval	2.00
BSD/DIR/GEN/LAB/07/015	Granting loan to customer that had non-performing loan with AMCON	2.00
BSD/GAA/CON/STB/01//009	Penalty imposed with respect to Financial Statements publication	2.00
NSE/LRD/LCE3/04/18	Late publication of 2017 Annual Report & Financial Statements	1.30
BSD/BCS/CON/STG/07/083	Breach of daily returns timeline	0.03
		15.33

41 Customer Complaints

In line with Circular No: FPR/DIR/CIR/GEN/01/020, the returns on customer complaints for the year ended 31 December 2018 is as set out below:

FINANCIAL YEAR	NUMBER		AMOUNT CLAIMED		AMOUNT REFUNDED	
	2018	2017	2018 N'million	2017 N'million	2018 N'million	2017 N'million
PENDING COMPLAINTS B/F	132	571	439	1,734		
COMPLAINTS RECEIVED	53,887	51,415	4,729	3,718		
COMPLAINTS RESOLVED	54,013	51,854	4,899	5,013	4,899	5,013
UNRESOLVED COMPLAINTS ESCALATED TO CBN FOR INTERVENTION	2	2	130	135		
UNRESOLVED COMPLAINTS PENDING WITH THE BANK C/F	6	132	269	439		

42 Card Usage data

In line with the Central Bank of Nigeria guidelines for card issuance and usage in Nigeria, Section 11.0, the report on card issuance and usage for the year ended 31 December 2018 is set out below:

Product	31 December 2018		31 December 2017	
	Volume	Value N'million	Volume	Value N'million
Visa	143	3,230	140	4,085
Verve	29,186	302,626	21,905	156,433

## STERLING BANK PLC

### NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

#### 43 Whistle Blowing

The Bank complied with the provisions of CBN circular FPR/DIR/CIR/GEN/01/004, Code of Corporate Governance from Banks and Discount Houses in Nigeria and Guidelines for Whistle Blowing in Nigeria Banking Industry, for the year ended 31 December 2018.

#### 44 Reclassification

During the period, the Group changed the presentation of interest income on financial assets as fair value through profit or loss from 'Interest income' to 'Net trading income' in the statement of profit or loss and other comprehensive income. As such, the comparative amount was also reclassified for consistency. The amount reclassified in the prior period is N6 million. The reclassification is done to comply with IAS 1.82(a) which requires separate presentation of interest income calculated using effective interest method on the face of statement of profit or loss and other comprehensive income.

#### 45 Non-Audit Services

During the year, the Bank's auditor, Ernst & Young, provided the following non-audit services to the Bank:

Description of the service	N'million
i) Validation of IFRS 9 ECL Model	13
ii) Certification for the National Deposit Insurance Corporation	4

In the Bank's opinion, the provision of these services to the Bank did not impair the independence and objectivity of external auditor.

#### 46 Prior period restatement

The Central Bank of Nigeria (CBN), pursuant to Section 9(c) of the AMCON(Amended) Act 2015, informed the Bank of its shortfall in contributions to the Banking Sector Resolution Cost Sinking Fund for the years 2016 and 2017. The shortfalls arose as a result of the erroneous application of the resolution Trust Deed's definition of "Total Assets". The definition of "Total Assets" was amended in 2015 to include off balance sheet items. However, the contribution made by the Bank did not include all the off balance sheet items.

The actual payments for the shortfalls will be spread over a five year period commencing in 2019 as specified by the CBN. The full shortfall of N1.29 billion (N793million- 2016 and N501million- 2017), has been adjusted for in these financial statements.

STERLING BANK PLC

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS - Continued

Prior period restatement - continued

CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

31 December 2017	Group			Bank		
<i>In millions of Naira</i>	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
Other Operating expenses	(14,783)	(501)	(15,284)	(14,783)	(501)	(15,284)
Net income	23,304	-	23,304	23,238	-	23,238
Profit after tax	8,521	(501)	8,020	8,455	(501)	7,954
Total comprehensive income	17,276	(501)	16,775	17,210	(501)	16,709

Impact on basic and diluted earnings per share (EPS)  
(increase/(decrease) in EPS)

31-Dec-17

Earnings per share

Basic, profit for the year attributable to ordinary equity holders of the Bank (1.74k)

Diluted, profit for the year attributable to ordinary equity holders of the Bank (1.74k)

The change did not have impact on the OCI for the period

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

1 January 2017	Group			Bank		
<i>In millions of Naira</i>	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
TOTAL ASSETS	834,192	-	834,192	830,805	-	830,805
Other liabilities	40,951	793	41,744	40,950	793	41,743
Others	707,579	-	707,579	704,173	-	704,173
TOTAL LIABILITIES	748,530	793	749,323	745,123	793	745,916
Retained earnings	6,227	(793)	5,434	6,245	(793)	5,452
Others	79,435	-	79,435	79,437	-	79,437
Total equity	85,662	(793)	84,869	85,682	(793)	84,889
TOTAL LIABILITIES AND EQUITY	834,192		834,192	830,805		830,805

31 December 2017	Group			Bank		
<i>In millions of Naira</i>	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
TOTAL ASSETS	1,072,201	-	1,072,201	1,068,798	-	1,068,798
Other liabilities	46,940	1,294	48,234	46,940	1,294	48,234
Others	922,324		922,324	918,965	-	918,965
TOTAL LIABILITIES	969,264	1,294	970,558	965,905	1,294	967,199
Retained earnings	8,285	(1,294)	6,991	8,238	(1,294)	6,944
Others	94,652	-	94,652	94,655	-	94,655
Total equity	102,937	(1,294)	101,643	102,893	(1,294)	101,599
TOTAL LIABILITIES AND EQUITY	1,072,201		1,072,201	1,068,798		1,068,798

The impact on the statement of cash flows for the year ended 31 December 2017 only relates to the changes in profit before tax and changes in other liabilities. However, there was no impact on the net cash flows from operating activities. The cash flows from investing and financing activities were not affected.



**STERLING BANK PLC**

**OTHER NATIONAL DISCLOSURES**

**STATEMENTS OF VALUE ADDED**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Group				Bank			
	2018 N'million	%	2017 N'million	%	2018 N'million	%	2017 N'million	%
Gross earnings	152,164		133,490		151,247		133,022	
Interest expense	(69,882)		(60,138)		(68,733)		(59,736)	
	82,282		73,352		82,514		73,286	
Exceptional income								
Net impairment	(5,843)		(12,267)		(5,832)		(12,267)	
Bought-in-materials and services -local	(48,026)		(36,440)		(48,019)		(36,440)	
Value added	28,413	100	24,645	100	28,663	100	24,579	100
Applied to pay:								
Employee as wages, salaries and pensions	13,194	46	11,545	47	13,194	46	11,545	47
Income taxes	271	1	85	0	271	1	85	0
Retained in business:								
Depreciation and amortisation	5,730	20	4,995	20	5,730	20	4,995	20
Profit for the year	9,218	32	8,020	33	9,468	33	7,954	32
	28,413	100	24,645	100	28,663	100	24,579	100

Value added is the wealth created by the efforts of the Bank and its employees. This statement shows the allocation of that wealth among the employees, shareholders, government and amount re-invested for creation of further wealth.

## STERLING BANK PLC

## FIVE-YEAR FINANCIAL SUMMARY - BANK

AS AT	31 DECEMBER				
	2018	2017	2016	2015	2014
OTHER NATIONAL DISCLOSURES	N'million	Restated*	Restated*	N'million	N'million
<b>ASSETS</b>					
Cash and balances with Central Bank of Nigeria	117,685	122,630	107,859	115,924	174,760
Due from other banks	43,435	51,066	31,289	68,799	67,330
Pledged assets	11,423	145,179	86,864	69,338	78,751
Derivative financial assets	-	-	8	-	-
Loans and advances to customers	621,017	598,073	468,250	338,726	371,246
Investment securities:					
- Financial assets at fair value through profit or loss	4,110	6,883	1,653	4,693	1,949
- Debt instruments at fair value through other comprehensive income	117,620	-	-	-	-
- Equity instruments at fair value through other comprehensive income	4,011	-	-	-	-
- Debt instruments at amortised cost	106,147	-	-	-	-
- Available for sale	-	80,031	34,867	119,479	49,039
- Held to maturity	-	20,671	54,724	45,360	45,582
Investment in subsidiary	1	1	1	-	-
Other assets	29,446	18,728	21,676	13,903	14,137
Property and equipment	16,942	16,451	14,604	15,258	13,952
Intangible assets	1,850	2,114	2,037	1,000	821
Deferred tax assets	6,971	6,971	6,971	6,971	6,971
	<u>1,080,658</u>	<u>1,068,798</u>	<u>830,803</u>	<u>799,451</u>	<u>824,538</u>
Non-current assets held for sale	5,218	-	-	-	-
<b>TOTAL ASSETS</b>	<u>1,085,876</u>	<u>1,068,798</u>	<u>830,803</u>	<u>799,451</u>	<u>824,538</u>
<b>LIABILITIES</b>					
Deposits from banks	-	11,048	23,769	-	-
Deposits from customers	760,608	684,834	584,734	590,889	655,944
Derivative financial liabilities	-	-	8	-	-
Current income tax liabilities	405	232	941	780	1,802
Other borrowed funds	119,526	212,847	82,450	60,286	45,371
Debt securities issued	69,355	9,709	11,976	4,564	4,564
Other liabilities	37,678	48,234	40,950	47,367	32,143
Provisions	295	295	295	-	-
<b>TOTAL LIABILITIES</b>	<u>987,867</u>	<u>967,199</u>	<u>745,123</u>	<u>703,886</u>	<u>739,824</u>
<b>NET ASSETS</b>	<u>98,009</u>	<u>101,599</u>	<u>85,681</u>	<u>95,565</u>	<u>84,714</u>
<b>EQUITY</b>					
Share capital	14,395	14,395	14,395	14,395	14,395
Share premium	42,759	42,759	42,759	42,759	42,759
Retained earnings	(3,101)	6,944	6,245	10,042	5,754
Other components of equity	43,956	37,501	22,282	28,369	21,807
Attributable to equity holders of the Bank	<u>98,009</u>	<u>101,599</u>	<u>85,681</u>	<u>95,565</u>	<u>84,715</u>
Other Commitments and Contingencies	<u>130,347</u>	<u>131,106</u>	<u>111,260</u>	<u>166,245</u>	<u>203,843</u>
<b>PROFIT OR LOSS ACCOUNT FOR YEAR ENDED</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>N'million</b>	<b>N'million</b>	<b>N'million</b>	<b>N'million</b>	<b>N'million</b>
Gross earnings	<u>151,247</u>	<u>133,022</u>	<u>111,238</u>	<u>110,194</u>	<u>103,677</u>
Profit before income tax	9,739	8,039	6,019	11,016	10,748
Income tax (expense)/benefit	(271)	(85)	(837)	(724)	(1,743)
Profit after income tax	9,468	7,954	5,182	10,293	9,005
Earning per share in Kobo (Basic/Diluted)	33k	28k	18k	36k	42k
Dividend per share	0k	2k	-	9k	6k

\*Certain amounts shown here do not correspond to the 2017 financial statements and reflect adjustments made, refer to Note 46 to the consolidated and separate financial statements