

RESILIENT



FBN Merchant Bank Limited
Annual Report and Accounts 2016

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The term 'FBN Holdings Plc' or the 'Group' means FBNHoldings together with its subsidiaries. FBN Holdings Plc is a financial holding company incorporated in Nigeria on 14 October 2010. The Company was listed on the Nigerian Stock Exchange under the 'Other financial services' sector on 26 November 2012 and has issued and fully paid-up share capital as 35,895,292,792 ordinary shares of 50 kobo each (₦17,947,646,396). In this report the abbreviations '₦mn', '₦bn' and '₦tn' represent millions, billions and trillions of naira respectively.

FBN Holdings Plc is structured along the following business groups, namely: Commercial Banking, Merchant Banking and Asset Management, Insurance and others¹.

- The Commercial Banking business comprises First Bank of Nigeria Limited, FBNBank (UK) Limited, FBNBank DRC Limited, FBNBank Ghana Limited, FBNBank The Gambia Limited, FBNBank Guinea Limited, FBNBank Sierra Leone Limited, FBNBank Senegal Limited, First Pension Custodian Nigeria Limited and FBN Mortgages Limited², First Bank of Nigeria Limited is the lead entity of the Commercial Banking business.
- The Merchant Banking and Asset Management business consists of FBN Merchant Bank Limited and FBN Capital Limited. Subsidiaries of FBN Capital Limited include FBN Trustees Limited, FBN Capital Asset Management Limited, FBN Funds Limited FBN Securities Limited and FBN Capital Partners Limited.
- The Insurance business comprises FBN Insurance Limited, FBN General Insurance Limited and FBN Insurance Brokers Limited.

- Others: previously 'Other Financial Services', comprise, FBN Holdings Plc – the parent company and Rainbow Town Development Limited.

This report encompasses FBN Merchant Bank Limited. Unless otherwise stated, the profit or loss statement analysis compares the 12 months to December 2016 to the corresponding 12 months of 2015, and the financial position comparison relates to the corresponding position at 31 December 2015. Unless otherwise stated, all disclosed figures relate to continuing operations. Relevant terms that are used in this document but are not defined under applicable regulatory guidance or International Financial Reporting Standards (IFRS) are explained in the glossary or abbreviation section of this report. This report is also available online at www.fbnmerchantbank.com.

Shareholders will receive a compact disc (CD) containing the Annual Report and Accounts for FBN Holdings Plc, as well as information on outstanding dividend claims and a list of all our business locations. There will be an option to view a navigable PDF copy of the FBNHoldings report as well as PDFs of certain subsidiary reports at the download centre of the Investor Relations section of the FBNHoldings website. A CD will be available on request by contacting FBN Holdings Plc Investor Relations department, Samuel Asabia House, 35 Marina Street, Lagos.

Due to rounding, numbers presented throughout the report may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

¹ Previously 'Other Financial Services' comprise, FBN Holdings Plc - the parent company and Rainbow Town Development Limited, which has now been classified as a discontinued operation.

² FBN Mortgages Limited, now classified as a discontinued operation following the resolution of the Board of First Bank of Nigeria Limited to divest.

INTRODUCTION

On a journey of discovery, we take our partners to unexpected places. We find new solutions in innovative ways and guide them through uncharted territories. From securing wealth to financing business opportunities we live at the edge of tomorrow, constantly searching for what comes next so we can take you there first.

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CHAIRMAN'S
STATEMENT ➔



OVERVIEW

WHO WE ARE

We commenced operations on November 2, 2015, as FBN Merchant Bank Limited. Our key businesses comprise corporate banking, investment banking, wealth management and fixed income securities trading. We serve a diverse customer base of corporates, banks, public institutions, institutional investors and high net worth individuals.

We offer a broad range of products and services, and have a strong focus on servicing our client's needs by structuring customised and unique solutions to enable them unlock greater opportunities for their businesses, as well as their personal wealth creation and preservation.

We partner with our clients by leveraging our rich heritage, our local insights and our unrivalled networks. Our world-class team ensures that we empower and inspire good investment decisions by providing the best possible information, analysis and perspectives. We constantly seek opportunities to create value by applying the latest insights and technology.

FBN Merchant Bank operates from three locations in Nigeria: Lagos, Port Harcourt and Abuja. To ensure convenience, we also have an internet banking platform for our customers.

Our vision

We believe in setting our own standard, embracing a pioneering spirit that pushes boundaries and opens up bold new possibilities for all our stakeholders.

Our mission

To be the leading merchant bank and asset manager in Africa; and a trusted and inspirational partner founded on innovation, deep local roots and insights.

Our values

Our core values are as follows:

- **Teamwork:** We believe that working as a team is an important source of competitive advantage.
- **Integrity:** Integrity is the outcome of our thought-process as much as our actions. It ensures that our values and deeds are aligned.
- **Diligence:** We take pride in being objective and meticulous in everything we do.
- **Innovation:** Ours is a proactive mind-set, in constant search for ways to add more value to our stakeholders.
- **Excellence:** We believe that we can uphold high standards without compromising the delivery of exceptional performance.

- **Respect:** We recognise that there is value for our stakeholders in our diverse backgrounds, skill-sets and views.

Our brand values are as follows:

- **In-Sync: Through Teamwork, Respect and Integrity.**

We work united as one firm, and raise our collective game to become an inspiring and trusted partner to clients.

- **Empowered: Through Diligence, Innovation and Excellence.**

We are free to challenge convention, constantly raise the bar, and contribute towards intelligent and insightful solutions.

- **Impactful: Through Integrity, Teamwork and Excellence.**

We do the right thing, even when nobody is looking; setting our own standard as guided by our moral compass, and everyday add value to our colleagues, clients and society.

FBN HOLDINGS PLC (FBNHOLDINGS)

 COMMERCIAL BANKING	 MERCHANT BANKING AND ASSET MANAGEMENT
 First Bank of Nigeria Limited	 FBN Merchant Bank Limited
• FBNBank (UK) Limited	• FBN Capital Limited
• FBNBank DRC Limited	• FBN Trustees Limited
• FBNBank Ghana Limited	• FBN Capital Asset Management Limited
• FBNBank The Gambia Limited	• FBN Funds Limited
• FBNBank Guinea Limited	• FBN Securities Limited
• FBNBank Sierra Leone Limited	• FBN Capital Partners Limited
• FBNBank Senegal Limited	
• First Pension Custodian Nigeria Limited	
• FBN Mortgages Limited ²	
 INSURANCE	
	 FBN Insurance Limited
	• FBN General Insurance Limited
	FBN Insurance Brokers Limited

²FBN Mortgages Limited, now classified as a discontinued operation following the resolution of the Board of First Bank of Nigeria Limited to divest.

PERFORMANCE HIGHLIGHTS

Although interest income from loans and advances, treasury bills and government bonds fell by 15%, from ₦15.1billion in 2015 to ₦12.8billion in 2016, other income increased by 33% from ₦6.1billion in 2015 to ₦8.1billion in 2016. The strong growth in other income was driven by fee and commission income and foreign exchange gains. Although operating costs increased by 39%, from ₦2.3billion to ₦3.2billion due to generally higher costs of doing business in the country during the year and an increase in head count as a result of business expansion. We ended the year with profit before tax (PBT) of ₦4.9billion, 29% above the previous year.

+33%

INCREASE IN OPERATING INCOMES. THE STRONG GROWTH WAS DRIVEN BY FEES AND COMMISSION INCOME AND FOREIGN EXCHANGE GAINS

+29%

INCREASE IN PROFIT FROM THE PREVIOUS YEAR'S FIGURE OF ₦3.8BILLION

+39%

OUR OPERATING COSTS INCREASED BY 39% TO ₦3.2BILLION

CHAIRMAN'S STATEMENT



Bello Maccido, Chairman

“ I assure all the stakeholders that best corporate governance practices remain a key focus and deliverable for the Board of Directors and Management of the Bank. ”

DEAR SHAREHOLDERS,

It gives me great pleasure to welcome you all to the 2nd Annual General Meeting of FBN Merchant Bank Limited. We present to you our annual report and financial statements for the financial year ended 31 December 2016 and our outlook for the new financial year.

THE OPERATING ENVIRONMENT

Global economy

The pace of global economic recovery remains slow. The International Monetary Fund's (IMF) latest World Economic Outlook sees global output growth of 3.1% in 2016 and 3.4% in 2017. It is again obvious that the risks to its outlook are tilted to the downside. The Fund forecasts a decline of 15.4% for the average price of its basket of five crude oil blends in 2016, followed by a recovery of 17.9% in 2017. This is no cause for celebration and the picture could be worse without supply concerns in several producer states. Nigeria clearly features in this category.

At its last meeting, the European Central Bank (ECB) again held fire on any policy changes. However, the ECB will extend its asset purchase programme to December 2017 from the stipulated expiration of date of March 2017. Additionally, the ECB will reduce its monthly asset purchases to EUR60bn starting in April from the current EUR80bn. It reserved the right to increase

the size of purchases again. Inflation in the Eurozone picked up fractionally to 0.5% year-on-year in October, and so remained well below the target of close to, but below 2.0% year-on-year.

As expected, the Federal Open Market Committee (FOMC) delivered a rate hike at its latest meeting (to 0.50% to 0.75%), precisely 12 months after its first move. However, surprisingly the committee increased its expectations for the likely rate path in 2017 to three hikes as opposed to two, which was hinted in its September update.

The non-farm payrolls report for November showed an increase of 178,000 jobs, compared with 161,000 the previous month. The labour market has continued to open up. The initial response to the forthcoming change in administration had been a surge in US equities and in the US dollar.

Domestic economic environment

Growth

The national accounts data for the fourth quarter of 2016 released by the National Bureau of Statistics (NBS) showed negative growth of -1.3% year-on-year (after -2.2% the previous quarter). The contraction of the economy thus extended to a fourth successive quarter and amounted to -1.5% year-on-year for the full year. The non-oil economy contracted by -0.3% year-on-year, while the oil economy contracted by -12.4% year-on-year. The non-oil economy remains fragile and household consumption soft. A token return to positive territory for GDP as a whole in 2017 is likely.

Chairman's statement

The communique released by the Monetary Policy Committee after the meeting offers hope for a return to GDP growth in 2017. It cites the new foreign exchange policy, expansionary fiscal stance, moves to improve security in the Niger Delta and the possibility of a quick implementation of the Federal Government of Nigeria's recovery and growth plan as its reasons behind this stance. Additionally, the Statistician General has said that economic activity has picked up since the start of the year.

The national accounts for first quarter of 2017 are due to be released on 30 May 2017. Following four quarters of recession, a return to positive growth of a token 0.2% year-on-year is likely. For 2017, growth is expected to be around 1.6% year-on-year.

Inflation

The latest inflation report from the NBS shows a second successive slowdown in the headline inflation year-on-year to 17.3% in March from 17.8% the previous month, due to positive base effects. The month-on-month data revealed a second successive rise from 1.5% to 1.7% in March.

The NBS commentary notes sharp increases for most food staples. Among components of the core (non-food) index, the prices of housing, water, electricity, gas and other fuels, which have a 16.7% weighting in the headline measure, soared by 18.8% year-on-year. The report is disappointing because it highlights what appears to be the impact of supply-side factors. Another slowdown in the year-on-year headline rate in April is on the cards, to 17.0% year-on-year.

Foreign exchange

Since late February, the Central Bank of Nigeria (CBN) has stepped up its foreign exchange sales (interventions) to the banks, both for their selling onto retail customers for invisibles (such as medical bills) and through forward/spot transactions for the end-use of business (mostly importers). It has now added a further window aimed at offshore investors and non-oil exporters. Current indicative rates are ₦306 per US dollar on the interbank market, ₦360 for retail for invisibles, ₦383 for the new window and ₦390 on the parallel market (from ₦510 two months ago).

There are still concerns over the sustainability of the CBN's foreign exchange intervention. However, if the oil price remains above the proposed oil price benchmark (USD44.5/b) within the budget and production levels at c. 2mbpd perhaps, there may be some hope.

The interventions have had a greater positive impact than the CBN's many critics would have thought. However, they may not generate adequate autonomous (non-CBN) inflows; an adjustment by the CBN to the interbank rate is likely before year-end towards one of the multiple windows in operation.

Reserves

Official reserves have increased by USD6.9bn since end-October to USD30.9bn. The main drivers have been the recovery in oil production of about 500,000bpd, Federal Government of Nigeria (FGN) foreign exchange borrowing such as the Eurobond sales and, it appears, swap agreements entered into by the CBN. Nigeria's import cover at the end of March has strengthened to 9.5 months for goods and 7.1 months once services are included, based upon the balance of payments for the 12 months through to September 2016.

Monetary Policy Committee (MPC)

At its last meeting, the MPC members voted to retain the policy rate at 14%, banks' cash reserve requirement at 22.5% and the liquidity ratio 30%.

THE FINANCIAL SERVICES INDUSTRY

Volatility in the foreign exchange market dominated proceedings for banks in 2016. There were hopes that the attempted liberalisation of the foreign exchange market in the middle of the year would improve foreign exchange flow but that did not materialise. The supply side remains challenged. In addition, the restriction on the importation of the 41 goods and services that had been in place since 2015 was maintained. The CBN sought to clamp down further on bureau de change operators that it believed were attempting to manipulate the market. As foreign exchange supply declined, banks restricted use of dollar cards overseas. Despite the tightening up of the market, banks were still able to report very strong foreign exchange-related income because of the positive gains from their balance sheet positions as the naira weakened.

Besides foreign exchange, banks adopted more of a risk-averse position, preferring to restrict lending to only top tier customers and strengthen their risk management and recovery processes as asset quality issues began to emerge. With loans falling out of favour, Federal Government securities were increasingly favoured, especially with yields in the teens for most of the year on both treasury bills and bonds. Unlike prior to 2016 when MPC decisions varied and had a marked impact on banks, with minimal changes on the cash reserve ratios for both public and private sector deposits and the liquidity ratio, and the greatest impact of the implementation of the treasury single account was felt in 2015.

With the MPC seemingly having run out of tools to stimulate growth, attention is shifting to the fiscal. The expansionary budget is a positive in this regard. Banks will be hoping that execution of reforms being undertaken and capital programmes are carried out effectively before the sector can participate in any meaningful GDP recovery in 2017.

Chairman's statement

FBN Merchant Bank Limited's performance

The Merchant Bank commenced its first full year of operations in January 2016 in what was a challenging year for the Nigerian economy, and by extension the financial services sector.

The year started off with very low interest rates that soon increased, resulting in very high funding costs. The foreign exchange market remained liquid, and within the year, the naira was devalued and the exchange rate moved from ₦199 to USD1 to ₦305. The currency remained weak till the end of the financial year.

By the third quarter of 2016, the Nigerian economy officially dropped into a recession, with the resultant slowdown of economic activities, lower purchasing power, increased risk in asset creation and high level of credit defaults.

Despite the challenges, FBN Merchant Bank achieved a profit before tax of ₦4.92bn, representing an increase of 28% compared to the performance of ₦3.83bn in the previous year. Total assets were ₦137.27bn, representing an increase from the previous year's position of ₦106.47bn. Similarly, shareholders' funds stood at ₦28.96bn.

Payment of interim dividend

In line with the commitment of the Board to continuously deliver shareholder value, the directors approved an interim dividend payment of ₦1.048billion for the period ended 30 September 2016. There was no recommendation from the Board for final dividend to allow the Bank accrue the income made between October to December 2016 to reserves.

BOARD MATTERS/RE-CONSTITUTION OF THE BOARD OF DIRECTORS

Upon the resignation of the Chairman of the Board, Ibukun Awosika, effective 31 December 2015, to become Chairman of First Bank of Nigeria Limited, I took over the reins as the Chairman. The appointment became effective 1 January 2016.

In the course of the year, the CBN approved the appointment of Urum Kalu ("UK") Eke, MFR, to the Board of Directors. UK Eke, MFR, is the Group Managing Director of FBN Holdings Plc and his appointment to the Board of the Bank has strengthened corporate governance and enhanced group coordination/synergy. The Board and Management of the Bank recognise the valuable contributions of UK Eke, MFR, thus far.

Adegboyega Fatoki, one of our Executive Directors, retired effective 30 November 2016 after 21 years meritorious service spanning the defunct discount house and the Bank. Adegboyega was acting Managing Director during the period of conversion of the discount house to the merchant bank, and transmuted to Executive Director upon conclusion of integration. The Board and Management of the Company thank him for his contributions to the successful integration of the Bank and wish him well in his future endeavours.

The Board also appointed Messrs Folaranmi Odunayo and Akinlolu Osibajo in the course of the year. Folaranmi Odunayo is a chartered accountant and Fellow of the Institute of Chartered Accountants of Nigeria with extensive experience spanning banking, manufacturing and services. Akinlolu Osibajo is a reputable and experienced legal practitioner of over 30 years and has been entrusted with public office at very high levels. The appointments are awaiting regulatory approvals, and it is expected that their addition to the Board will bring new perspectives to Board deliberations.

I cannot overemphasise that the Board's strengths remain the openness and experience of the members, their commitment to the Bank's growth and their passion to serve on the Board of a Bank that is fast becoming a reference point in the merchant banking subsector.

By operation of law and in compliance with Section 249 (1) of the Companies and Allied Matters Act, the appointment of Messrs Folaranmi Babatunde Odunayo and Akinlolu Osibajo ESQ. by the Board of Directors in the course of the year is expected to be ratified at a general meeting.

Corporate governance

Towards the end of the year, the Company received some minor penalties from the Central Bank of Nigeria for a delay in forwarding information on some members of the Board and another one from the Securities and Exchange Commission (SEC), for a delay in notification of the exit of a sponsored individual. The penalties have been paid and the issues settled. Aside from these minor infractions, I am pleased to advise that the Company did not record any corporate governance breach in its operations for the 2016 financial year. The size and constitution of the Board continues to meet best practice.

The Chairman, the Managing Director and indeed the entire Board continue to receive commendable ratings in the Annual Performance Review/Appraisal of the Board of Directors conducted by KPMG Professional Services (a copy of the comprehensive report for the financial year under review will be presented to shareholders at the 2017 Annual General Meeting). This is laudable, and I assure all the stakeholders that best corporate governance practices remain a key focus and deliverable for the Board of Directors and Management of the Bank.

Chairman's statement

Strategic direction

To achieve the core vision of the Bank, which is to be a full-service merchant banking and asset management firm, the Bank has commenced steps to acquire FBN Capital Asset Management Limited and FBN Securities Limited. Both businesses are permissible services under the Central Bank of Nigeria's Merchant Banking Regulations 2010. The approval of the Board of FBNHoldings and the respective Boards of the target companies has been obtained, and the requisite regulatory approvals are being sought.

Upon conclusion of the acquisition, the Companies would remain separate legal entities which are fully owned subsidiaries of the merchant bank.

CONCLUSION

The prognosis for 2017 is that of another challenging financial year. The economy is still in recession though the assurance of the Federal Government of Nigeria is that the country will see signs of a rebound by the middle of 2017. Economic experts seem to share the optimism of the Government.

The militancy within the Niger Delta continues, with the resultant reduction in earnings of the Federal Government. However, it appears that the insurgency in the North East has been curtailed to a large extent and we hope that this would be accompanied by increased farm yields.

The price of Premium Motor Spirit (PMS) may change, which will put upward pressure on inflation, as the government grapples with market depreciation of the Nigerian currency in the parallel market on one hand, and the increase in the global price of crude oil that is worsened by the inability of the government to refine crude oil locally on the other.

Foreign exchange volatility is expected to subsist and the high yielding government securities will still compete with the liquidity available in the market.

Despite this subdued outlook, FBN Merchant Bank is expected to create and sustain value in the 2017 financial year. The acquisition of the target companies combined with the expansion of selected businesses are expected to fuel the growth of the merchant banking and asset management group. Our task as the Board and Management of the Bank is therefore to assess the market, identify, and harness the opportunities to grow shareholder value.

I thank our shareholders, whose tremendous support has helped keep the Bank steady and able to retain customer confidence amid the ongoing uncertainties. To the members of the Board, I am pleased to be one of you, and acknowledge your commitment and dedication to the Bank. I look forward with excitement to your continued candour and vibrancy at our future deliberations.

I also extend my thanks to the Management and staff of our company for your tenacity and professionalism amid the ongoing changes. My charge to you is to stay on the quest for leadership in the 2017 financial year.

Thank you.



Bello Maccido
Chairman

BUSINESS REVIEW

FBN Merchant Bank achieved a strong performance in 2016 despite the challenging operating environment and our ongoing business model transformation

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OFFICER'S REVIEW ➔

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RELATIONSHIPS
AND RESPONSIBILITY ➔



CHIEF EXECUTIVE OFFICER'S REVIEW



Kayode Akinkugbe, MD/CEO

“...we believe that with the wealth of talent, skills and experience of our people; our rich heritage, strong brand and financial resources, we have what is required to achieve our goals. ,”

COMPANY'S PERFORMANCE

FBN Merchant Bank recorded a strong financial performance during the 2016 financial year, with revenues growing by 33% and profit before tax by 29% year-on-year. This strong performance was achieved despite the challenging operating environment and our ongoing business model transformation. Looking ahead to 2017, we plan to expand our business model to include Asset Management and Equities Brokerage services, and scale up activities across our businesses particularly the corporate banking and fixed income trading businesses.

THE OPERATING ENVIRONMENT

Nigeria's macroeconomic challenges persisted through 2016. The banking industry was negatively impacted by significant macroeconomic headwinds; which included dwindling oil production and prices, rising inflation, lower government revenues and volatility in the foreign exchange market. This led to a further devaluation of the naira, contracting GDP, and the worst economic recession in over 30 years.

Foreign investors continued to exit the market or adopt a 'wait and see' approach, limiting market activity across the equities, fixed income and foreign exchange markets. Banks adopted a more risk-averse position and strengthened their risk management and recovery processes as asset quality issues began to emerge. With loans falling out of favour, Federal Government securities were increasingly favoured, especially with relatively high yields for most of the year on both treasury bills and bonds. As a result of the tough operating environment, the banking industry's non-performing loans (NPLs) rose to 14% from 5.3% in 2015 and capital adequacy reduced to 13.9% in 2016 from 16.1% (2015). On the whole, loans to private sector grew by 22% while deposits

grew by 9%. In response to the rising foreign exchange volatility and rising inflation rates, the Monetary Policy Committee (MPC) commenced a tightening policy.

Notwithstanding the tough operating environment, we were able to successfully navigate through periods of volatility to generate income and value for our shareholders. We established new customer relationships, expanded our product offerings to include the investment banking services and added the client coverage business to our corporate banking business. We also continued to leverage Group synergy by cross-selling our products and services to other members of the FBNHoldings Group.

STAKEHOLDERS

An important group of stakeholders in our business is our people. We take great pride in creating a conducive and safe working environment. Health and safety rules and practices are reviewed regularly and monitored closely to ensure strict adherence. The Company has undertaken both Group Personal Accident and the Workmen's Compensation Insurance cover for the benefit of its employees. The Company also provides health insurance for our employees and their dependants.

In accordance with the Company's policy of continuous development, domestic and international training is provided to employees. The Company encourages diversity by consistently ensuring equal opportunity employment. We have been able to achieve male to female gender diversity ratio of 58% to 42% among all employees; 56% to 44% among top executives, and 86% to 14% among Board members. In addition to our compensation and welfare benefits, we operate a contributory pension plan in line with the Pension Reform Act.

Chief Executive Officer's review

STRATEGY

Our goal is to become the preferred merchant bank and asset manager in Nigeria delivering double digit growth. Our approach to achieving this goal is underpinned by three strategic pillars; growth acceleration, collaboration and partnerships and delivery excellence.

Some of the key initiatives to be executed in 2017 include: implementing a robust corporate performance management architecture, expanding our business model to include Asset Management and Equities Brokerage services, harnessing the opportunities to be derived from synergy, scaling up activities across our businesses especially corporate banking and fixed income trading, implementing our IT transformation project; and implementing the culture transformation and brand optimisation projects.

RISK AND OPPORTUNITIES

FBN Merchant Bank is exposed to a number of risks with varying degrees of significance. Key risks include credit, market, liquidity, operational, reputational and strategy risks. The importance of each type of risk has been determined by the respective impact on earnings, capital adequacy, liquidity and stakeholders' interests. The increasingly tough macroeconomic environment has also elevated our risk profile. Consequently, we continue to closely monitor the identified risks, and look for ways to mitigate them. While the risks are identified and closely monitored at Management level, there is also considerable Board oversight through the Board Risk Management Committee (BRMC).

FINANCIAL AND NON-FINANCIAL PERFORMANCE AND ACHIEVEMENTS

The transition to merchant banking expanded our business portfolio and created additional opportunities to increase our revenues.

Although interest income from loans and advances, treasury bills and government bonds fell by 15%, from ₦15.1billion in 2015 to ₦12.8billion in 2016, other income increased by 33% from ₦6.1billion in 2015 to ₦8.1billion in 2016. The strong growth in operating income was driven by fee and commission income and foreign exchange gains. Operating costs increased by 39% from ₦2.3billion to ₦3.2billion due to generally higher costs of doing business in the country during the year and an increase in head count as a result of business expansion. We ended the year with profit before tax of ₦4.9billion, 29% above the previous year. Our customer loan portfolio grew by 14% to ₦41.7billion while total assets grew by 22% to ₦137.3billion. We remain well capitalised with an equity base of c. ₦28.96billion and capital adequacy ratio of 22.59%.

OUTLOOK

The tough macro conditions are expected to persist through the first half of the year, with a gradual improvement in the second half. Oil prices are expected to remain stable around USD50 per barrel ensuring fairly stable government revenue.

The banking sector is likely to come under further strain in 2017. Years of double digit growth in balance sheet sizes have been followed by underlying growth almost grinding to a halt in 2016 (once foreign exchange devaluation impact is excluded). Banks' capital adequacy ratios may come under pressure, and as such banks will likely require additional capital buffers.

Despite the challenging backdrop, economies of scale advantages which were clear to see in 2016 are likely to grow as a differentiating factor in the sector; essentially, flight to quality will become more pronounced in 2017. Our clients, now more than ever, require us to deliver value added solutions. We plan to differentiate ourselves in the merchant banking segment by building a strong client-centric operating model. We expect that access to a wider funding base, a broader business platform; bench strength, and greater focus on extracting synergies which will enable us generate another solid financial performance. In 2017, we will explore opportunities to take informed risks to increase our revenues and grow our balance sheet, while continuing to proactively manage our liquidity and capital.

Despite the difficult times, we believe that with the wealth of talent, skills and experience of our people, our rich heritage, strong brand, and financial resources, we have what is required to achieve our goals.

Thank you.

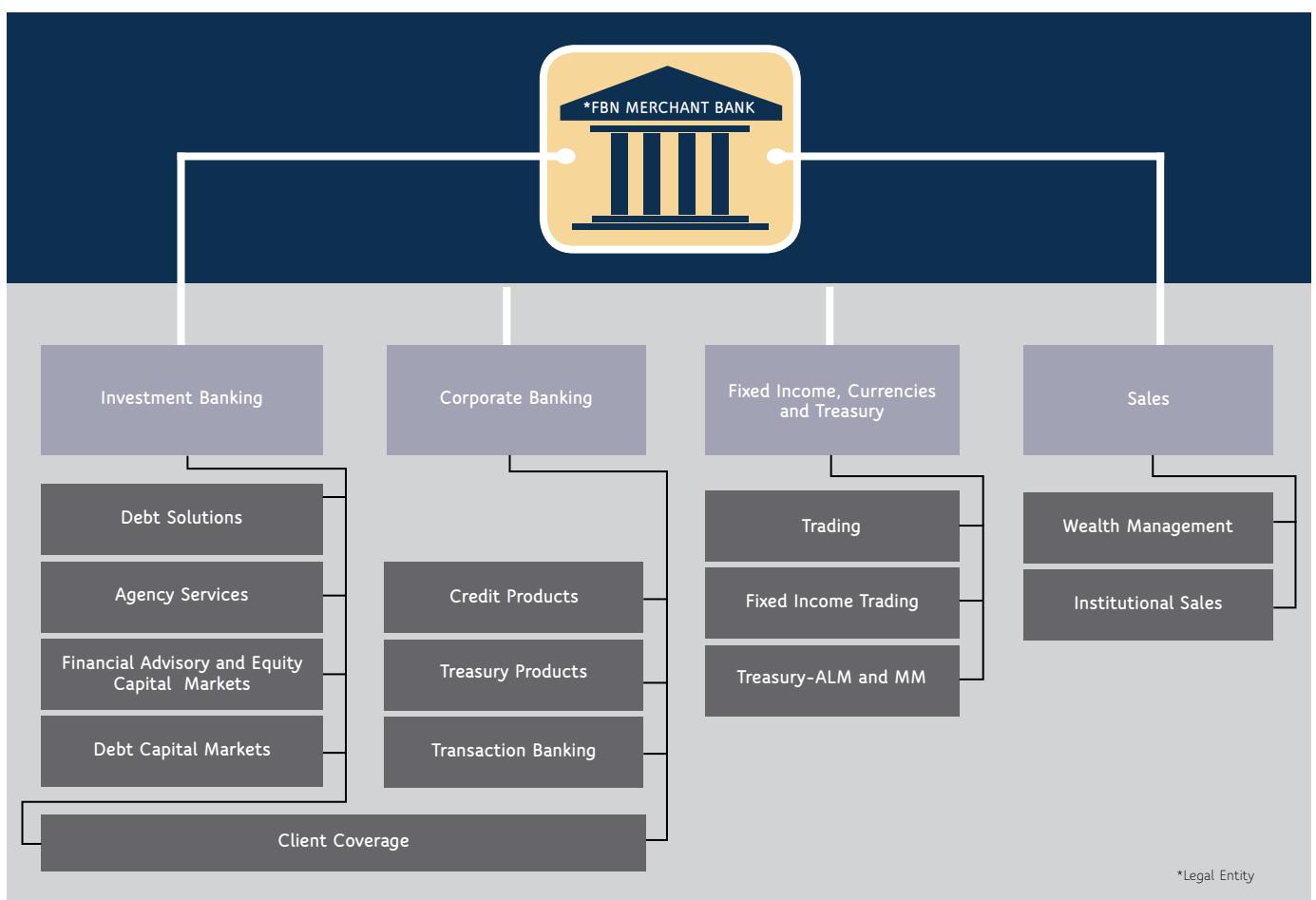


Kayode Akinkugbe
Managing Director/CEO

DIVISIONAL OPERATING REVIEW

Below is the current operating structure.

FBN MERCHANT BANK STRUCTURE



For more information about our Merchant Banking business units, see the following sections.

INVESTMENT BANKING



**Taiwo Okeowo, CFA, Deputy Managing Director/
Head, Investment Banking**

“Our strong technical capabilities and deep knowledge of the terrain enables us offer tailored solutions to our clients.,”

INTRODUCTION

Within our Investment Banking division we arrange finance through the banks and capital markets, and provide strategic advice. Our strong technical capabilities and deep knowledge of the terrain enable us offer tailored solutions to our clients. We have a strong track record in terms of transaction size, complexity, speed to market and achievement of financial close within the shortest possible time; local distribution ability and relationship with local banks.

We have advised on key transactions in the telecommunications, financial services, power, infrastructure, oil and gas and manufacturing sectors of the economy. We remain an industry leader in deal origination, execution and distribution anchored on our deep bench strength, quality of our team and the breadth of the solutions offered across the group.

Our Investment Banking team comprises of four product areas namely; Debt Solutions, Financial Advisory, Debt Capital Markets and Equity Capital Markets. Below is a brief overview of each of the product areas:

The Debt Solutions department is responsible for advising, structuring and arranging debt products for clients across all the key sectors of the Nigerian economy.

Key products include:

- Reserve based lending
- Leverage and acquisition financing
- Corporate financing
- Project financing
- Facility agency services
- Technical bank and modeling services
- Documentation bank services
- Global facility coordination
- Restructuring and refinancing

The Financial Advisory team provides corporate finance and strategic advice to institutional customers across several sectors.

Key products include:

- Mergers and Acquisitions advisory (Buy-side/Sell-side)
- Privatisation advisory
- Restructurings and recapitalisations
- Corporate sales and divestitures

The Debt Capital Markets team offers short - medium term funding solutions through sale of debt securities in the capital market to a diverse group of customers across the corporate and public sectors of the Nigerian market. Key activities include advisory, structuring, issuance, underwriting and distribution of fixed income securities for our customers.

Key products include:

- Government and agency bonds
- Corporate bonds
- High yield bonds
- Asset-backed securities
- Mortgage-backed securities
- Commercial papers

The Equity Capital Markets team works closely with private and public companies, carefully guiding them through the process of raising equity capital.

Key products include:

- Equity and equity-linked services such as:
 - Initial public offerings
 - Follow-on offerings
 - Rights issues
 - Private placements and convertibles

Investment banking

BUSINESS MODEL

Our business model focuses on providing services to mid-to large-sized corporates across all sectors of the Nigerian economy including the oil and gas, energy, financial services, real estate and manufacturing and also the public sector. The Equity Capital Market and Financial Advisory team maintain strong relationships with financial sponsors, such as private equity firms, in order to capture their acquisition and divestment opportunities. The Debt Solutions' business model is based on structuring and arranging debt finance for clients. The Debt Capital Market's business model leverages on the increasing depth and variety of the investor pool to arrange issuance of generic or structured debt securities for clients ranging from sovereign and sub-sovereign to local corporates and multinationals.

Performance highlights

Financial performance: We achieved a strong financial performance in 2016, ending the year with a total revenue of ₦2.3bn.

Mandates and new products: We won 19 new mandates in 2016 and developed 4 new products.

Key risks and mitigants

Foreign exchange and interest rate risks: The team relies heavily on its structuring techniques to mitigate the adverse effect of this risk

Profitability risk: Over the years, we have built credibility both in the private and public sector working on innovative transactions. Our deep expertise, strong network and relationships with financial sponsors enables us to deliver on our client mandates. In addition, we continue to closely monitor our costs in order to ensure sustained profitability.

Reputational risk: We seek to maintain; timely and efficient communication with clients, compliance with the firm's strong enterprise risk management policies, and regulatory requirements.

Regulatory risk: The team works closely with the Legal and Compliance departments to ensure that rules and guidelines are adhered to during the execution of transactions and in the team's routine operations. We also ensure that periodic reports are filed within the stipulated timelines.

Market risk: Our transaction strategy involves a close monitoring of market conditions and trends to ensure that transactions are launched during favourable market period and market risks are mitigated.

STRATEGIES AND OUTLOOK FOR 2017

The outlook for our businesses is currently modest, as we anticipate a tough year ahead. The impact of the 2016 recession in Nigeria is likely to persist into 2017 as many of the structural deficiencies causing the contraction in economic growth are yet to be resolved (i.e. US dollar scarcity, persistent inflation, naira devaluation and energy crisis).

The strategy of the Investment Banking business is to improve sector coverage while continuing to strengthen and widen client relationships. We are also developing our cross border capabilities as we begin to gain greater exposure to international clients.

COVERAGE AND CORPORATE BANKING GROUP



Bimbola Wright, Head, Coverage and Corporate Banking

“*We take a long-term holistic view of our relationships. Working closely with product specialists, we offer tailored solutions to our clients.***”**

INTRODUCTION

The Coverage and Corporate Banking Group (CCB) offers a platform for the provision of a full range of creative investment and wholesale banking services to mid-size and large institutions. The team works very closely with the Bank's product specialists to deliver bespoke solutions ranging from financing, investments, advisory and trade, to structuring, syndication and distribution, amongst others.

The Group is made up of sector experts who cover pitching, prospecting, relationship management and risk asset creation in specific industries. These teams have a deep understanding of industry trends, the general landscape and the array of available products the Bank offers. We take a long-term holistic view of our client relationships by working very closely with other product specialists within the Bank and delivering customised solutions tailored to customers' needs.

Key products:

- Current accounts
- Term loans
- Structured investment products
- Project financing
- Receivables financing
- Trade finance (Domestic and International)
- Lease financing
- Asset-backed facilities
- Negotiable instruments
- Bonds and guarantees

In order to achieve corporate aspirations and effectively conduct its coverage and corporate banking activities, the group is organised along six broad sectors, which are:

- Energy and Natural Resources
- Power and Infrastructure
- Diversified Industries
- Services
- Financial Services
- Government Institutions

To date, we have actively funded virtually all sectors in the economy, including but not limited to Power and Infrastructure, Manufacturing, Fast Moving Consumer Goods (FMCG), Oil and Gas, Food And Beverages, Real Estate, Financial Services, Information and Communication Technology, Transportation and Construction.

BUSINESS MODEL

The CCB business model will continue to focus on the key sectors of the Nigerian economy across all product spectrums of Corporate and Investment Banking. Further portfolio diversification into sectors such as mid and downstream energy, as well as maritime services will be pivotal to portfolio growth.

Coverage and corporate banking group

KEY OPPORTUNITIES/CHALLENGES IN 2016

Strong economic headwinds, foreign exchange scarcity, concerns about further devaluation, the resultant liquidity challenges that pervaded the economy, and fiscal policy uncertainties created a sluggish economic climate with a negative impact on risk asset creation in local and foreign currency.

The incessant attacks on pipelines in the Niger Delta region has resulted in substantial reduction in oil revenues for the Federal Government, as well as downtime in power generation, as flow of gas has been repeatedly disrupted.

In spite of these challenges, we recorded strong growth by adopting a strategic approach to the market and by enhancing distribution strength in the year. This is reflected in our financial performance, as detailed below:

PERFORMANCE HIGHLIGHTS

- Over ₦3.1billion net income generated within the year.
- Year-on-year, net income growth of 75%.
- The loan book grew by 14% year-on-year, from ₦36.7billion in 2015 to ₦41.7billion in 2016.

Financial Snapshot

Metric	FYE 2016 ₦'bn	FYE 2015 ₦'bn	Growth (%)
Net interest income	2.76	2.0	38.0
Loans	41.68	36.65	13.72
Deposits ³	12.88	11.24	14.59

KEY RISKS AND MITIGANTS

- Interest rate risk:** This is continuously mitigated by benchmarking the pricing of risk assets to market-driven rates such as the Nigerian Inter-Bank Offered Rate (NIBOR), London Inter-Bank Offered Rate (LIBOR) and Nigerian Inter-bank Treasury Bills' True Yields (NITTY). This is to ensure that the applicable interest rate on risk assets reflect market realities and also limit the tenor of our fixed rate exposures.
- Credit risk:** This is a fall-out of crystallisation of credit default risk. Deep understanding of relevant sectors, as well as an internal strong credit risk management framework has contributed to minimising this risk.

- Foreign exchange risk:** This is the risk that the result of a potential devaluation will adversely impact our balance sheet and risk asset positions. This risk is mitigated by ensuring risk assets are adequately matched to the appropriate currency and the introduction of foreign exchange hedges.
- Risks arising from third-party dependence:** Reliance on correspondent banks' increase turn around times in settlements and payments on local currency transactions, with the potential for occasional delays. However, our transition to merchant banking, deployment of innovative technology and continuous improvement in our customer relationships continue to assist in mitigating this risk.

STRATEGIES AND OUTLOOK FOR 2017

The Coverage and Corporate Banking Group's strategic focus, in line with the corporate plan, will be engaging, acquiring and developing strong relationships with mid-to top-tier customers across selected economic sectors.

The Group manages all corporate relationships of FBN Merchant Bank and provides the platform for offering the full range of the organisation's products and services. Consequently, the group will:

- continue to nurture long-term relationships across the entire value chain, from transaction origination through financial close and beyond;
- continuously upgrade the existing information technology (IT) platform to facilitate the deployment of additional services including, but not limited to, transaction accounts, internet banking and customer relationship management infrastructure;
- develop more sophisticated foreign exchange derivatives to support corporate customers' ever increasing requirements;
- ensure synergy remains a key objective in broadening and deepening customer reach as internal and external collaborations have been a core focus during the 2016 financial year; and
- drive internal alliance with other product teams within the Bank, a more intense identification of cross-sector opportunities within the Group.

³ Corporate Banking only

WEALTH MANAGEMENT GROUP



Debbie Irabor, Head, Wealth Management Group

“ The experience gained from serving our customers over the years has enriched our understanding of their need for preservation, growth, and transfer of their wealth to future generations. ”

INTRODUCTION

The Wealth Management team at FBN Merchant Bank has primary responsibilities for:

- Providing the holistic approach that High Net Worth Individuals (HNWI) and Ultra High Net Worth Individuals (UHNWI) and their families are increasingly looking for by helping them grow, manage, and transition their wealth for future generations through collaboration with our in-house expert teams.
- Conducting an ongoing analysis of market conditions and customer requirements, and providing regular feedback to Management for informed decision-making.
- Designing, reviewing, and delivering the marketing plan for the sale and cross-selling of all products and services of FBN Merchant Bank and its affiliates to High Net Worth Individuals (HNWI) and Ultra High Net Worth Individuals (UHNWI) across Lagos, Abuja, Port Harcourt and its' regions.

The team is client-focused and creates the atmosphere and flexibility to increase relational benefits with clients in an efficient and cost-effective way. We combine innovation and expertise with a personalised touch to better understand our clients' lifestyles, concerns, goals, and interests; while building strong and sincere relationships with them over a lifetime and beyond.

Key products and services include:

- Promissory Note Backed Investment (**PNBI**)
- Kakawa Easy Retirement Account (**KERA**)
- Liquidity Multiplier Service (**LMS**)
- Treasury Bills Backed Investment (**TBBI**)
- Government Bond Secured Investment (**GBSI**)

BUSINESS MODEL

The experience gained from serving our customers over the years has enriched our understanding of their need for preservation, growth, and transfer of their wealth to future generations. To meet these needs, the Wealth Management team works assiduously with our team of in-house experts and partners to offer customers bespoke, enhanced wealth management solutions and services anchored on the following pillars:

- Private banking/wealth management
- Fiduciary services
- Transactional banking
- Extended/lifestyle services

PERFORMANCE HIGHLIGHTS

- Achieved a 4.1% growth in active customer base, despite the economic downturn
- Achieved 95% client portfolio retention rate
- Created increased awareness of the products and services of the group to existing clients and prospects.

Wealth management group

CHALLENGES/KEY RISKS

- Lower disposable income arising from higher inflation rates and the economic recession.
- Declining portfolio size as a result of the increasingly high yield of the Federal Government of Nigeria (FGN) Securities Treasury Bills.
- Thinning margins due to rising costs of funds.
- Customers' continued diversification of funds to foreign currency and alternative investments due to the continued depreciation of the naira.
- Significant reduction of inflows from Nigerians in diaspora.

Mitigants

- Offer competitive pricing for retention of customers and deposits generated.
- Adopt/implement the 'Key Opportunities' stated below.

STRATEGIES AND OUTLOOK FOR 2017

Outlook

- The anticipated adoption of effective measures by the Federal Government of Nigeria and Central Bank of Nigeria to stimulate economic growth and end the recession.
- Potential of sustained yield in Government Securities at the current high levels.
- Increase in the level of customers' interest in/diversification of funds to foreign currency (FCY) investments resulting from a continued depreciation of the naira.
- Continued security challenges in the Niger Delta and its negative impact on the oil and gas sector and the economy.
- Opportunities for growth and innovation in the:
 - Provision of more holistic advice.
 - Use of analytics to support business objectives and better engage with customers.
 - Designing on-boarding strategy for generation X and millennial, as they begin to inherit assets held by older generation.

Strategies

- Deliver a unique customer experience through people, products, pricing distribution channels and technology.
- Continue to effectively manage relationships for business retention and to generate referrals.
- Maximise value by improving internal collaboration.
- Establish synergies/partnerships with FBNBank UK and other approved foreign financial institutions to enhance our ability to meet our customers' offshore needs.
- Make strategic group marketing presentations to target market on retirement and financial planning.
- Increase market share (deepen our share of wallet of existing customers, reactivate inactive accounts, referrals, and aggressively convert identified prospects).
- Customise asset plans for our various customers based on demographics and risk appetite.
- Generate deposits at the lowest cost possible.

FIXED INCOME, CURRENCIES AND TREASURY



Abimbola Onyeji, Head, Fixed income, Currencies and Treasury

“The business creates value by intermediating in the interbank market, as well as trading in the Local Currency, Bonds, Treasury Bills and Foreign Exchange markets. ”

The Fixed Income, Currencies and Treasury (FICT) unit is responsible for managing the Bank's balance sheet and liquidity position, as well as trading on behalf of the Bank in the money, fixed income, short-term government securities and foreign exchange markets. FICT also provides customers with securities trading services in the financial market. The unit's main focus is attracting liquidity and increasing efficiency while reducing transaction costs.

FICT comprises of four sub-units: the Money Market, Fixed Income, Short-Term Government Securities and Foreign Exchange Units.

- The Money Market Unit offers a full range of local currency products and services, while ensuring that it adheres to its main responsibility of managing the Bank's liquidity position by effective gap coverage; creation of investment channels for surplus funds and balance sheet management.
- The Fixed Income Unit is responsible for executing the Bank's function as a Primary Dealer and Market Maker (PDMM) in Federal Government of Nigeria Bonds. The unit provides the platform for the Bank to contribute to the continual development of the Nigerian Bond Market through participation in bond issuances on behalf of the Bank and interested investors. It is also responsible for trading other Fixed Income Securities aside from Federal Government of Nigeria Bonds such as Sub-National and Corporate Bonds.
- The Short-Term Government Securities Unit provides the avenue for the Bank to fulfil its obligation as one of the pioneer Primary Dealers/Market Makers (MMD) appointed by the Central Bank of Nigeria (CBN) in Money Market instruments. The unit handles the underwriting, distribution and creation of liquidity in securities such as Treasury Bills and Central Bank of Nigeria Bills.

- The Foreign Exchange Unit was issued a foreign exchange License by the Central Bank of Nigeria (CBN) in February 2016 and commenced transactions in March 2016. The unit offers a broad range of foreign exchange products and services, with its main focus on foreign exchange trading which includes amongst others - international trade transactions, management of foreign exchange liquidity position, and balance sheet management.

KEY OPPORTUNITIES AND CHALLENGES

- We successfully executed some structured transactions with counterparties in order to boost income. We also leveraged on opportunities in January and June to profitably sell some securities bought at higher yields;
- The commencement of transactions on our foreign exchange desk enabled us to take advantage of some opportunities in that sphere of the market.

Challenges

- Initial liquidity glut led to dearth of arbitrage opportunity/ ALM transaction volumes.
- Most of the securities sold in profit towards the end of 2015, as well as the beginning of the year 2016, had to be gradually replaced in the first quarter of 2016 when market yields were still low as there were no alternatives. This negatively impacted portfolio positions when market yields trended up.
- Although some securities were replaced at higher market yields, the opportunity to enjoy interest income margins were reduced on the back of increased funding costs caused by the Central Bank's tightening monetary policy stance.

Fixed income, currencies and treasury

- Reduced foreign investor confidence and cautious trading by most market participants who were uncertain of the Central Bank's constantly changing policies led to a significant reduction in market activities, thereby making trading opportunities tough especially in the Bonds market. Most investors were drawn to investing in Treasury Bills rather than Bonds due to the shorter duration.
- In view of the Central Bank's continued tightening policy measures, there was the need to rebalance our portfolio, which led to losses on some Treasury Bill securities. This was in order to reduce the year end mark-to-market impact, as well as to leverage on the higher yields obtainable in the market.
- Limited interbank market activity in the foreign exchange market was recorded as foreign exchange market trading remained technically shut and CBN was the only supplier, intervening on a daily basis by only USD1.5million to one bank per day in the market.

BUSINESS MODEL

The business creates value by intermediating in the interbank market, as well as trading in the Local Currency, Bonds, Treasury Bills and Foreign Exchange markets. The business also takes long-term positions in Bonds and Treasury Bills securities in order to earn interest income.

PERFORMANCE HIGHLIGHTS

Financial performance: The prevailing market and economic conditions had a significant impact on FICT's performance in the year under review. Our net revenues stood at ₦2.5billion as at end of 2016.

Market share/rankings: Our ranking on the Financial Markets Dealers quotes over the counter (FMDQ OTC) Securities Exchange league table improved for both Treasury Bills and Bonds. We ranked 6th and 9th in Bonds and Treasury Bills respectively vs 10th and 12th position in 2015.

KEY RISKS

The main risks experienced during the year and their mitigants are as follows:

Liquidity risk

- Funding liquidity risk:** Risk of the Bank being unable to meet repayments, withdrawals and other commitments on time.
- Market liquidity risk:** Risk that the Bank is unable to realise specific assets without incurring significant losses as a result of market prices.

Mitigants

- Diversification of sources of funding, as well as instruments for accessing said funds from these sources.
- Ensuring that assets held are sufficiently liquid to be converted to cash without significant losses. Percentage of liquid assets held is always above regulatory requirement.
- Gap limits.
- Setting portfolio limits.
- Monitoring obligations by estimating cash flows.
- A contingency funding plan.

Settlement risk

The risk that a counterparty does not deliver a security or its value in cash as agreed when the security was traded and after the other counterparty or counterparties have already delivered security or cash value based on the trade agreement.

Mitigants

- Settlement is made via delivery versus payment.

Compliance risk

The risk that we may incur significant financial loss or suffer a loss of reputation due to failure to comply with rules and regulations of regulatory authorities.

Mitigants

- The compliance team keeps a record of all rules and regulations and monitors daily to ensure compliance.
- The FICT team is also kept updated with all rules and regulations and ensures the organisation complies.

Regulatory risk

Risk that a change in regulations will significantly impact our business.

Mitigants

Stay close to regulators to anticipate changes in regulations and up-to-date with economic and market data.

Market risk

The risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to a change in value of the market risk factors (interest rates, exchange rates, etc.).

Fixed income, currencies and treasury

Mitigants

- Earnings at risk limits
- Value at risk limits
- Gap limits
- Stop loss limits
- Absolute portfolio limits
- Dealer limits

Credit risk

The potential failure of a counterparty to meet its contractual obligations.

Mitigants

- Most interbank transactions are secured with government securities. A haircut (the difference between the market value of an asset used as loan collateral and the amount of the loan) is also charged to protect against interest rate fluctuations.
- Credit limits are established after a rigorous credit appraisal process and Board approval.
- Single obligor limits.

OUTLOOK AND STRATEGIES FOR 2017

The present economic headwinds of high inflation figures, contracting GDP growth and foreign exchange management indicates that the financial year 2017 will remain challenging. Fiscal and Monetary policies need to be in tune to lift the country out of recession.

The timely release and approval of the 2017 budget, as well as the prompt disbursement of funds for capital expenditure may help to gradually stimulate economic growth. Although the Federal Government is expected to borrow funds from the market (local and international) to fund projects, there is no indication that these will drive down interest rates in the short-medium term. Rather, we expect that the Federal Government may be compelled to borrow at current market levels even as the Central Bank continues to pursue a tightening monetary policy stance as a means to reduce demand pressure on foreign exchange and curb the increase in inflation. The gaps between the foreign exchange official, interbank and parallel market rates also suggest that the Central Bank may be bound to embark on a further devaluation of the naira in 2017.

Consequently, our strategies for 2017 will be to take advantage of market volatility and continue to rebalance all our portfolios until we achieve an optimal balance for liquidity and returns. We plan to on board more international oil companies in order to increase our foreign exchange supply and grow our foreign currency balance sheet size through increased marketing strategies in collaboration with other subsidiaries of the FirstBank Group. We will also leverage on synergies with the members of FBNHoldings in order to improve access to liquidity. We will further enhance our relationship with counterparties to create access to increased structured transactions.

RELATIONSHIPS AND RESPONSIBILITY

CUSTOMER SATISFACTION

In 2016, the Customer Care team focused on improving service quality and efficiency via various customer care channels and technology platforms.

We consciously and consistently sought to reduce waiting times for all customer requests, improve service accessibility, and promote a customer-focused culture internally. Our active customer engagement strategy enabled us identify the most frequent customer issues during the course of 2016, and has been fundamental in enabling the team take proactive measures towards delivering outstanding service.

In addition, due to the diversity of customer needs, an effective complaints handling process was put in place for proper customer relationship management. All customer complaints and requests are attended to either in person, in writing or over the telephone and are recorded on the Complaints Register application. We aim to reply all written correspondence within 24 hours of receipt and inform our customers of the time frame within which the matter will be treated.

In line with regulatory requirements, all customer complaints are reported on a monthly basis to the Central Bank of Nigeria (CBN) and any unresolved issues are escalated to the relevant parties; our Management Team or the Consumer and Financial Protection Department of the Central Bank of Nigeria. The effectiveness of the Customer Care team in managing client relationships was evident in the reduction of customer complaints.

Priorities for 2017

In 2017, the team has been positioned to align with the Company's strategy to drive a client-centric focus and seek to deliver a dynamic and consistent customer experience. This is built upon our migration to better customer relationship management applications, which aim to facilitate customer acquisition, retention and drive advocacy for our unique brand.

Our technology foundation positions us well to be the leading and trusted partner to our clients and to maximise shareholder value on a sustained basis. Our specific objectives include:

- Building a well-equipped and informed Customer Care team
- Leveraging technology platforms and build deep relationships to improve customer experience and retention
- Instituting a policy to keep our customers abreast of key information to drive the perception of value and differentiation
- Collaborating with internal and external stakeholders to develop tailor made products and services to proactively meet emerging needs.

INFORMATION TECHNOLOGY

Our technology agenda remains focused on ensuring corporate business objectives, shareholder value targets and customer satisfaction requirements are met.

In 2015, the Board approved the IT strategy for the Bank, which is aimed at achieving bold revenue growth and establishing leadership and dominance across all business lines, while maintaining our customer-centric focus. The plan for implementing this strategy, the IT Transformation program, covers the entire IT application and infrastructure landscape.

The Transformation program implementation phase kicked off in 2016 with the outsourcing of the Bank's data centre to a tier-3 certified facility, in line with the Central Bank's standards for deposit-taking banks. This has provided improved security, scalability, enhanced agility, reduction in support costs and infrastructure provisioning to support the current and future business needs of the Bank. We also implemented a significantly enhanced infrastructure network for voice and data across our office locations.

Furthermore, we are overhauling and replacing legacy systems with an integrated suite of solutions that will enhance operational efficiency, facilitate the creation and delivery of customer focused products, whilst ensuring regulatory compliance and enhanced risk controls. The implementation of these solutions has progressed to an advanced stage and all solutions are on track to be rolled out in 2017.

Our transformed technology foundation positions us to consistently deliver service and operational excellence to our clients.

Priorities for 2017

- Transformation programme solutions rollout including Core banking system upgrade, CRM and customer on-boarding, enterprise-wide electronic document management solution, and risk management solutions, amongst others.
- Client experience enhancement through new and innovative digital channel offerings and data analytics.
- Continued investment in our Information Security to ensure data remains secure.
- Institutionalisation of the changes from the transformation programme to maximise ROI.

Relationships and responsibility

OUR PEOPLE

We recognise that our employees are our greatest asset and provide our competitive advantage. This reflects in our policies, practices and processes – ensuring we attract and retain the best to drive and sustain exceptional business performance.

Diversity and inclusion

We are an equal opportunity employer committed to ensuring that the best people are recruited on merit and that our processes are free from bias, discrimination or prejudices while complying with applicable employment and labour laws.

Health, safety and welfare at our workplace

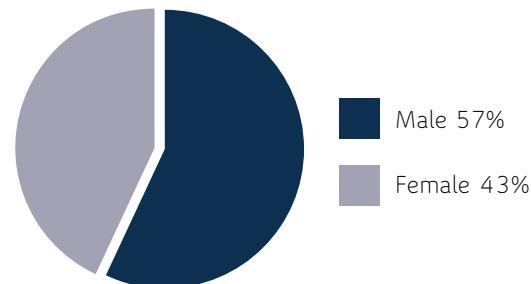
FBN Merchant Bank enforces strict health and safety rules and practices in the work environment which are reviewed and tested regularly. Employees and their dependants are covered under a company-funded, comprehensive Health Insurance Scheme. In addition, the Bank provides Group Personal Accident and Workmen's Compensation Insurance cover, and operates a contributory pension plan for all employees as required by law.

Fire-prevention and fire-fighting equipment are installed in strategic locations across all of our premises and fire drills are conducted on a structured basis.

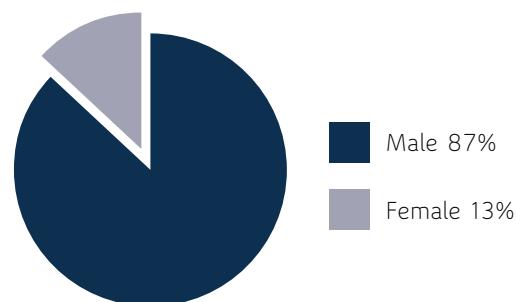
Learning and development

The Bank is committed to providing learning and development opportunities in order to inculcate a culture of learning that sustains high performance. Employees attend both local and international trainings, workshops and seminars following which knowledge sharing and exchange fosters development across board.

EMPLOYEES



BOARD MEMBERS (EXECUTIVES AND NON-EXECUTIVES)



TOP MANAGEMENT STAFF



GOVERNANCE

At FBN Merchant Bank, we are committed to ensuring and maintaining strong and good corporate governance to maximise our success in the long-term.

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CHAIRMAN'S INTRODUCTION



Bello Maccido, Chairman

“...I am able to assure all stakeholders that best corporate governance practices remain the foundation of the Bank. ”

The Bank received two penalties from the Securities and Exchange Commission (SEC) and Central Bank of Nigeria (CBN) as follows:

- Failure to promptly notify the Commission of the exit of a staff member who was a Sponsored Individual.
- Late submission of post-approval documentation in respect of a Non-Executive Director.

The penalties have been paid and the issues settled, and I am pleased to advise that the Bank did not record any corporate governance breach in its operations for the 2016 financial year. The size and constitution of the Board continue to meet best practice.

During the year, the Bank appointed KPMG Professional Services as its corporate governance auditors. On behalf of the Board of Directors, I would like to thank our former corporate governance auditors, J.K. Randle International for their contribution towards building enduring governance systems in the Bank.

The Chairman, the Managing Director and indeed the entire Board continue to receive commendable ratings in the Annual Performance Review/Appraisal of the Board of Directors conducted by the firm of KPMG Professional Services (a copy of the comprehensive report for the financial year under review will be presented to shareholders at the 2017 Annual General Meeting). This is particularly gratifying given the changes in management during the year and the transition from a discount house to a merchant bank.

Consequently, I am able to assure all stakeholders that best corporate governance practices remain the foundation of the Bank.

LEADERSHIP

THE BOARD OF DIRECTORS

The Board of Directors elected to direct and manage the business of the Company are as follows:



Bello Maccido (Appointed Chairman effective 1 January 2016)
Joined the Board on 30 September 2014



Andrew Reicher (Independent Non-Executive Director)
Joined the Board on 8 December 2014
Chairman, Board Risk Management Committee, Member, Board Credit Committee
BRMC BCC

Knowledge and skills: Bello Maccido has over 31 years' business experience, 26 of which represent hands-on experience handling a wide spectrum of financial services. An accomplished corporate and investment banker, his experience covers retail, corporate and investment banking at various institutions, including Ecobank Nigeria Plc, New Africa Merchant Bank Limited and FSB International Bank Plc, where he rose to become Acting Managing Director/Chief Executive. He was a National Council Member of the Nigerian Stock Exchange between 2009 and 2012, a member of the Finance Committee, National Council on Privatisation, and sat on the Implementation Committee of Financial System Strategy (FSS) 2020 and the Presidential Monitoring Committee on NDDC. Bello Maccido has a degree in law from the Ahmadu Bello University, Zaria, and was called to the Nigerian Bar in 1985. He obtained a master's degree in Business Administration, specialising in managerial finance, from Wayne State University, Detroit, USA. He is a chartered stockbroker and has attended executive management programmes at Harvard Business School, the Wharton School and IMD, Lausanne, Switzerland. He holds the traditional title 'Wakilin Sokoto'.

Experience:

- Group Chief Executive officer, FBN Holdings Plc (retired effective 1 January 2016)
- Executive Director, Retail Banking North Group; First Bank of Nigeria Limited
- Managing Director/Chief Executive Officer, Legacy Pension Managers Limited
- Acting Managing Director/Chief Executive Officer, FSB International Bank Limited
- Manager and Head, Corporate Banking, New Africa Merchant Bank Limited
- Officer, Credit and Marketing, Ecobank Nigeria Plc
- Council Member, Nigerian Stock Exchange, March 2009-May 2012
- Member, Finance Committee, National Council on Privatisation (NCP)
- Member, Implementation Committee, Financial System Strategy (FSS) 2020
- Member, Presidential Monitoring Committee on Niger Delta Development Commission (NDDC)
- Member, Ministerial Task Force on Refineries

Knowledge and skills: Andrew Reicher has over 38 years' active experience in investment banking, with expertise in credit structuring and administration, financial advisory, private equity investment, development finance, venture capital and renewable energy investment. Andrew is currently the Chairman, Africa Renewable Energy Fund, and has held a series of positions in leading financial institutions such as Citibank/Citicorp, Botts & Co and Credit Suisse; he was also the Chief Investment Officer and Infrastructure Head at Commonwealth Development Corporation/Actis. Andrew has an MA in Economics from Cambridge University, UK, where he was awarded a Double First and the University's Wrenbury Prize for Economics, and a Master's in Economics from the University of Pennsylvania, USA.

Experience:

- Head of Programme Management, Private Infrastructure Development Group
- Chief Executive, Globaleq
- Founding Partner and Member of Supervisory Board, Actis
- Executive Director, Chief Investment Officer, Commonwealth Development Corporation
- Managing Director, Head of Central Europe Private Equity, Credit Suisse First Boston, London and Prague
- General Director and Co-Head, CSFB Czechoslovakia
- Partner, Botts & Company Limited, London
- Director – Banking, Credit Suisse First Boston, London
- Vice President; Citibank/Citicorp, London

Leadership



Oluyele Delano, SAN, MCI Arb, (Independent Non-Executive Director)
Joined the Board on 9 February 2015
Chairman, Board Audit Committee, Member, Board Risk Management Committee BAC BRMC



Dr Omobola Johnson (Non-Executive Director)
Joined the Board on 6 October 2015
Chairman, Board Governance/HR Committee, Member, Board Audit Committee, Board Credit Committee BG/HRC BAC BCC

Knowledge and skills: Oluyele Delano, SAN, MCI Arb, commenced his practice with Chief Rotimi Williams' Chambers in 1988, having been called to the Nigerian Bar in the same year. He subsequently rose to become one of the leading counsels in Chambers, with a focus on litigation and arbitration.

In 1998, Oluyele assumed his current position in the Lagos office of ALP, and in 2006 was elevated to the Inner Bar, becoming one of the youngest senior advocates in Nigeria to receive the Silk. He has been involved in notable multimillion dollar transactions in which he has advised key government and private sector interests. Oluyele obtained a Bachelor's degree in law from the University of Southampton, UK. He is a Member of the Chartered Institute of Arbitrators, London and Lagos.

Experience:

- Partner, Akindelano Legal Practitioners
- Member, Body of Senior Advocates of Nigeria
- Chairman, Board of Trustees, Lazarus Trustee Foundation
- Member, Board of Directors of Crossworld Securities Limited

Knowledge and skills: Dr Omobola Johnson is Nigeria's first and immediate past Minister of Communication Technology. She brings to the Board over 25 years' consulting experience and has worked with a cross-section of companies in a variety of industries, successfully transforming them into more competitive and dynamic organisations. Omobola is a founding Chairperson and member of the Board of Trustees of Women in Management and Business (WIMBIZ), a non-governmental organisation that seeks to improve the success rate of female entrepreneurs and increase the proportion of women in senior positions in corporate organisations. She is a member of the World Economic Forum's Global Agenda Council on Africa, and of the United Nations Development Programme's' closed high-level Broadband Commission Working Group on Gender, the main objective of which is to promote the empowerment and digital inclusion of women. Omobola is also a member of the International Telecommunication Union's M-Powering Development Advisory Board, charged with extending the benefits of mobile technology to all strata of society in order to build a truly inclusive information society, with special focus on remote rural and underserved areas. Dr Johnson obtained a BSc in Electrical and Electronic Engineering from the University of Manchester, UK, and an MSc in Digital Electronics from King's College/Chelsea College (now known as King's College), University of London. She also gained a Doctorate of Business Administration from Cranfield University, also in the UK.

Experience:

- Honourable Minister for Communication Technology, Federal Republic of Nigeria
- Member, Presidential Advisory Council under President Goodluck Jonathan
- Country Managing Director, Accenture
- Enterprise Transformation, Arthur Anderson & Co/Anderson Consulting

Leadership



Kayode Akinkugbe

Appointed Managing Director/CEO 24 November 2015
Joined the Board 30 September 2014



Taiwo Okeowo, CFA

Joined the Board as Deputy Managing Director
on 24 November 2015

Knowledge and skills: Kayode Akinkugbe is the Managing Director and Chief Executive of FBN Merchant Bank Limited. He has over 24 years' experience working in top-tier global investment banks in the UK and Nigeria, where he was focused on arranging finance and providing strategic advice to public and private sector organisations. Kayode has a proven track record of meeting business and financial targets and has, over the course of his career, originated and executed over USD9billion of structured debt, project finance and equity financing across banks and capital markets; advised on over USD5 billion of merger and acquisitions transactions (privatisation, buy-side); and executed hedging solutions while generating significant revenue for his stakeholders. Kayode graduated from the University of Ibadan with a degree in Economics; he subsequently attended the London School of Economics where he obtained an MSc in International Accounting and Finance, and he also holds an MBA from Cranfield School of Management, UK.

Experience:

- Managing Director/CEO, FBN Merchant Bank Limited
- Managing Director/CEO, FBN Capital Limited
- Head, Sub-Saharan Africa Coverage (ex-South Africa), Deutsche Bank
- Director, Emerging Market Coverage, Credit Suisse
- Assistant Manager, Treasury and Capital Markets Group, HSBC Markets
- Treasury/Money Market Unit, EcoSecurities Limited
- Treasury, Credit and Marketing, Ecobank Nigeria Plc

Knowledge and skills: Taiwo Okeowo, CFA, is a seasoned professional with over 27 years' experience in investment banking. He has considerable experience in project finance, mergers, acquisitions, restructuring and securities underwriting. Under his stewardship, FBN Capital's investment banking team achieved the number one position in the Nigerian transaction league tables in Equity Capital Market (2007 and 2008) and Debt Capital Market (2009-2011). He is the former Chairman of the Fixed Income Subcommittee of the Capital Market Committee and served on the SEC Committee for the Review of the Companies and Allied Matters Act. Taiwo graduated with First-Class Honours in Computer Science from the University of Ibadan. He holds an MSc Management from the London Business School (where he was a Sloan Fellow), is a CFA Charterholder and a Fellow of the Institute of Chartered Accountants of Nigeria.

Experience:

- Deputy Managing Director, FBN Merchant Bank Limited
- Deputy Managing Director, FBN Capital Limited
- Deputy General Manager and Group Head, Corporate Finance and Investment banking, First Bank of Nigeria Limited
- International Consulting Engagement, Mastercard International LLC, Syracuse New York
- Group Head, Institutional Banking, Corporate Finance and Institutional Sales and Coverage, Investment Banking and Trust Company Limited (now Stanbic IBTC Plc)
- System Analyst and Programmer, NAL Merchant Bank Limited

Leadership



Adegboyega Fatoki

Joined the Board as Executive Director on 12 July 2012

Retired effective November, 2016

Knowledge and skills: Adegboyega Fatoki is an IT professional with over 31 years' experience in the field. However, he has effectively converted from back-office support to being an astute resources manager, as demonstrated by his elevation by the Board to the post of Executive Director in 2012. Before that he was responsible for coordinating the setting up of the company's IT systems. Prior to joining the Kakawa Discount House, now FBN Merchant Bank, Adegboyega was with the Nigerian American Merchant Bank. He is an alumnus of the London Business School's Senior Executive Programme and the Senior Management Programme of Lagos Business School. He is a certified Information Systems Auditor and an honorary member of the Chartered Institute of Bankers (CIBN).

Experience:

- Executive Director, FBN Merchant Bank Limited (till November 30, 2016).
- Acting Managing Director/CEO, Kakawa Discount House Limited and FBN Merchant Bank Limited
- Executive Director, Kakawa Discount House Limited
- Member Board of Directors, Kakawa Asset Management Limited
- Head, Business Support Group, Kakawa Discount House
- Head Internal Audit, Kakawa Discount House Limited
- Head, Information Technology; Owena Bank (Nigeria) Plc
- Head, Information Technology, Nigerian-American Merchant Bank Limited
- Assistant Data Processing Manager, Wema Bank Plc
- Systems Analyst/Programmer, United Bank for Africa Plc
- Analyst/Programmer, Datacybernetics (Nigeria) Limited

FBN MERCHANT BANK MANAGEMENT TEAM



Kayode Akinkugbe
Managing Director/CEO



Taiwo Okeowo, CFA
Deputy Managing Director



Adegboyega Fatoki
Executive Director
(Retired effective November, 2016)



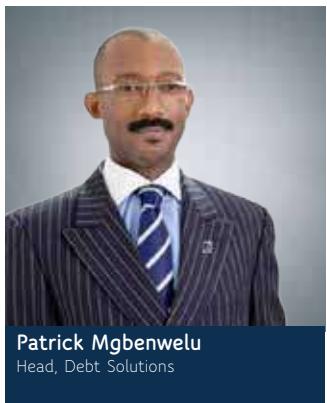
Bimbola Wright
Head, Coverage and Corporate Banking



Funke Ladimeji
Head, Operations and Technology



Taiwo Gabriel
Chief Risk Officer



Patrick Mgbenwelu
Head, Debt Solutions



Abimbola Onyeji
Head, Fixed Income, Currencies and
Treasury



Emily Atebe
Chief Financial Officer

Leadership

BOARD ROLES AND RESPONSIBILITIES

Responsibilities

The Board of FBN Merchant Bank Limited is accountable and responsible for the performance of the Company. The Board discharges its oversight functions and provides FBN Merchant Bank Limited with strategic direction through reviews and approval of major strategic plans and initiatives. The Board not only ensures that adequate audit and risk management and control systems are in place, and that financial reporting and compliance programmes exist, but also ensures that the processes for the evaluation of their adequacy on an ongoing basis are not compromised. The Board also makes certain that the competence, independence and integrity of internal and external audit processes of the Bank are not compromised.

The role of the Directors

The role of the Chairman and other Board members are set out below:

ROLE OF THE CHAIRMAN

- Ensure the Board carries out its governance role in the most effective manner possible.
- Set the agenda for Board meetings and ensure the Board remain focused on its governance roles.
- Ensure Board meetings are run in an efficient manner so that all points and opinions are heard.
- Ensure the various Board committees are set up and properly governed, and assist the Board in its oversight functions.
- Chair the Annual General Meeting.

ROLE OF THE MANAGING DIRECTOR/CEO

- Provide strategic direction and alliances in line with overall corporate strategy and ensure effective implementation.
- Develop credibility for the financials by providing timely and accurate analysis of budgets, financial reports to assist Board and senior executives in performing their responsibilities.
- Provide strategies to maintain and upgrade Company's reputation, image, brand and external communication.
- Liaise with external consultants and regulatory bodies' representatives (CBN, tax authorities, external auditors, consultants, etc.) on behalf of the organisation and ensure compliance with same.
- Provide necessary reports to the Board as may be required.

NON-EXECUTIVE DIRECTOR

- Act honestly and in good faith in the best interest of the Company.
- Exercise due diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
- Assist the Company in achievement of its strategic corporate objectives.
- Devote sufficient time to Board affairs.
- Ensure they and the Board as a whole act in the best interest of the Company rather than that of an individual director or any other interests.

INDEPENDENT NON-EXECUTIVE DIRECTOR

- Employ neutral, specialised/expert skills towards achieving a balance of knowledge, skills, judgement and other directional resources.
- Serve as check on the Management of the Company by providing unbiased and independent views to the Board.
- Help the Board of the Company to get the most out of its businesses by providing objective inputs to strategic thinking and decision-making, while ensuring full compliance with statutory rules and regulations.

COMPANY SECRETARY

- Ensure flow of information within the Board and its committees, between senior management and non-executive directors, facilitating induction and assisting with professional development.
- Advising the Board, through the Chairman, on all governance matters and regulatory affairs.
- Advise all members of the Board as may be required to ensure compliance with Board procedures.
- Administer the Company Secretariat in such manner to ensure that Company information is accessible to all qualified stakeholders.
- Filing all statutory returns as may be required under the laws governing the Company.

Leadership

Board changes during the year

Bello Maccido took over the reins as the Chairman of the Bank upon the retirement of Ibukun Awosika in December 31, 2015. The appointment was effective 1 January 2016.

In the course of the year, the CBN approved the appointment of UK Eke, MFR, to the Board of Directors. UK Eke, MFR, is the Group Managing Director of FBN Holdings Plc and his appointment to the Board of the Bank has strengthened corporate governance and enhanced group coordination/synergy. The Board and Management of the Bank recognise the valuable contributions of UK Eke, MFR, thus far.

The Executive Director, Adegboyega Fatoki, retired effective November 30, 2016 after 21 years of meritorious service spanning the defunct Kakawa Discount House Limited and the merchant bank. Adegboyega was acting Managing Director during the period of conversion of the discount house to the merchant bank, and transited to Executive Director upon the conclusion of integration.

The Board also appointed Messrs Folaranmi Babatunde Odunayo and Akinlolu Osinbajo ESQ. in the course of the year. Folaranmi is a chartered accountant and Fellow of the Institute of Chartered Accountants of Nigeria with extensive experience spanning consulting, banking, manufacturing and services. Akinlolu is a reputable and experienced legal practitioner of over thirty years and has been entrusted with public office at very high levels. The appointments are subject to the approval of the Central Bank of Nigeria.

Board activities

The Board met five times in the course of the year and complied with the quarterly statutory meetings in line with extant regulation. In addition, a Board and Management Retreat was held in November, 2016 to engender interaction between the Board and Senior Management of the Bank and also to approve the three year strategic plan post-conversion to a merchant bank. Members of the Board interacted with staff across several levels and reviewed the reports of the various Board Committees to ensure a firm grasp on the governance position of the Bank.

Board discussions

Having concluded the conversion process, the focus of the Board for 2016 was the establishment of strong and enduring corporate governance processes, re-positioning of the business, and profitability.

In the course of the year, Investment Banking and Sales Divisions were established. Due to the need to obtain requisite regulatory approvals, the divisions could not commence business until the third quarter of 2016. Despite this late start, considerable income was generated for the Bank by these divisions.

How the Board spent its time

Board meetings focused on the re-positioning of the Bank for greater profitability, having established the governance framework. Considerable Board time was spent on the review of the Bank's performance vis-vis set targets, which showed in the profitability of the Company despite the challenging economic environment. This resulted in the payment of the interim dividend of ₦1.048billion at the end of the year.

Board focus areas for 2017

The Board will focus on strategy in the new year and profitability in line with the approved strategic plan for 2017-2019

Attendance at Board meetings:

Attendance at Board meetings was as shown below:

Name	16 Feb 2016	13 Apr 2016	15 Jul 2016	21 Sept 2016	30 Nov 2016
Bello Maccido	✓	✓	✓	✓	✓
Kayode Akinkugbe	✓	✓	✓	✓	✓
Taiwo Okeowo, CFA	✓	✓	✓	✓	✓
Adegboyega Fatoki*	✓	✓	✓	✓	N/A
Andrew Reicher	✓	✓	✓	✓	✓
Oluyele Delano, SAN	✓	✓	✓	✓	✓
Dr Omobola Johnson	✓	✓	Absent	✓	✓
UK Eke, MFR**	N/A	N/A	N/A	✓	✓

* = Retired during the year

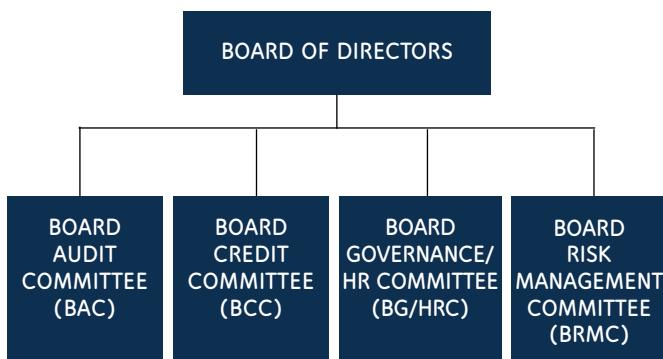
** = Appointed during the year

N/A = Not Applicable

Leadership

COMMITTEE REPORTS

The effectiveness of FBN Merchant Bank Limited's Board is fortified and strengthened by its four committees, namely the Board Credit Committee, the Board Audit Committee, the Board Risk Management Committee and the Board Governance/HR Committee. Each committee is chaired by a non-executive director and fully governed by approved charters.



Board Audit Committee (BAC)



Oluyele Delano, SAN (Chairman)

The Board Audit Committee (BAC) was chaired by Oluyele Delano, SAN. The overall purpose of the committee is to drive the Board's strategic and oversight functions in the areas of financial reporting, internal and external audits.

FINANCIAL REPORTING

The Committee provides assurance that financial disclosures made by Management reasonably portray the Company's and its subsidiaries' financial conditions, results of operations and long-term commitments by:

- Considering the appropriateness of the accounting policies applied and whether they are prudent and consistent with prior practice and comply with regulations and legal requirements;

- Considering the validity of any changes in accounting treatment or disclosure by comparing with the previous year; critically reviewing the draft financial and interim reports and other financial documents;
- Considering any difference of opinion between auditors and management on the level of provisions, on accounting treatment or on disclosure;
- Considering the quality of financial information disclosed to the shareholders and other stakeholders, especially in the context of the Company's business ethics and standards; and
- Reviewing the financial reporting process with a view to ensuring the Company's compliance with accounting standards, financial matters and the applicable laws, and also establishing/maintaining the integrity of the Company's financial reporting.

EXTERNAL AUDIT

- Makes recommendations for the appointment and retention of the external auditors.
- Reviews and discusses the scope of the audit and audit plan, including those of the subsidiaries.
- Considers differences of opinion between management and the external auditors.
- Evaluates the performance, objectivity and independence of the external auditor.
- Reviews the nature and extent of non-audit services provided by the external auditors.
- Obtains assurance from the auditors that adequate accounting records are maintained and used in the preparation of financial statements.
- Reviews internal and external auditors' reports (Management letter) and responds thereto and considers status of actions taken by Management.
- Makes recommendations to the Board on the approved annual audited reports and disclosure requirements in line with Basel II.

INTERNAL AUDIT:

- Reviews the objectives of the risk-based internal audit function and the annual plan of action.
- Reviews and approves the scope of internal audit work, including annual risk-based audit and spot check plans and reviews compliance therewith.

Leadership

- Assesses the adequacy and performance of the internal audit function and the adequacy of available resources.
- Reviews significant matters reported by the internal auditor.
- Reviews and assesses the implementation of approved audit recommendations.
- Reviews significant differences in opinion between management and the internal auditors.
- Reviews the cooperation and coordination between the internal and external auditors.
- Provides a structural reporting line for internal audit and facilitate the maintenance of the objectivity of the internal auditor.
- Authorises or directs the internal auditor to carry out special assignments over and above the approved annual audit plan and report thereon.

INTERNAL CONTROL SYSTEMS

- Reviews the systems of internal controls to ascertain its adequacy and effectiveness.
- Reviews and discusses any previously identified material weaknesses in controls and deficiencies in system and, if considered necessary, recommends additional procedures to enhance the system of internal controls.
- Identifies any changes necessary to the agreed audit scope or to other services as a result of any weaknesses or deficiencies revealed.

ATTENDANCE AT BAC MEETINGS

Name	12 Feb 2016	12 Apr 2016	4 Jul 2016	20 Sept 2016	11 Nov 2016
Oluyele Delano, SAN	✓	✓	✓	✓	✓
Dr Omobola Johnson	✓	✓	✓	✓	✓
UK Eke, MFR*	N/A	N/A	N/A	✓	✓

* = Appointed during the year

N/A = Not Applicable

Board Credit Committee (BCC)



Andrew Reicher (Chairman)

The BCC was chaired by Andrew Reicher (in acting capacity) upon the elevation of Bello Maccido to Chairman of the Board. The terms of reference of this Committee include to:

- Review credit policies of FBN Merchant Bank Limited and recommend the same to the Board;
- Review and approve all facilities exceeding the delegated authority of the Management Credit Forums as set out in the Credit Policy;
- Review reports and monitor trends in FBN Merchant Bank Limited's risk assets profile;
- Review the methodologies for assessing FBN Merchant Bank Limited's risk assets and recommend appropriate exposure limits;
- Review and approve the restructure of credit facilities as per the Credit Policy;
- Ensure that concentration of risk assets is within the Company's defined risk tolerance; and
- Carry out such other acts as the Board may from time to time direct the Committee.

ATTENDANCE AT BAC MEETINGS

Name	12 Apr 2016	13 Jul 2016	20 Sept 2016	30 Nov 2016
Andrew Reicher	✓	✓	✓	✓
Kayode Akinkugbe	✓	✓	✓	✓
Taiwo Okeowo, CFA**	✓	✓	✓	✓
Dr Omobola Johnson**	N/A	✓	✓	✓

** = Appointed during the year

N/A = Not Applicable

Leadership

Board Governance/HR Committee (BG/HRC)



Dr Omobola Johnson (Chairman)

The Board Governance/HR Committee was chaired by Dr Omobola Johnson. The purpose of the Board Governance/HR Committee (BG/HRC) is to assist the Board in formulating policies, making decisions and exercising its oversight functions in relation to:

- Identification, approval and recommendation of individuals qualified to become members of the Board to the Board of Directors.
- Consider and make recommendation on the appointment of top management staff of the Company to the Board of Directors.
- Develop, update as applicable and make recommendations to the Board on corporate governance principles and policies as applicable to the Company.
- Monitor compliance with such principles and policies. Identify and make recommendations to the Board for approval on staff welfare, conditions of service, administrative and/or ethical issues as may arise.
- Act as a general purpose Committee as may be required by the Board from time to time.

Matters shall be referred to the Committee from the resolutions of the Executive Committee or other matters as the Board shall refer to the Committee for consideration.

The Committee shall make recommendations to the Board for adoption and approval.

The membership, meetings, duties and responsibilities and operations of the Committee shall be subject to the provisions of the Board Governance/HR Committee Charter as approved by the Board.

The BG/HRC was constituted early 2016. Thus the BG/HRC did not meet in the course of the 2015 financial year. This will be reversed in 2016 as the BG/HRC is now constituted by all the non-executive directors of the Company save the Chairman of the Board who is not a member of any of the Committees.

ATTENDANCE AT BAC MEETINGS

Name	12 Apr 2016	04 Jul 2016	20 Sept 2016	11 Nov 2016
Dr Omobola Johnson	✓	✓	✓	✓
Andrew Reicher	✓	✓	✓	✓
Oluyele Delano, SAN	✓	✓	✓	✓
U.K. Eke, MFR*	N/A	N/A	Absent	✓

*Appointed in the course of the year.

Board Risk Management Committee (BRMC)



Andrew Reicher (Chairman)

The BRMC was chaired by Andrew Reicher. The overall purpose of the Committee is to protect the interest of shareholders and other stakeholders by overseeing the following:

- The adequacy of the internal control environment;
- Management of the Enterprise Risk framework; and
- The entrenching of a culture of good enterprise risk management and risk awareness.

The objectives of the Committee include the following:

- Assisting the Board to discharge its responsibilities to exercise due care, diligence and skill in relation to FBN Merchant Bank Limited's:
 - Internal control system;
 - Monitoring of both business and control risks; and
 - Establishment and management of compliance procedures over regulatory and legal requirements.
- Improving the efficiency of the Board by accepting delegated tasks for sufficient and in-depth discussions.

Leadership

- Establishing a formal written policy on the overall risk management system of the Company.
- Improving the effectiveness of the risk management function.
- Ensuring that adequate policies are put in place to manage and mitigate adverse effects of both business and control risks.
- Re-evaluating the Company's risk management policy on a periodic basis to accommodate major changes in internal and external factors.
- Establishing robust contingency planning and continuity of business imperatives with in-built capabilities for minimising disruption in the event that mission-critical threats crystallise.

The duties and responsibilities of the Committee include, but are not limited to, the following:

i. Enterprise Risk Management:

- Reviewing and recommending to the board for approval the enterprise-wide Risk Management (ERM) Policy;
- Reviewing and recommending to the Board for approval the risk philosophy, risk appetite and tolerance levels;
- Monitoring the organisation's plans and progress in meeting regulatory risk-based supervision requirements and migration to Basel II compliance;
- Dealing with the organisation's risk-reward profiles (including the credit, market and operational risk-reward profiles) and, where necessary, recommending improvement strategies;
- Reviewing and recommending improvements regarding outstanding actions on risk management plans at business units/subsidiaries level;
- Evaluating the risks identified in those strategic plans that require Board approval to determine their impact on the risk-reward profile;
- Evaluating the risk profile and risk management plans drafted for major projects, acquisitions, new ventures and new products or services to determine the impact on the risk-reward profile;
- Collaborating with the Board Audit Committee and reviewing issues for consideration as identified by the Board Audit Committee;
- Monitoring the firm's capital adequacy levels and capital management process, ensuring compliance with global best practice standards such as the Central Bank and Basel II; and

- Ensuring a robust contingency plan and continuity of business imperatives with in-built capabilities for minimising disruption in the event that mission critical threats crystallise.

ii. Internal control efficiency:

This involves evaluating the following:

- Efficiency and effectiveness of FBN Merchant Bank Limited's operations;
- Accuracy of transactions capture and storage;
- Reliability of financial reporting;
- Effectiveness of risk management systems; and
- The adequacy of internal controls.

iii. Ensuring compliance by:

- Ensuring that the Company has a comprehensive compliance framework for regulations and guidelines of money laundering and financial crimes;
- Reviewing the adequacy and effectiveness of the programme of compliance with money laundering and financial crimes regulations and guidelines established within FBN Merchant Bank Limited;
- Reviewing the processes in place for ensuring that new and changed legal and regulatory requirements on money laundering and financial crimes are identified and reflected in FBN Merchant Bank Limited's processes;
- Reviewing the scope and depth of compliance audit activities and the resulting impact audit findings have on the risk profile of FBN Merchant Bank Limited regarding money laundering and financial crimes;
- Ensuring the effectiveness of the Company's system for monitoring compliance with relevant laws and regulations (including internal rules) and the measures taken by the Management as a result of its investigation of material incidents of non-compliance; and
- Evaluating the nature and effectiveness of action plans implemented to address identified compliance.

ATTENDANCE AT BRMC MEETINGS

Name	12 Apr 2016	12 & 13 Jul 2016	20 Sept 2016	31 Nov 2016
Andrew Reicher	✓	✓	✓	✓
Oluyele Delano, SAN	✓	✓	✓	✓
Kayode Akinkugbe	✓	✓	✓	✓
Adegboyega Fatoki*	✓	✓	✓	N/A

* = Retired during the year

N/A = Not Applicable

Leadership

MANAGEMENT COMMITTEES

The Executive Leadership Committee (ELCO) is the body delegated by the Board of Directors of the Company to manage the day-to-day business of the Company and is the highest decision-making organ of the Company, subject only to the directives of/parameters set by the Board of Directors, who retain supervisory powers over the Executive Management and are authorised to review or approve all decisions of Executive Management as it deems fit.

The Executive Leadership Committee (ELCO) is entrusted with the following powers:

- Business continuity management.
- Ensuring operations and information communication and telecommunication capability.
- Effective and efficient resource management, including purchase and disposal of Company assets. All fixed asset(s) disposal must not be below book value of the asset at the material time.
- Protection and enhancement of brand reputation.

The Executive Leadership Committee (ELCO) carries out its mandate through the following committees:

THE COMPOSITION OF ELCO

TITLE	
Chairman	Managing Director
Members	Deputy Managing Director
	Executive Director
	Chief Financial Officer
	Chief Risk Officer
	Head, Coverage and Corporate Banking Division
	Head, Debt Solutions
	Head, Fixed Income, Currencies and Treasury
	Head, Technology and Operations

ASSET AND LIABILITY COMMITTEE (ALCO)

ALCO is charged with the responsibility of setting the short, medium and long-term strategies for managing its financial assets and their funding. ALCO meets regularly to review the Company's balance sheet, and analyse and formulate strategies to manage inherent risks in order to meet relevant performance objectives.

ALCO focuses on a number of risks including, but not limited to the following:

- Interest rate risk: hedging against adverse interest rate swings that occur due to mismatch in liabilities and assets.
- Liquidity risk: ensuring that the Company meets its maturing obligations as and when due and is in the position to honour its commitments.
- Concentration risk: ensuring that the Company is not vulnerable to any single client or groups of clients, particular in relation to its funding sources.
- Price risk: ensuring that adverse movements in the market prices do not have a negative impact on the Company's trading positions.

THE COMPOSITION OF ALCO

TITLE	
Chairman	Managing Director
Members	Deputy Managing Director
	Executive Director
	Chief Financial Officer
	Chief Risk Officer
	Chief Compliance Officer
	Head, Coverage and Corporate Banking Division
	Head, Markets Division
	Chief Strategy Officer
	Head, Credit Risk Management
	Head, Sales Division
	Chief Dealer, Markets Division
	Head, Market and Liquidity Risk Management (Secretary)

Leadership

INFORMATION TECHNOLOGY STEERING COMMITTEE (ITSC)

The primary function of the ITSC is to take responsibility for the feasibility, business case and the achievement of outcomes of information and communications technology (ICT) projects. The Committee will monitor and review the project status, as well as provide oversight of the project deliverable roll-out.

The ITSC provides a stabilising influence so that organisational concepts and directions are established and maintained with a visionary view. The Committee provides insight on long-term strategies in support of organisational objectives. Members of the ITSC ensure business objectives are being adequately addressed and that the project remains under control. These responsibilities are carried out through the following functions:

- Monitoring and review of the project at regular Steering Committee meetings;
- Providing assistance to the project when required;
- Controlling project scope as emergent issues force changes to be considered, ensuring that scope aligns with the agreed business requirements of project sponsor and key stakeholder groups;
- Resolving project conflicts and disputes, reconciling differences of opinion and approach;
- Formal acceptance of project deliverables; and
- Ensuring that due diligence is followed in the selection and recommendation of service vendors for IT projects.

THE COMPOSITION OF THE ITSC

TITLE	
Chairman	Deputy Managing Director
Members	Executive Director
	Head, Operations and Technology
	Chief Risk Officer
	Chief Strategy Officer
	Chief Compliance Officer
	Head, Fixed Income, Currencies and Treasury
	Head, Internal Audit
	Head, Sales Division
	Chief Information Officer
	Head, IT Applications
	Head, IT Security and Infrastructure
	Head, IT Operations (Secretary)

MANAGEMENT CREDIT AND UNDERWRITING COMMITTEE (MCUC)

The objective of the Committee is to supervise and coordinate the credit management policies, objectives and activities of the institution at management level. The MCUC also facilitates the identification, evaluation and management of all forms of credit exposure, limits and loss reserve positions.

THE COMPOSITION OF THE MCUC

TITLE	
Chairman	Managing Director/CEO
Members	Deputy Managing Director
	Executive Director
	Head, Debt Solutions
	Chief Risk Officer
	Head, Fixed Income, Currencies and Treasury
	Head, Sales Division
	Head, Market and Liquidity Risk Management
	Head, Credit Risk Management (Secretary)
Attending members	Chief Financial Officer
	Head, Advisory and Capital Markets
	Chief Dealer, Fixed Income, Securities and Treasury
	Head, Legal Services
	Chief Compliance Officer
	Deputy Chief Compliance Officer

Leadership

RISK MANAGEMENT COMMITTEE (RMC)

The RMC is responsible for identifying, assessing, monitoring, controlling and managing risks that are inherent in the Company's business.

The objectives of the Committee include:

- Provision of a sound basis for enterprise-wide risk management and internal controls as a component of good corporate governance, global best practices, and in compliance with statutory and regulatory requirements.
- Effective management of assets, liabilities and the associated risks for both the customer and FBN Merchant Bank Limited while balancing the cost of managing those risks and the anticipated benefits.
- Improvement in the financial performance of the institution by establishing a positive relationship between an effective risk management system and profitability.
- Protection of the Company from risks of significant likelihood and minimisation of the impact thereof in cases of their crystallisation in the pursuit of 'FBN Merchant Bank Limited's stated strategic goals and objectives.
- Achievement of a robust business continuity management framework with in-built capabilities for disruption minimisation in the event that mission critical threats crystallise; as well as evaluating its adequacy in relation to FBN Merchant Bank Limited's business and regulatory requirements.

THE COMPOSITION OF THE RMC

TITLE	
Chairman	Managing Director/CEO
Members	Deputy Managing Director
	Executive Director
	Head, Coverage and Corporate Banking Division
	Head, Debt Solutions
	Head, Operations and Technology
	Chief Risk Officer
	Head, Fixed Income, Currencies and Treasury
	Head, Sales Division,
	Chief Financial Officer
	Chief Risk Officer
	Chief Compliance Officer
	Chief Information Officer
	Head, Legal Services
	Head, Market and Liquidity Risk Management
	Head, Operational Risk Management (Secretary)
Attending members	Head, Credit Management
	Deputy Chief Compliance Officer
	Head, Abuja Branch
	Head, Port Harcourt Branch
	Head, Strategy

EFFECTIVENESS

Board effectiveness

We have ensured that the Board remains effective and abreast of the activities of the Company in a number of ways, including ensuring a yearly appraisal of the Board by external consultants in line with the CBN Code of Corporate Governance. We have ensured an appropriate balance of skill and knowledge, as experience is drawn from across the public and private sectors of the economy. The members of the Board of Directors have all attended training locally and abroad.

The members of the Board of Directors have unfettered access to the Company Secretary, an appointee of the Board, who ensures effective information flows within the Board and its committees and, between Executive Management and Non-Executive Directors, as well as facilitating induction and assisting with professional development. The Company Secretary is also responsible for advising the Board through the Chairman on all governance matters and regulatory issues, and advising members of the Board as may be required to ensure that Board processes are complied with.

Board composition

The Company had a seven-member Board as at 31 December 2016 comprised of one woman and six men, short of a 70/30 gender ratio. The Board is mindful of this and is poised to ensure more female representation on the Board. The directors are representatives of FBN Holdings Plc, with one of them in an executive capacity. Two of the five non-executive directors are independent directors, in compliance with Section 5:3:6 of the Code of Corporate Governance for Banks and Other Financial Institutions. The directors are therefore all financially literate and equipped with the requisite knowledge. Nevertheless, despite their expertise, the directors are empowered to and seek professional advice on appropriate issues at the expense of the Company.

The composition of the Board of FBN Merchant Bank Limited in terms of proportion of executive and non-executive directors represents an appropriate mix with three directors serving in an executive capacity.

Appointment philosophy and induction process

The directors are nominees of FBN Holdings Plc. Nominations are subjected to the approval of the Board of Directors and the requisite regulatory approval. The Board of Directors is also authorised to appoint a director if the laws of the Federal Republic of Nigeria or any regulator of the Company demand such appointment be made.

As part of their induction process, newly appointed directors are given an orientation pack containing valuable information regarding how the Company is run.

Remuneration

The remuneration of members of the Board of Directors is limited to a sitting allowance, directors' fees and reimbursable(s). Total emoluments paid to the directors in 2016 were ₦453,596,000.00, broken down as follows:

DESCRIPTION	AMOUNT (₦)
Fees and sitting allowances	17,070,000.00
Executive compensation	145,703,000.00
Terminal benefits	212,962,000.00
Other director expenses	77,861,000.00

The seeming difference in executive compensation was due to the increase in the number of Executive Directors from one in 2015 to three in 2016. Furthermore, Adegboyega Fatoki retired effective November, 2016, which accounts for the terminal benefits shown above.

Performance monitoring

The Board monitors the performance of the Company and evaluates strategic results to ensure that the Company has a secure long-term future by:

- Establishing the Company's strategic direction and priorities;
- Interacting with the key stakeholders in order to inform them of the Company's achievements and ensure that they make inputs into determining the strategic goals and directions;
- Regularly scanning the external operating environment in order to ensure that the Company's strategic direction remains both appropriate and achievable;
- Establishing the policy framework from which all operational policies and action are developed for governing the Company;
- Appointing and setting targets for evaluating the performance of and rewarding, as appropriate, the Chief Executive Officer (CEO);
- Monitoring the CEO and the Company's compliance with the relevant federal, state and local legislation with the Company's own policies; and
- Evaluating its effectiveness as a Board.

Tenure of directors

The Bank aligns its policy on tenure of directors with that contained in the Central Bank of Nigeria's Code of Corporate Governance for Banks and Discount Houses in Nigeria, 2014, stated as three terms of four years each for non-executive directors and two terms of five years each for the Managing Director/CEO.

Training

The members of the Board of Directors attended formal and informal training in the course of the financial year to enhance Board performance and deepen their knowledge in relation to the expectations and demands of their office.

Board of Directors' performance evaluation

In line with extant regulations, the Board of Directors commissioned the firm of KPMG Advisory Services to conduct an appraisal of its activities and a directors, peer appraisal review in the course of the year. The summary of the report of KPMG is that the activities of the Board comply with the corporate governance practice as enshrined in the Corporate Governance Code of the Central Bank of Nigeria. The report of KPMG has been presented to the Board of Directors and the Annual General Meeting.

ACCOUNTABILITY

RISK GOVERNANCE FRAMEWORK

FBN Merchant Bank Limited has a robust and functional Enterprise Risk Management (ERM) framework that is responsible for identifying and managing the whole universe of inherent and residual risks facing the Bank.

The Bank is exposed to the under-listed key risks in carrying out its daily operations:

- Market risk
- Liquidity risk
- Credit risk
- Operational risk

Other key risks include compliance, legal, reputational and strategy risks. This section describes the Bank's exposure these risks, the policies and processes for measuring, as well as their management.

RISK MANAGEMENT PHILOSOPHY

FBN Merchant Bank's risk management philosophy is drawn from its mission statement and seeks to enrich the financial wellbeing of our stakeholders, while ensuring strong commitment to the following key indices:

- Professionalism while delivering value to customers.
- Strong performance reporting (financial and non-financial).
- Good corporate governance.
- Consistent appreciation in shareholders' value.

RISK MANAGEMENT FRAMEWORK

FBN Merchant Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, to monitor risks and adherence to limits. These policies are subject to review at least once a year, but more frequent reviews may be conducted in the opinion of the Board, when changes in laws, regulations, market conditions or the Bank's activities are material enough to impact on the continued adoption of existing policies. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework via its committees:

- Board Risk Management Committee
- Board Credit Committee
- Board Audit Committee
- Board Governance/HR Committee

These committees are responsible for developing and monitoring risk policies in their specified areas and report regularly to the Board of Directors on their activities. All Board committees have both executive and non-executive members. The Board committees are assisted by the various Management committees in identifying, assessing and monitoring risks arising from day-to-day activities of the Bank. These committees are:

- Management Credit and Underwriting Committee (MCUC)
- Asset and Liability Committee (ALCO)
- Risk Management Committee (RMC)
- IT Steering Committee (ITSC)
- Other ad hoc committees

The committees meet on a regular basis while others are set up on an ad-hoc basis as dictated by the circumstances.

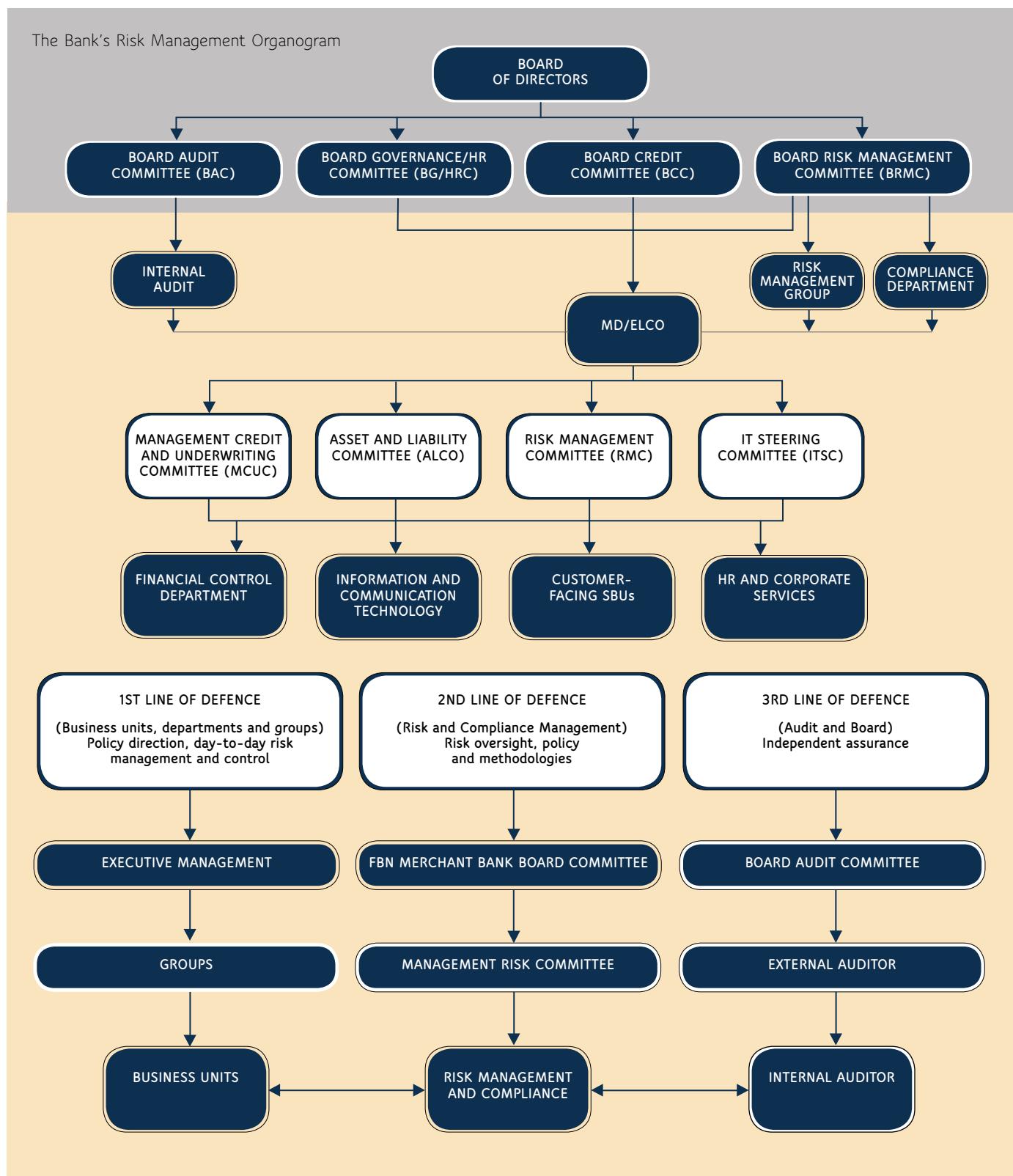
The Board and Management committees are responsible for reviewing and recommending risk management policies, procedures and profiles, including risk philosophy, risk appetite and risk tolerance of the Bank. The oversight functions cut across all risk areas. The committees monitor FBN Merchant Bank's plans and progress towards meeting regulatory risk-based supervision requirements and migration to Basel II compliance, as well as the overall regulatory and economic capital adequacy.

The Board Credit Committee (BCC) considers and approves all lending exposures and other credits in excess of limits assigned to the Executive Leadership Committee (ELCO) by the Board, which is exercised on behalf of ELCO by the Management Credit and Underwriting Committee (MCUC). The MCUC formulates credit policies for Board approval, in consultation with business units, covering credit assessment, risk grading and reporting, collateral, and regulatory and statutory requirements.

The Board Audit Committee (BAC) is responsible for reviewing the adequacy of the external and internal audit procedures and making recommendations to the Board and Management as appropriate. The BAC is assisted by the Internal Audit department in carrying out these functions. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Committee.

The Board Risk Management Committee (BRMC) is responsible for formulating strategies for enterprise risk management, evaluating overall risks faced by the Bank, aligning risk policies with business strategies and determining the level of risks that will be in the best interest of the Bank. The Committee's oversight functions cut across all risk areas involved in the Bank's operations. The Risk Management Committee (RMC) assists the BRMC in the implementation of the Bank's risk management strategies and policies, and ensures that adequate controls and procedures are in place to manage risks.

Accountability



Accountability

The Board Governance/HR Committee (BG/HRC) is responsible for the assessment of the effectiveness of the Board as a whole, Executive Leadership Committee (ELCO) and the Board committees. It considers and recommends appointments of senior management to the Board, as well as recommendations on matters relating to staff welfare, conditions of service, administrative and/or other ethical issues.

The Asset and Liability Committee (ALCO) establishes the Bank's standards and policies covering the various components of market risk, including issues on interest rate, liquidity, investment and trading risk. It ensures that market risk exposures that can have potential impact on the Bank's income are monitored, controlled and managed through stress tests and simulations.

The Risk Management and Control (RM&C) group is responsible for implementing approved risk policies and procedures. The RM&C is also responsible for identifying, controlling, monitoring and reporting risk issues, and serves as the Secretariat for the Management committees. Market and credit risks are the most critical risks to the RM&C, as exposures arising from security trading, investments and lending activities account for the major portion of the Bank's assets and source of its revenue.

The Bank recognises that it is in the business of managing risks to derive optimal satisfaction for all stakeholders. It has therefore over the years detailed its approach to risk through various policies and procedures, which include the following:

- Enterprise Risk Management (ERM) framework
- Risk Asset and Acceptance Criteria (RAAC)
- Credit Risk Policy
- Market and Liquidity Risk Policy
- Operational Risk Policy
- Concentration Limit Policy
- Business Continuity Management (BCM) Policy
- Performance Management framework
- Related Parties Policy
- Crisis Management and Media Response Policy
- Standard Manuals of Operations
- Compliance Policy
- Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) Policy
- Code of Conduct Policy
- Whistleblowing Policy

To ensure adherence to the policies and procedures, several exception reports on customers and activities of the Bank are generated by Internal Audit and other control units for Management's decision making.

In addition, periodic meetings are held where these and other performance reports are deliberated, including:

- Monthly ALCO meetings
- Monthly RMC meetings
- Quarterly Performance Review (QPR)
- Mid-year Performance Appraisal
- Annual Performance Appraisal

WHISTLEBLOWING POLICY

The Bank's Whistleblowing Policy is an integral part of its commitment towards achieving the highest possible ethical standards in all of its practices and in compliance with the requirements of the Code. The Policy is designed to encourage its employees to raise concerns about malpractices, danger and wrongdoings internally without fear of any negative repercussion.

FBN Merchant Bank Limited's Whistleblowing Policy seeks to:

- Encourage stakeholders to bring unethical conduct and illegal violations to the attention of an internal and or external authority so that action can be taken to resolve the problem;
- Provide avenues for employees and external stakeholders to raise concerns and define a way to handle these concerns;
- Inform Management about acts of misconduct at an early stage;
- Reassure employees that they will be protected from punishment or unfair treatment for disclosing concerns in good faith in accordance with this procedure;
- Provide avenues for employees to raise concerns and define a way to handle these concerns;
- Develop a culture of openness, accountability and integrity; and
- Foster good relations, avoid crisis management and minimise damaging incidents and unpleasant publicity.

RISK FACTORS

Our vision of becoming a leading merchant bank means we are constantly aware of inherent risks and continually seek ways to mitigate them.

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INTRODUCTION

RISK MANAGEMENT SUMMARY

The operating environment remains dynamic and susceptible to changes attributable macro and micro economic realities of Nigeria. FBN Merchant Bank has in the course of the year enhanced its capacity to identify inherent risks and seek ways to mitigate whilst remaining sensitive to opportunities arising from properly managing such risks. The focus of our risk management processes and efforts are aligned with our vision of becoming a world-class investment bank and creating value for all stakeholders in a sustainable form.

PRINCIPAL RISKS

FBN Merchant Bank Limited is exposed to a number of risks with varying degrees of significance. Key risks faced by the Bank as a result of its existence and operations include credit, market, liquidity, operational, reputational and strategy risks. The importance of each risk faced by FBN Merchant Bank has been determined by its effects on the earnings, capital, liquidity and stakeholders' interests. While the risks have been properly identified and closely measured and managed at the management level, there is also considerable Board oversight of them, as they are reported to the Board Risk Management Committee (BRMC) on a regular basis.

The further weakening of the country's macroeconomic terrain of Nigeria in 2016 was a principal concerned and it increased the need for greater focus on elevated risk levels in different sectors and market segments, including a tighter regulatory regime.

The nature of our business and the products that we offer bring inherent risks in the areas of financial markets, credit and operations. The nature and extent of our exposure to the risks drive our regulatory capital requirements. The business model we have adopted means that market risks are very important to us, being a primary dealer and market maker in the government's securities market and a key player in the market for short-term funds.

MARKET RISK

HOW MARKET RISK IMPACTS FBN MERCHANT BANK LIMITED

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Treasury group, and include positions arising from market making and proprietary position taking, together with financial assets that are managed on a fair value basis.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

RISK MITIGATION AND MANAGEMENT ACTIONS

Market risk is the risk that changes in market prices, such as interest rates, security prices and foreign exchange rates, will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

Overall authority for the management of market risk is vested in the Asset and Liability Committee (ALCO). However, the Risk Management and Control (RM&C) group is responsible for the development of detailed risk management policies (subject to review and approval by the Board) and for the day-to-day review of their implementation.

Interest rate risk is managed principally through the monitoring of the sensitivity of our earnings to interest rate fluctuations, and gaps, as well as scenario analysis. ALCO is the body charged with monitoring exposures to interest rate risks and is assisted by the RM&C Group.

The principal tools used to measure and control market risk exposure within the Bank's trading portfolios are limits on positions and losses. Specified limits have been set on overall position, and by class of security, as well as issuers. RM&C Group ensures continuous monitoring of these limits.

The Bank also performs regular stress tests on its trading and non-trading portfolios. In stress testing our portfolios, the Bank applies both quantitative and qualitative criteria in building the scenarios. The Bank determines the effect of changes in interest rates on interest income, volatility in prices on trading income, and changes in funding sources and uses on the Bank's liquidity. The key potential risks the Bank was exposed to from these instruments were price risk, basis risk and risk to net margins. However, all potential risk exposures in the course of the year were successfully mitigated as described above. Interest rate movements affect reported equity in the following ways:

- Retained earnings arising from an increase or decrease in net interest income and the fair value changes reported in profit or loss.
- Fair value reserves arising from an increase or decrease in fair value of available-for-sale financial instruments reported directly in other comprehensive income.

Overall non-trading interest rate risk positions are managed by the Treasury group, which uses investment securities and interbank takings to manage the overall position arising from the Bank's non-trading activities.

The Bank carried out the following in determining sensitivity of its profit to fluctuations in market prices of fixed income securities:

- Daily fixed income securities prices were obtained and trended for the different series of bonds in issue as at the reporting date.
- A reasonably possible change was derived from historical daily fluctuations in fixed income securities prices.
- The chosen reasonable change in market prices was then applied to the Bank's fixed income portfolio as at year end.

LIQUIDITY RISK

HOW LIQUIDITY RISK IMPACTS FBN MERCHANT BANK LIMITED

Liquidity risk is the current and future likelihood of the Bank's inability to meet its obligations when they fall due without incurring additional costs or unacceptable losses. It also means the likelihood of inability to recognise and address changes in market conditions that affect its ability to liquidate assets quickly if required, with minimal incremental loss in value.

RISK MITIGATION AND MANAGEMENT ACTIONS

A brief overview of the Bank's liquidity management processes includes the following:

- Maintenance of minimum levels of liquid and marketable assets above the regulatory requirement of 20%. The Bank has set for itself more stringent in-house limits above this regulatory requirement to which it adheres.
- Monitoring of its cash flow and financial position trends. The Bank also makes forecasts of anticipated deposits and withdrawals to determine their potential effect on the Bank's overall liquidity position on an ongoing basis.
- Regular measurement and monitoring of its liquidity position/ratios in line with regulatory requirements and in-house limits.
- Monitoring of deposit concentrations, and ensuring diversification of funding sources.
- Use of management authorisation process for purchases into the available-for-sale and held-to-maturity portfolios for bonds and treasury bills.
- Maintaining a contingency funding plan with specific financial institution(s) based on committed lines.

The Bank's Asset and Liability Committee (ALCO) is charged with the responsibility of managing the Bank's liquidity position. The liquidity position is monitored on a daily basis and stress test conducted periodically. These stress tests model a variety of scenarios covering both mild and more severe conditions. All liquidity risk management policies and procedures are subject to review and approval by the Board. In addition, gap reports are prepared monthly to highlight any maturity mismatches between assets and liabilities.

A key measure used by the Bank in managing liquidity risk, is by setting a minimum threshold for the ratio of liquid assets to deposits liabilities. For this purpose, liquid assets include cash and cash equivalents and investment grade debt securities for which there is an active and liquid market, less any deposits from banks, debt securities issued, other borrowings and commitments maturing within a one month period.

The Bank mainly generates fixed-term deposits from its non-bank customers. Although the contractual maturities of these deposits are short, the Bank has over the years established strong relationships with its customers, such that their actual maturities extend far beyond the contractual dates. The Bank has established models for predicting the behavioural patterns for its non-bank deposits.

CREDIT RISK

HOW CREDIT RISK IMPACTS FBN MERCHANT BANK LIMITED

The Bank defines credit risk as the risk of a counterparty's failure to meet the terms of any lending contracts with the Bank as agreed. Credit risk arises any time the Bank's funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements. Thus, the Bank on the back of its lending and other related activities has placed commensurate emphasis on effective management of its exposure to credit risk.

RISK MITIGATION AND MANAGEMENT ACTIONS

The risk asset creating units -Treasury and Corporate Bank - are required to implement all credit policies and procedures in line with the approval limits granted by the Board. The business units are responsible for the quality and performance of their risk asset portfolio and for monitoring and controlling all credit risks in their portfolio. Internal Audit undertakes regular audits of business units, while the Risk Management and Control (RM&C) group carries out regular credit quality reviews.

The Bank continues to focus attention on intrinsic and concentration risks inherent in its business to manage the Bank's portfolio risk. It sets portfolio concentration limits that are measured under the following parameters: limits per obligor, industry/sector and maturity bucket. Sector and maturity limits reflect the risk appetite of the Bank. Credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

The Board of Directors has delegated responsibility for the management of credit risk to the Board Credit Committee (BCC). Executive Management, through the Management Credit and Investment Committee (MCIC), is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies for the Bank, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Executive Committee by the BCC/Board of Directors as appropriate.
- Reviewing and assessing credit risk in all credit exposures prior to making a commitment to customers. Renewals and reviews of facilities are subject to the same review process.
- Developing and maintaining the Bank's criteria for categorising exposures, and to focus management on the attendant risks. The criteria as contained in the Risk Assets Acceptance Criteria (RAAC) and Credit Risk Policy take care of exposures to banks and related regulated institutions, and large quoted corporates, conglomerates and multinationals. The responsibility for approving and reviewing the RAAC and Credit Risk Policy lies with the BCC.
- Reviewing compliance with exposure and concentration limits, and promotion of best practices throughout the Bank in the management of credit risk.

There were no changes to the RAAC and other credit risk management policies during the period under review and the Bank's risk appetite in relation to assumption of, and approach to, credit risk remained cautious.

The Bank undertakes lending activities after careful analysis of the borrower's general character, capacity to repay, cash flow, credit history, organisational/management quality, financial condition, market position, business operations, industry and other factors. The Bank acknowledges that there are diverse intrinsic risks inherent in the vagaries of its business segments and, as a result, applies

HOW CREDIT RISK IMPACTS FBN MERCHANT BANK LIMITED

RISK MITIGATION AND MANAGEMENT ACTIONS

different parameters to adequately dimension the risks in each business segment. FBN Merchant Bank's rating grade as defined by its RAAC deals with all credit risk counterparties, covering all the Bank's credit exposure to corporate, commercial, conglomerates and multinationals. However, it excludes banks and other financial institutions regulated by the Central Bank of Nigeria (CBN). The Bank has adopted the Moody's rating model and will deplore from the first quarter of 2017.

The Bank's operational measurements for credit risk are in conformity with the impairment allowances required under the International Financial Reporting Standards (IFRS), IAS 39, and are based on losses that have been incurred at the date of the statement of financial position, that is the incurred loss model rather than expected losses.

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

FBN Merchant Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring the credit risk of loans and advances at a counterparty level, the Group considers three components:

- (i) The Probability of Default (PD) by the client or counterparty on its contractual obligations;
- (ii) Current exposures to the counterparty and its likely future development, from which the Group derives the Exposure At Default (EAD); and
- (iii) The likely ratio on the defaulted obligations –the Loss Given Default (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance, and amended as necessary to optimise their effectiveness.

For debt securities, external rating such as Agusto & Co. Fitch, Standard & Poor's or their equivalents are used by the Risk Management department for managing the credit risk exposures, supplemented by the Bank's own assessment through the use of internal ratings tools.

FBN Merchant Bank applies limits to control credit risk concentration and ensure proper diversification of its risk assets portfolio. The Bank maintains limits for individual obligors, sectors and maturities/tenors.

The Bank adopts an individual obligor limit as set by the regulators, which is currently at 50% of the Bank's shareholders' funds. Although the Bank is guided by this regulatory limit, it applies additional parameters internally in determining the suitable limits that an individual borrower should have. These include: obligor rating, position in the industry and perceived requirements of key players, financial analysis, etc.

HOW CREDIT RISK IMPACTS FBN MERCHANT BANK LIMITED

RISK MITIGATION AND MANAGEMENT ACTIONS

The Bank, based on guidelines set by the regulators, imposes industry/economic sector limits to guide against concentration risk. The industry/sector limits are arrived at after rigorous analysis of the risks inherent in the industry or economic sector.

The limits are usually recommended by the RM&C and approved by the Board. The Bank also imposes limits on the maturity buckets of the risk assets portfolio. The maturity bucket limits are a reflection of the risk appetite and liquidity profile of the Bank. During the year, limits can be reviewed and realigned (outright removal, reduction or increase) to meet the exigencies of the prevailing macroeconomic events. FBN Merchant Bank also sets internal credit approval limits in the credit process. Approval decisions are guided by the Bank's strategic focus, as well as the stated risk appetite and the other limits established by the Board or regulatory authorities.

The Bank ensures that each credit is reviewed and granted based on the strength of the borrower's repayment capacity, measured by its cash flow. However, the Bank also ensures its risk assets are well secured as a second way out strategy.

The policies that guide collateral for facilities are embedded within the Bank's Credit Risk Policy.

FBN Merchant Bank maintains placement lines for its bank counterparties and other financial institutions regulated by the CBN. The lines cover the settlement risks inherent in the Bank's activities with these counterparties. The limits are arrived at after conducting fundamental analysis of the counterparties, and presentation of findings to and approval by the Board.

The lines are implemented by the Treasury group and monitored by the RM&C. Interbank placement limits are also guided by the regulatory single obligor limit.

Impairment and provisioning policies

Impaired risk assets and securities are risk assets and securities for which the Bank determines that it is unlikely that it will be able to collect all principal and interest due according to the contractual terms of the risk assets or securities agreements.

The Bank classifies its risk assets and securities portfolios as follows:

- Neither past due nor impaired are risk assets and securities on which there is no outstanding or unpaid contractual interest and/or principal repayment, and the Bank cannot establish that there is any objective evidence of impairment at the reporting date. The Bank recognises an allowance based on the incurred loss model on all risk assets and securities that fall into this classification.
- Past due but not impaired risk assets are risk assets and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank.

The Bank recognises an allowance based on the incurred loss model on all risk assets and securities that fall into this classification.

SETTLEMENT RISK

HOW SETTLEMENT RISK IMPACTS FBN MERCHANT BANK LIMITED

FBN Merchant Bank's activities may give rise to risk at the time of settlement of transactions and trade. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

RISK MITIGATION AND MANAGEMENT ACTIONS

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

OPERATIONAL RISK

HOW OPERATIONAL RISK IMPACTS FBN MERCHANT BANK LIMITED

FBN Merchant Bank Limited defines operational risk as the risk of direct or indirect loss arising from inadequate and/or failed internal processes, people and systems or from external events. This definition requires the review and monitoring of all strategies and initiatives deployed in the Bank's people management, process improvements and engineering, technology investment and deployment, management of all regulatory responsibilities and response to external threats.

RISK MITIGATION AND MANAGEMENT ACTIONS

To ensure a holistic framework is implemented, the Risk Management and Control (RM&C) department also monitors strategic and reputational risks from a broad perspective, and implements the following practices, tools and methodologies:

Risk incident reporting: This is an in-house developed web-based risk incident reporting system, called the Risk Register, and is deployed via the Bank's intranet for logging of operational risk incidents bank-wide. All staff members are encouraged to report operational risk incidents that occurred within their work spaces whether or not they resulted in actual losses. As a result, FBN Merchant Bank has collated operational risk event data over the years. Information gathered is used to support identification of risk concentrations, process improvements and strengthening of controls.

Risk mapping and assessment: This is a quantitative and qualitative risk assessment process in FBN Merchant Bank, which is carried out every two years and which enables risk profiling and risk mapping of prevalent operational risks. All auditable units and departments are covered in the exercise. Risk assessments are also carried out on new products, systems and processes, with the objective of ensuring that appropriate controls are in place to mitigate identified risks.

An in-house developed web-based system has also been put in place for conducting risk assessment on customers in line with extant know your customer (KYC) and anti-money laundering (AML) regulations. Customers can be rated high, medium and low. The system is also used to keep a log of customers who fall in the category of politically exposed persons (PEP) based on CBN regulations. The risk rating of customers determines the internal processes and approaches to be adopted in managing those relationships.

Business Continuity Management (BCM): To ensure the resilience of FBN Merchant Bank business to any disruptive eventuality, the Bank has in place a robust Business Continuity Management (BCM) Policy, which assures timely resumption of its business with minimal financial losses or reputational damage, and continuity of service to its customers, vendors and regulators. The Bank has a warm contingency site outside its premises, and various degrees of tests are carried out monthly, quarterly and annually to ensure that recovery benchmarks and targets are achieved. The tests also ensure that various teams are aware of their roles and responsibilities. The BCM Policy is reviewed annually and when necessary in line with changes in business, operational and regulatory requirements.

HOW OPERATIONAL RISK IMPACTS FBN MERCHANT BANK LIMITED

RISK MITIGATION AND MANAGEMENT ACTIONS

Information risk management awareness and monitoring: Strategies for ensuring the confidentiality, availability and integrity of all the Bank's information assets (hardware, software, documents, backup media, etc.) are continuously reviewed and monitored, and key risks identified reported to key stakeholders. Where applicable, implementation of controls by relevant stakeholders is also tracked and reported on. External consultants and other experts are employed from time to time to review, assess and audit the Bank's IT infrastructure to ensure that the information assets are secured and protected.

Compliance department: The Bank has a separate department charged with monitoring compliance, with relevant regulations, circulars, directives and approved policies. Compliance management involves close monitoring of KYC compliance by the Bank, escalation of audit non-conformances, complaints management and observance of the Bank's zero-tolerance culture for regulatory breaches. It also entails an oversight role for monitoring adherence to regulatory guidelines and global best practice on an ongoing basis.

Operational risk reporting: Weekly, monthly and quarterly reports highlighting key operational risks identified are circulated to relevant stakeholders for awareness and timely implementation of mitigation strategies. Reports are also generated and circulated on a need basis.

Operational risk management governance structure: The Board, through its Board Risk Management Committee (BRMC), oversees the Bank's operational risk function. It ensures that the Operational Risk Policy is robust and provides a framework for the Bank's operational risk profile and limits. It also determines the adequacy and completeness of the Bank's risk detection and measurement systems; assesses the adequacy of risk mitigants; reviews and approves contingency plans for specific risks; and lays down the principles on how operational risk incidents are to be identified, assessed, controlled, monitored and measured. The BRMC reviews operational risk reports on a quarterly basis.

The Risk Management Committee (RMC) monitors the activities of operational risk and approves key decisions made before presentation to the Board. It ensures the implementation of the guiding operational risk framework Bank-wide, and ensures that all departments in the Bank are fully aware of the risks embedded in respective process flows and business activities.

All process owners are responsible for the day-to-day management of operational risks prevalent in respective units, departments and groups of the Bank.

The Internal Audit function conducts independent reviews on the implementation of operational risk policies and procedures Bank-wide.

COMPLIANCE RISK

HOW COMPLIANCE RISK IMPACTS FBN MERCHANT BANK LIMITED

FBN Merchant Bank Limited defines compliance risk as the risk of legal or regulatory sanctions, material financial loss or reputational damages the Bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its financial activities. Compliance risk can be simply referred to as the risk of impairment of Bank's integrity.

RISK MITIGATION AND MANAGEMENT ACTIONS FBN MERCHANT BANK LIMITED

The summary overview of the Bank's processes and approaches to management of compliance risk as follows:

- **Customer on-boarding:** Appropriate checks are carried out at the point of customer on-boarding in recognition of the on-boarding process to identification and management of risks associated with money laundering and terrorism financing. The Bank subscribes to various local and international Blacklists and databases to support this process. In addition, a strong oversight of the on-boarding process is provided by the compliance function to ensure its effectiveness.
- **Customer risk assessment:** In addition to the checks on recognised local and international databases, customers are profiled and risk rated as "low", "medium" and "high". Politically exposed customers are also appropriately marked. This risk rating of each customer determines other monitoring activities carried out on them.
- **Customer due diligence:** Regular and extended due diligence are carried out on customers based on their risk rating and profiles. The Bank's due diligence process includes regular/periodic physical visitations and continuous relationship management for the purpose of generating business and managing AML/CFT risks.
- **Transaction monitoring:** Active monitoring of transactions is key to the compliance function, with a view to identifying red flags that could crystallise into fraud and AML/CFT risks. The Bank has put in place appropriate systems in place to support this process and ensure that suspicious transactions and activities are promptly identified, reported and mitigated.
- **Rule Book:** The Bank operates in a highly regulated environment where regulations are updated and new ones issued from time to time. Such stringent environment places greater burden on the compliance function. The Rule Book assists in simplifying this process, as it serves as a compendium of all regulations and laws the Bank is expected to comply.
- **Triggers and reminders:** In recognition of the need to closely monitor the compliance processes in the Bank, the compliance function has been sufficiently empowered to provide triggers and reminders to all relevant departments and units of the Bank with one compliance responsibilities or the other. This process assists to ensure that nothing is left out to error.
- **Compliance plans and programs:** This is an annual plan of activities, operations and monitoring actions of the compliance function, which must be approved by the Board and Senior Management.
- **Board and Management oversight:** There is no effective and efficient compliance function without the tone being set from the top. The Bank has put in place a robust oversight of its compliance function with a strong support from the Board and Senior Management.
- **Regulatory engagement:** The Bank operates in a highly regulated environment, making the regulator's perception of it a critical component of its compliance risk management.

REPORT OF THE INDEPENDENT CONSULTANT ON THE APPRAISAL OF THE BOARD OF THE DIRECTOR OF FBN MERCHANT BANK LIMITED



In compliance with the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks in Nigeria Post Consolidation ("the CBN Code"), FBN Merchant Bank Limited ("FBN Merchant Bank" or "the Bank") engaged KPMG Advisory Services to carry out an appraisal of the Board of Directors ("the Board") for the year ended 31 December 2016. The CBN Code mandates an annual appraisal of the Board with specific focus on the Board's structure and composition, responsibilities, processes and relationships, individual director competencies and respective roles in the performance of the Board.

Corporate governance is the system by which business corporations are directed and controlled to enhance performance and shareholder value. It is a system of checks and balances among the Board, Management, and investors to produce a sustainable corporation geared towards delivering long-term value.

Our approach to the appraisal of the Board involved a review of the Bank's key corporate governance structures, policies and practices. This included the review of the corporate governance framework and representations obtained during one-on-one interviews with the members of the Board and Management.

On the basis of our review, except as noted below, the Bank's corporate governance practices are in compliance with the key provisions of the CBN Code. Specific recommendations for further improving the Bank's governance practices have been articulated and included in our detailed report to the Board. These include recommendations in the following key areas: board and board committee composition, succession planning, remuneration policy and structure, director's training, and related party disclosure management.

A handwritten signature in black ink, appearing to read 'Jumode'.

Olumide Olayinka
Partner, KPMG Advisory Services
FRC/2013/ICAN/00000000427
April, 2017

FINANCIAL STATEMENTS

Our financial statements for the year ended 31 December 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS).

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CORPORATE INFORMATION

Directors

Bello Maccido	Chairman
Kayode Akinkugbe	Managing Director/CEO
Taiwo Okeowo, CFA	Deputy Managing Director
Adegboyega Fatoki	Executive Director
Oluyele Delano, SAN	Independent Director
Andrew Reicher	Independent Director
Dr Omobola Johnson	Non-Executive Director
UK Eke, MFR	Non-Executive Director
	Retired w.e.f 30 November 2016
	Appointed w.e.f 14 September 2016

Company Secretary

Alawusa Adewuyi

Registered Office

10 Keffi Street
S.W. Ikoyi
Lagos

Bankers

Central Bank of Nigeria
First Bank of Nigeria Plc
Guaranty Trust Bank Plc
Sterling Bank Plc

Solicitors

Sofunde, Osakwe, Ogundipe & Belgore (Legal Practitioners)
G. Elias & Co
Rudy Ezeani & Co
Bola Olotu & Co

Auditor

PricewaterhouseCoopers
Landmark Towers,
5B Water Corporation Road
Victoria Island
Lagos

DIRECTORS' REPORT

The directors present their report on the affairs of FBN Merchant Bank Limited ["the Bank"] together with the financial statements and auditor's report for the year ended 31 December 2016.

a. Legal form

The Bank (which was formerly a discount house) was initially incorporated in Nigeria under the Companies and Allied Matters Act as a private limited liability company on 14 February 1995. It was granted a license on 31 October 1995 to carry on the business of a discount house and commenced operations on 16 November 1995. Recently, it transformed into a Merchant Bank. The Central Bank of Nigeria (CBN) license for merchant banking was obtained in May 2015, while merchant banking operations commenced on 2 November 2015.

b. Principal activity and business review

The principal activity of the Bank is provision of treasury management services, trading in and holding of Federal Government of Nigeria (FGN) bonds and other money market activities, dealing in and provision of foreign exchange services, financial consultancy and advisory services, act as issuing house or otherwise manage, arrange or coordinate the issuance of securities, portfolio management and provision of finance and credit facilities to non-retail customers.

c. Operating results

Highlights of the Bank's comprehensive income for the year were as follows:

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Interest income	12,839,870	15,092,465
Profit before tax	4,915,910	3,826,310
Income tax (expense)/credit	(16,083)	2,739,201
Profit for the year	4,899,827	6,565,511
Other comprehensive (loss)/income	(2,736,305)	4,194,331
Total comprehensive income for the year	2,163,522	10,759,842

d. Directors shareholding

The directors do not have any direct and indirect interests in the issued share capital of the Bank (2015: Nil) as recorded in the register of directors' shareholding and/or as notified by the directors for the purposes of Sections 275 and 276 of the Companies and Allied Matters Act.

e. Directors interests in contracts

For the purpose of Section 277 of the Companies and Allied Matters Act, none of the directors had direct or indirect interest in contracts or proposed contracts with the Bank during the year.

f. Property and equipment

Information relating to changes in property and equipment is given in note 26 in the financial statements. In the directors' opinion, the market value of the Bank's properties is not less than the value shown in the financial statements.

g. Shareholding analysis

The shareholding pattern of the Bank as at 31 December 2016 (based on the issued and fully paid shares) is as stated below:

Share Range	No. of Shareholders	Percentage of Shareholders	No. of Holdings	Percentage Holdings
0 - 500,000,000	1	0.00%	1	0%
500,000,001 - 4,500,000,000	1	100.00%	4,301,576,999	100%
	2	100%	4,301,577,000	100%

Directors' report

h. Substantial interest in shares

According to the register of members as at 31 December 2016, no shareholder held more than 5% of the issued share capital of the Bank, except for the following:

Shareholder	No. of shares held	Percentage of shareholding
FBN Holdings Plc	4,301,576,999	100%
	4,301,576,999	100%

i. Customer complaints

In compliance with the Central Bank of Nigeria (CBN) circular referenced FPR/DIR/CIR/GEN/01/020, the Bank established a Customer Helpdesk to handle all customers' complaints. During the year, the Bank had a customer complaint in respect of a flyer sent to all customers which had customer's email address visible to all recipients. The issue was resolved immediately with an apology letter to the customer.

j. Donations and charitable gifts

The Bank made contributions to charitable and non-political organisations amounting to ₦6.7million (31 December 2015: ₦13.6million) during the financial year as shown below:

- **Donations to charitable organisations:**

	₦
Nigerian Society for the Blind	719,700
Total	719,700

- **Donations to individuals:**

	₦
Government College, Umuahia	250,000
Chartered Institute of Bankers of Nigeria	1,000,000
Nigeria Economic Summit Group	3,000,000
Women in Management and Business (WIMBIZ)	1,000,000
Bishop Abiodun Adetiloye Memorial Anglican Church	250,000
BMW Club of Nigeria	100,000
Others	350,000
Total	5,950,000
Grand Total	6,669,700

k. Events after the reporting period

There are no events after the reporting period known to the directors which are to be reported.

l. Human resources

Employment of disabled persons:

The Bank continues to maintain a policy of giving fair consideration to the application for employment made by disabled persons with due regard to their abilities and aptitudes. The Bank's policy prohibits discrimination of disabled persons in the recruitment, training and career development of its employees. In the event of members of staff becoming disabled, efforts will be made to ensure that their employment with the Bank continues and appropriate training arranged to ensure that they fit into the Bank's working environment.

Directors' report

Health, safety and welfare at work:

The Bank enforces strict health and safety rules and practices at the work environment, which are reviewed and tested regularly. The Bank retains top-class private hospitals where medical facilities are provided for staff and their immediate families at the Bank's expense.

Fire prevention and fire-fighting equipment are installed in strategic locations within the Bank's premises.

The Bank operates both a Group Personal Accident and the Workmen's Compensation Insurance cover for the benefit of its employees. It also operates a contributory pension plan in line with the Pension Reform Act.

Gender diversity in the bank:

The gender diversity policy of the Bank seeks to achieve a minimum of 30% and 40% female/male representation at the Board and Management levels respectively, or any percentage that may be recommended by regulatory authorities. The Bank will provide an inclusive working environment where every member of staff feels valued and respected, irrespective of their gender.

Our current gender breakdown is as follows:

	31 Dec 2016		31 Dec 2015	
	Number	%	Number	%
BOARD				
Male	7	87	6	75
Female	1	13	2	25
MANAGEMENT				
Male	9	64	5	56
Female	5	36	4	44
NON-MANAGEMENT				
Male	67	58	39	64
Female	49	42	22	36

m. Employee involvement and training

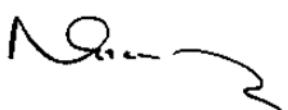
The Bank ensures, through various fora, that employees are informed of matters concerning them. Formal and informal channels are also employed in communicating with employees with an appropriate two-way feedback mechanism.

In accordance with the Bank's policy of continuous development, in-house training is provided to employees. In addition, employees of the Bank are nominated to attend both locally and internationally organised courses. These are complemented by on-the job training.

n. Auditors:

The auditors, Messrs PricewaterhouseCoopers, have indicated their willingness to continue in office in accordance with Section 357(2) of the Companies and Allied Matters Act.

BY ORDER OF THE BOARD



Alawusa Adewuyi
FRC/2013/ICSAN/00000001663
Company Secretary
10 Keffi Street Ikoyi
Lagos.

CORPORATE GOVERNANCE REPORT

During the year, FBN Merchant Bank Limited ("the Bank") ran its operations in line with the provisions of the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks in Nigeria Post-Consolidation (the Code) and global best practices with respect to its scope of business activities. In addition to its compliance with the provisions of the Code, the Bank continued to institutionalise, track and implement various good corporate governance initiatives.

The Framework

i. Ownership

In 2015, FBN Capital Limited divested from the Bank and transferred its shares to FBN Holdings Plc to pave way for the emergent merchant bank in accordance with regulatory expectations. The Bank is now a fully owned subsidiary of the FBN Holdings Plc. The new arrangement is a continuation of the Bank's known penchant for good corporate governance now strengthened by the celebrated experience and best practice of over 100 years of banking that the First Bank Group is celebrated for.

ii. The Board

The Bank had a seven (7) member board as at 31 December 2016. The directors are representatives of FBN Holdings Plc. Two (2) of the directors are in executive capacity with extensive experience in boardroom practice and banking. Two (2) of the five (5) non-executive directors are independent directors in compliance with Section 2.2.4 of the Code of Corporate Governance for Banks and Discount Houses in Nigeria effective October 1, 2014. The directors are therefore all financially literate and equipped with the requisite knowledge. The directors despite their expertise are empowered to seek professional advice from the Bank's consultants at the expense of the Bank on issues that require such.

The Board discharges its oversight functions and provides FBN Merchant Bank Limited with strategic direction through reviews and approval of major strategic plans and initiatives. The Board not only ensures that adequate systems of audit and risk management and controls, financial reporting and compliance programs are in place, but also ensures that the processes for the evaluation of their adequacy on an on-going basis are not compromised. The Board also makes certain that the competence, independence and integrity of FBN Merchant Bank Limited's internal and external audit processes are not jeopardised.

Mindful of their duties, duty of care and skill as provided for under Sections 279 and 282 of the Companies and Allied Matters Act, the Articles of Association of the Company and the Code, the directors at all times during the year, acted in the best interest

of the Bank, shareholders, employees and other stakeholders. The Board oversaw, as well as evaluated, Management's performance vis-à-vis the set corporate goals and objectives through the use of its effective committees during the period while holding itself responsible for all such delegated functions. By instrument of the Articles of Association of FBN Merchant Bank Limited, the Board delegated responsibility for the day-to-day operation and administration of FBN Merchant Bank Limited to the Managing Director/Chief Executive Officer. It however uses a combination of various tools to ensure the professional utilisation of the mandate in recognition of its overall responsibility for any outcome.

As the first amongst equals, the Chairman of the Board (whose responsibilities are clearly separated from those of the Chief Executive and who is not a member of any of the Board Committees) presided over Board Meetings and the General Meeting held during the period.

iii. The Board Committees

The effectiveness of FBN Merchant Bank Limited Board is fortified and strengthened by its four committees, namely, the Board Credit Committee, the Board Audit Committee, the Board Risk Management Committee and the Board Governance/HR Committee, each chaired by a non-executive director and fully governed by approved Charters.

Board Credit Committee

The terms of reference of this Committee include:

- i. To review credit policies of FBN Merchant Bank Limited and recommend same to the Board.
- ii. To review and approve all facilities exceeding the delegated authority of the Management Credit Forums as set out in the Credit Policy.
- iii. To review reports and monitor trends in FBN Merchant Bank Limited's risk assets profile.
- iv. To review the methodologies for assessing FBN Merchant Bank Limited's risk assets and recommend appropriate exposure limits.
- v. To review and approve the restructure of credit facilities as per the Credit Policy.
- vi. To ensure that concentration of risk assets are within the Bank's defined risk tolerance.
- vii. Do such other acts as the Board may from time to time direct the Committee.

Corporate governance report

Board Audit Committee

The overall purpose of FBN Merchant Bank Limited Board Audit Committee is to, on behalf of the Board, drive the Board's strategic and oversight functions in the areas of Financial Reporting, Internal and External Audits.

Financial Reporting:

The Committee provides assurance that financial disclosures made by Management reasonably portray the Bank's financial conditions, results of operations and long-term commitments by:

- Considering the appropriateness of the accounting policies applied and whether they are prudent and consistent with prior practice and comply with regulations and legal requirements.
- Considering the validity of any changes in accounting treatment or disclosure by comparing with the previous year.
- Critically reviewing the draft financial and interim reports and other financial documents.
- Considering any difference of opinion between auditors and Management on the level of provisions, on accounting treatment or on disclosure.
- Considering the quality of financial information disclosed to the shareholders and other stakeholders, especially in the context of the Bank's business ethics and standards.
- Reviewing the financial reporting process with a view to ensuring the Bank's compliance with accounting standards, financial matters and the applicable laws and also establishing/maintaining the integrity of the Bank's financial reporting.

External Audit:

- Making recommendations for the appointment and retention of the external auditors.
- Reviewing and discussing the scope of the audit and audit plan, including those of the subsidiaries.
- Considering differences of opinion between Management and the external auditors.
- Evaluating the performance, objectivity and independence of the external auditor.
- Review the nature and extent of non-audit services provided by the external auditors.

- Obtain assurance from the auditors that adequate accounting records are maintained and used in the preparation of financial statements.
- Review internal and external auditors' reports (Management letter) and response thereto and consider status of actions taken by Management.
- Making recommendations to the Board on the approved annual audited reports and disclosure requirements in line with IFRS.

Internal Audit:

- Review the objectives of the risk-based internal audit function and the annual plan of action.
- Review and approve the scope of internal audit work including annual risk-based audit and spot check plans and review compliance therewith.
- Assess the adequacy and performance of the internal audit function and the adequacy of available resources.
- Review significant matters reported by the internal auditor.
- Review and assess the implementation of approved audit recommendations.
- Review significant differences in opinion between Management and the internal auditors.
- Review the cooperation and coordination between the internal and external auditors.
- Provide a structural reporting line for internal audit and facilitate the maintenance of the objectivity of the internal auditor.
- Authorise or direct the internal auditor to carry out special assignment apart from the approved annual audit plan and report thereon.

Internal Control Systems

- Review the systems of internal controls to ascertain its adequacy and effectiveness.
- Review and discuss any previously identified material weaknesses in controls and deficiencies in system and if considered necessary, recommend additional procedures to enhance the system of internal controls.

Corporate governance report

- Identify any change necessary to the agreed audit scope or to other services as a result of any weaknesses or deficiencies revealed.

Board Risk Management Committee

The overall purpose of the Board Risk Management Committee is to protect the interest of shareholders and other stakeholders by overseeing, on behalf of the Board of Directors, the:

- Adequacy of the internal control environment.
- Management of Enterprise Risk framework, and
- Entrenching a culture of good Enterprise Risk Management and risk awareness.

The objectives of the Committee include the following:

- i. Assisting the Board to discharge its responsibilities to exercise due care, diligence and skill in relation to FBN Merchant Bank Limited's:
 - Internal control system;
 - Monitoring of both business and control risks; and
 - Establishment and management of compliance procedures over regulatory and legal requirements.
- ii. Improving the efficiency of the Board by accepting delegated tasks for sufficient and in-depth discussions.
- iii. Establishing a formal written policy on the overall risk management system of the Bank;
- iv. Improving the effectiveness of the risk management function;
- v. Ensuring that adequate policies are put in place to manage and mitigate adverse effects of both business and control risks;
- vi. Re-evaluating the Bank's risk management policy on a periodic basis to accommodate major changes in internal and external factors; and
- vii. Establishing a robust contingency planning and continuity of business imperatives with in-built capabilities for disruption minimisation in the event that mission critical threats crystallise.

The duties and responsibilities of the committee includes, but not limited to the following:

- i. Enterprise Risk Management:
 - Reviewing and recommending to the Board for approval the enterprise-wide risk management (ERM) policy;
 - Reviewing and recommending to the Board for approval the risk philosophy, risk appetite and tolerance level;
 - Monitor the organisation's plans and progress in meeting regulatory risk-based supervision requirements and migration to Basel II compliance;
 - Deal with the organisation's risk-reward profiles (including the Credit, Market and Operational risk-reward profiles) and, where necessary recommend improvement strategies;
 - Review and recommend improvements regarding outstanding actions on risk management plans at business units level;
 - Evaluating the risks identified in those strategic plans that require board approval to determine their impact on the risk-reward profile;
 - Evaluate the risk profile and risk management plans drafted for major projects, acquisitions, new ventures and new products or services to determine the impact on the risk-reward profile;
 - Collaborate with and review issues for consideration as identified by the Audit Committee;
 - Monitor the firm's capital adequacy levels and capital management process, ensuring compliance with global best-practice standards such as the Central Bank and Basel II; and
 - Ensuring a robust contingency planning and continuity of business imperatives with in-built capabilities for disruption minimisation in the event that mission critical threats crystallise.
- ii. Internal control efficiency: This involves evaluating the following:
 - Efficiency and effectiveness of the Bank's operations;
 - Accuracy of transactions capture and storage;
 - Reliability of financial reporting;

Corporate governance report

- Effectiveness of risk management systems; and
- Reviewing the adequacy of internal controls.
- iii. Ensuring compliance by:
 - Ensuring that the Bank has a comprehensive compliance framework for regulations and guidelines of money laundering and financial crimes;
 - Reviewing the adequacy and effectiveness of the programme of compliance with money laundering and financial crimes regulations and guidelines established within the Bank;
 - Reviewing the processes in place for ensuring that new and changed legal and regulatory requirements on money laundering and financial crimes are identified and reflected in FBN Merchant Bank Limited's processes;
 - Reviewing the scope and depth of compliance audit activities and the resulting impact audit findings have on the risk profile of the Bank regarding money laundering and financial crimes;
 - Ensuring the effectiveness of the Bank's system for monitoring compliance with relevant laws and regulations (including internal rules) and the measures taken by Management as a result of its investigation of material incidents of non-compliance; and
 - Evaluating the nature and effectiveness of action plans implemented to address identified compliance.

The purpose of the Board Governance/HR Committee (BG/HRC) is to assist the Board in formulating policies, making decisions and exercising its oversight functions in relation to:

- Identification, approval and recommendation of individuals qualified to become members of the Board to the Board of Directors.
- Consider and make recommendation on the appointment of top management staff of the Bank to the Board of Directors.
- Develop, update as applicable and make recommendations to the Board on corporate governance principles and policies as applicable to the Bank.
- Monitor compliance with such principles and policies.
- Identify and make recommendations to the Board for approval on staff welfare, conditions of service, administrative and/or ethical issues as may arise.

- Act as a general purpose committee as may be required by the Board from time to time.

Board Governance/HR Committee

Matters shall be referred to the Committee from the resolutions of the Executive Committee or other matters as the Board shall refer to the Committee for consideration.

The Committee shall make recommendations to the Board for adoption and approval.

The membership, meetings, duties and responsibilities and operations of the Committee shall be subject to the provisions of the Board Governance/HR Committee Charter as approved by the Board.

iv. Whistleblowing Policy

The whistleblowing policy of the Bank is an integral part of the Bank's commitment towards achieving the highest possible ethical standards in all of its practices and in compliance with the requirements of the Code. The Policy is designed to encourage its employees to raise concerns about malpractices, danger and wrongdoings internally without fear of any negative repercussion.

The Bank's whistleblowing policy seeks to:

- i. Provide avenues for employees and external stakeholders to raise concerns and define a way to handle these concerns;
- ii. Enable Management to be informed at an early stage about acts of misconduct;
- iii. Reassure employees that they will be protected from punishment or unfair treatment for disclosing concerns in good faith in accordance with this procedure;
- iv. Help develop a culture of openness, accountability and integrity; and
- v. Help foster good relations, avoid crisis management and minimise damaging incidents and unpleasant publicity.

The Policy also demonstrates the Bank's commitment to ensuring its affairs are conducted ethically, honestly and to high standards.

FINANCIAL RISK MANAGEMENT REPORT

Introduction and overview

FBN Merchant Bank Limited ("the Bank") has a robust and functional enterprise risk management (ERM) framework that is responsible for identifying and managing the whole universe of inherent and residual risks facing the Bank. The Bank has exposure to the following major risks from its use of financial instruments:

- Market risk
- Liquidity risk
- Credit risk
- Operational risk

Other key risks faced by the Bank as a result of its existence and operations include reputational and strategy risks. This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's management of capital.

Risk management philosophy

The Bank's risk management philosophy is drawn from objectives of the ERM which seeks to provide reasonable assurance to the shareholders/the Board that the risks that may inhibit the achievement of the Bank's mission are identified, measured, monitored and controlled through an effective integrated risk management system, while ensuring strong commitment to the following key indices:

- Professionalism while delivering value to the customers;
- Strong performance reporting (financial and non-financial);
- Good corporate governance; and
- Consistent appreciation in shareholders' value.

Risk management framework

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, to monitor risks and adherence to limits. These policies are subject to review at least once a year, but more frequent reviews may be conducted in the opinion of the Board, when changes in laws, regulations, market conditions or the Bank's activities are material enough to impact on the continued adoption of existing policies. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework via its committees:

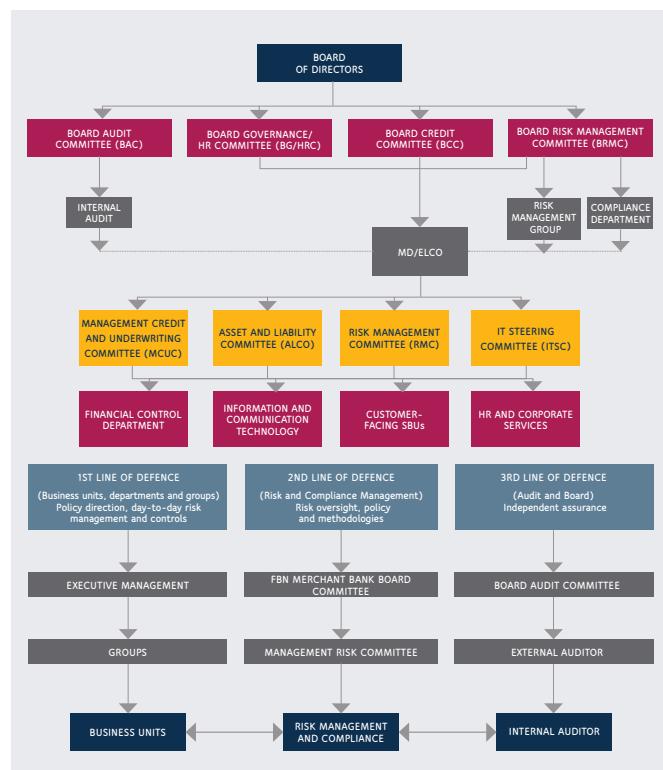
- Board Risk Management Committee,
- Board Credit Committee,
- Board Audit Committee, and
- Board Governance/Human Resources Committee

These committees are responsible for developing and monitoring risk policies in their specified areas and report regularly to the Board of Directors on their activities. All Board committees have both executive and non-executive members. The Board Committees are assisted by the various Management Committees in identifying, assessing and monitoring risks arising from day-to-day activities of the Bank. These committees are:

- Management Credit and Underwriting Committee (MCUC)
- Asset and Liability Committee (ALCO)
- Risk Management Committee (RMC)
- ICT Steering Committee (ICTSC)
- Other Ad hoc Committees

These committees meet on a regular basis, while others are set up on an ad-hoc basis as dictated by the circumstances.

The Bank's risk management organogram is as follows:



Financial risk management report

The Board and Management Committees are responsible for reviewing and recommending risk management policies, procedures and profiles including risk philosophy, risk appetite and risk tolerance of the Bank. The oversight functions cut across all risk areas. The committee monitors FBN Merchant Bank's plans and progress towards meeting regulatory risk-based supervision requirements and migration to Basel II compliance, as well as the overall regulatory and economic capital adequacy.

- The Board Credit Committee (BCC) considers and approves all lending exposures and other credits in excess of limits assigned to the Management Credit and Underwriting Committee (MCUC) by the Board. The MCUC formulates credit policies for Board approval, in consultation with business units, covering credit assessment, risk grading and reporting, collateral, regulatory and statutory requirements.
- The Board Audit Committee (BAC) is responsible for reviewing the adequacy of the external and internal audit procedures and make recommendations to the Board and Management as appropriate. The Audit Committee is assisted by the Internal Audit department, in carrying out these functions. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to Committee.
- The Board Risk Management Committee (BRMC) is responsible for formulating strategies for enterprise risk management, evaluating overall risks faced by the Bank, aligning risk policies with business strategies and determining the level of risks which will be in the best interest of the Bank. The Committee's oversight functions cut across all risk areas involved in the Bank's operations. The Risk Management Committee (RMC) assists the BRMC in the implementation of Bank's risk management strategies and policies, and ensures that adequate controls and procedures are in place to manage risks.
- The Board Governance/Human Resources Committee (BG/HRC) is responsible for the assessment of the effectiveness of the Board as a whole, Executive Management and the Board committees. It considers and recommends appointments of senior management to the Board, as well as recommendations on matters relating to staff welfare, conditions of service, administrative and/or other ethical issues.
- The Asset and Liability Committee (ALCO) of management establishes the Bank's standards and policies covering the various components of market risk, including issues on interest rate, liquidity, investment and trading risk. It ensures that market risk exposures that can have potential impact on the Bank's income are monitored, controlled and managed through stress tests and simulations.

Risk management methodology

The Bank recognises that it is in the business of managing risks to derive optimal satisfaction for all stakeholders. It has therefore, over the years detailed its approach to risk through various policies and procedures, which include the following:

- Enterprise Risk Management (ERM) Framework policy
- Risk Asset and Acceptance Criteria (RAAC) policy
- Credit Risk Principles and Policy
- Collateral Policy
- Market and Liquidity Risk Policy
- Operational Risk Policy
- Concentration and Tenor Limit Policy
- Business Continuity Management (BCM) Policy
- Performance Management Framework
- Code of conduct policy
- Compliance Policy
- Anti-Money Laundering and Combating Financing of Terrorism Policy
- Standard Manuals of Operations

To ensure adherence to the policies and procedures, several exception reports on customers and activities of the Bank are generated by Internal Audit and other control units for Management's decision making. In addition, periodic meetings are held where these and other performance reports are deliberated, including:

- Monthly ALCO Meetings
- Monthly RMC Meetings
- Monthly Performance Review (MPR)
- Mid-year Performance Appraisal
- Annual Performance Appraisal

Risk management overview

The Bank operates a functional Risk Management and Control (RM&C) Group that manages all aspects of risk, including threats and opportunities. FBN Merchant Bank's risk management structure therefore encompasses an integrated approach to identifying, managing and reporting the four major inherent risk groups, which are market, liquidity, credit and operational, and the additional core risks such as reputation and strategy risks.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies and Allied Matters Act and the Banks and Other Financial Institutions Act require the directors to prepare financial statements for each financial year that give a true and fair view of the state of financial affairs of the Bank at the end of the year and of its profit or loss. The responsibilities include ensuring that the Bank:

- i. Keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank and comply with the requirements of the Companies and Allied Matters Act and the Banks and Other Financial Institutions Act;
- ii. Establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and
- iii. Prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgements and estimates, that are consistently applied.

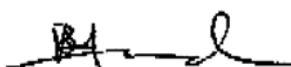
The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable judgments and estimates, in conformity with:

- International Financial Reporting Standards;
- Prudential Guidelines for Licensed Banks;
- Relevant circulars issued by the Central Bank of Nigeria;
- The requirements of the Banks and Other Financial Institutions Act;
- The requirements of the Companies and Allied Matters Act; and
- The requirements of the Financial Reporting Council of Nigeria Act.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of the financial performance and cash flows for the year. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:



Bello Maccido
Chairman
FRC/2013/CISN/00000002366
6 March 2017



Kayode Akinkugbe
Managing Director
FRC/2013/IODN/00000003063
6 March 2017

REPORT OF THE BOARD AUDIT COMMITTEE

TO THE MEMBERS OF FBN MERCHANT BANK LIMITED

In accordance with the provisions of Section 359(6) of the Companies and Allied Matters Act, the members of the Board Audit Committee of FBN Merchant Bank Limited hereby report on the financial statements for the year ended 31 December 2016 as follows:

- (a) We have exercised our statutory functions under Section 359(6) of the Companies and Allied Matters Act, and acknowledge the co-operation of Management and staff in the conduct of these responsibilities.
- (b) We are of the opinion that the accounting and reporting policies of the Bank are in accordance with legal requirements and agreed ethical practices and that the scope and planning of both the external and internal audits for the year ended 31 December 2016 were satisfactory and reinforce the Bank's internal control systems.
- (c) We have deliberated the findings of the external auditors, who have confirmed that necessary cooperation was received from Management in the course of the audit and are satisfied with Management's responses thereon and with the effectiveness of the Bank's system of accounting and internal control.



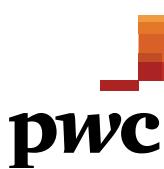
Oluyele Delano, SAN
Chairman, Board Audit Committee
FRC/2013/NBA/00000003035
27 February 2017

Members of the Board Audit Committee are:

Dr Omobola Johnson
UK Eke, MFR

In attendance:

Alawusa Adewuyi - Company Secretary



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBN MERCHANT BANK LIMITED

Report on the audit of the financial statements

Our opinion

In our opinion, FBN Merchant Bank Limited's financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the International financial reporting standards and the requirements of the Companies and Allied Matters Act, the Banks and Other Financial Institutions Act and the Financial Reporting Council of Nigeria Act.

What we have audited

FBN Merchant Bank Limited's financial statements comprise:

- The statement of financial position as at 31 December 2016;
- The statement of comprehensive income for the year then ended;
- The statement of changes in equity for the year ended;
- The statement of cash flows for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies.

Key audit matter

Loan impairment provision - ₦520million

We focused on allowance for impairment of loans to customers as it requires the application of judgement and use of subjective assumptions by management. As at 31 December 2016, gross loans and advances to customers amounted to ₦42.2billion against which loan impairment provision of ₦520million was recorded. The net balance of ₦41.68billion accounts for 30% of the Bank's total assets.

The basis of the provisions is set out in the accounting policies in note 2.5 in the financial statements while critical judgements relating to the calculation of the impairment provisions are summarised in note 5 in the financial statements.

Collective impairment provisions are assessed using the incurred loss model in line with IAS 39. Primary data inputs fundamental to the assessment of collective impairment are Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). These inputs are derived based on the Bank's observed historical credit loss experience and forecast recoverable amounts.

Specific impairment assessment is performed by the Bank's credit unit in order to determine whether there exists any objective evidence that a loan is impaired. An impairment charge is taken on a loan when the recoverable amount, which is the present value of expected future cash flows discounted at the original effective interest rate, is deemed to be lower than the carrying values of the loans.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

How our audit addressed the key audit matter

<p><i>Loan impairment provision - ₦520million</i></p> <p>We focused on allowance for impairment of loans to customers as it requires the application of judgement and use of subjective assumptions by management. As at 31 December 2016, gross loans and advances to customers amounted to ₦42.2billion against which loan impairment provision of ₦520million was recorded. The net balance of ₦41.68billion accounts for 30% of the Bank's total assets.</p> <p>The basis of the provisions is set out in the accounting policies in note 2.5 in the financial statements while critical judgements relating to the calculation of the impairment provisions are summarised in note 5 in the financial statements.</p> <p>Collective impairment provisions are assessed using the incurred loss model in line with IAS 39. Primary data inputs fundamental to the assessment of collective impairment are Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). These inputs are derived based on the Bank's observed historical credit loss experience and forecast recoverable amounts.</p> <p>Specific impairment assessment is performed by the Bank's credit unit in order to determine whether there exists any objective evidence that a loan is impaired. An impairment charge is taken on a loan when the recoverable amount, which is the present value of expected future cash flows discounted at the original effective interest rate, is deemed to be lower than the carrying values of the loans.</p>	<p>We understood and evaluated the design and operating effectiveness of the controls over identification of impairment triggers within the loan portfolio.</p> <p>We performed substantive testing by reviewing credit files and account statements of all loan customers. Our reviews included checking the details of the borrowers and the account history, the nature of the facility, the industry and other factors that could indicate deterioration in the financial condition and the borrowers' capacity to repay.</p> <p>For facilities identified to have impairment triggers, we assessed the basis on which management has estimated the value of future cashflows discounted at the original effective interest rate of the facilities (the recoverable amount). We obtained management's estimate of impairment based on their estimated cashflows. We formed our own judgement of the recoverable amount and compared to the carrying amount of these impaired loans. Where the recoverable amount was lower than the carrying amount, we determined the impairment amount and compared this to the impairment that has been charged against the related loan.</p> <p>For the collective impairment assessment, we assessed the reasonableness of management's assumptions with respect to inputs into the incurred loan loss model. We then verified the accuracy of the inputs and recalculated the collective impairment amount.</p>
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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBN MERCHANT BANK LIMITED

Key audit matter

Recoverability of deferred tax asset - ₦8.8billion

The analysis of the recognition and recoverability of the deferred tax assets was significant to our audit because the amounts are material and the assessment process is subjective and based on assumptions that are affected by expected future market or economic conditions.

At 31 December 2016, the Bank had deferred tax asset of ₦8.8billion which is mainly attributable to unutilised tax losses. The risk exists that future taxable profits will not be sufficient to fully recover the deferred tax asset.

The accounting policy and disclosures in relation to deferred taxes are included in notes 2.12 and 28 to the financial statements. Deferred tax asset has been identified as a significant accounting estimate and judgement made by the directors as disclosed in note 5 to the financial statements.

The recoverability of recognised deferred tax assets is mainly dependent on the Bank's ability to generate future taxable profits sufficient to utilise the carried forward tax losses. Therefore, in order to support the recoverability of the deferred tax asset balance, Management has made estimates based on assumptions of expected financial performance that would generate future taxable income for the Bank.

How our audit addressed the key audit matter

We adopted a substantive approach to the audit of this balance.

We obtained the cash flow projections and forecast taxable profits used to support Management's recognition of the deferred tax asset. We then challenged the cash flow forecasts and deferred tax utilisation computations.

Specifically:

- We challenged Management's assumptions on the growth rate of taxable and non-taxable transaction income vis-à-vis the historical trends and current business plan.
- We tested the reasonableness of Management's estimate of future taxable profits based on the growth rate and historical experience.

Other information

The directors are responsible for the other information. The other information comprises: Directors Report; Corporate Governance Report; Financial risk management report; Statement of Directors' Responsibilities; Report of the Board Audit Committee; Statement of value added; Five Year Financial Summary and Statement of Prudential Adjustments (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the overview; Performance highlights; Chairman's statement; Chief Executive Officer's review; Relationships and responsibility; Chairman's introduction; Leadership; Effectiveness; Risk management summary; Market risks; and Board Evaluation Report, which are expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge

obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's 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.

When we read the complete Annual report and Board Evaluation Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act, the Financial Reporting Council of Nigeria Act, the Banks and Other Financial Institutions Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBN MERCHANT BANK LIMITED

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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.

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

Report on other legal and regulatory requirements

The Companies and Allied Matters Act and the Banks and Other Financial Institutions Act require that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBN MERCHANT BANK LIMITED

- ii) The Bank has kept proper books of account, so far as appears from our examination of those books and returns adequate for our audit have been received from branches not visited by us;
- iii) The Bank's statements of financial position and statement of comprehensive income are in agreement with the books of account.
- iv) The information required by Central Bank of Nigeria Circular BSD/1/2004 on insider related credits is disclosed in note 38 to the financial statements;
- v) Except for the contraventions disclosed in note 41 to the financial statements, the Bank has complied with the requirements of the relevant circulars issued by the Central Bank of Nigeria.

Obioma Ubah



For: **PricewaterhouseCoopers**
 Chartered Accountants
 Lagos, Nigeria

24 April 2017

Engagement Partner: Obioma Ubah
 FRC/2013/ICAN/00000002002

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Interest income	6	12,839,870	15,092,465
Interest expense	7	(8,199,829)	(9,820,038)
Net interest income		4,640,041	5,272,427
Impairment writeback/(charge) for credit losses	8	131,962	(465,641)
Net interest income after impairment charge for credit losses		4,772,003	4,806,786
Fee and commission income	9a	2,995,209	43,282
Fee and commission expense	9b	(89,252)	(58,379)
Net gain/(loss) on foreign exchange	10	885,182	(19,743)
Net (loss)/gain from financial assets held for trading	11a	(200,615)	934,736
Net (loss)/gain on derivative financial instrument	11b	(121,086)	151,565
Impairment charge on non-financial assets	12	(167,329)	-
Other operating income	13	9,097	230,579
Operating income		8,083,209	6,088,826
Personnel expenses	15	(1,215,888)	(1,237,972)
Depreciation	26	(130,516)	(124,390)
Amortisation	27	(10,379)	(9,261)
Other operating expenses	14	(1,810,516)	(890,893)
Operating expenses		(3,167,299)	(2,262,516)
Profit before tax		4,915,910	3,826,310
Income tax (expense)/credit	16a	(16,083)	2,739,201
Profit for the year		4,899,827	6,565,511
Profit for the year attributable to:			
Owners of the Bank		4,899,827	6,565,511
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net fair value (loss)/gain on available-for-sale financial assets	35	(2,736,305)	4,194,331
Other comprehensive (loss)/income for the year, net of tax		(2,736,305)	4,194,331
Total comprehensive income for the year		2,163,522	10,759,842
Total comprehensive income attributable to:			
Owners of the Bank		2,163,522	10,759,842
Earnings per share for profit attributable to owners of the Bank			
Basic (kobo)	17	114	153

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Notes	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
ASSETS			
Cash and balances with Central Bank of Nigeria	18	65,701	277,266
Loans and advances to banks	20	5,650,754	7,962,268
Loans and advances to customers	21	41,684,102	36,649,753
Financial assets held for trading	22	17,677,609	10,695,464
Investment securities:			
- Available-for-sale	23	20,377,948	41,042,494
- Loans and receivable	23	458,250	-
Pledged assets	24	36,286,655	-
Other assets	25	4,644,967	865,861
Property and equipment	26	1,056,192	963,896
Intangible assets	27	972,585	19,880
Deferred tax asset	28	8,397,897	7,994,494
Total assets		137,272,660	106,471,376
LIABILITIES			
Due to banks	29	38,863,965	5,600,187
Deposit from customers	30	64,727,659	71,631,378
Derivative financial instruments	42	-	367,041
Current income tax liability	16b	363,559	128,265
Other liabilities	31	4,358,420	900,970
Total liabilities		108,313,603	78,627,841
EQUITY			
Share capital	32	4,301,577	4,301,577
Share premium	33	3,904,731	3,904,731
Retained earnings	33	14,013,717	9,235,023
Statutory reserve	33	6,561,495	5,826,521
Credit risk reserve	33	2,594,371	4,256,212
Available-for-sale (AFS) reserve	35	(2,416,834)	319,471
Total equity		28,959,057	27,843,535
Total equity and liabilities		137,272,660	106,471,376

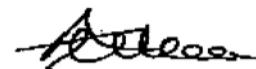
Signed on behalf of the Board of Directors on 6 March 2017 by:



Bello Maccido
Chairman
FRC/2013/CISN/00000002366



Kayode Akinkugbe
Managing Director
FRC/2013/IODN/00000003063



Emily Atebe
Chief Financial Officer
FRC/2013/ICAN/00000003197

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital ₦'000	Share premium ₦'000	Available for sale reserve ₦'000	Retained earnings ₦'000	Statutory reserves ₦'000	Credit risk reserve ₦'000	Deposit for shares ₦'000	Total equity ₦'000
Balance at 1 January 2016	4,301,577	3,904,731	319,471	9,235,023	5,826,521	4,256,212	-	27,843,535
Profit for the year	-	-	-	4,899,827	-	-	-	4,899,827
Other comprehensive income								
Available-for-sale fair value movements-net of tax	-	-	(2,736,305)	-	-	-	-	(2,736,305)
Total comprehensive (loss)/income for the year	-	-	(2,736,305)	4,899,827	-	-	-	2,163,522
Transaction with owners								
Dividend payable			-	(1,048,000)	-	-	-	(1,048,000)
Transfer during the year	-	-	-	926,867	734,974	(1,661,841)	-	-
At 31 December 2016	4,301,577	3,904,731	(2,416,834)	14,013,717	6,561,495	2,594,371	-	28,959,057

	Share capital ₦'000	Share premium ₦'000	Available for sale reserve ₦'000	Retained earnings ₦'000	Statutory reserves ₦'000	Credit risk reserve ₦'000	Deposit for shares ₦'000	Total equity ₦'000
Balance at 1 January 2015	4,000,000	3,000,000	(3,874,860)	7,169,775	3,856,868	1,725,602	1,206,308	17,083,693
Profit for the year	-	-	-	6,565,511	-	-	-	6,565,511
Other comprehensive income								
Available-for-sale fair value movements-net of tax	-	-	4,194,331	-	-	-	-	4,194,331
Total comprehensive income	-	-	4,194,331	6,565,511	-	-	-	10,759,842
Transaction with owners								
Deposit for shares	301,577	904,731	-	-	-	-	(1,206,308)	-
Transfer from retained earnings	-	-	-	(4,500,263)	1,969,653	2,530,610	-	-
At 31 December 2015	4,301,577	3,904,731	319,471	9,235,023	5,826,521	4,256,212	-	27,843,535

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Operating activities			
Cash generated from/(used in) operations	36	3,192,044	(13,195,407)
Interest received		13,775,702	14,221,973
Interest paid		(8,258,871)	(9,853,249)
Recoveries		-	183,268
Incentive bonus paid		(511,000)	(180,000)
Tax paid	16b	(184,192)	(108,718)
Net cash generated from/(used in) operating activities		8,013,683	(8,932,133)
Investing activities			
Sale of investment securities		43,731,299	46,789,083
Purchase of investment securities		(52,549,837)	(32,322,091)
Purchase of property and equipment	26	(225,334)	(108,996)
Purchase of intangible asset		(272,920)	(1,995)
Proceeds from disposal of property and equipment		6,293	13,255
Net cash (used in)/generated from investing activities		(9,310,499)	14,369,256
Net (decrease)/increase in cash and cash equivalents		(1,296,816)	5,437,123
Cash and cash equivalent at the beginning of the year		11,271,563	5,854,183
Effects of exchange rate changes on cash and cash equivalent		102,321	(19,743)
Cash and cash equivalent at the end of the year	19	10,077,068	11,271,563

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1 GENERAL INFORMATION

1.1 Reporting entity

FBN Merchant Bank Limited "the Bank" (formerly called Kakawa Discount House Limited) was incorporated in Nigeria under the Companies and Allied Matters Act as a private limited liability bank on 14 February 1995. It was granted a license on 31 October 1995 to carry on the business of a discount house and commenced operations on 16 November 1995. The Bank recently transformed into a Merchant Bank. The Central Bank of Nigeria (CBN) license for merchant banking was obtained in May 2015 while merchant banking operations commenced on 2 November 2015.

The principal activity of the Bank is provision of treasury management services, trading in and holding of Federal Government of Nigeria (FGN) bonds and other money market activities, dealing in and provision of foreign exchange services, financial consultancy and advisory services, act as issuing house or otherwise manage, arrange or coordinate the issuance of securities, portfolio management and provision of finance and credit facilities to non-retail customers.

FBN Merchant Bank Limited is a limited liability incorporated and domiciled in Nigeria. It is a member of FBN Holdings Plc. The address of its registered office is as follows:

10 Keffi Street
Ikoyi
Lagos

1.2 Statement of compliance with International Financial Reporting Standards

The Bank's financial statements for the year ended 31 December 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and also comply with the requirements of the Companies and Allied Matters Act (CAMA). Additional information required by national regulations is included where appropriate.

These financial statements were authorised for issue by the directors on 6 March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Introduction to summary of accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Basis of preparation

- The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comprise the statement of financial position, statement of comprehensive income (i.e. the statement of profit or loss and the statement of other comprehensive income presented as a single statement), the statement of cash flows, the statement of changes in equity and the notes.
- The financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and financial assets held for trading. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial are disclosed in the notes to the financial statement.
- The Bank classifies its expenses by the nature of expense method.
- The financial statements are presented in naira, which is the Bank's functional and presentation currency (note 2.4).
- The figures shown in the financial statements are stated in thousands.
- The disclosures on risks from financial instruments are presented in the financial risk management section in note 3.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

- The statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments.
- The cash flows from operating activities are determined by using the indirect method and the net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities in the corresponding note. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated
- The cash flows from investing and financing activities are determined by using the indirect method. The Bank's assignment of the cash flows to operating, investing and financing category depends on the Bank's business model (management approach).

2.3 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Bank

The Bank has applied the following standards and amendments for the first time for annual reporting period commencing 1 January 2016:

IFRS AND EFFECTIVE DATE	SUBJECT OF AMENDMENT
Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective 1 January 2016)"	<p>The amendments clarify that a revenue-based method of depreciation or amortisation is generally not appropriate. The IASB has amended IAS 16 Property, Plant and Equipment to clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment. IAS 38 Intangible Assets now includes a rebuttable presumption that the amortisation of intangible assets based on revenue is inappropriate. This presumption can be overcome if either:</p> <ul style="list-style-type: none"> The intangible asset is expressed as a measure of revenue (i.e. where a measure of revenue is the limiting factor on the value that can be derived from the asset), or It can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.
Disclosure initiative - Amendments to IAS 1 Presentation of Financial Statements (effective 1 January 2016)	<p>The amendments to IAS 1 – Presentation of financial statements are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:</p> <ul style="list-style-type: none"> Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance. Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals. Notes – confirmation that the notes do not need to be presented in a particular order. OCI – arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income. <p>According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.</p>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

Other new and amended standards that are not relevant to the Bank include:

STANDARD	EFFECTIVE DATE
Amendments to IFRS 11 - Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to IAS 16 and IAS 41 - Agriculture - Bearer plants	1 January 2016
IFRS 14 - Regulatory deferral accounts	1 January 2016
Amendment to IAS 27 - Equity method in separate financial statements	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment entities: Applying the consolidation exception	1 January 2016
Amendments to IFRS 5 - Non-current assets held for sale and discontinued operations - changes in methods of disposal	1 January 2016
IFRS 7 - Financial instruments: Disclosures	1 January 2016
IFRS 7 - Financial instruments: Servicing contracts	1 January 2016
IAS 19 - Employee benefit (Defined benefit plan)	1 January 2016
IAS 34 - Interim financial reporting	1 January 2016

(b) New standards, interpretations and amendments to existing standards that are not yet effective

As at 31 December 2016, a number of standards and interpretations, and amendments thereto, had been issued by the IASB which are not yet effective for annual reporting periods ending 31 December 2016. The Bank is yet to assess the potential impact of the application of these standards on its financial statements. Details are set out below:

(i) IFRS 9 Financial Instruments (as revised in 2014) (effective for annual periods beginning on or after 1 January 2018)

The impact of the new standard on financial instruments can be summarised under three phases:

- Classification and measurement of financial assets and financial liabilities
- Impairment methodology
- Hedge accounting

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which will supersede IAS 39 Financial Instruments: Recognition and Measurement in its entirety upon the former's effective date. Compared to IFRS 9 (as revised in 2014), the 2014 version includes limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. It also adds the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit. The completed IFRS 9 (as revised in 2014) contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting.

Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement under IFRS 9, all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value. IFRS 9 introduces a two-step classification approach. First, an entity considers its business model – that is, whether it holds the financial asset to collect contractual cash flows rather than to sell it prior to maturity to realise fair value changes. If the latter, the instrument is measured at fair value through profit or loss (FVTPL). If the former, an entity further considers the contractual cash flow characteristics of the instrument. Specifically: (a) a debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write

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down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option; (b) a debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has 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, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option; (c) all other debt instruments must be measured at FVTPL; (d) all equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

Impairment methodology

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced. The Bank is yet to assess IFRS 9's full impact.

The Bank is in the process of assessing the impact of application of IFRS 9 and is not yet able to reasonably estimate the impact on its financial statements.

(ii) IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018)

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018.

(iii) IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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(iv) Amendments to IAS 12 – Recognition of deferred tax assets for unrealised losses – (effective 1 January 2017)

Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

(v) Amendments to IAS 7 – Disclosure initiative – (effective 1 January 2017)

Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities.

The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

Other new and amended standards issued but not yet effective in 2016 and are not relevant to the Bank include:

STANDARD	EFFECTIVE DATE
Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture	Deferred indefinitely
Amendments to IFRS 1 - First time adopters: Deletion of short- term exemptions for first time adopters	1 January 2018
Amendments to IFRS 12: Disclosure of interests in other entities - Clarification of the scope of the standard	1 January 2017
Amendments to IFRS 2: Share based payment - Classification and measurement of share based payment transactions	1 January 2018
Amendments to IAS 40: Investment property - Transfers of investment property	1 January 2018
Amendments to IAS 28: Measurement of investment in associates and joint ventures at fair value	1 January 2018

(c) Early adoption of standards

The Bank did not early adopt new or amended standards in 2016.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

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

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(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.5 Financial instruments

Initial recognition and measurement

Financial instruments are recognised initially when the Bank becomes a party to the contractual provisions of the instrument.

The Bank classifies financial instruments or their components parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Classification depends on the purpose for which the financial instruments were obtained or incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

Regular-way purchases and sales of financial assets are recognised on settlement date which is the date on which the Bank commits to purchase or sell the asset. Financial instruments are initially measured at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. These transaction costs are expensed in the income statement.

Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

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

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

Derecognition of a financial liability occurs only when the obligation is extinguished. A financial liability is said to be extinguished when the obligation is discharged, cancelled or expired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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Financial assets

a) Classification and subsequent measurement

For the purpose of measuring a financial asset after initial recognition, IAS 39 classifies financial assets into the following categories: at fair value through profit or loss; loans and receivables; held to maturity and available-for-sale. The classification depends on the purpose for which the financial asset were acquired. The categories relevant to the Bank as at 31 December 2016 are fair value through profit or loss; loans and receivables and available for sale. Management determines the classification of the Bank's financial assets at initial recognition.

i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and those designated by the Bank as at fair value through profit or loss upon initial recognition. Financial assets classified as held through profit or loss are those that have been acquired principally for the purpose of selling in the short-term or repurchasing in the near-term, or held as part of a portfolio that is managed together for short-term profit.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as 'Net gains/(losses)' on financial assets classified as held for trading'. Interest income and expense and dividend income on financial assets held for trading are included in 'Discount and similar income' or 'Other operating income', respectively. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'Net gains from financial assets held for trading'.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the short-term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- Those that the Bank upon initial recognition designates as available-for-sale; or
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate (EIR).

The Bank's loans and receivables comprise of loan and advances, cash and cash equivalents and other assets.

Loans and advances

Loans and advances are balances due from customers and staff of the Bank. Loans and advances are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs. Loans and advances are derecognised when the rights to receive cash flows from them have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Interest on loans is included in the statement of comprehensive income as part of 'Interest income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as 'impairment charge on credit losses'.

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Other assets

Other assets includes fee income due to be received from the Bank's customers, intercompany receivables and other receivables. If collection is expected in one year or less (or in the normal operating cycle of the Bank), they are classified as current assets; if not, they are presented as non-current assets.

Cash and cash equivalents

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

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

For the purposes of the statement of cash flows, cash and cash equivalents includes cash and balances with Central Bank of Nigeria, treasury bills of less than 3 months original maturity and loans and advances to banks.

iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or not classified in any other category.

Available-for-sale financial assets are financial assets that are intended to be 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. They are included in non-current assets unless the investment matures or Management intends to dispose of it within 12 months from the end of the reporting period.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income and cumulated in a separate reserve in equity, available-for-sale reserve, until the financial asset is derecognised. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in profit or loss.

b) Impairment of financial assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (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.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to our attention about the following loss events:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

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- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - (i) Adverse changes in the payment status of borrowers in the group ; or
 - (ii) National or local economic conditions that correlate with defaults on the assets in the group.

The Bank 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 Bank 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.

i) Assets carried at amortised cost

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in income statement. If a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from disposal less costs for obtaining and selling the collateral, whether or not disposal 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 Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets are reflected and directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, 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. Impairment charges relating to loans and advances to banks and loans and advances to customers are classified in 'impairment charge for credit losses' whilst impairment charges relating to investment securities (loans and receivables categories) are classified in 'Net gains/(losses) on investment securities'.

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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.

ii) Assets classified as available-for-sale

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Bank uses the criteria referred to in (a) above.

In the case of equity instruments for which the entity has elected to present gains and losses in other comprehensive income, a significant or prolonged decline in the fair value of the instrument below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument for which the entity has elected to present gains and losses on that investment in other comprehensive income, increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment losses is reversed through the income statement.

c) Reclassification of financial assets

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

The Bank may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate (EIR) from the date of the change in estimate.

Financial liabilities

Classification and subsequent measurement

The Bank's holding in financial liabilities represents mainly 'due to banks', 'deposit from customers' and 'other liabilities'. These are all classified as financial liabilities measured at amortised cost. These financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Any difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest rate method.

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

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The classification of the Bank's financial instruments have been summarised in the table below:

CATEGORY (AS DEFINED BY IAS 39)		CLASSES AS DETERMINED BY THE BANK		SUBCLASSES
Financial assets	Financial assets at fair value through profit or loss	Financial assets held for trading	Debt securities	Treasury bills Federal Government of Nigeria Bonds
		Pledged assets	Debt securities	Treasury bills
	Loans and receivables	Cash and balances with CBN		Cash Operating balances with CBN
		Loans and advances to banks		Current account balances Placements
		Loans and advances to customers		Intermediation investments Staff loans
		Investment securities	Listed debt	Corporate bonds
		Other assets		Fees receivable Intercompany receivable Other receivables
		Available-for-sale	Investment securities	Treasury bills Federal Government of Nigeria Bonds Corporate bonds
				Shares
				Treasury bills Federal Government of Nigeria Bonds
			Pledged assets	Listed debt
Financial liabilities	Financial liabilities at amortised cost	Due to banks		Tenored interbank deposits Open buy back liabilities
		Deposit from customers		Call deposits Intermediation money Fixed deposit
		Other liabilities		Accounts payable Customer deposits for letters of credit Accrued liabilities Dividend payable Uncleared effects

Measurement

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction cost are expensed in the income statement.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Held to maturity financial assets and loans and receivables are subsequently measured at amortised cost using the effective interest rate. Available-for-sale financial assets are subsequently measured at fair value through equity except where the fair value cannot be reliably measured.

The Bank's financial liabilities are measured at amortised cost.

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Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income (OCI). When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statements as "net gains/losses from investment securities".

Amortised cost measurement

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.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, the best evidence of the fair value of a financial instrument is the transaction price (i.e. the fair value of the consideration paid or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on valuation techniques such as discounted cash flow models and option pricing models whose variables include only data from observable markets.

Subsequent to initial recognition, for financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (for example, Nigerian Stock Exchange (NSE) and Financial Markets Dealers Quotation (FMDQ)).

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position.

2.6 Sale and repurchase agreement

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The counterparty liability including accrued interest is included in 'Due to banks' or 'Deposit from customers' as appropriate. The financial assets are used as collateral on securities lent and repurchase agreement, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate (EIR). When the counterparty has the right to sell or repledge the securities, the Bank reclassifies those securities in its statement of financial position to 'Financial assets held for trading pledged as collateral' or to 'Financial investments available for sale pledged as collateral', as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Financial liabilities held for trading' and measured at fair value with any gains or losses included in 'Net trading income'.

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

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2.7 Revenue recognition

Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income

Fees and commission are generally recognised on an accrual basis when the service has been provided.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Participation fees received for joining a loan syndication is also accorded this treatment.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party - such as the arrangement of the acquisition of shares and other securities are recognised on the completion of the underlying transaction.

Portfolio and other management advisory and services fees are recognised based on the applicable service contracts, usually on a time apportioned basis.

Asset management fees related to investment funds, are recognised based rateably over the period in which the service is provided.

Fees and commission income are reported in the statement of comprehensive income as part of fees and commission income.

Net gains from financial assets held for trading

Net gains from financial assets held for trading comprise the net gain or loss on valuation and/or sale of proprietary investments (treasury bills, bonds, equity instruments) held by the Bank. Interest earned whilst holding trading securities are reported as part of interest income.

2.8 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leases of property and equipment where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

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Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.9 Property and equipment

(i) Recognition and measurement

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

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

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised net within other operating income in profit or loss.

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

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Bank 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 and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

The estimated useful lives for the current are as follows:

-	Freehold buildings	-	50 years
-	Office improvements	-	5 years
-	Motor vehicles	-	4 years
-	Furniture and fittings	-	5 years
-	Computer equipment	-	3 years
-	Office equipment	-	5 years
-	Leasehold improvements	-	over the shorter of the useful life of the item or lease term

Construction work in progress is not depreciated. All such assets, once available for use are capitalised within the appropriate class of property, plant and equipment and subjected to the applicable depreciation rate in the year they are used. Land is not depreciated by the Bank.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting date.

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(iv) Derecognition

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

2.10 Intangible assets

Intangible assets comprise computer software licenses. Intangible assets are initially recognised at cost. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the bank have a definite useful life. At each date of the statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

The Bank chooses to use the cost model for the measurement after initial recognition.

Amortisation is calculated on a straight line basis over the useful lives as follows:

- Computer software - 5 years

2.11 Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Additionally, assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which they have separately identifiable cash inflows (cash-generating units). The impairment test can also be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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.

2.12 Income taxation

(a) Current income tax

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

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

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

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(b) Deferred tax

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

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities, and carry-forwards and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

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

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

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

2.13 Employee benefits

Defined contribution plan

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

For defined contribution plans, the Bank pays contributions to an administered pension fund administrator on a contractual basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. Employees and the Bank contribute 8% and 10% respectively of each of the qualifying staff salary in line with the provisions of the Pension Reforms Act 2014.

2.14 Provisions, contingent liabilities and assets

Provisions are liabilities that are uncertain in amount and timing. Provisions are measured at the present value of the expenditures required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in provision due to passage of time is recognised in 'Discount and similar expense'. Provisions recognised by the Bank relates to legal claim against it that are highly probable.

A contingent liability is a possible obligation that arises from past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank or the Bank has a present obligation as a result of a past event. It is not recognised because it is not likely that an outflow of resources will be required to settle the obligation or the amount can not be reliably estimated.

Contingent liabilities normally comprise of legal claims under arbitration or court process in respect of which a liability is not likely to occur.

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

Contingents assets are not recognised as assets in the statement of financial position but is disclosed if they are likely to eventuate.

2.15 Share capital

(a) Share issue costs

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

(b) Dividends

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

Dividends proposed by the directors' but not yet approved by members are disclosed in the financial statements in accordance with the requirements of the Bank and Allied Matters Act.

(c) Statutory appropriations

Central Bank of Nigeria (CBN) prudential guidelines requires the Bank to make an annual appropriation to a statutory reserve. An appropriation of 30% of profit after tax is made if the statutory reserve is less than the paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid up share capital. For purposes of this appropriation, 'Profit for the year' as reported in the statement of comprehensive income is used. This appropriation is reported in the statement of changes in equity. The Bank currently appropriates 15% of its profit after tax into statutory reserves.

(d) Credit risk reserve

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

CLASSIFICATION	BASIS	PERCENTAGE PROVIDED
Substandard	Interest and/or principal overdue by 90 days but less than 180 days.	10%
Doubtful	Interest and/or principal overdue by more than 180 days but less than 365 days.	50%
Lost	Interest and/or principal overdue by more than 365 days.	100%

A more accelerated provision may be done using the subjective criteria. A 2% provision is taken on all risk assets not specifically provisioned.

The results of the application of Prudential Guidelines and the impairment determined for these assets under IAS 39 are compared. Where the Prudential Guidelines provision is greater, the difference is appropriated from retained earnings and included in a non-distributable reserve called ""Credit risk reserve"". Where the IAS 39 impairment is greater, no appropriation is made and the amount of the IAS 39 impairment is recognised in the Statement of Comprehensive Income.

In subsequent periods, reversals or additional appropriations between the "Credit Risk Reserve" and Retained Earnings to maintain total provisions at the levels expected by the Regulator.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2.16 Deposit for shares

Deposit for shares are monies paid in by shareholders of the Bank. The Bank recognises deposit for shares when the shareholders has increased their investment but shares has not been issued by the Bank.

2.17 Earnings per share

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

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

2.18 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

This note explains the Bank's exposure to financial risks and how these risks could affect the Bank's future financial performance.

The Bank's risk management is carried out by the risk management department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific financial risks: market risk (including foreign exchange risk, interest rate risk and other price risk), credit risk and liquidity risk.

3.2 Market risk

Market risk is the risk that changes in market prices, such as interest rates, security prices and foreign exchange rates will affect the Bank's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

3.2.1 Management of market risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Treasury group, and include positions arising from market making and proprietary position taking, together with financial assets that are managed on a fair value basis.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO). However, the Risk Management and Control Group (RMCG) is responsible for the development of detailed risk management policies (subject to review and approval by the Board) and for the day-to-day review of their implementation.

3.2.2 Exposure to market risks - trading portfolios

The principal tools used by the RMCG to measure and control market risk exposure within the Bank's trading portfolios are the position and loss limits. Specified limits have been set on overall position, individual security and losses to prevent undue exposure. RMCG ensures that these limits and triggers are adhered to by the Treasury group.

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The Bank traded in the following financial instruments in the course of the year:

- Treasury bills
- Bonds (Spot and Repo transactions)
- Money market products

3.2.3 Exposure to interest rate risks – trading and non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and carrying out scenario analysis. The Asset and Liability Committee (ALCO) is the body charged with monitoring exposures to interest rate risks and is assisted by the Risk Management and Control Group.

The Bank also performs regular stress tests on its trading and non-trading portfolios. In performing this, the Bank ensures there are quantitative criteria in building the scenarios. The Bank determines the effect of changes in interest rates on interest income; volatility in prices on trading income; and changes in funding sources and uses on the Bank's liquidity. The key potential risks the Bank was exposed to from these instruments were price risk, basis risk and risk to net margins. However, all potential risk exposures in the course of the year were successfully mitigated as mentioned above. Interest rate movements affect reported equity in the following ways:

- Retained earnings arising from increase or decrease in net interest income and the fair value changes reported in profit or loss.
- Fair value reserves arising from changes in the fair value of available-for-sale financial instruments reported directly in other comprehensive income.

Overall non-trading interest rate risk positions are managed by the Treasury Group, which uses investment securities and interbank takings to manage the overall position arising from the Bank's non-trading activities.

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FOR THE YEAR ENDED 31 DECEMBER 2016

The tables below summarises the Bank's interest rate gap position on all portfolios:

	Carrying amount ₦'000	Variable interest-bearing ₦'000	Fixed interest-bearing ₦'000	Non-interest bearing ₦'000
31 December 2016				
Financial assets:				
Cash and balances with Central Bank of Nigeria	65,701	-	-	65,701
Loans and advances to banks	5,650,754	-	4,278,170	1,372,584
Loans and advances to customers	41,684,102	27,137,157	14,546,945	-
Financial assets held for trading	17,677,609	-	17,677,609	-
Investment securities:				
- Available-for-sale investments	20,377,948	-	20,311,526	66,422
- Loans and receivables	458,250	-	458,250	-
Pledged assets	36,286,655	-	36,286,655	-
Other assets	3,482,014	-	-	3,482,014
	125,683,033	27,137,157	93,559,155	4,986,721
Financial liabilities:				
Due to banks	38,863,965	4,577,047	34,286,918	-
Deposit from customers	64,727,659	-	64,727,659	-
Other liabilities	4,358,420	-	-	4,358,420
	107,950,044	4,577,047	99,014,577	4,358,420

	Carrying amount ₦'000	Fixed interest-bearing ₦'000	Non-interest bearing ₦'000
31 December 2015			
Financial assets:			
Cash and balances with Central Bank of Nigeria	277,266	-	277,266
Loans and advances to banks	7,962,268	7,500,821	461,447
Loans and advances to customers	36,649,753	36,649,753	-
Financial assets held for trading	10,695,464	10,695,464	-
Investment securities:			
- Available-for-sale investments	41,042,494	40,997,428	45,066
Other assets	3,243	95,843,466	787,022
Financial liabilities:			
Due to banks	5,600,187	5,600,187	-
Deposit from customers	71,631,378	71,631,378	-
Derivative financial instrument	367,041	367,041	-
Other liabilities	311,265	-	311,265
	77,909,871	77,598,606	311,265

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3.2.4 Exposure to interest rate risk on non-trading portfolios

As at 31 December 2016, if interest rates on floating rate assets and liabilities held at amortised cost had increased or decreased by 200 basis points with all other variables held constant, the impact on profit or loss would have been as set out in the table below. In arriving at the 200 basis point used for the sensitivity analysis of interest rate, the fluctuation in the interest rate of the Bank's major assets and liabilities, as represented by movements in the Nigerian Interbank Offer Rate (NIBOR) were considered as follows:

- Average monthly 90-day NIBOR rate ranged between 8.29% and 21.77%, with average of 14.86% (2015: 10.09% and 22.26%, with average of 13.25%) over the period, an average change of about 100 basis points.
- The discount rate on various maturities of treasury bills ranged between 5.78% and 18.20% (2015: 0.2% and 20%) over the financial period as published by Financial Markets Dealers Quotation.
- A 100 basis point proportional change in the cost of fund was also assumed (2015: 100 basis points).

Interest rate sensitivity on the non-trading portfolios assuming no asymmetrical movement in yield curves and a constant financial position was as follows:

	12 months to 31 December 2016		12 months to 31 December 2015	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	3,859,532	3,512,174	735,670	500,255
Increase	(651,218)	(592,609)	(562,293)	(382,359)

Bond price sensitivity

The Bank carried out the following in determining sensitivity of its profit to fluctuations in market prices of bonds:

- Daily bond prices were obtained and trended for the different series of bonds in issue as at the reporting date.
- A reasonably possible change was determined from one year daily fluctuation in bond prices which indicates that significant proportion of changes in price falls within the range of \pm ₦1.
- The chosen reasonable change in market prices was then applied to the Bank's bond trading portfolio as at end of the year.

As at 31 December 2016, the Bank had ₦13.18b in its FGN Bonds trading position (2015: Nil). If the price of bonds designated as financial assets held for trading increased or decreased by ₦1 (2015: ₦1) with all variables held constant, the impact on mark-to-market profit or loss would have been set out in the table below:

	12 months to 31 December 2016	
	Pre-tax	Post-tax
Increase	140,971	140,510
Decrease	(140,971)	(140,510)

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Treasury bills discount rate sensitivity

The Bank carried out the following in determining sensitivity of its profit to fluctuations in market discount rates of treasury bills:

- Daily market discount rates were obtained and trended for the different maturities of treasury bills in issue as at the reporting date.
- A reasonably possible change was determined from one year daily fluctuation in discount rates of treasury bills. The exercise indicates that significant proportion of changes in discount rates falls in the range of \pm 50 basis points.
- The range of \pm 50 basis points fluctuation in market discount rates was then applied to the Bank's treasury bills trading portfolio as at end of the year to determine the impact on its profit or loss position.

As at 31 December 2016, if discount rates on treasury bills increased or reduced by 50 basis points (2015: 50 basis points) with all other variables held constant, the impact on mark-to-market profit or loss would have been as set out in the tables below:

	12 months to 31 December 2016		12 months to 31 December 2015	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	48,732	48,573	36,588	24,880
Increase	(48,732)	(48,573)	(36,777)	(25,009)

Financial instruments held as available-for-sale (AFS)

The Bank carried out the following in determining sensitivity of its available-for-sale financial instruments to fluctuations in market prices of financial instruments fair valued through OCI:

- Daily bond prices and treasury bills discount rates were obtained and trended for the financial assets.
- A reasonably possible change was determined from one year daily fluctuation in bond prices and treasury bills discount rates.
- The range of \pm ₦1 and \pm 50 basis points (2015: \pm ₦1 and \pm 50 basis points) changes in market prices of bonds and treasury bills respectively were then applied to the Bank's holdings in AFS bonds and treasury bills as at end of the year to determine impact on its Other Comprehensive Income (OCI) position.

AFS Bonds as at 31 December 2016

	12 months to 31 December 2016		12 months to 31 December 2015	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	80,225	79,963	372,194	253,092
Decrease	(80,225)	(79,963)	(221,487)	(150,611)

AFS treasury bills as at 31 December 2016

	12 months to 31 December 2016		12 months to 31 December 2015	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	84,401	84,125	31,572	21,469
Increase	(84,401)	(84,125)	(18,223)	(12,392)

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Equity price risk

The Bank does not engage in active trading in equities. The Bank's holding of unquoted equities represents the following:

- Bank's 0.005% in the 1,451,230,581 ordinary shares of Nigeria Interbank Settlement Systems (NIBSS) amounting to ₦66,000.
- Bank's 2.80% interest in the 535,000,000 ordinary shares of Financial Market Dealer Quotation (FMDQ) Plc amounting to ₦15million.

Given the immateriality of these investments, the directors are of the opinion that the Bank is not exposed to equity price risk.

3.2.5 Foreign exchange risk

The Bank is exposed to foreign exchange risks due to fluctuations in foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2016. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

	Carrying amount	Naira	USD	EUR	Total
31 December 2016					
Financial assets					
Cash and balances with Central Bank of Nigeria	65,701	65,701	-	-	65,701
Loans and advances to banks	5,650,754	1,551,401	4,083,016	16,337	5,650,754
Loans and advances to customers	41,684,102	35,360,027	6,324,075	-	41,684,102
Financial assets held for trading	17,677,609	17,677,609	-	-	17,677,609
Investment securities	20,836,198	20,377,948	458,250	-	20,836,198
Pledged assets	36,286,655	36,286,655	-	-	36,286,655
Other assets	3,482,014	3,482,014	-	-	3,482,014
	125,683,033	114,801,355	10,865,341	16,337	125,683,033
Financial liabilities					
Due to banks	38,863,965	34,286,918	4,577,047	-	38,863,965
Deposit from customers	64,727,659	61,424,399	3,303,260	-	64,727,659
Other liabilities	4,358,420	3,909,062	433,021	16,337	4,358,420
	107,950,044	99,620,379	8,313,328	16,337	107,950,044
31 December 2015					
Financial assets					
Cash and balances with Central Bank of Nigeria	277,266	277,266	-	-	277,266
Loans and advances to banks	7,962,268	7,867,211	95,057	-	7,962,268
Loans and advances to customers	36,649,753	29,800,925	6,848,828	-	36,649,753
Financial assets held for trading	10,695,464	10,695,464	-	-	10,695,464
Investment securities	41,042,494	40,787,339	255,155	-	41,042,494
Other assets	3,243	3,243	-	-	3,243
	96,630,488	89,431,448	7,199,040	-	96,630,488
Financial liabilities					
Due to banks	5,600,187	5,600,187	-	-	5,600,187
Deposit from customers	71,631,378	67,599,118	4,032,260	-	71,631,378
Other liabilities	389,970	389,970	-	-	389,970
	77,621,535	73,589,275	4,032,260	-	77,621,535

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Foreign exchange risk sensitivity analysis

As shown in the table above, the Bank is primarily exposed to changes in NGN/US\$ exchange rates

The following table details the Bank's sensitivity to a 10% increase and decrease in naira against the US dollar. Management believes that a 10% movement in either direction is reasonably possible at the balance sheet date. The sensitivity analyses below include outstanding US dollar denominated financial assets and liabilities. A positive number indicates an increase in profit where naira weakens by 10% against the US dollar. For a 10% strengthening of naira against the US dollar, there would be an equal and opposite impact on profit.

	Impact on profit	
	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
NGN/USD exchange rate – increase 10%	253,496	(316,678)
NGN/USD exchange rate – decrease 10%	(253,496)	316,678

3.3 Liquidity risk

Liquidity risk is the current and future likelihood of the Bank's inability to meet its obligations when they fall due without incurring additional costs or unacceptable losses. It also means the likelihood of the Bank's inability to recognise and address changes in market conditions that affect its ability to liquidate assets quickly with minimal loss in value.

3.3.1 Management of liquidity risk

A brief overview of the Bank's liquidity management processes includes the following:

- Maintenance of minimum levels of liquid and marketable assets above the regulatory requirement of 20%. The Bank has set for itself more stringent in-house limits above this regulatory requirement to which it adheres.
- Monitoring of its cash flow and financial position trends. The Bank also makes forecasts of anticipated deposits and withdrawals to determine their potential effect on the bank.
- Regular measurement and monitoring of its liquidity position/ratios in line with regulatory requirements and in-house limits.
- Monitoring of deposit concentration, and ensure diversification of funding sources.
- Use of Management authorisation process for purchases into the available-for-sale (AFS) and held-to-maturity (HTM) portfolios for bonds and treasury bills.
- Maintaining a contingency funding plan with specific financial institution(s) based on committed lines.

The Bank's Asset and Liability Committee (ALCO) is charged with the responsibility of managing the Bank's daily liquidity position. Daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity risk management policies and procedures are subject to review and approval by Board. In addition gap reports are prepared monthly to measure the maturity mismatches between assets and liabilities.

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3.3.2 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to deposits liabilities. For this purpose, liquid assets includes cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Bank's ratio of net liquid assets to deposits liabilities (liquidity ratio) at the reporting date and during the reporting period were as follows:

	31 Dec 2016	31 Dec 2015
At end of period	77.48%	63.11%
Average for the period	75.41%	66.47%
Maximum for the period	84.59%	75.83%
Minimum for the period	58.49%	54.05%

The regulatory benchmark given by CBN for merchant banks during the year was 20% and the Bank was well within this threshold throughout the year ended 31 December 2016.

The Bank majorly generates fixed-term deposits from its non-bank customers. Although the contractual maturities of these deposits are short, the Bank has over the years established strong relationships with its customers, such that their actual maturities extend far beyond the contractual dates. As a result, the Bank has over the years established a behavioural pattern for the deposits from its non-bank customers. This pattern has been used in the following profiling of maturities of financial liabilities.

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3.3.3 Contractual maturity of financial assets and liabilities

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

	Carrying amount ₦'000	Gross nominal inflow/ (outflow) ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year and 3 years ₦'000	3 years and 5 years ₦'000	Over 5 years ₦'000
31 December 2016							
Financial assets							
Cash and balances with Central Bank of Nigeria	65,701	65,701	65,701	-	-	-	-
Loans and advances to banks	5,650,754	5,650,754	5,650,754	-	-	-	-
Loans and advances to customers	41,684,102	46,728,258	17,990,153	22,204,311	6,084,997	79,999	368,798
Financial assets held for trading	17,677,609	17,677,609	17,677,609	-	-	-	-
Available-for-sale investments	20,377,948	26,422,632	3,307,757	13,906,489	1,681,153	1,388,777	6,138,456
Loans and receivables investments	458,250	581,026	61,763	519,263	-	-	-
Pledged assets	36,286,655	38,409,271	17,327,107	21,082,164	-	-	-
Other assets	3,482,014	3,482,014	3,482,014	-	-	-	-
	125,683,033	139,017,265	65,562,858	57,712,227	7,766,150	1,468,776	6,507,254
Financial liabilities							
Due to banks	38,863,965	38,860,215	38,860,215	-	-	-	-
Deposit from customers	64,727,659	65,500,987	61,236,679	4,264,308	-	-	-
Other liabilities	4,358,420	4,358,420	4,358,420	-	-	-	-
	107,950,044	108,719,622	104,455,314	4,264,308	-	-	-
Cumulative liquidity gap	17,732,989	30,297,643	(38,892,456)	53,447,919	7,766,150	1,468,776	6,507,254
31 December 2015							
Financial assets							
Cash and balances with Central Bank of Nigeria	277,266	277,266	277,266	-	-	-	-
Loans and advances to banks	7,962,268	7,962,268	7,962,268	-	-	-	-
Loans and advances to customers	36,649,753	36,649,753	18,070,594	4,490,575	3,280,625	10,591,872	216,087
Financial assets held for trading	10,695,464	10,695,464	1,740,474	8,954,990	-	-	-
Available-for-sale investments	41,042,494	41,042,494	2,783,998	20,645,622	9,939,870	564,277	7,108,727
Other assets	3,243	3,243	3,243	-	-	-	-
	96,630,488	96,630,488	30,837,843	34,091,187	13,220,495	11,156,149	7,324,814
Financial liabilities							
Due to banks	5,600,187	5,600,186	5,600,186	-	-	-	-
Due to customers	71,631,378	71,631,378	69,843,186	1,788,192	-	-	-
Derivative financial instrument	367,041	367,041	-	367,041	-	-	-
Other liabilities	389,970	389,970	389,970	-	-	-	-
	77,988,576	77,988,575	75,833,342	2,155,233	-	-	-
Cumulative liquidity gap	18,641,912	18,641,912	(44,995,500)	31,935,954	13,220,495	11,156,149	7,324,814

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3.3.4 Repricing period of financial assets and liabilities

Repricing maturities take into account the fact that the terms of the underlying financial assets or liabilities of the Bank can be varied, which in turn affects its liquidity risk exposure. The table below indicates the earliest time the Bank can vary the terms of the underlying financial asset or liabilities and analyses the Bank's interest rate risk exposure on assets and liabilities included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

	Carrying amount ₦'000	Total ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year and 3 years ₦'000	3 years and 5 years ₦'000	Over 5 years ₦'000
31 December 2016							
Financial assets							
Cash and balances with Central Bank of Nigeria	65,701	65,701	65,701	-	-	-	-
Loans and advances to banks	5,650,754	5,650,754	5,650,754	-	-	-	-
Loans and advances to customers	41,684,102	41,684,102	14,814,060	13,369,734	13,244,891	68,400	187,017
Financial assets held for trading	17,677,609	17,677,609	17,677,609	-	-	-	-
Available-for-sale investments	20,377,948	20,377,948	9,766,866	5,721,102	121,603	-	4,768,377
Loans and receivables investments	458,250	458,250	-	-	458,250	-	-
Pledged assets	36,286,655	36,286,655	34,099,934	2,186,721	-	-	-
Other assets	3,482,014	3,482,014	3,482,014	-	-	-	-
	125,683,033	125,683,033	85,556,938	21,277,557	13,824,744	68,400	4,955,394
Financial liabilities							
Due to banks	38,863,965	38,863,965	38,863,965	-	-	-	-
Deposit from customers	64,727,659	64,727,659	60,802,763	3,924,896	-	-	-
Other liabilities	4,358,420	4,358,423	4,358,423	-	-	-	-
	107,950,044	107,950,047	104,025,151	3,924,896	-	-	-
Re-pricing gap	17,732,989	17,732,986	(18,468,213)	17,352,661	13,824,744	68,400	4,955,394
	Carrying amount ₦'000	Total ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year and 3 years ₦'000	3 years and 5 years ₦'000	Over 5 years ₦'000
31 December 2015							
Financial assets							
Cash and balances with Central Bank of Nigeria	277,266	277,266	277,266	-	-	-	-
Loans and advances to banks	7,962,268	7,962,268	7,962,268	-	-	-	-
Loans and advances to customers	36,649,753	36,649,753	36,649,753	-	-	-	-
Financial assets held for trading	10,695,464	10,695,464	1,740,474	8,954,990	-	-	-
Available-for-sale investments	41,042,494	41,042,494	2,783,998	20,645,622	9,939,870	564,277	7,108,727
Other assets	3,243	3,243	3,243	-	-	-	-
	96,630,488	96,630,488	49,417,001	29,600,613	9,939,870	564,277	7,108,727
Financial liabilities							
Due to banks	5,600,187	5,600,186	5,600,186	-	-	-	-
Due to customers	71,631,378	71,631,377	69,843,186	1,788,191	-	-	-
Derivative financial instrument	367,041	367,041	-	367,041	-	-	-
Other liabilities	389,970	389,970	389,970	-	-	-	-
	77,988,576	77,988,574	75,833,342	2,155,232	-	-	-
Re-pricing gap	18,641,911	18,641,914	(26,416,341)	27,445,380	9,939,870	564,277	7,108,727

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FOR THE YEAR ENDED 31 DECEMBER 2016

3.4 Credit risk

The Bank defines credit risk as the risk of counterparty's failure to meet the terms of any lending contracts with the Bank or otherwise to perform as agreed. Credit risk arises anytime the Bank's funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements.

The Bank's specific credit risk objectives, as contained in the Risk Assets Acceptance Criteria (RAAC) and Credit Risk Policy, are:

- Maintenance of an efficient risk assets portfolio;
- Adequately diversify the Bank's risk assets and minimise concentration risk;
- Institutionalisation of sound credit culture in the Bank; and
- Achieve consistent and continuous income stream for the Bank.

The risk assets creating units – Fixed Income and currency trading division and corporate banking division – are required to implement all credit policies and procedures in line with the approval limits granted by the Board. The business units are responsible for the quality and performance of their risk assets portfolio and for monitoring and controlling all credit risks in their portfolio. Internal Audit undertakes regular audits of business units, while the Risk Management and Control Group carries out regular credit quality reviews.

The Bank continues to focus attention on intrinsic and concentration risks inherent in its business to manage the Bank's portfolio risk. It sets portfolio concentration limits that are measured under the following parameters: limits per obligor, industry/sector and maturity bucket. Sector and maturity limits reflect the risk appetite of the Bank. Credit risks arising on trading securities is managed independently, but reported as a component of market risk exposure.

3.4.1 Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Board Credit Committee. Management Credit and Underwriting Committee (MCUC), is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies for the Bank, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Executive Committee and the Board Credit Committee/Board of Directors as appropriate.
- Reviewing and assessing credit risk in all credit exposures prior to making commitment to customers. Renewals and reviews of facilities are subject to the same review process.
- Developing and maintaining the Bank's criteria for categorising exposures, and to focus management on the attendant risks. The criteria as contained in the Risk Assets Acceptance Criteria (RAAC) and Credit Risk Policy takes care of exposures to banks and related regulated institutions, and large quoted corporates, conglomerates and multinationals. The responsibility for approving and reviewing the Risk Assets Acceptance Criteria and Credit Risk Policy lies with the Board Credit Committee.
- Reviewing compliance of with exposure and concentration limits, and promotion of best practices throughout the Bank in the management of credit risk.

Credit risk measurement

The Bank undertakes lending activities after careful analysis of the borrowers' general character, capacity to repay, cash flow, credit history, organisational/management quality, financial condition, market position, business operations, industry and other factors. The Bank acknowledges that there are diverse intrinsic risks inherent in the vagaries of its business segments and, as a result, applies different parameters to adequately dimension the risks in each business segments.

The Bank's rating grades as defined by its Risk Assets Acceptance Criteria (RAAC) deals with all credit risk counterparties, covering all the Bank's credit exposure to corporate, commercial, conglomerates and multinationals. It however excludes banks and other financial institutions regulated by Central Bank of Nigeria (CBN). Obligor rating in the Bank is handled by Relationship Managers with further review by Risk Management and Control before it goes through the approval process.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

The relationship between the Bank's internal rating system and the external rating system (Agusto & Co.) is shown below:

EXTERNAL RATING	INTERNAL RATING	DESCRIPTION	CHARACTERISTICS
AAA	A	Highly outstanding investments	<ul style="list-style-type: none"> • Highest investment quality • Lowest expectation of default risk • Exceptionally strong capacity for timely payment of financial commitments • Capacity is highly unlikely to be adversely affected by unforeseeable events • Top multinationals/corporations • Strong equity and assets • Good track record
AA	B	Above average investments	<ul style="list-style-type: none"> • Very high investment quality • Very low expectation of default risk
A			
BBB	C	Average investments	<ul style="list-style-type: none"> • Good investment quality • Low expectation of default risk. • Capacity for timely payment of financial commitments is considered adequate • Adverse changes in circumstances and in economic conditions is more likely to impair capacity for payment • Typically in stable industries • Strong debt repayment capacity and coverage • Good asset quality and liquidity position
BB			
B			
CCC	D	Acceptable investments	<ul style="list-style-type: none"> • Average investment quality • Possibility of default risk developing, particularly as the result of adverse economic changes over time • Category is acceptable as business or financial alternatives may be available to allow financial commitments to be met • Good character of owner
CC			
C			
D	E	Unacceptable investments	<ul style="list-style-type: none"> • High risk investment quality • High probability of partial loss • Financial condition is weak but obligations are still being met as and when they fall due • Adverse changes in the environment will increase risk significantly

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The Bank's operational measurements for credit risk are in conformity with the impairment allowances required under the applicable reporting standard - IAS 39, and are based on losses that have been incurred at the date of the statement of financial position, that is the 'incurred loss model' rather than expected losses.

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Group considers three components: (i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derive the 'Exposure At Default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'Loss Given Default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

For debt securities, external rating such as Agusto & Co, Fitch, Standard & Poor's rating or their equivalents are used by Risk Management department for managing of the credit risk exposures as supplemented by the Bank's own assessment through the use of internal ratings tools.

Risk limit control and mitigation policies

FBN Merchant Bank applies limits to control credit risk concentration and ensure proper diversification of its risk assets portfolio. The Bank maintains limits for individual obligors, sectors and maturities/tenors.

The Bank's internal single obligor limit is set at a maximum of 35% of the its shareholders' funds (SHF), this within the stipulated regulatory single obligor limit currently prescribed at 50% of the Bank's shareholders' funds. Although the Bank is guided by its internal single obligor rating regulatory limit, it also applies additional parameters internally in determining the suitable limits that a single borrower should have. These include: obligor rating, position in the industry and perceived requirements of key players, financial analysis, etc.

The Bank, based on guidelines set by the regulators, imposes industry/economic sector limits to guide against concentration risk. The industry/sector limits are arrived at after rigorous analysis of the risks inherent in the industry or economic sector. The limits are usually recommended by the Risk Management and Control Group and approved by the Board.

The Bank also imposes limits on the maturity buckets of the risk assets portfolio. The maturity bucket limits are a reflection of the risk appetite and liquidity profile of the Bank. During the year, limits can be reviewed and realigned (outright removal, reduction or increase) to meet the exigencies of the prevailing macroeconomic events.

FBN Merchant Bank also sets internal credit approval limits in the credit process. Approval decisions are guided by the Bank's strategic focus, as well as the stated risk appetite and the other limits established by the Board or regulatory authorities. The current risk assets approval limits are as follows:

APPROVING AUTHORITY	APPROVAL LIMIT
Board of Directors	No limit but subject to regulatory limit
Board Credit Committee (BCC)	<ol style="list-style-type: none"> To note all non cash-collateralised credit facilities up to ₦1.5billion approved by the Management Credit and Underwriting Committee (MCUC). To approve all non cash-collateralised credit facilities of between ₦1.5billion and ₦6.5billion. To approve all non cash-collateralised credit facilities above ₦6.5billion. Such approvals are to be subsequently presented to the full Board for ratification.
Management Credit and Underwriting Committee (MCUC)	<ol style="list-style-type: none"> To approve all non cash-collateralised credit facilities up to ₦1.5billion. To approve all cash-collateralised limits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The Bank ensures that each credit is reviewed and granted based on the strength of the borrowers' repayment capacity, measured by its cash flow. However, the Bank also ensures its risk assets are well secured as a second way out strategy. The policies that guide collateral for facilities are embedded within the Bank's Credit Risk Policy.

FBN Merchant Bank maintains placement lines for its bank counterparties and other financial institutions regulated by the Central Bank of Nigeria (CBN). The lines cover the settlement risks inherent in the Bank's activities with these counterparties. The limits are arrived at after conducting fundamental analysis of the counterparties, presentation of findings to, and approval by the Board. The lines are implemented by the Fixed income and currency trading group and monitored by the Risk Management and Control Group. Interbank placement limits are also guided by the regulatory single obligor limit, which currently is 50% of the Bank's shareholders' funds.

3.4.2 Maximum exposure to credit risk

The Bank's credit risk exposures relating to on-balance sheet assets are as follows:

Classification	Maximum exposure	
	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Financial assets		
Cash and balances with Central Bank of Nigeria	65,701	277,266
Loans and advances to banks	5,650,754	7,962,268
Loans and advances to customers	41,684,102	36,649,753
Financial assets held for trading	17,677,609	10,695,464
Investment securities:		
- Available-for-sale investments	20,377,948	41,042,494
- Loans and receivables	458,250	-
Pledged assets	36,286,655	-
Other assets	3,482,014	3,243
	125,683,033	96,630,488
Loans exposure to total exposure	37.66%	46.17%
Debt securities exposure to total exposure	59.52%	53.54%
Other exposures to total exposure	2.82%	0.29%

The Bank did not have any exposure to off-balance sheet items as at 31 December 2016 (31 December 2015: Nil).

Balances included in other assets above are those subject to credit risks. Items not subject to credit risk have been excluded. The table above shows a worse-case scenario of credit risk exposures to the Bank at 31 December 2016 and 31 December 2015, without taking into consideration any of the collateral held or other credit enhancements attached, if any. The exposures set out above are based on gross amounts as reported in the statement of financial position.

As shown above, 37.66% of the Bank's total maximum exposures are derived from loans and advances to banks and customers (2015: 46.17%) while 59.52% of the Bank's total maximum exposures represents exposures to investments in debt securities (2015: 53.54%). The directors are confident in their ability to continue to control exposure to credit risk which can result from both its risk assets portfolio and debt securities.

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FOR THE YEAR ENDED 31 DECEMBER 2016

3.4.3 Credit risk concentration

IFRS 7 requires disclosures about concentrations of risk. Concentration of risk arises from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. This information has been provided along geographical areas and economic sectors.

i. Geographical concentration of risks of financial assets with credit risk exposure

The following table breaks down the Bank's credit exposure (without taking into account any collateral held or other credit support), as categorised by geographical region as at the reporting date. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	31 December 2016		
	Within Nigeria ₦'000	Outside Nigeria ₦'000	Total ₦'000
Cash and balances with Central Bank of Nigeria	65,701	-	65,701
Loans and advances to banks	4,910,749	740,005	5,650,754
Loans and advances to customers	41,684,102	-	41,684,102
Financial assets held for trading	17,677,609	-	17,677,609
- Available-for-sale investments	20,377,948	-	20,377,948
- Loans and receivables	-	458,250	458,250
Pledged assets	36,286,655	-	36,286,655
Other assets	3,482,014	-	3,482,014
	124,484,778	1,198,255	125,683,033

	31 December 2015		
	Within Nigeria ₦'000	Outside Nigeria ₦'000	Total ₦'000
Cash and balances with Central Bank of Nigeria	277,266	-	277,266
Loans and advances to banks	7,962,268	-	7,962,268
Loans and advances to customers	36,649,753	-	36,649,753
Financial assets held for trading	10,695,464	-	10,695,464
Investment securities:			
- Available-for-sale investments	40,787,339	255,155	41,042,494
Other assets	3,243	-	3,243
	96,375,333	255,155	96,630,488

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ii. Industry/sectoral exposure to credit risk

The Bank's credit risk exposures at carrying amounts (without taking into account any collateral held or other credit support, if any), to the various industries or sectors of the Nigerian economy are as follows:

31 December 2016 Classification	Real Estate ₦'000	Information and Communication ₦'000	Financial Institutions ₦'000	Governments ₦'000	Oil & Gas ₦'000	Transport & Storage ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Cash and balances with									
Central Bank of Nigeria	-	-	65,701	-	-	-	-	-	65,701
Loans and advances to banks	-	-	5,650,754	-	-	-	-	-	5,650,754
Loans and advances to customers	6,554,080	3,319,871	2,345,061	3,001,819	10,021,215	292,384	14,726,170	1,423,502	41,684,102
Financial assets held for trading	-	-	-	17,677,609	-	-	-	-	17,677,609
Investment securities:									
- Available-for-sale investments	-	-	66,422	20,207,216	-	-	104,310	-	20,377,948
- Loans and receivables investment	-	-	458,250	-	-	-	-	-	458,250
Pledged assets	-	-	-	36,286,655	-	-	-	-	36,286,655
Other assets	-	-	1,449,184	-	-	-	-	1,182,830	2,632,014
	6,554,080	3,319,871	10,035,372	77,173,299	10,021,215	292,384	14,830,480	2,606,332	124,833,033

31 December 2015 Classification	Real Estate ₦'000	Information and Communication ₦'000	Financial Institutions ₦'000	Governments ₦'000	Oil & Gas ₦'000	Transport & Storage ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Cash and balances with									
Central Bank of Nigeria	-	-	277,266	-	-	-	-	-	277,266
Loans and advances to banks	-	-	7,962,268	-	-	-	-	-	7,962,268
Loans and advances to customers	8,260,669	4,432,641	505,892	-	13,343,888	372,777	9,075,216	658,670	36,649,753
Financial assets held for trading	-	-	-	10,695,464	-	-	-	-	10,695,464
Available-for-sale investment	-	-	689,765	39,130,763	-	1,095,554	126,412	-	41,042,494
Other assets	-	-	-	-	-	-	-	3,243	3,243
	8,260,669	4,432,641	9,435,191	49,826,227	13,343,888	1,468,331	9,201,628	661,913	96,630,488

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FOR THE YEAR ENDED 31 DECEMBER 2016

3.4.4 Credit quality of financial assets using internal ratings

The credit quality of the portfolio of risk assets that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank as follows:

31 December 2016 Classification	Real Estate ₦'000	Telecoms ₦'000	Financial Institutions ₦'000	Governments ₦'000	Oil & Gas ₦'000	Transport & Storage ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Grades									
A	4,056,674	3,191,502	-	3,003,082	6,084,056	-	6,603,391	-	22,938,705
B	2,513,102	128,588	1,727,120	-	4,992,621	288,987	4,678,513	190,204	14,519,135
C	65,317	-	-	-	140,000	-	3,404,151	3,992	3,613,460
	6,635,092	3,320,090	1,727,121	3,003,081	11,216,677	288,987	14,686,055	194,195	41,071,300

31 December 2015 Classification	Real Estate ₦'000	Telecoms ₦'000	Financial Institutions ₦'000	Governments ₦'000	Oil & Gas ₦'000	Transport & Storage ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Grades									
A	-	-	8,239,535	40,568,622	-	-	-	-	48,808,157
B	5,040,474	4,432,641	1,195,657	9,212,539	13,046,442	1,468,331	9,201,628	658,670	44,256,382
C	3,220,195	-	-	-	297,446	-	-	44,790	3,562,431
	8,260,669	4,432,641	9,435,192	49,781,161	13,343,888	1,468,331	9,201,628	703,460	96,626,971

3.5 Impairment and provisioning policies

Impaired risk assets and securities are risk assets and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the risk assets' or securities' agreements. The Bank classifies its risk assets and securities portfolios as follows:

- Neither past due nor impaired are risk assets and securities on which there is no outstanding or unpaid contractual interest and/or principal repayment, and the Bank cannot establish that there is any objective evidence of impairment at the reporting date.
- Past due but not impaired risk assets are risk assets and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank.
- Individually impaired are risk assets where the Bank has, on an individual basis, established objective evidence of impairment at the reporting date. The Bank recognises an allowance for impairment losses that represents its estimate of incurred losses on the individually impaired risk assets.
- Collectively impaired risk assets are portfolios of homogenous loans and advances where contractual interest or principal payments are not past due, but have been assessed for impairment by the bank.

Allowances for impairment: The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its risk assets portfolio. The impairment allowance includes allowances against risk assets that have been individually impaired and a collective loan loss allowance, established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. 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, the previously recognised impairment loss is reversed.

Write-off policy: The Bank writes off a risk asset or security balance (and any related allowances for impairment losses) when it determines that the risk assets or securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the full exposure. All write-offs are approved by the Board.

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3.5.1 Categorisation of loans and advances to customers

The table below analyses the Bank's loans and advances to customers based on the categorisation of the loans and the allowances taken on them.

	Staff	Corporates	Bank	Government	Total
31 December 2016					
Neither past due nor impaired	289,984	35,029,821	2,346,198	3,003,275	40,669,278
Past due but not impaired	-	95,231	-	-	95,231
Past due and impaired	-	1,439,803	-	-	1,439,803
Gross	289,984	36,564,855	2,346,198	3,003,275	42,204,312
Less allowances for impairment					
Specific impairment	-	(500,547)	-	-	(500,547)
Collective impairment	(141)	(16,929)	(1,137)	(1,456)	(19,663)
Total allowance	(141)	(517,476)	(1,137)	(1,456)	(520,210)
Net loans and advances	289,843	36,047,379	2,345,061	3,001,819	41,684,102

	Staff	Corporates	Bank	Government	Total
31 December 2015					
Neither past due nor impaired	325,270	32,022,319	506,247	-	32,853,836
Past due and impaired	-	4,573,807	-	-	4,573,807
Gross	325,270	36,596,126	506,247	-	37,427,643
Less allowances for impairment					
Specific impairment	-	(726,551)	-	-	(726,551)
Collective impairment	(446)	(50,199)	(694)	-	(51,339)
Total allowance	(446)	(776,750)	(694)	-	(777,890)
Net loans and advances	324,824	35,819,376	505,552	-	36,649,753

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3.5.2 Credit quality

IFRS 7 requires that the Bank disclose information about the credit quality of financial assets that are neither past due nor impaired, an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired, and an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period. This information is provided in the tables below:

i. Credit quality of loans and advances to customers that are neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank as follows:

Internal rating grades	Staff	Corporates	Bank	Government	Total
31 December 2016					
A	-	21,122,363	-	3,003,275	24,125,638
B	-	13,614,931	2,346,198	-	15,961,129
C	289,984	292,527	-	-	582,511
	289,984	35,029,821	2,346,198	3,003,275	40,669,278

Internal rating grades	Staff	Corporates	Bank	Government	Total
31 December 2015					
A	-	29,242,720	-	-	29,242,720
B	-	2,414,156	506,247	-	2,920,403
C	325,270	365,443	-	-	690,713
	325,270	32,022,319	506,247	-	32,853,836

ii. Loans that are past due but not impaired

Past due but not impaired loans and advances, other than those carried at fair value through profit or loss, are those for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group. The aging analysis of past due but not impaired financial assets is as shown below:

Age	Corporates	Total
31 December 2016		
0 - 90 days	95,231	95,231
	95,231	95,231
FV of collateral		
Amount of under-collateralisation	(95,231)	(95,231)

There was no past due but not impaired loan facility in 2015.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

iii. Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	Corporates	Total
31 December 2016		
Gross loans	1,439,803	1,439,803
Impairment	(500,547)	(500,547)
Net amount	939,256	939,256
FV of collateral	-	-
Amount of undercollateralisation	(939,256)	(939,256)
31 December 2015		
Gross loans	4,573,807	4,573,807
Impairment	(726,551)	(726,551)
Net Amount	3,847,256	3,847,256
FV of collateral	-	-
Amount of undercollateralisation	(3,847,256)	(3,847,256)

3.5.3 Sensitivity of loan loss impairment to changes in risk parameters

Loan loss impairment as stated on the statement of financial position is subject to interplay of three key variables: probability of default, loss given default and emergence period. Therefore, changes to these three key variables would directly impact the credit losses reported for the financial year.

a Sensitivity of loan loss impairment - probability at default (PD)

As at 31 December 2016, if the probability of default increased or decreased by 10%, with all other variables (exposure at default, emergence and loss given default) held constant, the impact on impairment charge, which ultimately affects profit before tax would have been as set out in the tables below:

	31 December 2016		31 December 2015	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	(1,966)	(1,960)	(4,515)	(3,070)
Decrease	1,966	1,960	4,515	3,070

b Sensitivity of loan loss impairment - loss given default (LGD)

As at 31 December 2016, if the loss given default increased or decreased by 5%, with all other variables (exposure at default, probability of default and emergence period) held constant, the impact on impairment charge, which ultimately affects profit before tax would have been as set out in the tables below:

	31 December 2016		31 December 2015	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	(983)	(895)	(2,257)	(2,058)
Decrease	983	895	2,257	2,058

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c Sensitivity of loan loss impairment - emergence period (EP)

As at 31 December 2016, if the emergence period increased or decreased by 1 month, with all other variables (exposure at default, probability of default and loss given default) held constant, the impact on impairment charge, which ultimately affects profit and exposure at default, would have been as set out in the tables below:

	31 December 2016		31 December 2015	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	(6,554)	(5,964)	(15,049)	(10,233)
Decrease	6,554	5,964	15,049	10,233

3.6 Credit collateral

The Bank ensures that every risk asset is reviewed and granted based on the strength of the borrowers' cash flow. However, the Bank also ensures its credit facilities are well secured as a second way out. The policies that guide collateral for facilities are embedded within the Bank's collateral policy. All collateral offered must have the following attributes:

- There must be good legal title
- The title must be easy to transfer
- It should be easy and relatively cheap to value
- The value should be appreciating or at least stable
- The security must be easy to sell

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Cash
- Treasury bills/bonds
- Charges over financial instruments such as debt securities and equities
- Bank guarantees
- Mortgages over landed properties

In order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

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3.6.1 Summary of collaterals held against loans and advances to customers

An estimate of the fair value of any collateral and other security enhancements held against loans and advances to customers is shown below:

	Gross amount ₦'000	Collateral ₦'000
31 December 2016		
Against past due and impaired	1,439,803	1,299,803
Against past due but not impaired	95,231	-
Against neither past due nor impaired	40,669,278	28,767,200
	42,204,312	30,067,003

	Gross amount ₦'000	Collateral ₦'000
31 December 2015		
Against past due and impaired	4,573,807	4,333,836
Against neither past due nor impaired	32,853,836	11,023,500
	37,427,643	15,357,336

Type of collateral	Against past due and impaired ₦'000	Against neither past due nor impaired ₦'000
31 December 2016		
Cash/Treasury bills	-	214,200
Government guarantee	1,299,803	3,000,000
Bank guarantee	-	500,000
Mortgage property	-	18,508,000
Others ¹	-	6,545,000
	1,299,803	28,767,200

Type of collateral	Against past due and impaired ₦'000	Against neither past due nor impaired ₦'000
31 December 2015		
Cash/Treasury bills	-	228,500
Government guarantee	4,333,836	-
Bank guarantee	-	500,000
Mortgage property	-	4,295,000
Others ¹	-	6,000,000
	4,333,836	11,023,500

¹Others include domiciliation, asset debenture, negative pledge etc.

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3.6.3 Debt securities

The table below shows analysis of debt securities into the different classifications:

31 December 2016	Financial assets held for trading ₦'000	Investment securities ₦'000	Assets pledged as collateral ₦'000	Total ₦'000
Federal Government bonds	13,774,816	7,991,129	-	21,765,945
State Government bonds	-	1,547,622	-	1,547,622
Corporate bonds	-	104,310	-	104,310
Treasury bills	3,902,793	10,668,465	36,286,655	50,857,913
Eurobond	-	458,250	-	458,250
	17,677,609	20,769,776	36,286,655	74,734,040

31 December 2015	Financial assets held for trading ₦'000	Investment securities ₦'000	Total ₦'000
Federal Government bonds	-	20,925,877	20,925,877
State Government bonds	-	9,212,539	9,212,539
Corporate bonds	-	1,656,575	1,656,575
Treasury bills	10,695,464	8,947,281	19,642,745
Eurobond	-	255,155	255,155
	10,695,464	40,997,427	51,692,891

The Bank's investment in risk-free government securities constitutes 99% of debt instruments portfolio (31 December 2015: 96%). Investment in corporate bond accounts for the outstanding 1% (31 December 2015: 4%).

3.7 Settlement Risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3.8 Fair value of financial assets and liabilities

a. Financial instruments not measured at fair value

31 December 2016	Notes	Carrying amount ₦'000	Fair value ₦'000	Fair value hierarchy		
				Level 1 ₦'000	Level 2 ₦'000	Level 3 ₦'000
Financial assets						
Loans and advances to banks	i	5,650,754	5,650,754	-	-	5,650,754
Loans and advances to customers	ii	41,684,102	41,327,261	-	-	41,327,261
Investment securities:						
- Loans and receivables investments	ii	458,250	457,406	-	457,406	-
Other assets	iii	3,482,014	3,482,014	-	-	3,482,014
Financial liabilities						
Due to banks	iv	38,863,965	38,863,965	-	38,863,965	-
Deposit from customers	iv	64,727,659	64,727,659	-	64,727,659	-
Other liabilities	v	4,358,420	4,358,420	-	4,358,420	-

31 December 2015	Notes	Carrying amount ₦'000	Fair value ₦'000	Fair value hierarchy		
				Level 1 ₦'000	Level 2 ₦'000	Level 3 ₦'000
Financial assets						
Loans and advances to banks	i	7,962,268	7,962,268	-	7,962,268	-
Loans and advances to customers	ii	36,649,753	36,649,753	-	-	36,649,753
Other assets	iii	3,243	3,243	-	3,243	-
Financial liabilities						
Due to banks	iv	5,600,187	5,600,187	-	5,600,187	-
Deposit from customers	iv	71,631,378	71,631,378	-	71,631,378	-
Other liabilities	v	389,970	389,970	-	389,970	-

- i) Loans and advances to banks include balances with other banks within and outside Nigeria, and placements with maturities less than 90 days. The carrying amount of the balance is a reasonable approximation of the fair value, which is the amount receivable on demand.
- ii) The fair values of loans and advances to customers and loans and receivable investments have been estimated using the discounted cash flow technique. Inputs into this valuation technique include: expected cash flows, expected losses, tenor and interest rates. Expected cash flows are discounted using the effective interest rate to determine fair value as there is no active market.
- iii) Carrying amounts of other assets are a reasonable expectation of their fair values which are receivable on demand.
- iv) The estimated fair value of deposits from banks and customers is the amount repayable on demand as at 31 December 2016.
- v) Carrying amounts of other liabilities are a reasonable expectation of their fair values which are payable on demand.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

b. Financial instruments measured at fair value

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

Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3

Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised. All fair values are on a recurring basis.

31 December 2016	Carrying amount ₦'000	Fair value hierarchy			Total ₦'000
		Level 1 ₦'000	Level 2 ₦'000	Level 3 ₦'000	
Held-for-trading:					
- Federal Government of Nigeria bonds	13,774,816	13,774,816	-	-	13,774,816
- Treasury bills	3,902,793	3,902,793	-	-	3,902,793
- Pledged treasury bills	10,411,564	10,411,564	-	-	10,411,564
Available-for-sale					
- Treasury bills	10,668,465	10,668,465	-	-	10,668,465
- Pledged treasury bills	25,875,091	25,875,091	-	-	25,875,091
- Federal Government of Nigeria bonds	7,991,129	7,991,129	-	-	7,991,129
- State bonds	1,547,622	-	1,547,622	-	1,547,622
- Corporate bonds	104,310	-	104,310	-	104,310
- Unlisted equities	66,422	-	-	66,422	66,422

31 December 2015	Carrying amount ₦'000	Fair value hierarchy			Total ₦'000		
		Level 1 ₦'000	Level 2 ₦'000	Level 3 ₦'000			
Financial assets							
Held-for-trading:							
- Treasury bills	10,695,464	10,695,464	-	-	10,695,464		
Available-for-sale							
- Treasury bills	8,947,281	8,947,281	-	-	8,947,281		
- Federal Government of Nigeria bonds	20,925,877	20,925,877	-	-	20,925,877		
- State bonds	9,212,539	-	9,212,539	-	9,212,539		
- Corporate bonds	1,911,731	-	1,911,731	-	1,911,731		
- Unlisted equities	45,066	-	-	45,066	45,066		
Financial liabilities							
Derivative financial instrument	367,041	-	367,041	-	367,041		

The fair value of derivative liabilities was calculated as the present value of the estimated future cash flows based on observable yield curves i.e. USD swap curve and NGN Sovereign curve as obtained from Bloomberg as at reporting date.

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Reconciliation of Level 3 Items

The following table presents the changes in Level 3 instruments of the bank for the year ended:

	Unlisted equities ₦'000	Total ₦'000
31 December 2016		
Opening balance	45,066	45,066
Gain recognised in other comprehensive income	21,356	21,356
Closing balance	66,422	66,422

	Unlisted equities ₦'000	Total ₦'000
31 December 2015		
Opening balance	15,066	15,066
Gain recognised in other comprehensive income	30,000	30,000
Closing balance	45,066	45,066

Unquoted equity investments in available-for-sale portfolio relates to ₦15million investment in Financial Markets Dealers Quotation (FMDQ) and ₦66,000 investment in Nigeria Inter-bank Settlement System. The value of the investment in FMDQ has been determined based on the valuation performed by the investee company itself. The markets where these securities could be traded are not readily ascertained hence the classification within level 3 of the fair value hierarchy.

The Bank has no current plans of disposing these securities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3.9 Financial instruments by categories

The Bank's financial instruments are categorised as follows:

31 December 2016	Financial assets			Financial liabilities	
	At fair value through profit or loss ₦'000	Available- for-sale ₦'000	Loans and receivables ₦'000	At fair value through profit or loss ₦'000	At amortised cost ₦'000
Financial assets					
Cash and balances with Central Bank of Nigeria	-	-	65,701	-	-
Loans and advances to banks	-	-	5,650,754	-	-
Loans and advances to customers	-	-	41,684,102	-	-
Financial assets held for trading	17,677,609	-	-	-	-
Investment securities:					
- Available-for-sale investments	-	20,377,948	-	-	-
- Loans and receivables investments	-	-	458,250	-	-
Pledged assets	10,411,564	25,875,091	-	-	-
Other assets	-	-	3,482,014	-	-
	28,089,173	46,253,039	51,340,821		
Financial liabilities					
Due to banks	-	-	-	-	38,863,965
Deposit from customers	-	-	-	-	64,727,659
Other liabilities	-	-	-	-	4,358,420
	-	-	-	-	107,950,044

31 December 2016	Financial assets			Financial liabilities	
	At fair value through profit or loss ₦'000	Available- for-sale ₦'000	Loans and receivables ₦'000	At fair value through profit or loss ₦'000	At amortised cost ₦'000
Financial assets					
Cash and balances with Central Bank of Nigeria	-	-	277,266	-	-
Loans and advances to banks	-	-	7,962,268	-	-
Loans and advances to customers	-	-	36,649,753	-	-
Financial assets held for trading	10,695,464	-	-	-	-
Investment securities:					
- Available-for-sale investments	-	41,042,494	-	-	-
Other assets	-	-	44,790	-	-
	10,695,464	41,042,494	44,934,077		
Financial liabilities					
Due to banks	-	-	-	-	5,600,187
Due to customers	-	-	-	-	71,631,378
Derivative financial instrument	-	-	-	367,041	-
Other liabilities	-	-	-	-	389,970
	-	-	-	367,041	77,621,535

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4 CAPITAL MANAGEMENT

The Bank's objectives in managing capital are (i) to comply with the capital requirements set by the Central Bank of Nigeria, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain an optimal capital structure suitable for the Bank's business strategy.

The Bank is directly supervised by its regulator, the Central Bank of Nigeria (CBN), who sets and monitors capital requirements for the Bank. In 2015, CBN revised the Capital Adequacy Ratio (CAR) reporting template and existing guidance notes on regulatory capital, credit risk, market risk and operational risk disclosure requirement for Basel II implementation in the Industry. The Apex Bank directed all Nigerian banks and banking groups to re-compute capital adequacy ratio in line with the revised guidance notes. To this end, the Bank's Capital Adequacy Ratio (CAR) under Basel II has been re-computed in accordance to the new guidelines.

The CBN specifies approaches for quantifying the risk weighted assets for credit, market and operational risk for the purpose of determining regulatory capital. In compliance with CBN, the Bank adopted the Standardised Approach (SA) in determining capital charge for credit risk and market risk while capital charge for operational risk was determined using the Basic Indicator Approach (BIA).

The Bank's policy is to maintain a strong capital base so as to maintain investor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the advantages and security afforded by a sound capital position. The Bank has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the year.

Capital adequacy ratio

The capital adequacy ratio, which is the quotient of the capital base of the Bank's risk weighted asset base, has been computed using the Basel II implementation guidelines provided by the Central Bank of Nigeria (CBN). In accordance with extant Central Bank of Nigeria regulations, a minimum ratio of 10% is to be maintained.

CAR is measured as:

$$\frac{\text{Total regulatory capital}}{(\text{Credit Risk Weighted Assets} + \text{Market Risk Weighted Assets} + \text{Operational Risk Weighted Assets})}$$

The Bank's regulatory capital is analysed into two tiers:

Tier 1 capital includes ordinary share capital, share premium, retained earnings and statutory reserves. Intangible assets and deferred tax asset were also deducted from tier 1 capital for capital adequacy purposes.

Tier 2 capital comprises fair value reserves.

The Bank complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the period.

The Bank throughout the review period, operated above its targeted capitalisation range and well over the CBN mandated regulatory minimum of 10% for merchant banks. As at 31 December 2016, the Bank's capital adequacy ratio was 22.59% (31 December 2015: 23.03%).

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The following table shows the composition of regulatory capital and risk weighted assets for the Bank:

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Capital adequacy ratio		
Tier 1 capital		
Share capital	4,301,577	4,301,577
Share premium	3,904,731	3,904,731
Retained earnings	14,013,717	9,235,023
Statutory reserve	6,561,495	5,826,521
Tier 1 capital before regulatory deduction	28,781,520	23,267,852
Regulatory deductions		
Deferred tax asset	(8,801,880)	(8,083,415)
Other intangible asset	(972,585)	-
Total regulatory deduction	(9,774,465)	(8,083,415)
Eligible tier 1 capital	19,007,055	15,184,437
Tier 2 capital		
Fair value reserves	(2,416,834)	319,471
Eligible tier 2 capital	(2,416,834)	319,471
Total eligible capital	16,590,221	15,503,908
Risk-weighted assets		
Credit risk	50,977,063	51,229,590
Operational risk	9,616,170	7,842,109
Market risk	12,837,627	8,241,091
Total risk-weighted assets	73,430,860	67,312,790
Capital adequacy ratio	22.59%	23.03%
Tier 1 capital ratio	25.88%	22.56%

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5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with International Financial Reporting Standard requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions are changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements include:

(a) Recoverability of deferred tax assets

The Bank has deferred tax assets amounting to ₦8.8billion (31 December 2015: ₦8.08billion) of which the entire amount has been recognised. The deferred tax assets are primarily due to unused tax losses of ₦27.6billion (31 December 2015: ₦26.9billion). The Bank has concluded that the deferred assets will be recoverable using the estimated future taxable profits based on the approved profit projections of the Bank. The losses can be carried forward indefinitely and have no expiry date.

(b) Allowance for credit losses

The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recognised, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Please refer to note 3.5.3 for sensitivity analysis of the loan loss impairment to changes in the risk parameters (PD, LGD and EP).

(c) Impairment of available-for-sale equity investments

The Bank follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology, operational and financing cash flow.

(d) Revision of useful lives of plant and equipment

During the year, the Bank reassessed and adjusted the useful lives of its property, plant and equipment(PPE) to align with the applicable useful lives for each class of PPE used by the FBN Group.

A summary of the changes in the estimated useful lives of different asset groups is as follows:

Class of PPE	Useful lives	
	Old	New
Freehold buildings	50 years	50 years
Office improvements	4 years	5 years
Motor vehicles	3 years	4 years
Furniture and fittings	3 years	5 years
Computer equipment	3 years	3 years
Office equipment	3 years	5 years

The effect of this change in accounting estimate was recognised prospectively from 1 January 2016 onward. As a result of this change, depreciation expense for the year ended 31 December 2016 and the net carrying value of property, plant and equipment as that date are lowered and higher by approximately ₦7.1million.

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(e) Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed under note 2.5. The Bank measures fair values using the following hierarchy of methods.

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1. Instruments included in level 1 primarily comprise of investments that are quoted on the Nigerian Stock Exchange (NSE) and Financial Market Dealers Quotation (FMDQ) Plc, which are classified as held for trading (HFT) or available for sale (AFS).

(ii) Financial instruments in level 2

Valuation techniques are based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for 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.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Available-for-sale: State and corporate bonds

As at 31 December 2016, the Bank disclosed its investment in available-for-sale state and corporate bond as ₦1.65billion (31 December 2015: ₦11.12billion) under level 2 of the fair value hierarchy. In valuing this investment, the price of the asset as obtained from an over the counter securities exchange was adopted in arriving at the fair value. It was categorised under level 2 of the fair value hierarchy because the price obtained was an indicative price due to the fact that the market for the instrument is not very active. It is important to note that no adjustment was made to the input price.

(iii) Financial instruments in level 3

This includes financial instruments, the valuation of which incorporate significant inputs for the asset or liability that is not based on observable market date (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on inputs of a similar nature, historic observations on the level of the input or analytical techniques.

The Bank uses widely recognised valuation models for determining the fair value of its level 3 financial instruments.

Valuation techniques include net present value and discounted cashflow models, comparison with similar instruments for which observable inputs exist and other valuation models. Assumptions and inputs used include earnings multiple of similar companies, risk free rate and discount rate. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Unquoted equity instruments

The fair values of unquoted equity investments have been generally derived using the adjusted fair value comparison approach. Quoted price per earning or price per book value, enterprise value to EBITDA ratios of comparable entities in a similar industry were obtained and adjusted for key factors to reflect estimated ratios of the investment being valued. The adjusting factor used was the illiquidity discount which assumes a reduced earning on a private entity in comparison to a publicly quoted entity.

The following table summarises the quantitative information about the significant unobservable inputs used in the fair value measurement of unquoted equity instruments.

Description	Fair value at 31 December 2016	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Nigeria Interbank Settlement Systems	1,068	Adjusted fair value comparison approach	Median Price to earnings (P/E) ratio of similar comparable companies	P/E 5.79 to 13.88 Illiquidity ratio 20%	The higher the P/E ratio of similar trading companies, the higher the fair value
FMDQ OTC Securities Exchange	65,354	Adjusted fair value comparison approach	Median Price to earnings (P/E) ratio of similar comparable companies	P/E 5.79 to 13.88 Illiquidity ratio 20%	The higher the P/E ratio of similar trading companies, the higher the fair value
66,422					

6 INTEREST INCOME

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Loans and advances to customers	5,226,393	3,994,529
Loans and advances to banks	882,337	2,086,935
Financial assets held for trading	1,383,950	4,296,512
Investment securities	5,347,190	4,714,489
	12,839,870	15,092,465

Interest income on loans and advances to customers for the year ended 31 December 2016 includes ₦529million (31 December 2015: ₦732million) accrued on impaired financial assets.

7 INTEREST EXPENSE

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Due to banks	1,405,200	7,118,438
Deposit from customers	6,794,629	2,701,600
	8,199,829	9,820,038

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

8 IMPAIRMENT CHARGE/(WRITEBACK) FOR CREDIT LOSSES

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Specific impairment	(226,004)	436,797
Collective impairment	(31,676)	28,844
Amounts written off during the year as uncollectible	125,718	-
	(131,962)	465,641

9a FEES AND COMMISSION INCOME

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Credit-related fees	474,212	43,282
Brokerage and structuring fees	2,384,402	-
Letters of credit commissions and fees	78,755	-
Other fees and commissions	57,840	-
	2,995,209	43,282

9b FEES AND COMMISSION EXPENSE

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Bank charges	89,252	58,379
	89,252	58,379

10 NET GAIN/(LOSS) ON FOREIGN EXCHANGE

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Gain/(loss) on foreign currency translation	885,182	(19,743)
	885,182	(19,743)

11a NET (LOSS)/GAIN FROM FINANCIAL ASSETS HELD FOR TRADING

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Trading (loss)/gain	(21,728)	867,445
Fair value movements on held for trading portfolio	(178,887)	67,291
	(200,615)	934,736

11b NET (LOSS)/GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
(Loss)/gain on derivative financial instrument (note 42)	(121,086)	151,565
	(121,086)	151,565

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

12 IMPAIRMENT CHARGE ON NON-FINANCIAL ASSETS

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Impairment charge on other assets (note 25.2)	167,329	-
	167,329	-

13 OTHER OPERATING INCOME

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Sundry income	5,329	56,064
Gain/(loss) on sale of property and equipment	3,768	(8,753)
Recoveries on loan amounts previously written-off	-	183,268
	9,097	230,579

14 OPERATING EXPENSES

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Auditors' remuneration	50,000	37,000
Directors' emoluments (note 40)	453,596	149,886
Administration and general expenses	408,972	200,563
Insurance	21,115	17,353
Rent and rates	129,992	13,735
Traveling	97,505	13,345
Donations	6,670	13,606
Corporate development	12,575	35,517
Office repair and maintenance expenses	73,285	77,620
Periodicals and subscriptions	37,338	29,633
Consultancy	208,223	194,778
Training	54,199	69,289
NDIC premium	257,046	-
Nigeria Information Technology Development Agency Levy	-	38,568
	1,810,516	890,893

15 PERSONNEL EXPENSES

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Salaries and wages	1,134,242	1,191,686
Pension costs:		
- Defined contribution plans	79,776	23,156
- Defined contribution plans (Voluntary contribution)	1,870	23,130
	1,215,888	1,237,972

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

16a TAXATION

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Corporate tax	314,400	152,119
Nigeria Information Technology Development Agency Levy	49,159	-
Prior year under provision	55,927	-
	419,486	152,119
Deferred tax (note 28)	(403,403)	(2,891,320)
Income tax expense/(credit)	16,083	(2,739,201)

Reconciliation of effective tax rate	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000	%
Profit before income tax	4,915,910	3,826,310	
Income tax using the domestic corporation tax rate	1,474,773	1,147,893	30%
Minimum tax	-	152,119	4%
Dividend tax	314,400	-	6.4%
Technology tax	49,159	-	1.0%
Prior year underprovision	55,927	-	1.1%
Income not subjected to tax	(1,886,383)	(4,065,770)	(38.4%) (106%)
Expenses not deductible for tax purposes	8,207	26,557	0.2% 1%
Income tax credit	16,083	(2,739,201)	0.3% (71%)

16b CURRENT INCOME TAX LIABILITY

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
At start of year	128,265	84,864
Prior year under provision	55,927	-
Payments made during the year	(184,192)	(108,718)
Current year's provision	363,559	152,119
At end of year	363,559	128,265

17 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares held as treasury shares.

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Profit attributable to equity holders	4,899,827	6,565,511
Weighted average number of ordinary shares in issue excluding treasury shares (in '000s)	4,301,577	4,301,577
Basic earnings per share (expressed in kobo per share)	114	153

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

18 CASH AND BALANCES WITH CENTRAL BANK OF NIGERIA

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Cash in hand	1,908	-
Balances with Central Bank of Nigeria	63,793	277,266
	65,701	277,266

19 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for purposes of the cash flow statement comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with Banks and other short-term highly liquid investments with original maturities less than three months. Excluded from loans and advances to banks are cash collateral balances held with other banks.

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Cash and balances with Central Bank of Nigeria (note 18)	65,701	277,266
Treasury bills with original maturities less than 3 months	4,794,352	3,032,029
Loans and advances to banks	5,217,015	7,962,268
	10,077,068	11,271,563

20 LOANS AND ADVANCES TO BANKS

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Current account balances with banks within Nigeria	632,579	461,447
Current account balances with banks outside Nigeria	740,005	-
Placements with financial institutions within Nigeria	4,278,170	7,500,821
	5,650,754	7,962,268

21 LOANS AND ADVANCES TO CUSTOMERS

	Gross amount ₦'000	Impairment losses		Carrying amount ₦'000
		Collective impairment ₦'000	Specific impairment ₦'000	
31 December 2016				
Intermediation investments	41,914,328	(19,522)	(500,547)	41,394,259
Staff loan	289,984	(141)	-	289,843
	42,204,312	(19,663)	(500,547)	41,684,102
31 December 2015				
Intermediation investments	37,102,373	(51,339)	(726,551)	36,324,483
Staff loan	325,270	-	-	325,270
	37,427,643	(51,339)	(726,551)	36,649,753

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Current	24,128,448	22,561,169
Non-current	17,555,654	14,088,584
	41,684,102	36,649,753

21.1 Movement in allowance for impairment

	31 Dec 2016			31 Dec 2015		
	Collective impairment ₦'000	Specific impairment ₦'000	Total ₦'000	Collective impairment ₦'000	Specific impairment ₦'000	Total ₦'000
Balance at 1 January	51,339	726,551	777,890	24,356	289,755	314,111
Write-off of provision	-	-	-	(1,861)	-	(1,861)
Writeback of impairment allowances	(31,676)	(226,004)	(257,680)	28,844	436,796	465,640
	19,663	500,547	520,210	51,339	726,551	777,890

22 FINANCIAL ASSETS HELD FOR TRADING

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Federal Government of Nigeria (FGN) Bonds	13,774,816	-
Treasury bills	3,902,793	10,695,464
	17,677,609	10,695,464

Financial assets classified as held for trading are held for short-term trading purposes.

23 INVESTMENTS SECURITIES

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Available-for-sale investments (note 23a)	20,377,948	41,042,494
Loans and receivables investments (note 23b)	458,250	-
	20,836,198	41,042,494
Current	15,480,174	23,429,620
Non-current	5,356,024	17,612,874
	20,836,198	41,042,494

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

23a AVAILABLE-FOR-SALE INVESTMENTS

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Debt securities – at fair value		
Treasury bills	10,668,465	8,947,281
Federal Government of Nigeria bonds	7,991,129	20,925,877
State bonds	1,547,622	9,212,539
Corporate bonds	104,310	1,911,731
Unlisted equity investments	66,422	45,066
	20,377,948	41,042,494

23b LOANS AND RECEIVABLES INVESTMENTS

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Corporate bonds	458,250	-
	458,250	-

24 PLEDGED ASSETS

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Available-for-sale debt securities: Treasury bills	25,875,091	-
Held for trading debt securities: Treasury bills	10,411,564	-
	36,286,655	-

Treasury bills are pledged to other banks as collateral for inter-bank takings (OBB takings) and are expected to mature within one year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

25 OTHER ASSETS

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Financial assets		
Fees receivable	1,112,748	-
Intercompany receivable	1,449,184	-
Account receivable	850,000	-
Other receivables	73,982	7,143
	3,485,914	7,143
Less allowances for impairment (note 25.1)	(3,900)	(3,900)
	3,482,014	3,243
Non-financial assets		
Withholding tax receivable	821,072	821,072
Prepayments	509,210	41,546
	4,812,296	865,861
Less allowances for impairment (note 25.2)	(167,329)	-
	4,644,967	865,861
Current	4,442,250	859,474
Non-current	202,717	6,387
	4,644,967	865,861

25.1 Allowance for impairment on financial asset

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Balance at 1 January	3,900	7,933
Write-off of provision	-	(4,033)
	3,900	3,900

25.2 Allowance for impairment on non-financial asset

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Balance at 1 January	-	-
Impairment charge for the year (note 12)	167,329	-
	167,329	-

The impairment charge recognised for the year relates to impairment of long-outstanding withholding tax receivables. Based on the impairment assessment carried out by Management on these receivables as at reporting date, the estimated recoverable amount was deemed to be lower than the carrying amount. An assessment will be carried out in subsequent reporting periods to determine if the impairment loss has decreased or no longer exists.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

26 PROPERTY AND EQUIPMENT

	Freehold Building ₦'000	Land ₦'000	Motor Vehicle ₦'000	Furniture Fittings ₦'000	Office Equipment ₦'000	Computer Equipment ₦'000	Total ₦'000
31 December 2016							
Cost							
At 1 January	675,355	200,000	213,100	71,915	107,448	115,036	1,382,854
Addition during the year	-	-	209,050	1,575	3,670	11,039	225,334
Disposals during the year	-	-	(54,540)	(767)	-	(485)	(55,792)
At 31 December	675,355	200,000	367,610	72,723	111,118	125,590	1,552,396
Depreciation							
At 1 January	59,628	-	108,213	49,478	93,557	108,079	418,955
Charge for the year	16,478	-	83,274	13,189	10,670	6,905	130,516
Disposals during the year	-	-	(52,502)	(623)	-	(142)	(53,267)
At 31 December	76,106	-	138,985	62,044	104,227	114,842	496,204
Net book value							
At 31 December 2016	599,249	200,000	228,625	10,679	6,891	10,748	1,056,192

The Bank applies the straight line method of depreciation on its property and equipment to allocate the cost of the assets over their estimated economic useful life.

	Freehold Building ₦'000	Land ₦'000	Motor Vehicle ₦'000	Furniture Fittings ₦'000	Office Equipment ₦'000	Computer Equipment ₦'000	Total ₦'000
31 December 2015							
Cost							
At 1 January	675,355	200,000	228,880	72,410	103,197	117,285	1,397,127
Addition during the year	-	-	89,800	9,470	7,740	1,986	108,996
Disposals during the year	-	-	(105,580)	(9,965)	(3,489)	(4,235)	(123,269)
At 31 December	675,355	200,000	213,100	71,915	107,448	115,036	1,382,854
Depreciation							
At 1 January	42,119	-	136,942	43,226	71,701	101,838	395,826
Charge for year	17,509	-	57,840	13,650	25,208	10,183	124,390
Disposals during the year	-	-	(86,569)	(7,398)	(3,352)	(3,942)	(101,261)
At 31 December	59,628	-	108,213	49,478	93,557	108,079	418,955
Net book value							
At 31 December 2015	615,727	200,000	104,887	22,437	13,891	6,957	963,896

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

27 INTANGIBLE ASSETS

31 December 2016	Computer software ₦'000	Work-in-progress ₦'000	Total ₦'000
Cost			
At 1 January	195,977	-	195,977
Additions for the year	5,000	958,084	963,084
At 31 December	200,977	958,084	1,159,061
Amortisation			
At 1 January	176,097	-	176,097
Amortisation charge for the year	10,379	-	10,379
At 31 December	186,476	-	186,476
31 December 2015			
Cost			
At 1 January	193,982	-	193,982
Additions for the year	1,995	-	1,995
At 31 December	195,977	-	195,977
Amortisation			
At 1 January	166,836	-	166,836
Amortisation charge for the year	9,261	-	9,261
At 31 December	176,097	-	176,097
Net book value			
At 31 December 2016	14,501	958,084	972,585
At 31 December 2015	19,880	-	19,880

Work in progress relates to expenditure incurred during the year on the acquisition and implementation of Finacle 10 and other applications to replace the current banking application being used by the Bank. Once the software becomes available-for-use, the cost will be capitalised within the appropriate class and subjected to the applicable amortisation rate in the year they are used. The implementation is expected to be completed in the first quarter of 2017.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

28 DEFERRED TAX BALANCES

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2015: 30%).

i Deferred tax assets

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
The balance comprises temporary differences attributable to:		
Tax losses	8,277,894	8,083,415
Unabsorbed capital allowance	463,849	-
Impairment charge	59,837	-
Others	300	-
Total deferred tax asset	8,801,880	8,083,415
Set-off of deferred tax liabilities pursuant to set-off provisions	(403,983)	(88,921)
Net deferred tax balance	8,397,897	7,994,494

ii Deferred tax liabilities

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
The balance comprises temporary differences attributable to:		
Unrealised exchange difference	283,258	-
Property, plant and equipment	117,312	84,234
Others	3,413	4,687
Total deferred tax liabilities	403,983	88,921
- Deferred tax asset to be recovered after more than 12 months	8,801,880	8,083,415
- Deferred tax liability to be recovered after more than 12 months	(403,983)	(84,234)

Movements in temporary differences during the year:

31 December 2016	1 January 2016 ₦'000	Recognised in P&L ₦'000	31 December 2016 ₦'000
Tax losses	8,083,415	194,479	8,277,894
Unabsorbed capital allowance	-	463,849	463,849
Unrealised exchange difference	-	(283,258)	(283,258)
Impairment charge	-	59,837	59,837
Property, plant and equipment	(84,234)	(33,078)	(117,312)
Others	(4,687)	1,574	(3,113)
	7,994,494	403,403	8,397,897

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31 December 2015	1 January 2015 ₦'000	Recognised in P&L ₦'000	31 December 2015 ₦'000
Tax losses	5,184,615	2,898,800	8,083,415
Property, plant and equipment	(75,825)	(8,409)	(84,234)
Intangible assets	(5,616)	929	(4,687)
	5,103,174	2,891,320	7,994,494

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. The Bank has tax losses of ₦27.6billion (31 December 2015: ₦26.9billion) which can be carried forward indefinitely and offset against future taxable profits. As at 31 December 2016, the Bank has deferred tax assets amounting to ₦8.8billion (31 December 2015: ₦8.08billion) of which the entire balance has been recognised. Based on management assessment, the deferred tax asset is recoverable against future taxable profits.

The underlying assets resulting in the fair value loss recognised in the other comprehensive income section of the statement of comprehensive income are mainly government securities and corporate bonds. These instruments are tax exempt and therefore do not give rise to a timing difference. This is in line with the companies' income tax exemption order issued on 9 December 2011.

29 DUE TO BANKS

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Tenored interbank deposit	4,577,047	-
Open buy back - Treasury bills (see note (b))	34,286,918	5,600,187
	38,863,965	5,600,187

- (a) Balances due to banks only include financial instruments classified as liabilities at amortised cost and have remaining period to contractual maturity of less than 12 months.
- (b) Open buy back liabilities are short term treasury bills repurchase transactions with Nigerian banks. The securities subject to these OBB transactions are disclosed in note 24.

30 DEPOSIT FROM CUSTOMERS

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Call deposits	3,387,354	486,439
Intermediation money	4,386,829	3,372,483
Fixed deposits	56,953,476	67,772,456
	64,727,659	71,631,378
Current	64,727,659	71,631,378
	64,727,659	71,631,378

Deposit from customers only include financial instruments classified as liabilities at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

31 OTHER LIABILITIES

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Financial liabilities		
Accounts payable	392,517	311,265
Customer deposits for letters of credit	449,357	-
Accrued liabilities	788,808	67,701
Dividend payable (note 34)	1,048,000	-
Uncleared effects	1,679,738	11,004
	4,358,420	389,970
Non-financial liabilities		
Provisions (note 31.1)	-	511,000
	4,358,420	900,970

Other liabilities are expected to be settled within 12 months after the date of the statement of financial position.

31.1 Movement in provision

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
At 1 January	511,000	180,000
Additional provision recognised	-	511,000
Provision used	(511,000)	(180,000)
	-	511,000

Provision relates to performance bonus payable to employees of the Bank. It is derived as a percentage of the profit before tax for the year. The liability is anticipated to be settled within the next twelve months. Payment of performance bonuses is the sole discretion of the Board of Directors. The amount recognised is the best estimate of the expenditure required to settle the present obligation at the reporting date. There are no uncertainties envisaged that may affect the above provision.

32 SHARE CAPITAL

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
(i) Authorised		
4.5billion ordinary shares of ₦1 each	4,500,000	4,500,000
(ii) Issued and fully paid		
4.301577billion ordinary shares of ₦1 each	4,301,577	4,301,577

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

33 SHARE PREMIUM AND RESERVES

The nature and purpose of the reserves in equity are as follows:

Share premium: Premiums from the issue of shares are reported in share premium (i.e. excess of share price over nominal value).

Retained earnings: Retained earnings comprise the undistributed profits from previous years, which have not been reclassified to other reserves.

Statutory reserve: Undistributable earnings required to be kept by the Central Bank of Nigeria. The Bank appropriated ₦735million (31 December 2015: ₦1.97billion) representing 15% of its profit after tax to statutory reserves.

Credit risk reserve: Non-distributable regulatory reserve for the excess between the impairment reserve on loans and advances determined using the Prudential Guidelines issued by the Central Bank of Nigeria over the impairment reserve calculated under IFRS.

34 DIVIDENDS

The Bank did not pay any dividend during the year (31 December 2015: nil). However, an interim dividend of ₦1.048billion (31 December 2015: nil) was declared by the Board of Directors on 25 November 2016 and approved by the shareholders. The dividend payable has been recognised as part of other liabilities and in shareholders' equity for the year ended 31 December 2016.

35 AVAILABLE-FOR-SALE RESERVE

The available-for-sale reserve shows the effects of the fair value measurement of financial instruments classified as available-for-sale.

Gains or losses are not recognised in the income statement until the asset has been sold or impaired.

Below is the movement in available-for-sale reserves:

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
At 1 January	319,471	(3,874,860)
Fair value movement during the period	(2,736,305)	4,194,331
At 31 December	(2,416,834)	319,471

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

36 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Profit before income tax	4,915,910	3,826,310
Adjustments for:		
- Depreciation (note 26)	130,516	124,391
- Amortisation (note 27)	10,379	9,261
- Provision for incentive bonus (note 31.1)	-	511,000
- (Gain)/loss on disposal of property and equipment (note 13)	(3,768)	8,753
- Net gains on financial instruments held for trading (note 11a)	200,615	(934,736)
- Net loss/(gain) on derivative financial instrument (note 11b)	121,086	(151,565)
- Net interest income	(4,640,041)	(5,272,427)
- Impairment charge for credit losses (note 8)	(131,962)	465,641
- Impairment charge on non-financial assets (note 12)	167,329	-
- Unrealised foreign exchange (gain)/loss (note 10)	(885,182)	19,743
- Recoveries	-	(183,268)
Changes in working capital:		
- Loans and advances to customers	(4,365,018)	(9,935,400)
- Financial assets held for trading	(21,042,639)	(3,320,056)
- Other assets	(3,946,438)	(399,110)
- Pledged assets	4,794,352	-
- Due to banks	28,659,998	(629,198)
- Deposit from customers	(2,589,643)	2,787,674
- Derivative financial instruments	-	(483,825)
- Other liabilities	1,796,550	361,405
Cash generated from/ (used in) operations	3,192,044	(13,195,407)

37 CONTINGENT LIABILITIES AND COMMITMENTS

Litigation

The Bank is party to 2 legal actions arising out of its normal business operations. The directors believe that based on currently available information and advise of counsel, none of the outcomes that result from such proceedings will have a material adverse effect on the financial position of the Bank either individually or in aggregate. Contingent liability that may arise from the cases is estimated at ₦32.84million.

Commitment

At the balance sheet date, the Bank had nil capital commitments (31 December 2015: nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

38 RELATED PARTY TRANSACTIONS

The Bank is a member of the FBN Holdings Group. The Bank is wholly owned by FBN Holdings Plc.

A number of transactions are entered into with related parties in the normal course of business. These include loans and deposits.

The volume of related-party transactions, outstanding balances at the year-end, and relating expense and income for the year are as follows:

38.1 Loans and advances to related parties

The Bank granted various credit facilities to its key management personnel during the year. The rates and terms agreed are comparable to other facilities being held in the Bank's portfolio. Details of these are described below:

	31 Dec 2016	31 Dec 2015	
	Entities controlled by the parent ₦'000	Key management personnel ₦'000	Key management personnel ₦'000
Loans and advances to customers			
Loans outstanding at 1 January	-	161,212	177,451
Loans issued during the year	-	109,500	40,800
Loan repayments during the year	-	(57,751)	(57,039)
	-	212,961	161,212
Loans and advances to banks	2,075,947	-	-
Balance as at 31 December	2,075,947	212,961	161,212
Interest income earned	9,856	8,518	6,448

The loans issued to key management personnel during the year of ₦109.5m (2015: ₦40.8m) are repayable monthly over a period of between two to twenty years.

38.2 Deposits from related parties

31 December 2016	Entities controlled by the parent ₦'000	Key management personnel ₦'000	Others ₦'000
Deposit from customers			
Deposits at 1 January	-	200,433	66,769
Movement during the year	4,963,666	(143,855)	2,609
	4,963,666	56,578	69,378
Due to banks	8,260,000	-	-
Balance as at 31 December	13,223,666	56,578	69,378
Interest expenses on deposits	28,169	4,143	418
31 December 2015			
Deposit from customers			
Deposits at 1 January	-	96,342	62,543
Movement during the year	-	104,091	4,226
Deposits at 31 December	-	200,433	66,769
Interest expenses on deposits	-	30,065	8,012

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

38.3 Other transactions with related parties (entities controlled by the parent)

Name of entity	Nature of transaction	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
FBN Insurance Brokers	Insurance premium	21,115	17,353
FBN Capital Group	Fee and commission income	1,449,184	-
FBN Capital Group	Fees receivable	1,449,184	-
FBN Capital Group	Placement	1,045,000	-

Fees income earned relate to agency fees earned by the bank for executing customers' mandates in the capacity of an agent on behalf of FBN Capital Limited. These fees have been recorded as part of fees and commissions income in note 9a. These transactions are at arm's length.

38.4 Key management compensation

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Salaries and wages	726,228	348,824
Pension cost	45,805	10,820
	772,033	359,644

39 EMPLOYEES

The average number of persons employed by the Bank during the year was as follows:

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Management	14	9
Non-management	116	61
	130	70

The number of staff in employment during the financial year was 130 out of which 54 were female representing 42% of the total workforce. Of the top management staff, five (5) are women representing 36% of top management staff.

Compensation for the above staff excluding executive management:

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Wages and salaries	1,134,242	1,191,686
Other pension costs	81,646	46,286
	1,215,888	1,237,972

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The number of employees of the Bank, other than directors, who received emoluments in the following ranges (excluding pension contributions and certain benefits) were:

			Number	
			31 Dec 2016	31 Dec 2015
₦600,001	-	₦700,000	-	8
₦700,001	-	₦800,000	-	2
₦800,001	-	₦1,000,000	-	4
₦1,000,001	-	₦1,150,000	-	5
₦1,150,001	-	₦1,600,000	-	26
₦1,600,001	-	₦2,100,000	-	7
₦2,100,001	-	₦2,500,000	2	6
₦2,500,001	-	₦3,500,000	9	4
₦3,500,001	-	₦5,500,000	17	3
₦5,500,001	-	₦10,500,000	55	5
₦10,500,001 and above			47	-
			130	70

40 DIRECTORS' EMOLUMENTS

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Remuneration paid to the Bank's directors was:		
Fees and sitting allowances	17,070	405
Executive compensation	145,703	47,720
Terminal benefits	212,962	-
Other director expenses	77,861	101,761
	453,596	149,886
Fees and other emoluments disclosed above include amounts paid to:		
Chairman	23,442	14,291
Highest paid director	90,000	62,048

The number of directors who received fees and other emoluments (excluding pension contributions and certain benefit) in the following ranges was:

	Number	
	31 Dec 2016	31 Dec 2015
₦5,000,001 and above	8	8
	8	8

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

41 COMPLIANCE WITH REGULATORY PROVISION

During the year ended 31 December 2016, the Bank contravened certain regulatory provisions and had since paid the attending penalties thereon. Below is the analysis of the contravention:

Contraventions	Regulatory provisions	Penalties
i. Failure to notify the commission of the resignation of a sponsored individual from the employment of the Bank during the year in writing within five (5) working days.	Section 35(1) of Sec. Rule	315
ii. Failure to comply with a CBN directive on the submission of certain documents as conditions of the approval of the appointment of one of the Bank's directors within two (2) weeks	Section 64 (1) of BOFIA 1991 as amended	2,000

42 DERIVATIVE FINANCIAL INSTRUMENTS

	31 Dec 2016		31 Dec 2015	
	Notional amount ₦'000	Fair value ₦'000	Notional amount ₦'000	Fair value ₦'000
Derivative liability				
Instrument type:				
Cross-currency swap	-	-	1,512,754	367,041

The movement in derivative liability is as follows:

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Balance, beginning of the year	367,041	1,002,431
Fair value loss/(gain) on cross currency swap	121,086	(151,565)
Payment on maturity	(488,127)	(483,825)
Balance, end of the year	-	367,041

43 EVENTS AFTER THE REPORTING PERIOD

There were no events subsequent to the financial position date which require adjustment to, or disclosure in, these financial statements.

STATEMENT OF VALUE ADDED

FOR THE YEAR ENDED 31 DECEMBER 2016

	31 Dec 2016 ₦'000	%	31 Dec 2015 ₦'000	%
Gross earnings	16,528,743		16,281,319	
Interest expense	(8,199,829)		(9,820,038)	
	8,328,914		6,461,281	
Impairment loss on financial assets	(35,367)		(465,641)	
	8,293,547		5,995,640	
Administrative overheads (Local)	(2,020,854)		(797,707)	
Value added	6,272,693	100	5,197,933	100
Distribution of value added				
To government:				
Taxes	16,083	1	(2,739,201)	(53)
To employees:				
Salaries and benefits	1,215,888	19	1,237,972	24
The future:				
For replacement of fixed assets/intangible assets (depreciation and amortisation)	140,895	2	133,651	3
To augment reserves	4,899,827	78	6,565,511	126
	6,272,693	100	5,197,933	100

This statement shows the distribution of wealth created by the Bank during the year.

FIVE-YEAR FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 2016

	31 Dec 2016 12 Months ₦'000	31 Dec 2015 12 Months ₦'000	31 Dec 2014 12 Months ₦'000	31 Dec 2013 12 Months ₦'000	31 Dec 2012 12 Months ₦'000
STATEMENT OF FINANCIAL POSITION					
ASSETS					
Cash and balances with Central Bank of Nigeria	65,701	277,266	1,274	195,407	244,595
Loans and advances to banks	5,650,754	7,962,268	1,895,817	1,038,612	2,361,703
Loans and advances to customers	41,684,102	36,649,753	26,867,023	25,769,122	16,335,663
Financial assets held for trading	17,677,609	10,695,464	7,365,735	6,329,511	1,628,449
Investment securities:					
- Available-for-sale investments	20,377,948	41,042,494	50,640,807	44,675,182	67,650,749
- Loans and receivable investment	458,250	-	-	4,009,761	3,967,139
Pledged assets	36,286,655	-	-	19,900,000	15,022,586
Other assets	4,644,967	865,860	525,198	73,016	42,993
Property and equipment	1,056,192	963,896	1,001,300	1,051,423	1,008,216
Intangible assets	972,585	19,879	27,144	29,594	18,942
Deferred tax	8,397,897	8,083,415	5,184,615	2,523,366	2,523,366
Assets held for sale	-	-	-	-	250,000
TOTAL ASSETS	137,272,660	106,560,295	93,508,913	105,594,994	111,054,402
LIABILITIES					
Due to Central Bank of Nigeria	-	-	-	670,000	-
Due to banks	38,863,965	5,600,186	6,229,200	37,648,126	47,282,960
Due to customers	64,727,659	71,631,378	68,818,719	52,551,604	49,696,617
Derivative financial instrument	-	367,041	1,002,431	265,150	-
Current income tax liability	363,559	128,264	84,864	87,096	480,000
Other liabilities	4,358,420	900,970	208,565	478,598	137,438
Deferred tax liability	-	88,921	81,441	100,729	88,391
TOTAL LIABILITIES	108,313,603	78,716,760	76,425,220	91,801,303	97,685,406
NET ASSETS	28,959,057	27,843,535	17,083,693	13,793,691	13,368,995
CAPITAL AND RESERVES					
Share capital	4,301,577	4,301,577	4,000,000	4,000,000	4,000,000
Share premium	3,904,731	3,904,731	3,000,000	3,000,000	3,000,000
Available-for-sale (AFS) reserve	(2,416,834)	319,471	(3,874,860)	(1,572,188)	(924,423)
Retained earnings	14,013,717	9,235,023	7,169,775	4,911,927	4,327,413
Statutory reserve	6,561,495	5,826,521	3,856,868	3,198,913	2,798,044
Credit risk reserve	2,594,371	4,256,212	1,725,602	255,039	167,961
Deposit for shares	-	1,206,308	-	-	-
SHAREHOLDER'S FUNDS	28,959,057	27,843,535	17,083,693	13,793,691	13,368,995
INCOME STATEMENT					
Operating income	8,083,209	6,088,826	4,087,557	4,735,094	3,724,723
Operating expenses	(3,167,299)	(2,262,516)	(2,280,777)	(1,886,212)	(1,268,314)
Profit before tax	4,915,910	3,826,310	1,806,780	2,848,882	2,456,409
Tax	(16,083)	2,739,201	2,579,584	(176,423)	17,316
Profit after tax	4,899,827	6,565,511	4,386,364	2,672,459	2,473,725
Earnings per share - basic	109k	153k	110k	67k	62k

STATEMENT OF PRUDENTIAL ADJUSTMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000
Prudential guidelines provision:		
Balance brought forward:		
- Specific provisions	2,199,927	1,754,625
- General provisions	655,274	293,020
	2,855,201	2,047,645
Charge for the year:		
- Specific provisions	99,364	445,302
- General provisions	160,016	362,254
	259,380	807,556
Balance carried forward:		
- Specific provisions	2,299,291	2,199,927
- General provisions	815,290	655,274
	3,114,581	2,855,201
IFRS impairment provisions:		
- Specific allowance for impairment	500,547	726,551
- Collective allowance for impairment	19,663	51,339
- Other assets: impairment	-	-
	520,210	777,890
Required credit risk reserve at end of the year	2,594,371	2,077,311
Balance at beginning of the year	4,256,212	1,725,602
Additional (reversal)/transfer to credit risk reserve	(1,661,841)	2,530,610
Balance at end of the year	2,594,371	4,256,212

Credit risk reserves*: Provisioning is made in accordance with the Prudential Guidelines for Deposit Money Banks in Nigeria issued by the Central Bank of Nigeria for each account that is deemed not performing (specific) in accordance with the following terms; (1) 90 days but less than 180 days (10%); (2) 180 days but less than 360 days (50%) and over 360 days (100%). In addition, a minimum of 2% general provision is made on all risk assets which are deemed performing and have not been specifically provided for. The excess of the impairment under the Prudential Guidelines over the impairment under IFRS has been designated to a non-distributable reserve in line with the regulatory requirements of the Central Bank of Nigeria. Appropriate disclosures have been made in note 2.19 (d) on page 26 of the financial statement.

ABBREVIATIONS

ALCO	Asset and Liability Committee
AML	Anti-Money Laundering
BAC	Board Audit Committee
BCC	Board Credit Committee
BCM	Business Continuity Management
BGHC	Board Governance/HR Committee
BRMC	Board Risk Management Committee
CBG	Corporate Banking Group
CIBN	Chartered Institute of Bankers
CBN	Central Bank of Nigeria
CEO	Chief Executive Officer
CD	Compact Disc
CFT	Countering the Financing of Terrorism
EAD	Exposure At Default
ECB	European Central Bank
ERM	Enterprise-wide Risk Management
FBNH	FBN Holdings Plc
FBN MB	FBN Merchant Bank
FCY	Foreign Currency
FICT	Fixed Income, Currencies and Treasury
FMCG	Fast Moving Consumer Goods
FMDQ OTC	Financial Markets Dealers Quotes Over-The-Counter
FOMC	Federal Open Market Committee
FSS	Financial System Strategy
GBSI	Government Bond Secured Investment
HNWI	High Net Worth Individuals
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund's
IT	Information Technology

ICT	Information and Communications Technology
ITSC	Information Technology Steering Committee
KERA	Kakawa Easy Retirement Account
KYC	Know Your Customer
LIBOR	London Inter-Bank Offered Rate
LGD	Loss Given Default
LMS	Liquidity Multiplier Service
MCIC	Management Credit and Investment Committee
MCUC	Management Credit and Underwriting Committee
MPC	Monetary Policy Committee
NCP	National Council on Privatisation
NDDC	Niger Delta Development Commission
NIBOR	Nigerian Inter-Bank Offered Rate
NITTY	Nigerian Inter-bank Treasury Bills' True Yields
PBT	Profit Before Tax
PD	Probability of Default
PDMM	Primary Dealer and Market Maker
PEP	Politically Exposed Persons
PNBI	Promissory Note Backed Investment
QPR	Quarterly Performance Review
RAAC	Risk Asset and Acceptance Criteria
RMC	Risk Management Committee
RM&C	Risk Management and Control
SEC	Securities and Exchange Commission
SME	Small and Medium Enterprise
TBBI	Treasury Bills Backed Investment
TBills	Treasury Bills
UHNWI	Ultra High Net Worth Individuals

**Shareholder enquiries**

Email: info@firstregistrarsnigeria.com
Tel: +234 1 2799880
www.firstregistrarsnigeria.com

Ag Head, Investor Relations

Tolulope Oluwole
Email: investor.relations@fbnholdings.com
Tel: +234 1 9052720

Customer enquiries

Email: ccu@fbnmerchantbank.com
Tel: +234 1 2702290-4

Registered address

10, Keffi Street,
Off Awolowo Road,
S.W. Ikoyi, Lagos
Nigeria
Registration No. RC264978