



STURDY &
SUREFOOTED

FBNQuest Merchant Bank Limited
Annual Report and Accounts 2017

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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: Commercial Banking, Merchant Banking and Asset Management, Insurance, and Others.

- 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 and First Pension Custodian Nigeria Limited. First Bank of Nigeria Limited is the lead entity of the Commercial Banking business.
- The Merchant Banking and Asset Management business consists of FBNQuest Merchant Bank Limited and FBNQuest Capital Limited. The subsidiaries of FBNQuest Merchant Bank Limited are: FBNQuest Asset Management Limited and FBNQuest Securities Limited while the subsidiaries of FBNQuest Capital Limited are: FBNQuest Trustees Limited, FBNQuest Funds Limited and FBNQuest Capital Partners Limited.
- The Insurance business comprises FBN Insurance Limited, FBN General Insurance Limited and FBN Insurance Brokers Limited.

This report encompasses FBNQuest Merchant Bank Limited and its subsidiaries. Unless otherwise stated, the profit or loss statement analysis compares the 12 months to December 2017 to the corresponding 12 months of 2016, and the financial position comparison relates to the corresponding position at 31 December 2016. 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.fbnquestmb.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.

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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OVERVIEW

WHO WE ARE

We are the Merchant Banking and Asset Management group of FBN Holdings Plc. Our businesses include Corporate Banking, Investment Banking (Financial Advisory, Debt and Equity Capital Markets, and Debt Solutions), Sales (Institutional Sales, Wealth Management and Affluent), Markets (Securities Trading, Currency Trading, Derivatives Structuring, and Research) and Asset Management. We are committed to finding innovative solutions for our wide customer base of corporates, banks, public institutions, institutional investors and high net worth individuals. We possess significant financial capacity, with access to the tradition and heritage of the FBNHoldings Group.

We leverage our rich heritage, local insights and unrivalled networks to become a trusted and inspirational partner to our customers. Our world-class team ensures that we empower and inspire sound investment decisions by providing the best possible information, analysis and perspectives, as we constantly seek opportunities to create value by applying the latest insights and technology. We operate from three locations in Nigeria: Lagos, Port Harcourt and Abuja.

FBNQuest Asset Management Limited and FBNQuest Securities Limited are wholly-owned subsidiaries of FBNQuest Merchant Bank Limited.

OUR VISION

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

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 BRAND VALUES

Our brand values are as follows:

- **In-Sync**
We work as one firm, and raise our collective game to become an inspiring and trusted partner to customers.
- **Empowered**
We are free to challenge convention, constantly raise the bar, and contribute towards intelligent and insightful solutions.
- **Impactful**
We do the right thing, even when nobody is looking; set our own standard as guided by our moral compass, and everyday add value to our colleagues, customers and society.

FBN HOLDINGS PLC (FBNHOLDINGS)

COMMERCIAL BANKING	MERCHANT BANKING AND ASSET MANAGEMENT	INSURANCE
 <p>First Bank of Nigeria Limited</p> <ul style="list-style-type: none"> • 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 	 <p>FBNQuest Merchant Bank Limited</p> <ul style="list-style-type: none"> • FBNQuest Asset Management Limited • FBNQuest Securities Limited <p>FBNQuest Capital Limited</p> <ul style="list-style-type: none"> • FBNQuest Trustees Limited • FBNQuest Funds Limited • FBNQuest Capital Partners Limited 	 <p>FBN Insurance Limited</p> <ul style="list-style-type: none"> • FBN General Insurance Limited <p>FBN Insurance Brokers Limited</p>

PERFORMANCE HIGHLIGHTS

Interest income from loans and advances, treasury bills and government bonds grew by 48% from 2016 to 2017.

Additional interest income from FBNQuest Securities and FBNQuest Asset Management slightly mitigated the impact of interest expense on the Group's net interest income.

Net fees and commission grew by 86% between 2016 and 2017 largely due to the full year performance of the investment banking business and the five-month contribution from the acquisition of FBNQuest Asset Management and FBNQuest Securities subsidiaries. Other income grew by 150% year-on-year.

Operating costs for the Merchant Banking group increased by 122% from ₦3.2bn to ₦7.1bn due to generally higher costs of doing business in the country during the year, increase in head count (as a result of business expansion) and promotional/marketing expenses.

We ended the year with a Group profit before tax (PBT) of ₦6.2bn, 25% above the previous year.

+48%
INTEREST INCOME GREW
BY 48%, FROM ₦12.8
BILLION IN 2016
TO ₦19.0 BILLION IN 2017

₦6.2bn
PROFIT – A 25%
INCREASE ON THE
PREVIOUS YEAR'S FIGURE
OF ₦4.9 BILLION

+86%
NET FEES AND
COMMISSION GREW BY
86%; OTHER INCOME
GREW BY 150%
YEAR-ON-YEAR.

CHAIRMAN'S STATEMENT

“ The economy finally emerged from recession in mid-2017 with a growth of 0.7% year-on-year following six consecutive quarters of contraction. During the third quarter, there was an acceleration in growth to 1.4% year-on-year. ”

Bello Maccido
Chairman



DEAR SHAREHOLDERS,

It is again my pleasure to welcome you to the 3rd Annual General Meeting of our company, FBNQuest Merchant Bank Limited, and to present to you an overview of the Company's performance, macroeconomic developments during the period and the outlook for the year.

THE OPERATING ENVIRONMENT

Global economy

Global growth is projected to accelerate by 3.9% year-on-year in both 2017 and 2018 (based on the International Monetary Fund's (IMF) latest world economic outlook). Short-term risks are again seen as broadly balanced, medium-term tilted to the downside. The latter includes the possibility of a correction in financial markets, triggered perhaps by higher than expected core inflation and interest rates in developed economies; as well as protectionist policies and geopolitical tensions. Financial turmoil in emerging economies, notably China, no longer features among the outlook's identified risks.

Among advanced economies, the United States' (US) economy is projected to expand at 2.3% in 2017 and 2.7% in 2018. The projection of sustained near-term growth reflects very supportive financial conditions, and strong business and consumer confidence. There has been a debate around the US fiscal landscape geared towards tax cuts. The tax cuts would give economic growth a temporary boost by stimulating business investments and consumer spending.

Similarly, the Eurozone recovery was expected to rise to 2.4% in 2017, before moderating to 2.2% in 2018. The medium-term outlook for the Eurozone remains subdued because projected potential growth

is held back by weak productivity, adverse demographics and in some countries, a public and private debt overhang. In 2018, the European Central Bank's (ECB) repurchasing program will continue at €30bn a month, down from its initial pace of €60bn until the end of September or beyond.

As for emerging markets like China, growth is projected to notch up to 6.8% in 2017. The growth projection reflects a stronger-than-expected out-turn in the first half of the year, underpinned by previous policy easing and supply-side reforms. Additionally, authorities are expected to maintain a sufficiently expansionary policy mix.

Domestic economic environment

The economy finally emerged from recession in mid-2017 with a growth of 0.7% year-on-year following six consecutive quarters of contraction. During the third quarter, there was an acceleration in growth to 1.4% year-on-year. The acceleration reflected improved stability in the Niger Delta with the oil economy expanding by 25.9% year-on-year and 21.1% quarter-on-quarter. Some credit is therefore due to the political leadership for responding to local sensitivities. The projection for 2017 full year growth is 0.9%.

Given Nigeria's heavy dependence on imports, foreign exchange remains an important variable. Indeed, there are several foreign exchange windows including spot and forward sales to banks for the use of importers; further sales to banks at ₦357 per US dollar for the use of the retail segment for Invisibles; sales to the bureaux de change; sales to SMEs; and the investors and exporters' window (NAFEX). We could divide MCP between the subsidised rate of ₦306 for priority transactions and those that are not subsidised by the Central Bank of Nigeria (CBN). Whatever the terminology, they have had some success. The naira exchange rate on the parallel market has appreciated to ₦363 per US dollar.

CHAIRMAN'S STATEMENT

Since its launch in late April 2017, turnover on NAFEX has amounted to USD20bn (this covers both sides of trade). The turnover picked up from about USD400mn per week in its early days, supported by dedicated Africa/frontier market equity investors, to USD1bn per week. There has been large offshore investment in NTBs and Federal Government of Nigeria (FGN) bonds by fixed-income players. The higher the turnover, the less the CBN has to draw on its reserves to supply its various windows. The CBN's supply of NAFEX is currently negligible.

For the first time in over a year, headline inflation posted double-digit growth in February 2016 and reached a peak of 18.71% in January 2017. However, a steady slowdown commenced the month after. The headline rate slowed down for nine successive months in 2017, and the process became painfully slow. Headline inflation for December 2017 came in at 15.4% year-on-year. Legacy and structural factors such as poor infrastructure are largely responsible for inflationary pressures.

Gross official reserves increased by USD3.82bn in December to USD 38.77bn. This rapid accumulation was largely the result of the Federal Government of Nigeria's successful Eurobond roadshow in November, which raised USD30bn and is reflected in the reserves on a 30-day moving average basis. Among additional factors, we highlight the improvement in oil revenues in recent months in terms of both output and export price. We should stress that the data is gross and mask the swap transactions the CBN has entered with local banks. Reserves at year-end covered 14.4 months' merchandise imports, and 9.7 months when we add imports of services. The calculations are based on the balance of payments for the 12 months through to September 2017.

FINANCIAL SERVICES INDUSTRY

Banking sector

Following months of severe foreign exchange shortage, the Central Bank of Nigeria (CBN) in February 2017 sold USD660mn in three and five-month currency forwards. This action effectively cleared the backlog of dollar demand for the manufacturing, airline, agriculture and petroleum sectors. While the interventions by the CBN eased some of the pressures, it did not completely address the yawning gap in foreign exchange supply. Consequently, the CBN continued to hold the line with a series of administrative measures and the publication of new guidelines (such as those of foreign exchange sale for Invisibles) aimed at rationing foreign exchange reserves.

The foreign exchange illiquidity and the depreciation of the naira increased the risk of banks breaching the regulatory limit for foreign currency borrowing. In view of this, the CBN increased the limit of banks' foreign exchange denominated borrowings to 125% of shareholders' funds from 75%. The apex bank also mandated banks to hedge all their foreign exchange exposures. On the asset side, some dollar-denominated exposures, mainly to the oil and gas and power sectors, had to be restructured.

A recovery in oil prices, the gradual accretion to the foreign exchange reserves and complaints by investors, importers and manufacturers led to the CBN's introduction of the investors and exporters foreign exchange window (also known as NAFEX) in April. The NAFEX effectively improved foreign exchange liquidity by facilitating price discovery through market-based two-way quotes on a willing-buyer willing-seller basis. Although the CBN's multiple currency regime persists, post-NAFEX, the average foreign exchange turnover has improved from c.USD400mn to c.USD1bn per week, compared with less than USD150mn supplied by the CBN prior to the commencement of NAFEX. Apart from the appreciation of the naira on the parallel market, which has led to a near convergence of the NAFEX rate and the parallel market, the influx of new money from offshore investors has also fueled a strong rally on the stock market.

“ Gross official reserves increased by USD3.82bn in December to USD38.77bn. This rapid accumulation was largely the result of the FGN's successful Eurobond roadshow in November, which raised USD30bn and is reflected in the reserves on a 30-day moving average basis. ”

The Gross Domestic Product (GDP) grew by 1.4% in the third quarter of 2017, making it the second consecutive quarter of growth after five quarters of contraction. Although inflation trended downward on the back of base effects, the Monetary Policy Committee (MPC) noted the significant contribution of food prices to headline inflation. The Committee also noted that some critical sub-sectors of the economy had not yet returned to growth. As such, the fragile growth and the persistent upward trend in food inflation were key considerations for the MPC. In view of these, the MPC left its monetary stance unchanged as it noted that whilst a loosening of monetary policy could stimulate growth, it could also result in an exacerbation of consumer prices and generate exchange rate pressures. Loan growth for the sector remained flat year-on-year as banks invested in high yield government treasury securities following the Federal Government's aggressive borrowing. However, the slight reduction of yields towards the end of 2017 portends a higher appetite for risk asset creation in 2018.

CHAIRMAN'S STATEMENT

OUTLOOK

The year 2018 is expected to be less challenging, although the economy could remain relatively fragile through the first half of the year. Oil prices are expected to remain stable around USD60 per barrel, ensuring relatively stable government revenue.

After the stellar performance delivered by the banks in 2016, the return on average equity (ROAE) for banks is likely to decline by around 90bps in 2017, mainly because of negative base effects. Although banks reported foreign exchange-related gains in 2017, the gains reported were not on the scale of those delivered in 2016. Similar to 2016, the book values of the banks have also been inflated by naira depreciation (and foreign exchange-related gains). Going into 2018, banks are likely to see a further decline in ROAE.

Revenue growth in 2018 is likely to slow to levels not too different from opex growth. Furthermore, a slight moderation in Net Interest Margin (NIM) is likely, on the back of a tapering in the yields on government securities as the latter shifts its borrowing in favour of external sources and the CBN reduces its demand for Treasury Bills (T-Bills). As such, loan growth should pick up in 2018 from a flattish performance in 2017 to high single digits in 2018. Asset quality deterioration has been kept under control through the recession. This is likely to continue into 2018.

FBNQUEST MERCHANT BANK LIMITED'S PERFORMANCE

The 2017 financial year was a very difficult year for most businesses. The uncertainties in the economy persisted till the end of the first quarter due to the failure of the Federal Government to get the approval of the National Assembly for the budget. However, strong indicators that the economy would exit the recession were seen, which eventually occurred at the end of the second quarter of 2017. Despite the exit from the recession, the economy did not pick up until the Central Bank of Nigeria introduced the foreign exchange windows, which stabilised the foreign exchange market.

With the relative calm in the Niger Delta, oil production ramped up and by extension, Federal Government revenue. As at 31 December 2017, the country's foreign reserves had hit USD31bn.

The Company was able to take advantage of the volatilities in the economy, achieving a profit before tax of ₦6.2bn representing an increase of 27.5% compared to the performance of ₦4.9bn in the previous year. Total assets for the Group were ₦140.7bn, representing an increase from the previous year's position of ₦137.27bn. Similarly, shareholders' funds for the Group stood at ₦27.17bn.

As a merchant banking group, FBNQuest Merchant Bank's consolidated profit before tax stood at ₦6.167bn, with an addition of about ₦2bn from the two companies acquired by the Bank (FBNQuest Assets Management Limited and FBNQuest Securities Limited) in August 2017.

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 ₦8.7billion (a combination of deductions taken from profit for the year and reserves) for the period ended 30 September 2017. There is no recommendation from the Board for final dividend to allow the Bank accrue the income made between October to December 2017 to reserves.

BOARD MATTERS/RE-CONSTITUTION OF THE BOARD OF DIRECTORS

The constitution of the Board remained largely the same in the course of the year, ensuring continuity in enhanced Board dynamics. The Directors have developed a very good understanding of the Bank's businesses with the effect that Board deliberations and resolutions have become seamless, while Directors are able to positively engage Management on very key issues.

Andrew Reicher, an Independent Director, resigned from the Board of Directors, effective 26 April 2017 owing to other unavoidable commitments. While on the Board, the dedication and commitment he brought to his duties is still indelible in the minds of the other Directors. I wish him well in his future endeavours. The process for his replacement has commenced and should be concluded shortly.

Within the course of the year, Akin Osinbajo, SAN, was elevated into the Inner Bar as a Senior Advocate of Nigeria. I congratulate him again and acknowledge his valuable contributions to Board deliberations.

Every year, I emphasise that the strength of the Board remains the candour and experience of the members, their commitment to the Bank's growth and their passion. I am now more convinced that our mission to become the leading Merchant Bank and Asset Manager in Africa in the near term is now closer than ever.

“ Apart from the appreciation of the naira on the parallel market, which has led to a near convergence of the NAFEX rate and the parallel market, the influx of new money from offshore investors has also fueled a strong rally on the stock market. ”

CHAIRMAN'S STATEMENT

“ Total assets for the Group were ₦140.70bn, representing an increase from the previous year’s position of ₦137.27bn. Similarly, shareholders’ funds for the Group stood at ₦27.17bn. ”

CORPORATE GOVERNANCE

During the year, the Company received minor penalties from the Central Bank of Nigeria for delay in submitting some returns. This was due to some challenges experienced during the information technology transformation project. This has since been resolved and the penalties settled. Today, the Company is well-positioned and arguably one of the best technologically supported banks in the industry. Aside from this minor infraction, I am pleased to say that the Company did not record any corporate governance breach in its operations for the 2017 financial year. The size and constitution of the Board continues to satisfy best practice.

The Chairman, the Managing Director and indeed the entire Board continue to receive commendable ratings in the Annual Performance Review and 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 2018 General Meeting). This is commendable and I assure all the stakeholders of the Bank that best corporate governance practices remain a key focus and deliverable for the Board of Directors and Management of the Bank.

The Bank subscribes to the following codes of Corporate Governance:

1. Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks in Nigeria 2014.
2. Securities and Exchange Commission (SEC) Code of Corporate Governance 2014.

During the period under review, the Bank complied with the provisions of both codes.

STRATEGIC DIRECTION

To achieve the core vision of the Bank, which is to become the preferred investment bank and asset manager in Nigeria offering full-service merchant banking and asset management services, the Bank completed the acquisition of FBNQuest Asset Management Limited and FBNQuest Securities Limited. Both businesses are pivotal to the achievement of the vision of the Company. The effect of the acquisition is already evident in the synergies being experienced within the new group and its full positive impact should become more visible as the Company marches into 2018.

NEW IDENTITY

The Company changed its name to FBNQuest Merchant Bank Limited within the year to align its brand and business aspirations. The names of the acquired companies were also changed to FBNQuest Securities Limited and FBNQuest Asset Management Limited. Although these companies are separate legal entities with their own corporate governance structures duly defined, they share a common brand name which reflects the go-to-market strategy of the new group.

The name 'FBNQuest' complements the internal proposition of the business to be trailblazing, as derived from the pioneering heritage of the FBNHoldings Group, and builds on the essence and values of the holding company by drawing from the spirit that speaks to embarking on new journeys and successfully navigating through unseen paths. It formalises our overarching commitment to being an inspirational and trusted partner and will enable us truly drive synergies and maximise the value we deliver to our shareholders, our clients and employees.

CONCLUSION

The year 2018 is expected to be equally challenging. The economy is likely to remain fragile and recovery is expected to be gradual. The first half of the year will be crucial as the 2019 elections preparations commence. Oil prices are expected to remain stable around USD60 per barrel, ensuring stable government revenue.

Revenue growth in 2018 is likely to slow to levels not too different from operating expenses (Opex) growth. Furthermore, a slight moderation in Net Interest Margins (NIM) is likely, on the back of a tapering in the yields on government securities as the latter shifts its borrowing in favour of external sources and the CBN reduces its demand for Treasury Bills (T-bills). As such, loan growth should pick up from a flattish performance in 2017 to high single digits in 2018. Asset quality deterioration has also been kept under control through the recession. This is likely to continue into 2018.

CHAIRMAN'S STATEMENT

The relative calm within the Niger Delta is expected to subsist with the resultant sustenance in Federal Government revenue streams coupled with the opening of commerce and farming in areas of the North East recently released from the clutches of religious insurgency.

Despite being a pre-election year, the Management and the Board are positive that 2018 will be significant in the growth of the Company. The year 2018 also coincided with the second year of the three-year strategic planning cycle. As the first full year of the merchant banking group commences in January 2018, it is interesting that the theme for the 2018 year given by Management is to be audacious and challenge the status quo. The economy is just rebounding from recession and the government budget is expansionary. Coupled with the relative stability of foreign exchange and the increasing price of crude oil, the perception is that the year will be replete with opportunities for a nimble and dynamic Bank as ours.

We thus expect significant value creation in 2018. The newly acquired companies are expected to give the merchant banking and asset management group leverage in terms of offerings and synergy over competition because of the demonstrated expertise and services now available.

Our duty is thus clear - to provide direction to enable the Bank and its subsidiaries deliver value to its shareholders.

I thank our shareholders, whose tremendous support has helped to keep the Company steady and retain customer confidence amid the on-going uncertainties.

To the members of the Board, I again declare that 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 Group for your tenacity and professionalism amid the ongoing change. My charge to you is to go out and lead the market in the 2018 financial year.

Thank you.



Bello Maccido

Chairman

RECOGNITION OF OUR PERFORMANCE

Best Local Investment Bank in Nigeria

EMEA FINANCE AFRICAN BANKING AWARDS

FBNQuest Merchant Bank received this award in recognition of its role in providing financial solutions on deals and transactions such as the restructuring of the Accugas IV Term Facility and lead arranger for the Neconde Energy Limited Senior Secured Medium Term Facility.



Most Innovative Investment Firm

BUSINESSDAY INNOVATIVE FIRM IN NIGERIA AWARDS

FBNQuest Merchant Bank was recognised as one of the top 25 most innovative companies and institutions in Nigeria. The award was conferred to FBNQuest Merchant Bank for holding the leadership position in key business areas, and structuring the largest local project finance transactions in several sectors.



Deal of the Year - Africa - Loans

THE BANKER DEALS OF THE YEAR

FBNQuest Merchant Bank was awarded the prestigious Deal of the Year Award. The award recognises top financial institutions in the world with the most impressive transactions in loans. The award was given to FBNQuest Merchant Bank on account of the Neconde Energy finance for Senior Secured Medium Term Facility transaction.



Award for Excellence in Islamic Finance

THE METROPOLITAN SKILLS LIMITED

This award for excellence was presented to FBNQuest Merchant Bank at the 3rd African International Conference on Islamic Finance for its contribution towards the development of Sukuk Market in the Nigerian Capital Market right from the first Sukuk - Osun State Sukuk (2013) to the Federal Government of Nigeria (FGN) Debut Sukuk (2017).



Investment Bank of the Year

LCCI COMMERCE AND INDUSTRY AWARD

FBNQuest Merchant Bank received the award in recognition of its continuous delivery of increased value to clients through its products and services.



Best Energy Infrastructure Deal in Africa

EMEA FINANCE PROJECT FINANCE AWARDS

This award is a recognition of FBNQuest Capital's role as the Financial Adviser to Seven Energy International Limited in the restructuring of the existing Accugas Term Facility and assistance in the raising of a Debt Service Guarantee.



RECOGNITION OF OUR PERFORMANCE

Best Asset Manager in Nigeria

EUROMONEY PRIVATE BANKING AND WEALTH MANAGEMENT SURVEY

FBNQuest Asset Management was awarded 'Best Asset Manager in Nigeria' in the Euromoney Private Banking and Wealth Management Survey.



Best Broker in Nigeria

EMEA FINANCE AFRICAN BANKING AWARDS

FBNQuest Securities, a subsidiary of FBNQuest Merchant Bank won the 'Best Broker in Nigeria' at the EMEA Finance African Banking Awards. This feat further supports our ranking as the 1st in transaction values among the 10 primary market markers licenced by the Nigerian Stock Exchange in the year to date 2016 and second quarter of 2017.



BUSINESS REVIEW

The operating environment in 2017 was challenging, however, our business model stayed the course and we emerged a stronger institution in the business terrain.

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CHIEF EXECUTIVE OFFICER'S REVIEW

“Our strategy has always been to be a dominant player across all our businesses. This is enabled by a resolute focus on a positive customer experience, a high performance culture, as well as a robust operating platform (processes and technology).”

Kayode Akinkugbe

Managing Director/CEO



COMPANY'S PERFORMANCE

FBNQuest Merchant Bank Limited (FBNQuest MB) achieved a relatively strong financial performance in the 2017 financial year. In spite of the challenging, fragile and keenly competitive environment, revenues grew by 59%, operating income grew by 64% and profit before tax grew by 25% year-on-year. We continue to maintain strong prudential ratios; CAR of 15.73% (22.59% in 2016), liquidity and loan-to-deposit ratio of 74.05% and 40% respectively.

FINANCIAL AND NON-FINANCIAL PERFORMANCE AND ACHIEVEMENTS

Interest income from loans and advances, treasury bills and government bonds grew by 48% from 2016 to 2017. The contribution of FBNQuest Securities and FBNQuest Asset Management mitigated the impact of the higher interest expense on the Group's net interest income

Net fees and commission grew by 86% between 2016 and 2017 largely due to the full year contribution from the investment banking business and the five-month contribution from the acquisition of FBNQuest Asset Management and FBNQuest Securities subsidiaries. Other income grew by 150% year-on-year.

Operating costs for the Merchant Banking group increased by 122% from ₦3.2bn to ₦7.1bn due to an increase in head count (as a result of business expansion), promotional/marketing expenses and the generally higher costs of doing business in the country during the year. We ended the year with a Group profit before tax (PBT) of ₦6.2bn, 25% above the previous year.

In October 2017, FBNQuest Asset Management (formerly FBN Capital Asset Management) and FBNQuest Securities (formerly FBN Securities) were acquired and integrated as subsidiaries of FBNQuest Merchant Bank. To enhance operational excellence, as well as customer experience, several new business applications were deployed. The Bank also completed the application for ISO 22301 - Business Continuity Management Systems certification and ISO 27001 - Information Security Management Systems certification, and was recommended for both certifications.

In recognition of the impact and size of transactions delivered by our Investment Banking business, as well as the strong performance of our Asset Management and Securities subsidiaries, we were recognised locally and internationally by several independent award organisations. Looking ahead to 2018, we plan to continue to scale-up our business operations, adapt to the increasingly dynamic and competitive environment, and continue to leverage the synergies in client engagement and operations across the FBNHoldings Group.

CHIEF EXECUTIVE OFFICER'S REVIEW

THE OPERATING ENVIRONMENT

The Nigerian economy emerged from recession in mid-2017 with a growth of 0.7% year-on-year following six consecutive quarters of contraction. GDP growth accelerated in the third quarter, to 1.4% year-on-year. This reflects improved stability in the Niger Delta with the oil economy expanding by 25.9% year-on-year and 21.1% quarter-on-quarter. The exchange rate remained relatively stable through the year, due to CBN's intervention through several foreign exchange windows including spot and forward sales to banks for importers; further sales to banks for the retail segment for Invisibles; sales to the bureau de change; sales to SMEs; and the investors and exporters' window (NAFEX). Headline inflation posted double-digit growth in February 2016 and reached a peak of 18.71% in January this year.

Gross official reserves increased by USD1.12bn in November 2017, to USD34.95bn. Accumulation averaged USD850mn over a 12-month period, while lower government revenues impacted spending and had implications for infrastructure projects.

The high yield environment, convergence of the NAFEX rate and the parallel market's foreign exchange rates from the second quarter provided stability in the markets, increased investor confidence, led to the influx of new money from offshore investors and fuelled a strong rally in the stock market. This stability was also supported by the relatively higher oil price trend. The resultant impact was an upward trend in funding costs and compression of the net interest margins. Inflationary pressures also increased operating expenses.

Notwithstanding the challenging operating environment, we remain well-capitalised, continue to deliver relatively strong numbers and increase returns to our shareholders.

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. We have undertaken both Group Personal Accident and the Workmen's Compensation Insurance cover for the benefit of our employees. We also provide health insurance for our employees and immediate dependants.

In accordance with our policy of continuous development, domestic and international training is provided to employees. We made investments in upgrading the skills of all employees, to ensure that we continue to foster a positive culture of high

performance and strong leadership within the organisation. We encourage diversity by consistently ensuring equal opportunity employment. We have been able to achieve a male to female gender diversity ratio of 55% to 45% among all employees; 60% to 40% among top executives, and 87% to 13% among Board members. In addition to our compensation and welfare benefits, we operate a contributory pension plan in line with the Pension Reform Act.

On an ongoing basis, we continue to work with regulators to deepen and develop the market.

STRATEGY

Our strategy has always been to be the dominant player across all our businesses. This is enabled by a resolute focus on a positive customer experience, a high performance culture, as well as a robust operating platform(processes and technology). In addition to this, our medium-term business and operational performance targets are guided by our three-year strategic plan (2017 - 2019) and we have instituted a Corporate Performance Management Framework to ensure the alignment of our business functions to this overall corporate strategy.

Other key initiatives executed during the year include: expanding our business model to include Asset Management and Equities Brokerage services, harnessing the customer and operational synergies from being a member of one of the strongest and largest financial services company in Nigeria. We will continue to scale up activities across our businesses such as corporate banking and fixed income trading, implementing our IT transformation project; and implementing the culture transformation and branding projects.

Going into 2018, we plan to continue to set and achieve audacious goals to maximise returns to the shareholders. We will continue to look for ways to diversify our revenue and generate sustainable returns for our shareholders.

As we execute our vision of becoming the preferred merchant bank and asset manager, we plan to use three key levers, namely;

- enhancing collaboration and partnerships
- accelerating growth; and
- increasing operational efficiency by leveraging technology and embracing digital.

CHIEF EXECUTIVE OFFICER'S REVIEW

CUSTOMERS

In 2017, we continued to sharpen our focus on our customers. We re-organised the Coverage and Corporate banking function to increase efficiency and allow the Coverage team to deepen customer relationships. We launched a survey to better understand our customer pain points and requirements. We continue to seek customer feedback on an ongoing basis as well as address their complaints. Given the importance of digital, we commenced the development of a digital strategy to improve customer engagement, increase efficiency and enhance the customer experience, as well as reduce the cost to serve our clients.

On the technology side, we replaced over 90% of our legacy systems with an integrated suite of solutions to ensure we continue to excel in service delivery.

We also implemented an extensive infrastructure upgrade, which has significantly enhanced service reliability and efficiency. The solutions rolled out include our Core Banking application, Customer Relationship Management (CRM) application, Enterprise-wide Electronic Document Management system, and a Treasury Trading application.

All of these have led to an increase in the range of products we offer and an increased ability to respond to our customers' varying needs and increased business volumes, while still managing risks effectively and ensuring regulatory compliance

RISK AND OPPORTUNITIES

FBNQuest Merchant Bank Limited 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 is determined by the respective impact on earnings, capital adequacy, liquidity and stakeholders' interests. The increasingly difficult macroeconomic environment and transition to merchant banking 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).

OUTLOOK

The year 2018 is expected to be challenging. Economic recovery is expected to be gradual, and the first half of the year will be crucial as preparation for the 2019 elections will commence earnestly by the second half of the year.

Our research analysts predict oil prices will remain stable around USD60 per barrel ensuring steady government revenue. Although banks reported foreign exchange related gains in 2017, the gains reported were not on the scale of those delivered in 2016. In addition, similar to 2016, the book value of the banks have also been inflated by naira depreciation (and foreign exchange-related gains). Going into 2018, banks are likely to see a further decline in ROAE.

Fixed income revenue growth in 2018 for banks is expected to slow down on the back of a tapering in the yields on government securities as the latter shifts its borrowing towards external sources and the CBN reduces its demand for Treasury Bills. As such, loan growth should pick up in 2018 and a slight moderation in NIMs is likely. Asset quality deterioration has been kept under control through the recession and this is likely to continue into 2018.

Despite the anticipated challenge, 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.

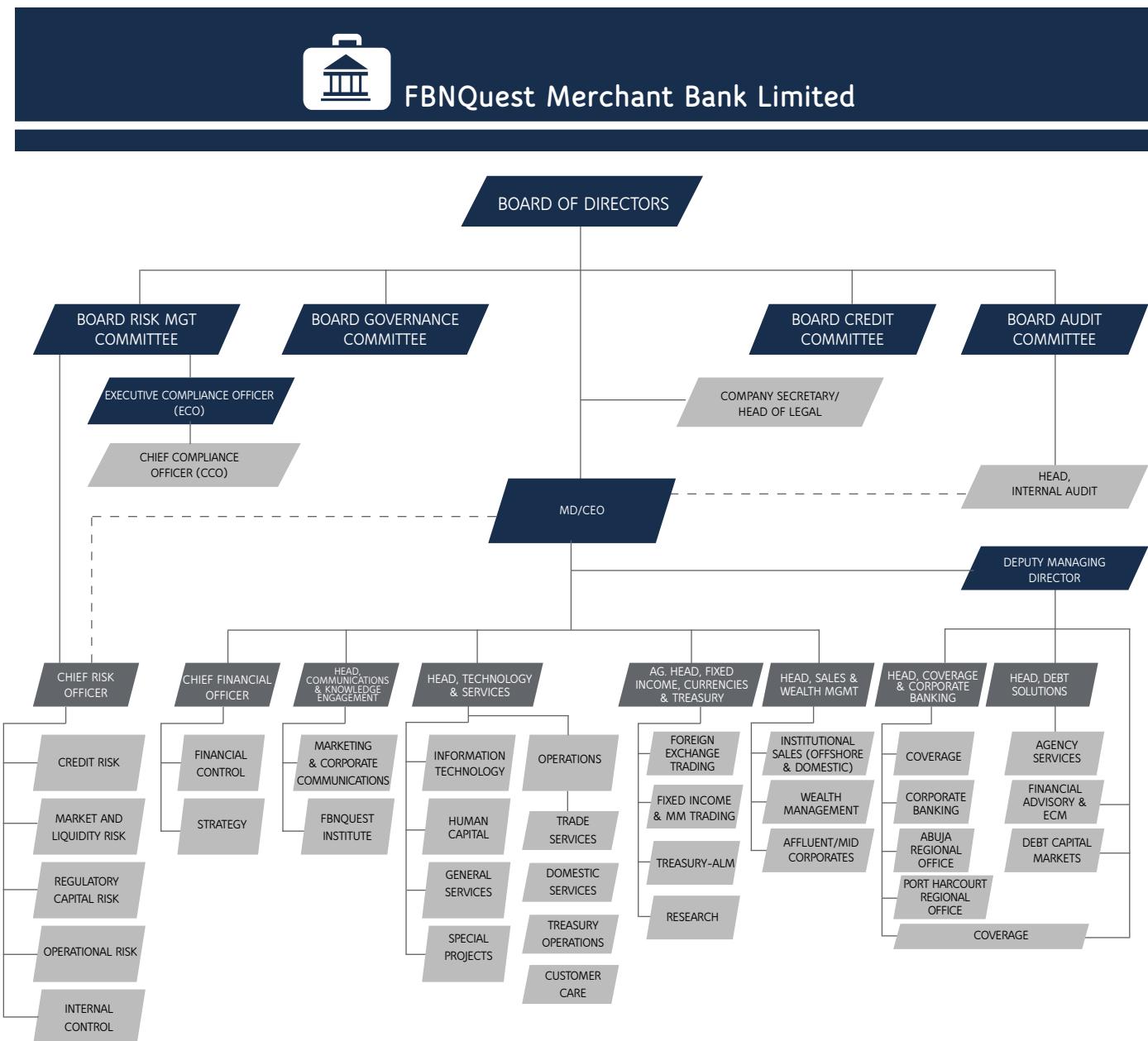
Thank you.



Kayode Akinkugbe
Managing Director/CEO

DIVISIONAL OPERATING REVIEW

Below is the current operating structure.



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

DIVISIONAL OPERATING REVIEW

INVESTMENT BANKING

“ We remain an industry leader in deal origination, execution and distribution. ”



Taiwo Okeowo, CFA

Deputy Managing Director/Head, Investment Banking

INTRODUCTION

Within our Investment Banking division, we arrange finance through the bank and capital markets and provide strategic advice. Our strong technical capabilities and deep knowledge of the terrain enables us to offer tailored solutions to our customers. Our approach to achieving the best and most efficient results is in the targeted development of a robust platform for deal origination, selection, execution and closure. This has resulted in a strong track record for transaction size, complexity and speed to market.

We have advised on transactions in key sectors of the economy such as telecommunications, financial services, power, infrastructure, oil and gas, and manufacturing. We remain an industry leader in deal origination, execution and distribution.

Our Investment Banking team comprises of four product areas: Debt Solutions, Financial Advisory, Debt Capital Markets and Equity Capital Markets.

DEBT SOLUTIONS

The Debt Solutions (DS) team is responsible for advising, structuring and raising of debt products for clients across all the key sectors of the Nigerian economy. Our key products and services include, but are not limited to:

- Project financing (green and brownfield)
- Debt structuring and arranging
- Global facility coordination
- Restructuring and refinancing
- Technical bank and financial modelling services
- Documentation bank services
- Leverage and acquisition financing
- Reserve-based lending (RBL)
- PPP advisory and pre-bid debt advisory
- Syndications
- Project advisory/due diligence
- Facility agency services
- Export credit agency and DFI debt arranging

INVESTMENT BANKING

FINANCIAL ADVISORY

The Financial Advisory (FA) team provides mergers and acquisitions advisory, restructurings, recapitalisations and similar transaction related advisory services to public and private sector clients across various sectors. The team leverages deep sector and product expertise to assist clients in achieving their strategic corporate objectives. Our Financial Advisory team has successfully advised on several landmark domestic and cross-border transactions, providing end-to-end support over the entire transaction life-cycle. Our services include, but are not limited to:

- Mergers and acquisition advisory (Buy-side and Sell-side)
- Privatisation advisory
- Restructurings and recapitalisations
- Carve-outs, spin-offs and split-offs
- General corporate finance advisory
- Independent valuation and fairness opinions

EQUITY CAPITAL MARKETS

Equity Capital Markets (ECM) helps incorporated companies structure and raise capital by issuing equity or equity-linked products in the capital markets (either from public or private sources) through the following methods, as the transaction dictates:

- Initial Public Offerings (IPOs)
- Follow-on offerings
- Special placements
- Rights issues
- Private placements
- Pre-IPO equity financing

DEBT CAPITAL MARKETS

The Debt Capital Markets (DCM) team structures and executes debt issuance to clients in the domestic and international capital markets. The team creates solutions to meet the financing needs of our public and private sector clients, including the Federal Government of Nigeria, state governments, government agencies and parastatals, public institutions, supranational institutions and

private sector companies. Key products and services include, but are not limited to:

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

KEY RISKS AND MITIGANTS

Profitability Risk: The Investment Banking team actively pursues mandates in the private and public sectors, and has long-standing relationships with competent and credible sponsors. The team will always be able to source and execute mandates that help clients fund their financing needs.

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.

DIVISIONAL OPERATING REVIEW

COVERAGE AND CORPORATE BANKING

“ Our team of industry and product experts are thought leaders in their assigned verticals, thus enabling them to provide bespoke offerings and financing structures tailored to clients’ needs. ”

Bimbola Wright

Head, Coverage and Corporate Banking



INTRODUCTION

The Coverage and Corporate Banking Group (CCB) establishes and maintains relationships with corporates and public entities across all sectors of the Nigerian economy. Our team of industry and product experts are thought leaders in their assigned verticals, thus enabling them to provide bespoke offerings and financing structures tailored to clients' needs. The team also leverages on its vast industry network, as well as the Group's renowned Research department to deliver optimal customer service.

In 2017, the CCB business was restructured into two distinct but complimentary teams - Client Coverage and Corporate Banking. The objective of the new model is to improve client focus, efficiency and focus on origination, execution and best-in-class service delivery.

The Group generated net income of ₦3.93bn in 2017 full year. This represents a year-on-year growth of 42%. Whilst the loan portfolio declined slightly by 8% due to repayments of maturing obligations, the deposits grew significantly by 160%.

KEY RISKS AND MITIGANTS

- **Compressed Net Interest Margin (NIM):** In the second half of the year, we saw the Federal Government refocusing its funding strategy on rebalancing its funding portfolio with more reliance on foreign debt. This has impacted the historical NIM. In mitigating this, the Group aggressively generates a mix of lower cost transaction funds and fixed investments to enhance our margins.
- **Correspondent Banking Lines:** The decline in global trade in 2016 and in the first quarter of 2017 impacted offshore banks' willingness to on-board new Nigerian banks. As we look to grow our trade business, establishing a variety of trade lines will be a key enabler, as well as mapping the geographical locations our clients do business. Consequently, more relationships were on-boarded this year, whilst there has been amplified effort at establishing additional offshore banking relationships. This is expected to enhance the volume of trades in the coming year.
- **Technology Risk:** We are at the tail end of our IT transformation project. Once completed, we expect our transaction banking activities to grow which will improve our funding mix, enhance service delivery and grow transaction volumes going forward.

DIVISIONAL OPERATING REVIEW

SALES AND WEALTH MANAGEMENT

“ We work with our customers to structure appropriate investment portfolios based on their risk appetite and needs. ”

Tseyi Hammond
Head, Sales and Wealth Management



INTRODUCTION

The division comprises the Wealth Management (HNI), Affluent and Institutional Sales teams.

WEALTH MANAGEMENT

The Wealth Management business' primary objective is to help High Net Worth clients grow, manage, and transition their wealth for future generations based on their investment objectives and risk profile by:

- offering diversified investment opportunities through collaborations and cross-selling, with the goal of creating and increasing wealth for our Ultra High Net Worth and High Net Worth clients, sole proprietors and family businesses;
- collaborating with our in-house experts to offer advisory services, and provide clients with holistic view of happenings in the local and global financial markets; and.
- ensuring we maintain a strong and sincere relationship with clients over their lifetime and extend same to the beneficiaries of their wealth.

Our main service offering is financial planning, delivered through investment products including;

- Deposits, fixed income securities, mutual funds, and equities among others.

To facilitate the team's sales, marketing and relationship management functions, the Wealth Management business is segmented along geographical lines - Lagos, Abuja, and Port Harcourt.

INSTITUTIONAL SALES

The institutional sales team was set up to service a broad segment of investors including pension fund administrators, insurance companies, banks and financial institutions, local and offshore portfolio managers, public sector, large corporations, endowment funds, foundations, and co-operative societies.

We work with our customers to structure the appropriate investment offerings based on their risk appetite and needs. Our services include, but are not limited to:

SALES DIVISION

- Treasury bills
- Bonds
- Liquidity management
- Eurobonds
- Structured products
- Equities

AFFLUENT/MID CORPORATES

The Affluent and Mid Corporate team provides investment solutions and advisory to retail, affluent and SME segments. This team drives sales largely through cost-effective collaborations and distribution channels. Our services include, but are not limited to:

- Eurobonds
- Treasury bills
- Local bonds (including the Sukuk Bond)
- Commercial papers
- Structured notes

DIVISIONAL OPERATING REVIEW

FIXED INCOME, CURRENCIES AND TREASURY

“ Our main focus is to attract liquidity and increase efficiency while reducing transaction costs. ”

Adetoun Dosunmu

Ag. Head, Fixed Income, Currencies and Treasury



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

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

- 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 FGN 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 (PDMM) 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 CBN bills.
- The Foreign Exchange 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 RISKS AND MITIGANTS

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.

FIXED INCOME, CURRENCIES AND TREASURY

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 are always above regulatory requirement.
- Gap limits.
- Setting portfolio limits.
- Monitoring obligations by estimating cash flows.
- 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 while the 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.).

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.

SUBSIDIARY OPERATING REVIEW

FBNQUEST ASSET MANAGEMENT

“ We pride ourselves on our strong research, investment strategies and expertise in building customised investment portfolios designed to meet our clients’ bespoke needs. ”

Ike Onyia
MD/CEO, FBNQuest Asset Management



INTRODUCTION

As the Asset Management subsidiary, we serve the investment needs of individuals, institutions and governments with a broad range of solutions that span various asset classes including fixed income, equities, alternatives, and multi-asset class solutions.

The portfolio management team has a solid track record of consistent outperformance and innovation resulting in capital preservation and capital appreciation. In delivering this, our team remains focused on optimal client service and satisfaction. We pride ourselves on our strong research investment strategies and expertise in building customised investment portfolios designed to meet our clients' bespoke needs. Our key products and services include:

Mutual Funds: Our mutual funds are open-ended collective investment schemes that are accessible to all. They each have a specific investment objective and strategy to suit the investment needs of a broad range of clients. These funds are regulated by the Securities and Exchange Commission of Nigeria. These include the following:

- FBN Money Market Fund (FBN MMF)
- FBN Fixed Income Fund (FBN FIF)
- FBN Heritage Fund (FBN HF)
- FBN Nigeria Eurobond (USD) Fund (FBN NEF)
- FBN Nigeria Smart Beta Equity Fund (FBN SBEF)

Discretionary Portfolio Management: Our discretionary portfolios are tailored for each client and are managed according to the client's investment objectives.

Structured Products: Our structured products are in the form of notes, which are issued by the FBN Capital Ivory Trust scheme, managed by FBNQuest Asset Management and secured by the underlying assets. The underlying assets of the notes are structured as a portfolio. Our structured products are distributed via private placements.

KEY RISKS AND MITIGANTS

FBNQuest Asset Management has the fiduciary responsibility for managing the assets of its clients. We manage the following:

- **Market Risk:** Refers to the risk that an investment/asset might lose value as a result of fluctuations in economic factors such as interest rates, exchanges rate, equity prices and commodity prices. To mitigate this risk, all managed portfolios are well diversified within their approved asset allocation bands.
- **Liquidity Risk:** Refers to the inability of a financial organisation to meet its short-term financial obligations. This risk is mitigated by minimising the mismatch between assets and liabilities.
- **Credit Risk:** Refers to the capital probability of a loss from a debtor's inability/failure to make payments. To mitigate this risk, in-depth analysis is conducted on all invested assets.

SUBSIDIARY OPERATING REVIEW

FBNQUEST SECURITIES

“ Our services are offered to a broad range of customers, including pension fund administrators, insurance companies, banks and financial institutions, local and offshore portfolio managers. ”

Temitope Adeosun

MD, FBNQuest Securities



FBNQUEST SECURITIES

FBNQuest Securities is the equity dealing arm of the business. We work to understand the needs of our clients and offer bespoke solutions to investors, including high-net-worth-individuals, institutions, corporations and governments. Having developed close relationships with key regulatory institutions, we have a strong understanding of the local market, excellent investor relationships and distribution capabilities.

Our key services include agency trading, market making and corporate brokerage.

Agency Trading

We assist clients in purchasing and selling equities. We also trade on NASD for OTC stocks.

Market Making

We are one of the duly appointed primary market makers on the NSE, responsible for enhancing market liquidity of allotted securities in accordance with NSE rules.

We have a dedicated desk which trades to ensure a fair and orderly market in particular securities of responsibility, thereby contributing positively to the operations of the overall market.

Corporate Brokerage

We act as stockbrokers to Issuers (for both Debt and Equity). We liaise with the NSE on behalf of Corporates and State Governments for requisite listing approvals on their primary market issues such as Public Offers for Subscription, Offers for Sale, Rights Issues, Listings by Introduction, etc. We distribute primary market products, act as receiving agents to Issuers on such primary market offerings, and are also authorised Distribution Agents of the DMO for the FGN Savings Bonds.

KEY RISKS AND MITIGANTS

- **Operational Risk:** these include issues such as account fraud and overtrading. To mitigate this risk, we have adopted a strong signature and account confirmation process, we have also adopted new information technology applications to enhance controls and prevent fraud.
- **Client Confirmation (Know Your Client)** - we are currently implementing global best compliance practices in client confirmation, in line with anti-money laundering guidelines.
- **Market Making** - we have put in place appropriate risk management limits for this process.
- **Regulatory Infractions/Suspension** - we ensure appropriate filing and implementation of new guidelines. This process is overseen by Internal Audit and Compliance departments.
- **Business Profitability/Concentration** - we continue to diversify our revenue streams.

RELATIONSHIPS AND RESPONSIBILITY

CUSTOMER SATISFACTION MANAGEMENT

For the Customer Care Unit (CCU) of FBNQuest Merchant Bank and its subsidiaries, the year 2017 was an exciting year. We began to leverage the many technological platforms that were launched in 2016 and 2017 to improve our turnaround time on all customer requests. On-boarding turnaround time is now less than 24 hours, and welcome letters are issued to our new customers.

The turnaround time for redemptions improved significantly and the number of complaints reduced significantly. Our Enquiry Desk remains pivotal to our operations, and all enquiries are attended to in less than 24 hours, while the Complaints Management System enables us identify the most frequent complaints so processes are re-aligned to reduce them significantly.

The Subscription Desk assists in streamlining the subscription process, ensuring that funds are booked appropriately and customers receive value for their investment with us, while our Know Your Customer (KYC) Desk ensures that customers' accounts are up-to-date and accounts are approved on time.

TECHNOLOGY PRIORITIES

In 2017, the team aligned with the Bank's strategy to drive a customer-centric policy of delivering a dynamic yet consistent customer experience by investing in customer relationship management applications aimed at facilitating customer acquisition, retention and driving advocacy for our unique brand.

“ During the year, the Bank was also recommended for the ISO 22301 – Business Continuity Management Certification and ISO22701 Information Security Management System Certifications. ”

Our strong technology platform positions us to be the leading and trusted partner to our clients, and allows us maximise shareholder value on a sustained basis.

Our specific objectives include:

- Building a well-equipped Customer Care team;
- Leveraging technology platforms and deepening relationships to improve customer experience and retention;
- Keeping our customers abreast of key information in order to drive value and differentiation; and
- Collaborating with internal and external stakeholders to develop tailor-made products and services to meet emerging needs.

INFORMATION TECHNOLOGY

At the core of our Information Technology (IT) strategy is the alignment with the overall business strategy, aimed at providing differentiated value to our customers and shareholders.

Following the Board's approval of the strategy for the overhauling of our IT platform in 2015, implementation of an overall IT transformation kicked off in 2016. The year 2017 birthed the replacement of over 90% of our legacy systems with an integrated suite of solutions, to ensure we continue to excel in service delivery. We also implemented an extensive infrastructure upgrade, which has significantly enhanced service reliability and efficiency.

The solutions rolled out include our Core Banking application, Customer Relationship Management (CRM), Enterprise-wide electronic document management and a Treasury Trading application. This has led to an increase in the range of products we offer and increased agility to respond to our customers' varying needs, while still managing risks effectively and ensuring regulatory compliance.

During the year, the Bank was also recommended for the ISO 22301 – Business Continuity Management Certification and ISO22701 Information Security Management System Certifications.

These certifications demonstrate our commitment to providing our customers with stable continuous services and maintaining the security of the Bank and our customers' information.

RELATIONSHIPS AND RESPONSIBILITY

In 2018, we will continue to focus on:

- extracting more value from the transformation programme by building on the firm technology foundation laid, in serving our customers;
- progressing our digitalisation journey to further cater to and satisfy our customers' diverse needs; and
- enhancing customers' experience with innovative products and services.

OUR PEOPLE

FBNQuest Merchant Bank believes that highly motivated employees are the key to success. To this end, several initiatives were deployed aimed at engendering the right culture and improving employee engagement levels. We made investments in upgrading the leadership skills of all employees to ensure that we continue to foster a positive culture of high performance and strong leadership within the organisation.

In 2017, FBNQuest Merchant Bank's workforce increased by 32%. This was primarily due to the broadening of the scope of our product and service offerings to clients and the engagement of successful graduate trainees.

Employment of disabled persons

We continue to maintain a policy of giving fair consideration to employment applications made by people with disabilities if they possess requisite qualifications.

Health, safety and welfare at work

FBNQuest Merchant Bank enforces strict Health and Safety rules and practices in the work environment, which are reviewed and tested regularly. Medical facilities from top-class private hospitals are provided to staff and their immediate families.

Fire-prevention and fire-fighting equipment are installed at strategic locations within the Company's premises. The Company has 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.

Employee involvement and training

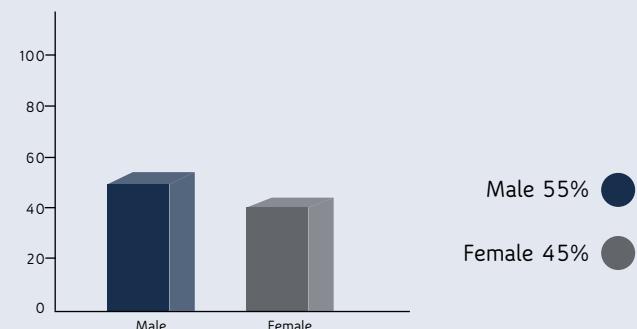
We consistently organise town hall sessions at every business location. In addition, we arrange focus groups and road shows, to ensure that employees are promptly and adequately informed on matters relating to them. In accordance with the Company's policy of continuous development, in-house training were provided to

employees and employees were also nominated to attend local and international courses.

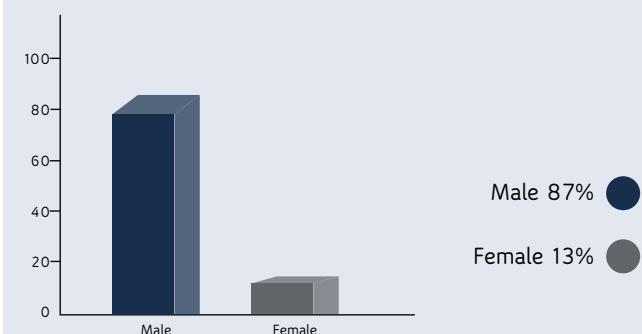
Diversity in the workplace

FBNQuest Merchant Bank has demonstrated its commitment to building a culture that embraces diversity and inclusion in the workplace. In 2017, initiatives aimed at consolidating women's role in the organisation were carried out. The Company remains an equal opportunity employer.

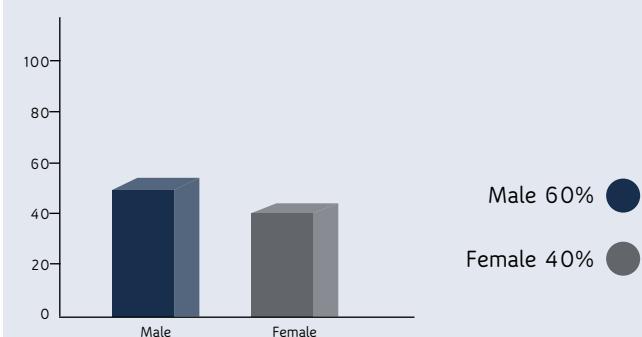
EMPLOYEES



BOARD MEMBERS (EXECUTIVE AND NON-EXECUTIVE)



TOP MANAGEMENT STAFF



GOVERNANCE

Best corporate governance practices remain a key focus and deliverable for the Board of Directors and Management of FBNQuest Merchant Bank.

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CHAIRMAN'S INTRODUCTION

“ I am pleased to advise that the Company did not record any corporate governance breach in its operations for the 2017 financial year. The size and constitution of the Board continue to satisfy best practice. ”

Bello Maccido
Chairman

At FBNQuest Merchant Bank, we set the right tone from the top not just by aligning our strategic aims with best practice through strong corporate governance, we also strive to give a good account to all stakeholders.

In the course of the year, the Company received minor penalties from the Central Bank of Nigeria for delay in submitting some returns to the Central Bank of Nigeria. They are as follows:

- Delay in filing Daily Financial Analysis Application System Returns.
- Delay in filing Parastatals Report.
- Delay in filing Daily Foreign Exchange Net Open Position Report.

These delays were due to some challenges experienced in the



course of the Information Technology transformation project. This has been resolved and our Company is now well-positioned to compete favourably in the industry. The penalties have since been settled. Apart from this minor infraction, I am pleased to advise that the Company did not record any corporate governance breach in its operations for the 2017 financial year. The size and constitution of the Board continue to satisfy 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 2018 Annual General Meeting). This is commendable and I assure all the stakeholders of the Bank that best corporate governance practices remain a key focus and deliverable for the Board of Directors and Management 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

Knowledge and skill:

Bello Maccido has over 32 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, as well as the Presidential Monitoring Committee on Niger Delta Development Commission (NDDC).

Bello 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, United States American. 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 2020
- Member, Presidential Monitoring Committee on Niger Delta Development Commission
- Member, Ministerial Task Force on Refineries
- Director, Nigeria Sovereign Investment Authority
- Director, Development Bank of Nigeria



Andrew Reicher

(Independent Non-Executive Director)

Resigned with effect from 26 April 2017

Joined the Board on 8 December 2014

Chairman, Board Risk Management Committee - BRMC

Member, Board Credit Committee - BCC

Knowledge and skill:

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 Chairman of the 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 CDC /Actis. Andrew has an MA in Economics from Cambridge University, United Kingdom, where he was awarded a Double First and the University's Wrenbury Prize for Economics; and a Masters in Economics from the University of Pennsylvania, United States of America.

Experience:

- Head of Programme Management, Private Infrastructure Development Group
- Chief Executive, Globeleq

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- Founding Partner and Member of Supervisory Board, Actis
- Executive Director, Chief Investment Officer, CDC
- 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



Oluyeole Delano, SAN, MCI Arb
(Independent Non-Executive Director)
Joined the Board on 9 February 2015

*Chairman, Board Audit Committee - BAC
Acting Chairman, Board Risk Management Committee - BRMC*

Knowledge and skill:

Oluyeole 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 of the Chambers, with a focus on litigation and arbitration.

In 1998, Oluyeole assumed his current position in the Lagos office of Akindelano Legal Practitioners (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. Oluyeole obtained a Bachelor's degree in law from the University of Southampton, United Kingdom. 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



Dr Omobola Johnson
Non-Executive Director
Joined the Board on 6 October 2015
Chairman, Board Governance Committee
Member, Board Audit Committee - BAC
Acting Chairman, Board Credit Committee - BCC

Knowledge and skill:

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. Dr Johnson served as the Country Managing Director of Accenture, and 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 enable and encourage the success of female entrepreneurs, as well as grow 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, which has the main objective of

promoting the empowerment and digital inclusion of women.

She 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 B.Sc in Electrical and Electronic Engineering from the University of Manchester, United Kingdom, and an M.Sc in Digital Electronics from King's College/Chelsea College (now known as Kings College), University of London. She also gained a Doctorate of Business Administration from Cranfield University in the United Kingdom.

Experience:

- Honourable Minister for Communication Technology, Federal Republic of Nigeria

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- Member, Presidential Advisory Council under President Goodluck Jonathan
- Country Managing Director, Accenture Enterprise Transformation, Arthur
- Anderson & Co/Anderson Consulting
- Director, Guinness Nigeria Plc
- Chairman, Custodian and Allied Insurance Plc
- Director, Mouka Plc
- Director, Phoenix Africa Limited



Kayode Akinkugbe

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

Knowledge and skill:

Kayode Akinkugbe is the Managing Director and Chief Executive of FBNQuest Merchant Bank Limited. He has over 26 years' experience working in top-tier global investment banks in the United Kingdom and Nigeria, where he 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 USD9bn of structured debt, project finance and equity financing across banks and capital markets; advised on over USD5bn of merger and acquisitions transactions (privatisation, buy-side); and executed hedging solutions while generating significant revenue for 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 holds an MBA from Cranfield School of Management, United Kingdom.

Experience:

- Managing Director/CEO, FBNQuest Merchant Bank Limited
- Chairman, FBNQuest Asset Management 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



Taiwo Okeowo, CFA

Joined the Board as Deputy Managing Director on 24 November 2015

Knowledge and skill:

Taiwo Okeowo, CFA is a seasoned professional with over 31 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 Chairman of the Board of MainOne Cable Company Ltd and former Chairman of the Fixed Income Subcommittee of the Capital Market Committee. Taiwo graduated with First-Class Honours in Computer Science from the University of Ibadan. He holds an MSc in Management from the London Business School (where he was a Sloan

Fellow), is a Chartered Financial Analyst, CFA Charterholder, and a Fellow of the Institute of Chartered Accountants of Nigeria.

Experience:

- Deputy Managing Director, FBNQuest Merchant Bank Limited
- Chairman, FBNQuest Securities Limited
- Director, MainOne Cable Nigeria 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

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- 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



UK Eke, MFR

Joined the Board effective 14 September 2016

Knowledge and Skill

UK Eke, MFR, is a seasoned banker with deep financial services experience spanning

diverse areas including risk management, consulting, taxation, process engineering, capital market operations and business assurance. He began his career with the professional firm of Deloitte Haskins & Sells International, where he rose to a Senior Audit Consultant prior to joining Diamond Bank Plc. where he worked for 19 years and became Executive Director, Regional Businesses, Lagos and West.

UK has over 32 years of professional experience and he brings his wealth of knowledge to the Boards of a number of institutions where he serves as Non-Executive Director including FBN Bank (UK) Limited, and First Bank of Nigeria Limited. He is the Group Chief Executive of FBN Holdings Plc., United Kingdom and holds a first degree in Political Science from the University of Lagos and a MBA in Project Management Technology from the Federal University of Technology, Owerri.

A philanthropist and a respected business administrator, UK is a Paul Harris Fellow of The Rotary Club International, a Fellow of the Institute of Management Consultants, Fellow of the Institute of Chartered Accountants of Nigeria and recipient of Nigeria's National Honour of Member of the Order of the Federal Republic (MFR).

Experience

- Group Managing Director, FBN Holdings Plc
- Director, First Bank of Nigeria Limited
- Director, FBNBank (UK) Limited
- Director, Financial Institutions Training Centre
- Director, First Pension Custodian Limited
- Executive Director, First Bank of Nigeria Plc
- Executive Director, Diamond Bank Plc



Akin Osinbajo, SAN

Joined the Board effective 31 January 2017

Knowledge and Skill

Akin Osinbajo is a Senior Advocate of

Nigeria (SAN), a highly experienced litigator and commercial Law Practitioner, Chartered Arbitrator and Notary Public of Nigeria, who has represented several multinational and local clients in contentious commercial litigations in several courts in Nigeria. He is Joint Managing Partner in Abdulai, Taiwo & Co., Solicitors, a firm internationally acknowledged for its expertise on transactional matters relating to Nigeria.

He previously served as a member of the Nigerian Bar Association Special Task Force on Multidisciplinary Practices and Incursions into the Legal Profession. He was also a member of the Civil Service and Judicial Matters Work Group of the Transition Committee of the Governor-elect of Ogun State, 2003.

He was appointed Honourable Attorney-General and Commissioner for Justice,

Ogun State, 2003-2007 and reappointed in July 2007 to May 2011, thereby making him the longest-serving Attorney General in Ogun State. During his eight years as the Chief Law Officer of Ogun State and Official Leader of the Bar, he positively impacted and extensively reformed the Administration of Justice in the State.

Experience

- Member, Body of Senior Advocates of Nigeria
- Partner, Abdulai Taiwo & Co
- Member Ogun State Government Transition Committee (2003)
- Honourable Attorney General and Commissioner for Justice 2003 to 2011
- Member, Body of Benchers Nigeria 2003 to 2011
- Member, Chartered Institute of Arbitrators, United Kingdom

FBNQUEST MERCHANT BANK MANAGEMENT TEAM



Kayode Akinkugbe
Managing Director/CEO



Taiwo Okeowo, CFA
Deputy Managing Director



Bimbola Wright
Head, Coverage and Corporate
Banking



Funke Ladimeji
Head, Technology and Services



Taiwo Gabriel
Chief Risk Officer



Patrick Mgbenwelu
Head, Debt Solutions



Adetoun Dosunmu
Ag. Head, Fixed Income,
Currencies and Treasury



Tseyi Hammond
Head, Sales and Wealth
Management



Emily Atebe
Chief Financial Officer



Ike Onyia
MD/CEO, FBNQuest
Asset Management



Temitope Adeosun
MD/CEO, FBNQuest Securities

LEADERSHIP

BOARD ROLES AND RESPONSIBILITIES

Responsibilities

The Board of FBNQuest Merchant Bank Limited is accountable and responsible for the performance of the Company. The Board discharges its oversight functions and provides FBNQuest 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 Directors

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

CHAIRMAN	NON-EXECUTIVE DIRECTOR	COMPANY SECRETARY
<ul style="list-style-type: none"> Ensure the Board carries out its governance role in the most effective manner possible; Set the agenda for Board meetings and ensure the Board remains 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; and Chair the Annual General Meeting. 	<ul style="list-style-type: none"> 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 the achievement of its strategic corporate objectives; Devote sufficient time to Board affairs; and 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. 	<ul style="list-style-type: none"> Ensure flow of information within the Board and its committees, between Senior Management and Non-Executive Director, 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; and Filing all statutory returns as may be required under the laws governing the Company.
MANAGING DIRECTOR/CEO	INDEPENDENT NON-EXECUTIVE DIRECTOR	
<ul style="list-style-type: none"> 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; and Provide necessary reports to the Board as may be required. 	<ul style="list-style-type: none"> Employ neutral, specialised/expert skills towards achieving a balance of knowledge, skills, judgement and other directional resources; Serve as a check to the Management of the Company by providing unbiased and independent views to the Board; and 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. 	

LEADERSHIP

THE BOARD OF DIRECTORS

BOARD CHANGES DURING THE YEAR

There were minimal changes on the Board of Directors during the year. Save for the formal approval of the appointment of Akin Osinbajo, SAN, effective 31 January 2017 and the resignation of Andrew Reicher from the Board, effective 26 April 2017, there were no other changes in the composition of the Board of Directors.

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, 2017 to engender interaction between the Board and Senior Management of the Bank and also to validate 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

The Board consolidated the business in the 2017 financial year having surmounted the integration hurdles of 2015 to 2016. The focus of the Board for 2017 was creation of value for the stakeholders while assuring that the strong and enduring corporate governance processes already formed within the Company is sustained.

During the year, the Merchant Bank acquired FBNQuest Securities Limited and FBNQuest Asset Management Limited to position the Merchant Bank as a financial institutions group offering the depth and breadth expected by the Central Bank of Nigeria in the enabling laws for merchant banking. The acquired entities continue to run as full-fledged independent companies owned by the merchant bank. The Board is already seeing traction from the businesses generated by the acquired entities and the synergy gives the merchant banking group an edge over competition.

How the Board spent its time

Board meetings focused on the corporate governance practice, risk management and profitability. 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 ₦8.7bn at the end of the year. Compliance, audit issues and the IT transformation project featured at length in the course of deliberations of the Board in 2017.

Board focus areas for 2018

The Board will focus on profitability in the new year in accordance with the approved strategic plan for 2017-2019 while ensuring strict compliance with corporate governance codes and banking regulations.

Attendance at Board meetings:

Attendance at Board meetings in 2017 as shown below:

	06 Mar 2017	26 Apr 2017	19 Jul 2017	18 Oct 2017	18 Dec 2017
Bello Maccido	✓	✓	✓	✓	✓
Kayode Akinkugbe	✓	✓	✓	✓	✓
Taiwo Okeowo, CFA	✓	✓	✓	✓	✓
Akin Osinbajo, SAN**	✓	✓	✓	✓	✓
Andrew Reicher*	✓	✓	N/A	N/A	N/A
Oluyele Delano, SAN	✓	✓	✓	✓	✓
Dr Omobola Johnson	✓	✓	✓	✓	✓
UK Eke, MFR	N/A	N/A	N/A	✓	✓

* = Resigned during the year

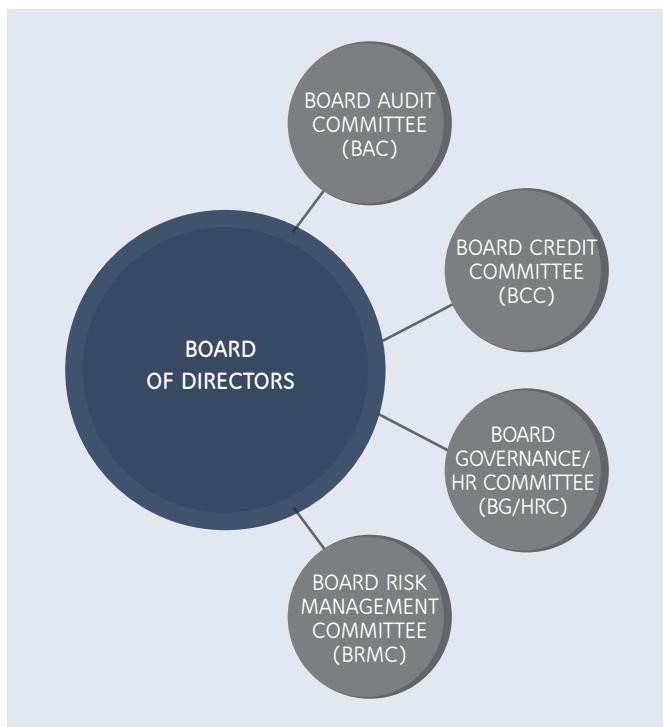
** = Appointed during the year

N/A = Not Applicable

LEADERSHIP

COMMITTEE REPORTS

The effectiveness of FBNQuest 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 Committee. Each committee is chaired by a Non-Executive Director and fully governed by approved charters.



BOARD AUDIT COMMITTEE (BAC)



The 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 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;
- reviewing the financial reporting process with a view to ensuring the Company's compliance with accounting standards, financial matters and the applicable law; and

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- 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), responds, and considers status of actions taken by Management; and
- 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;
- 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 facilitates the maintenance of the objectivity of the internal auditor; and
- 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 control to ascertain its adequacy and effectiveness;
- Reviews and discusses any previously identified material weaknesses in controls and deficiencies in the system and, if considered necessary, recommends additional procedures to enhance the system; and
- 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 of Director	27	23	17	16	15
	Feb 2017	Mar 2017	Jul 2017	Oct 2017	Dec 2017
Oluyele Delano, SAN	✓	✓	✓	✓	✓
Dr Omobola Johnson	✓	*	✓	✓	✓
UK Eke, MFR	✓	✓	✓	✓	✓

* = Absent

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BOARD CREDIT COMMITTEE (BCC)



Dr Omobola Johnson
Chairman (in acting capacity)

The BCC was chaired by Dr Omobola Johnson (in acting capacity) upon the resignation of Andrew Reicher. The terms of reference of this Committee include:

- review credit policies of the Bank 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 the Bank's risk assets profile;
 - review the methodologies for assessing 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 BCC meetings

Name of Director	25 Apr 2017	18 Jul 2017	16 Oct 2017	15 Dec 2017
Akin Osinbajo, SAN**	N/A	✓	✓	N/A
Kayode Akinkugbe	✓	✓	✓	N/A
Taiwo Okeowo, CFA	✓	✓	✓	N/A
Dr Omobola Johnson	✓	✓	✓	N/A
Andrew Reicher*	Absent	N/A	N/A	N/A

* = Resigned during the year

** = Appointed during the year

N/A = Not Applicable

BOARD RISK MANAGEMENT COMMITTEE (BRMC)



Oluyele Delano, SAN
Chairman (in acting capacity)

The BRMC was chaired by Oluyele Delano, SAN (in acting capacity) upon the resignation of 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:

- i. Assisting the Board to discharge its responsibilities to exercise due care, diligence and skill in relation to the Bank's:
 - internal control system;

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- 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 functions.
- 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 Company's risk management policy on a periodic basis to accommodate major changes in internal and external factors.
- vii. 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, 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 arise.

ii. **Internal control efficiency:**

This involves evaluating the following:

- efficiency and effectiveness of FBNQuest Merchant Bank'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 FBNQuest Merchant 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 FBNQuest 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 FBNQuest Merchant Bank 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 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.

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Attendance at BRMC meetings

Name of Director	26 Jun 2017	18 Jul 2017	16 Oct 2017	21 Nov 2017
Andrew Reicher*	N/A	N/A	N/A	N/A
Oluyele Delano, SAN	✓	✓	✓	✓
Kayode Akinkugbe	✓	✓	✓	✓
Akin Osinbajo, SAN**	✓	✓	✓	✓

* = Resigned during the year

** = Appointed during the year

N/A = Not Applicable

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 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; and.
- 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 Committee Charter as approved by the Board.

The BG/HRC is constituted by all the Non-Executive Directors of the Company excluding the Chairman of the Board who is not a member of any of the Committees.

Attendance at BG/HRC meetings

Name of Director	25 Apr 2017	28 Jun 2017	17 Apr 2017	16 Oct 2017
Dr Omobola Johnson	✓	✓	✓	✓
Andrew Reicher*	Absent	N/A	N/A	N/A
Oluyele Delano, SAN	✓	Absent	✓	✓
UK Eke, MFR	✓	✓	✓	✓
Akin Osinbajo, SAN**	✓	✓	✓	✓

* = Resigned during the year

** = Appointed during the year

N/A = Not Applicable

LEADERSHIP

MANAGEMENT COMMITTEES

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

The Executive Leadership Committee 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; with the guideline that all fixed asset(s) disposal must not be below book value of the asset at the material time; and
- Protection and enhancement of brand reputation.

The Executive Leadership carries out its mandate through the following committees:

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 Bank'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 Bank meets its maturing obligations as and when due, and is in the position to honour its commitments;
- **Concentration risk:** ensuring that the Bank is not vulnerable to any single client or groups of clients, in relation to its funding sources; and
- **Price risk:** ensuring that adverse movements in the market prices do not have a negative impact on the Bank's trading positions.

The composition of the Asset and Liability Committee (ALCO)

TITLE	
Chairman	Managing Director/CEO
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
	Head, Market and Liquidity Risk Management (Secretary)

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:

- i. monitoring and review of the project at regular Steering Committee meetings;
- ii. providing assistance to the project when required;
- iii. 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;

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- iv. resolving project conflicts and disputes, reconciling differences of opinion and approach;
- v. formal acceptance of project deliverables; and
- vi. 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, Currencies 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:

- i. providing 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;
- ii. effective management of assets, liabilities and the associated risks for both the customer and FBNQuest Merchant Bank Limited while balancing the cost of managing those risks and the anticipated benefits;
- iii. improving the financial performance of the institution by establishing a positive relationship between an effective risk management system and profitability;
- iv. protecting the Company from risks of significant likelihood and minimising the impact thereof in cases where it crystallises while in the course of business; and
- v. achieving a robust business continuity management framework with in-built capabilities for minimal disruption should mission-critical threats arise; as well as evaluating its adequacy in relation to FBNQuest Merchant Bank's business and regulatory requirements.

The composition of the RMC

TITLE	
Chairman	Managing Director/CEO
Members	Deputy Managing Director
	Executive Director
	Head, 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 Company Secretary facilitates Board induction, assists with professional development, advise the Board through the Chairman on all governance matters and regulatory issues and also advise members of the Board as may be required, to ensure compliance with Board processes.

Board composition

The Company had a seven-member board as at 31 December 2017 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. The Directors are representatives of FBN Holdings Plc. One of the five Non-Executive Directors is an Independent Non-Executive Director. The Board is mindful of Section 5:3:6 of the Code of Corporate Governance for Banks and Other Financial Institutions, which stipulates minimum of two Independent Directors. One of the Independent Non-Executive Director resigned in the course of the year and the process for replacement is ongoing. The merchant bank has requested for approval of the Central Bank of Nigeria for more time to appoint the Independent Director. The Directors are all financially literate and equipped with the requisite knowledge. Nevertheless, the Directors are empowered to and seek professional advice on appropriate issues at the expense of the Company.

The composition of the Board of FBNQuest Merchant Bank in terms of proportion of Executive and Non-Executive Directors represents an appropriate mix with two Directors serving in 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 the necessary information regarding how the Bank is run and taken through an induction process.

Remuneration

The remuneration of members of the Board of Directors is limited to a sitting allowance, Director's fees and reimbursable(s). Total emoluments paid to the Directors in 2017 were ₦275,480,850, broken down as follows:

Description	Amount (₦)
Fees and sitting allowances	76,796,850.00
Executive compensation	185,125,000.00
Other Director expenses	17,559,000.00

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 Bank'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 Bank's strategic direction remains both appropriate and achievable;
- establishing the policy framework from which all operational policies and actions are developed for governing the Company;

EFFECTIVENESS

- 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 stipulated in the Corporate Governance Code of the Central Bank of Nigeria. The report of KPMG has been presented to the Board of Directors and at the Annual General Meeting.

ACCOUNTABILITY

RISK MANAGEMENT

INTRODUCTION

The need to see both risks and opportunities requires that organisations develop the capacity to balance value protection and value creation concurrently. The primary objectives include the need to maximise returns through improved risk and opportunity, achieve global best practices and ensure compliance with corporate governance standards.

At FBNQuest Merchant Bank Limited, we are exposed to a number of risks with varying degrees of volatility. Key risks include credit, market, liquidity, operational, strategy, and reputational risks. The importance of each risk has been determined by the respective impact on earnings, capital adequacy, liquidity and stakeholders' interests. The increasingly uncertain macroeconomic environments coupled with the recent transition to merchant banking have raised our risk profile.

We continue to monitor the identified risks, and strive to mitigate them to ensure consistent values for all our stakeholders. The Board and Senior Management regularly assess the risks the Bank is exposed to and ensure there is adequate control in relation to the identified risks.

RISK GOVERNANCE FRAMEWORK

FBNQuest Merchant Bank Limited has a robust and functional Enterprise Risk Management (ERM) framework that is designed to govern, identify, measure, control, manage and report the inherent and residual risks the Bank is exposed to.

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

Credit risk: the potential that a borrower or creditor is unwilling or unable to perform on an obligation thereby resulting in a loss to the Bank.

Liquidity risk: the potential for loss due to inability by the Bank to liquidate assets or to obtain funding to meet its liquidity needs.

Market risk: losses in on and off balance sheet positions as a result of adverse changes in market prices.

Operational risk: the current and prospective risk to earnings and capital arising from inadequate or failed internal process, people, systems and external events.

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

RISK MANAGEMENT PHILOSOPHY

FBNQuest 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 principles:

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

The main guiding principles for establishing the Risk Policies of the Bank are the Nigeria Deposit Insurance Corporation (NDIC) and CBN guidelines, concepts and practices defined by the Basel Committee, as applicable to the Nigerian Financial Market.

RISK MANAGEMENT FRAMEWORK

FBNQuest Merchant Bank's risk management policies are established to identify, analyse and measure the risks faced by the Bank, to set appropriate 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 at the direction of the Board, when changes in laws, regulations, market conditions or the Bank's activities are material enough to impact 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

ACCOUNTABILITY

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 tolerances of the Bank. The oversight functions cut across all risk areas. The committees monitor FBNQuest 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.

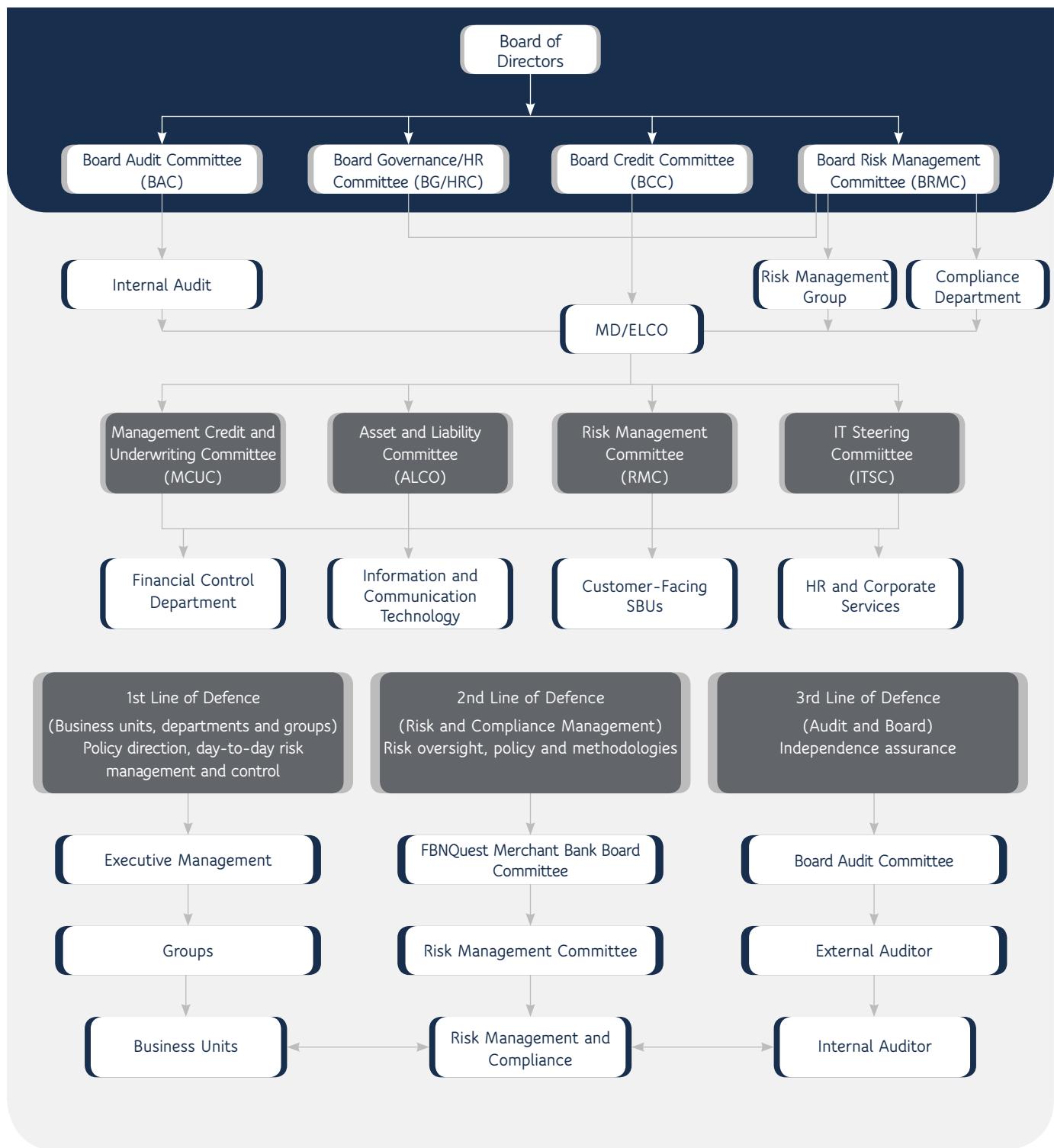
The Board Credit Committee (BCC) considers and approves all lending exposures and other credits in excess of limits assigned to the Executive Leadership Committee (ELCO) by the Board, which is exercised on behalf of ELCO by the Management Credit and Underwriting Committee (MCUC). The MCUC formulates 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 are suitable for 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.

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FBNQUEST MERCHANT BANK'S RISK MANAGEMENT ORGANOGRAM



ACCOUNTABILITY

The Board Governance/HR Committee (BG/HRC) is responsible for the assessment of the effectiveness of the Board, 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 an impact on the Bank's income and capital are monitored, controlled and managed.

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 securities trading, investment and lending activities account for most of the Bank's assets, and therefore, sources of its revenues.

The Bank recognises that it is in the business of managing risks to derive optimal returns to all its 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
- 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
- Standard Manuals of Operations
- Compliance Policy
- Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) Policy
- Code of Conduct Policy
- Whistleblowing Policy
- Environmental and Social Risk Policy

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

ENVIRONMENTAL AND SOCIAL RISK POLICY

The Bank recognises that the context in which its business decisions are made are characterised by growing challenges related to population growth, urban migration, poverty, destruction of biodiversity and ecosystem, pressure on food resources and security, climate change, lack of energy and poor infrastructure.

The business activities of the clients that the Bank funds can have potentially negative impacts on the environment or local communities where those clients operate. The Bank's E&S policy seeks to ensure that the Bank is not actively enabling entities, individuals or activities that negatively impact our local communities or the environment, through adherence to the guidelines in the policy.

CREDIT RISK MEASUREMENT

The credit rating of the counterparty is fundamental to final credit decisions. FBNQuest Merchant Bank Limited adopts a robust credit rating system based on global best practices, in determining obligor and facility risks, thus enabling the Bank maintain its risk asset quality at the desired level.

The Bank assigns credit ratings to all credit requests and the ratings are based on a two-tier approach of Obligor Risk Rating (ORR) and Facility Risk Rating (FRR). The ORR represents a grade which measures the Probability of Default (PD) on a credit obligation over a defined time horizon of 12 months.

The FRR represents a grade that denotes the Loss Given Default (LGD) of a given credit facility. This takes into consideration specific factors (e.g. receivables) and collateral in place for the referenced facility.

ACCOUNTABILITY

CREDIT RISK STRATEGY

At FBNQuest Merchant Bank, the credit risk strategy defines the following elements at the minimum:

- Preferred customer profile in granting credit.
- Allocation of credit based on exposure type, industry or economic sector, geographical location, currency and maturity.

Target markets

Risk-rating level based on its risk-bearing capacity and principles for diversification of protection against risks quality, yield, and growth targets for the credit portfolio.

The credit risk strategy is central to the identification, measurement, monitoring and control of credit risk. It is therefore reviewed periodically (at least annually).

CREDIT APPROVAL LIMITS

The Board of Directors has established approval thresholds for the approval of credit in the Company. Depending on the threshold, credits are approved by the requisite approval authority. However, all credits approved are notified to the Board of Directors.

WHISTLEBLOWING POLICY

The Bank's whistleblowing policy is an integral part of its commitment towards achieving the highest possible ethical standards in all 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.

FBNQuest 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;
- Develop a culture of openness, accountability and integrity; and
- Foster good relations, avoid crisis management and minimise damaging incidents and unpleasant publicity.

To these ends, the Whistleblowing policy encourages freedom of speech and open communication. It emboldens relevant stakeholders to use available mechanisms for reporting any malpractice or illegal acts or omissions by other employees and Senior Management.

Disclosures can be made via the whistleblowing link provided on the Bank's website: <http://www.fbnquestmerchantbank.com> or via our dedicated email address: whistleblower@fbnquestmerchantbank.com and mobile number: 09062462242.

It ensures adherence to the policies and procedures, on the activities of the Bank which 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
- Mid-year Performance Appraisal
- Annual Performance Appraisal



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

In compliance with the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks and Discount Houses in Nigeria ("the CBN Code"), FBNQuest Merchant Bank Limited ("FBNQuest 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 2017. 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. We also reviewed the Bank's Corporate Governance report prepared by the Board and included in the Annual Report for the year ended 31 December 2017, and assessed the level of compliance of the Board with the CBN Code.

On the basis of our review, the Bank's corporate governance practices are largely 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, timeliness of notices and papers for Board and Board committee meetings, as well as adequacy of executive remuneration policy disclosure.

A handwritten signature in black ink, appearing to read 'Tolu Odukale', is written over a stylized, horizontal, swoosh-like line.

Tolu Odukale

Partner, KPMG Advisory Services
FRC/2018/ICAN/00000018175
11 April 2018

RISK FACTORS

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

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[Market Risks >>](#)

RISK MANAGEMENT SUMMARY

The operating environment remains dynamic and susceptible to changes attributable to macro and microeconomic realities of Nigeria. FBNQuest Merchant Bank has, in the course of the year, enhanced its capacity to identify and mitigate inherent risks whilst remaining sensitive to the opportunities arising from properly managing those risks. The focus of our risk management processes and efforts are aligned with our vision of becoming a world-class merchant bank and asset manager, creating value for all stakeholders sustainably.

PRINCIPAL RISKS

FBNQuest 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 operations include credit, market, liquidity, operational, reputational and strategy risks. The importance of each risk faced by FBNQuest 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 the risks, as they are reported to the Board Risk Management Committee (BRMC) on a regular basis.

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 Nigerian government's securities market and a key player in the market for short-term funds.

HOW CREDIT RISK IMPACTS FBNQUEST MERCHANT BANK LIMITED

FBNQuest Merchant Bank Limited 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.

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 its 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 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 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 RAAC and Credit Risk Policy take care of exposures to Banks and related regulated institutions, and large quoted corporates, large conglomerates and multinationals. The responsibility for approving RAAC and Credit Policy lies with the Board Credit Committee; and
- Reviewing compliance with exposure and concentration limits and promotion of best practices throughout the Bank in the management of credit risk. The Bank's Credit Risk Principles and Policies was also revised in June 2017.

The Bank recognises the fact that loan assets constitute a significant portion of its assets. Thus, we proactively protect and

RISK MANAGEMENT SUMMARY

strive to continually improve the health of our loan portfolio. We review all applications and weed out potential problem loans at the loan application and assessment stage, as well as constantly monitor the existing loan portfolio for early warning signs.

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 the credit risk in a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratio and default correlations between counterparties.

FBNQuest 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 Bank considers three components: (i) the Probability of Default (PD) by the client or counterparty on its contractual obligations; from which the Group derives the Exposure at Default (EAD); and (ii) 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, the Bank's internal rating tools, supplemented by 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.

FBNQuest 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 is guided by the individual obligor limit as set by the regulators, which is currently at 50% of the Bank's shareholders' funds. Notwithstanding, the Bank applies additional parameters internally in determining the suitable limits that an individual borrower should have. These include: obligor rating, relative position within its 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 guard against concentration risk. The industry/sector limits are derived from rigorous analysis of the risks inherent in the industry or economic sector, recommended by the RM&C and approved by the Board.

The Bank also limits the risk assets portfolio by the various maturity periods (maturity buckets). The maturity limits reflect the risk appetite and liquidity profile of the Bank. During the year, limits may be reviewed and realigned (outright removal, reduction or increase) to align with the Bank's prevailing macro and micro economic expectations.

FBNQuest 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 other limits established by the Board or regulatory authorities.

The Bank ensures that each credit reviewed and granted is based on the strength of the borrower's repayment capacity, measured by its cash flow. It also ensures that its risk assets are well secured to provide an alternative for exiting the exposure. Collateral policies are embedded within the Bank's Credit Risk Policy.

FBNQuest Merchant Bank maintains placement lines for its bank counterparties and other financial institutions regulated by CBN. The lines cover the settlement risks inherent in trading with these counterparties. The limits are determined following 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 that the Bank has determined that it will not likely be able to collect all or part of the principal and interest that are contractually due. The Bank classifies its risk assets and securities portfolio as follows:

Neither 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 impairment is not appropriate on the basis of

RISK MANAGEMENT SUMMARY

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.

MARKET AND LIQUIDITY RISK

The nature of the Bank's activities exposes it to market and liquidity risks. The Bank has clearly defined policies, procedures and documented practices in the mitigation of these risk exposures.

The following is a brief overview of the Bank's management process for the Trading and Banking book elements.

The Trading book consists of assets actively traded by the Bank. These assets are limited to fixed income securities. The processes adopted by the Bank for managing this class of risk include:

- Daily valuation of securities
- Position limits
- Factor sensitive limits, including duration
- Loss limits
- Stress testing- Sensitivity and Scenario analysis
- Value at Risk (VaR)
- Daily, weekly and monthly position evaluation

The Banking book highlights risks that are on the balance sheet. These risks are as a result of adverse movements in interest rates, thus changing the underlying value of assets, liabilities and earnings. This risk is monitored and measured using:

- Maturity gap analysis
- Duration gap analysis
- Net Income Margin (NIM)
- Earnings at Risk (EaR)
- Interest margin analysis
- Stress testing - Sensitivity and Scenario analysis

LIQUIDITY RISK MANAGEMENT

Liquidity remains critical to the normal functions of the Bank, therefore necessitating the implementation of sound liquidity management practices. The Bank's Asset and Liability Committee (ALCO) is charged with the responsibility for effective management of the Bank's liquidity.

Below are some of the practices and processes that the Bank employs in the management of liquidity risk:

- Maintenance of highly liquid securities
- Maintenance of a liquidity ratio in excess of the 20% regulatory floor
- Maturity and duration gap analysis
- Cash flow projections
- Scenario analysis
- Liquidity stress testing
- Diversification of funding sources (to mitigate against concentration risk)
- Defined criteria for assets purchase
- Contingency funding plan
- Modelled deposit behavioural analysis

The Bank's liquidity position is monitored daily, while stress tests are updated and conducted monthly. The stress tests applied by the Bank models a variety of scenarios ranging from mild to severe market conditions.

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 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 transactions, the Bank mitigates this risk by conducting settlements through a settlement clearing house to ensure that a trade is settled only when both parties have fulfilled their contractual obligations.

RISK MANAGEMENT SUMMARY

OPERATIONAL RISK

HOW OPERATIONAL RISK IMPACTS FBNQUEST MERCHANT BANK

FBNQuest Merchant Bank 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, as well as the management of all regulatory responsibilities and response to external threats.

RISK MITIGATION AND MANAGEMENT ACTIONS

To ensure a holistic framework is implemented, Risk Management and Control takes an enterprise-wide view in its monitoring of strategic and reputational risks, by implementing the following tools, practices 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, FBNQuest 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 FBNQuest 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 and anti-money laundering 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 FBNQuest Merchant Bank business to any disruptive eventuality, the Bank has in place a robust Business Continuity Management 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.

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, 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.

RISK MANAGEMENT SUMMARY

The BRMC reviews operational risk reports on a quarterly basis. The Risk Management Committee 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

Overview

Compliance in the Bank shall be defined as the adherence to the requirements of laws, regulations, rules, related self-regulatory organisations (SROs) and the Bank's standards and codes in matters concerning observing proper standards of market conduct, principles of good governance, managing conflicts of interest and specifically dealing with matters such as prevention of money laundering and terrorist financing, and investigations of alleged corrupt and fraudulent behaviours.

Compliance risk is 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.

Compliance objectives

The objectives of the compliance function include the following:

- a) To implement sound procedures of monitoring company-wide statutory returns through appropriate use of the institution's resources, while still being consistent with the institution's goals and objectives;
- b) To ensure that new and changed regulatory requirements are identified and reflected in our processes where appropriate;
- c) To ensure that the Bank and its employees are complying with regulatory requirements, internal and external policies and procedures and relevant international developments, practices and trends;

- d) Establishment of standards and implementing procedures to ensure that the compliance programs throughout the Bank are effective and efficient in identifying, preventing, detecting and correcting non-compliance with applicable rules and regulations; and
- e) To facilitate the establishment and enhancement of a compliance culture in the Bank.

Compliance risk management strategy

The following strategy shall guide the culture and conduct of compliance at all levels of the Bank:

- a) Compliance starts at the top and shall be a component of the Bank's culture, with the Board of Directors and Executive Management leading by example. It concerns every employee of the Bank and shall be viewed as an integral part of the Bank's business activities;
- b) The Bank shall hold itself up to high standards when carrying on business and always strive to observe the spirit as well as the letter of the law. The Bank's failure to consider the impact of its actions on its shareholders, clients, employees and the markets may result in significant adverse publicity and reputational damage, even if no law has been broken;
- c) Good compliance risk management builds trust and protects the Bank's brand;
- d) Compliance is an integral part of the Bank's business activities. The identification of compliance risk, its assessment and appropriate risk response shall be elements to consider in any due diligence process; and
- e) An appropriate compliance culture, including desired ethical behaviour, shall be promoted throughout the Bank. The Compliance function shall assist with the fostering of a compliance culture in the Bank. This includes the promotion of a culture that engenders an awareness and recognition of the value of compliance risk identification, assessment, management, monitoring and reporting as part of daily activities.

Scope of the compliance function

The scope of the activities of the Compliance function, which it carries out in conjunction with Senior Management, Risk Management Group and all other divisions, departments and units of the Bank, covers:

RISK MANAGEMENT SUMMARY

a) **Promote the culture of compliance across all levels of the Bank** through empowerment programmes, education, training and development.

b) **Reports to Senior Management and the Board:** Report on Anti-Money Laundering/Combating the Financing of Terrorism AML & CFT and other Compliance issues are submitted monthly and quarterly to Senior Management and the Board respectively. These reports provide the Board and Senior Management with information to enable them assess the Bank's compliance with its regulatory obligations. The reports also ensure that Directors and Senior Management are kept abreast of current trends and developments in the financial industry, particularly in the area of Compliance/AML&CFT risk management.

c) **Know Your Customer (KYC) procedures:** A duly completed account opening form and the collection of identification and other relevant information and documents are the foundation/bedrock for on-boarding a customer in the Bank. Customer Due Diligence (CDD) is conducted prior to entering any banking relationship with a customer. This includes at a minimum, identity and address verification, as well as ascertaining the source of income and wealth of the customer.

Enhanced Due Diligence (EDD) is conducted on high risk customers including politically exposed persons. The approval of senior management and Compliance is required prior to the commencement of banking relationship with such high-risk customers.

The Bank takes requisite and regulatory measures when embarking on relationships with Designated Non-Financial Businesses and Professionals (DNFBPs), due to their perceived risk and in compliance with regulatory requirements.

As part of the Bank's KYC and CDD procedures, identification documents are requested and obtained to confirm the beneficial owners of a business and the organisation's control and structure.

The Bank, as part of its regulatory requirements from the CBN, made it mandatory for customers to acquire a Bank Verification Number (BVN) to transact on their accounts and have access to loans and purchase of foreign exchange.

d) **Transaction Monitoring:** Transaction monitoring occurs on a manual and automated basis. The former is performed by all members of staff, who are regularly provided with red flags to look out for and the latter resides within the Compliance Unit.

All members of staff are aware of the fact that suspicious activities/transactions should immediately be referred to the Compliance Unit.

To properly monitor transactions passing through the Bank's systems, the TechReturns Solution Tool, has been fully deployed in the Bank, providing an advancement in the means by which transactions are monitored and investigated.

e) **Transaction Reporting:** Regulatory and statutory requirements provide that certain reports and returns are made to regulatory bodies. In Nigeria, the Nigerian Financial Intelligence Unit (NFIU) is the agency charged with the responsibility of receiving the following core transaction based reports:

- Currency Transaction Report (CTR)
- Foreign Currency Transaction Report (FTR)
- Suspicious Transaction Report (STR)

The Bank renders reports to the NFIU and the Central Bank of Nigeria in accordance with the provisions of Sections 2, 6 and 10 of the Money Laundering (Prohibition) Act of 2011 as amended ("the Act").

Section 2 of the Act provides that financial institutions must submit a report on all international transfer of funds and securities of a sum exceeding USD10,000 or its equivalent in other foreign currencies.

Section 6 of the Act provides that a financial institution must submit a report on all unusual and suspicious transactions.

Section 10 of the Act provides that any lodgement or transfer of funds in excess of ₦5million and above for individuals and ₦10million and above for corporate customers must be reported.

f) **Relationship with Regulators and Law Enforcement Agencies:** The Bank understands that part of its corporate and social role is to cooperate with law enforcement agencies in the fight against financial crime. To this end, the Bank maintains a cordial and supportive relationship with all regulatory and law enforcement agencies. The Bank promptly complies with all requests made, pursuant to the law, and provides information to regulators including the NFIU, the CBN and other relevant agencies.

g) **Sanctions Compliance Management:** The Bank as a policy, does not enter any relationship with sanctioned individuals/entities. All employees, as applicable to their functions, are

RISK MANAGEMENT SUMMARY

required to screen names of individuals and organisations who have or plan to enter a business relationship or carry out a transaction with/through the Bank against the Bank's internal watch list.

The internal watch list contains the names of individuals and entities, who have been blacklisted by various sanctions bodies. Employees are required, as part of the Bank's policy, to refrain from any relationship and or transaction which yield a true or positive match and follow the escalation procedure. Sanctions screening is done at account opening and on a real-time basis for all SWIFT transactions.

- h) Politically Exposed Persons (PEPs):** PEPs are individuals who are or have been entrusted with prominent public functions and people or entities associated with them. Enhanced due diligence measures are applied to PEPs, as with other high risk customers to mitigate the AML/CFT risk they pose. This is to ensure that the Bank is not unknowingly supporting fraudulent activities such as money laundering and/or the financing of terrorism.

In line with FATF's recommendation, the Bank employs the use of an automated monitoring tool in identifying and monitoring PEP transactions. This is achieved through the thorough review of information provided by customers and their transaction trends.

Establishment of new accounts for PEPs, as well as continuity of such accounts (for those already existing in the system) is subject to the approval of an Executive Director and the Compliance Unit.

- i) AML/CFT Principles for Correspondent Banking:** The Bank only enters and maintains correspondent banking relationships with financial institutions that have implemented sufficient AML/CFT policies and procedures. The Bank does not deal with shell banks nor maintain any payable through accounts. The Bank ensures that due diligence is performed annually on our correspondent relationships to avoid AML/CFT risks.
- j) AML/CFT Training:** The Bank, as a policy, places a high value on the training of its employees. Trainings are carried out to ensure employees are conversant with the AML/CFT laws, KYC principles and other AML/CFT related information. Annual Compliance training is mandatory for all members of staff, including Senior Management and Directors. Trainings are done via e-learning or face-to-face media. Ad hoc training also takes place by way of the dissemination of topical national and international findings to employees.

- k) AML/CFT Audits:** In order to adhere to regulations and to ensure an ever-evolving fit-for-purpose compliance function, internal audit of the AML/CFT function is conducted on a bi-annual basis. The purpose of the audit is to test for, and ensure the effectiveness of the AML/CFT measures put in place by the Bank.

The report and findings of the audit are circulated to various levels of Senior Management. A follow-up to the audits takes place to ensure that the relevant issues are closed out and highlighted recommendations have been implemented.

- l) Record Retention:** As provided for within the "Act", customer identification documents are retained throughout the life of the account and for a minimum of five years after the cessation of the banking relationship, except in cases of litigation and/or regulatory investigations. In the case of the latter, the records will be kept for as long as they are required. The Bank has opted to maintain customers' records for at least ten years.
- m) Subsidiaries:** In compliance with international best practice, the Bank ensures that its subsidiaries AML/CFT provisions are consistent with the Bank's framework which is based on global best practices. These measures are applied to the extent that the respective subsidiary's local laws and regulations are adhered to. However, where there are discrepancies, the stricter will always apply.

Greater collaboration has been fostered and control measures taken based on the current international best practices, this is to ensure that all our subsidiaries maintain the highest standard for AML/CFT controls.

FINANCIAL STATEMENTS

The audited financial statements for the year ended 31 December 2017 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	
Oluyele Delano, SAN	Independent Non-Executive Director	
Andrew Reicher	Non-Executive Director	Resigned w.e.f 26 April 2017
Dr Omobola Johnson	Non-Executive Director	
UK Eke, MFR	Non-Executive Director	
Akin Osinbajo, SAN	Non-Executive Director	Appointed w.e.f 31 January 2017

Company Secretary	Alawusa Adewuyi
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Registered Office	10 Keffi Street S.W. Ikoyi Lagos
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Bankers	Central Bank of Nigeria First Bank of Nigeria Plc Guaranty Trust Bank Plc Sterling Bank Plc FBNBank UK Limited Bank of Beruit UK
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Solicitors	Sofunde, Osakwe, Ogundipe & Belgore (Legal Practitioners) G. Elias & Co Rudy Ezeani & Co Bola Olotu & Co
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Auditor	PricewaterhouseCoopers Landmark Towers, 5B Water Corporation Road Victoria Island Lagos
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DIRECTORS' REPORT

The Directors present their report on the affairs of FBNQuest Merchant Bank Limited ("the Bank") together with the audited consolidated financial statements and the auditor's report for the year ended 31 December 2017.

a. Legal form

The Bank 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 out the business of a discount house and commenced operations on 16 November 1995. In May 2015, the Central Bank of Nigeria (CBN) license for merchant banking was obtained and merchant banking operations commenced on 2 November 2015.

In August 2017, the Bank acquired 100% interest in 2 entities (FBNQuest Securities Limited and FBNQuest Asset Management Limited) to form the FBNQuest Merchant Bank Group (See note 46).

b. Principal activity and business review

The principal activities of the Bank are 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 Group's operating results for the year are as follows:

	Group 31 December 2017 ₦'000	Bank 31 December 2017 ₦'000	Bank 31 December 2016 ₦'000
Interest Income	19,040,180	18,994,331	12,839,870
Profit before tax	6,166,918	4,948,065	4,915,910
Income tax (expense)	(1,283,304)	(863,601)	(16,083)
Profit for the year	4,883,615	4,084,464	4,899,827
Other comprehensive income/(loss)	2,002,270	1,996,103	(2,736,305)
Total comprehensive income for the year	6,885,884	6,080,567	2,163,522

d. Directors' shareholding

The Directors do not have any direct and indirect interests in the issued share capital of the Bank (2016: 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 interests in contracts or proposed contracts with the Company during the year.

f. Property, equipment and intangible assets

Information relating to changes in property and equipment and intangible assets is given in notes 28 and 29 respectively to the financial statements. In the Directors' opinion, the realisable value of the Company's properties is not less than the value shown in the financial statements.

DIRECTORS' REPORT

g. Shareholding analysis

The shareholding pattern of the Bank as at 31 December 2017 (based on the issued and fully paid shares) is as stated below:

Share Range	Number of holders	Percentage of Holders %	Number of Holdings	Percentage of Holdings %
0 - 100,000,000	1	-	1	-
100,000,000 - 500,000,000	-	-	-	-
501,000,000 - 2,000,000,000	1	100	4,301,576,999	100
	2	100	4,301,577,000	100

h. Substantial interest in shares

According to the register of members as at 31 December 2017, there are two shareholders for the issued share capital of the Bank:

Shareholder	Number of shares held	Percentage of shareholding %
Tijjani Borodo	1	-
FBN Holdings Plc	4,301,576,999	100
	4,301,577,000	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 6 customer complaints with respect to login details on e-banking portals, 1 wrong confirmation of investment balance and 1 wrong debit on customer's account. These complaints have been resolved as at 31 December 2017.

j. Donations and charitable gifts

The Group made contributions to charitable and non-charitable organisations amounting to ₦65.9million (2016: ₦6.67million) during the period.

Donations to charitable organisations:	Group ₦'000	Bank ₦'000	Bank ₦'000
	31 December 2017	31 December 2017	31 December 2016
BMW Club of Nigeria	100	100	100
Lulu Briggs Foundation	100	100	-
Nigeria Society for the Blind	100	100	720
World Literacy Day	1,858	1,858	-
	2,158	2,158	820
 Nigerian Police Force	 55,000	 55,000	 -
Bishop Abiodun Adetiloye Memorial Anglican Church	-	-	250
Chartered Institute of Bankers of Nigeria	8,192	8,192	1,000
Committee of Chief Compliance Officers Of Banks	300	300	-
Chartered Institute of Stockbrokers	250	-	-
Government College Umuahia	-	-	250
Nigeria Economic Summit Group	-	-	3,000
Women in Management and Business (WIMBIZ)	-	-	1,000
Others	-	-	350
	63,742	63,492	5,850
Total	65,900	65,650	6,670

k. Events after the reporting period

There were no post balance sheet events which had effect on the state of affairs of the Group as at 31 December 2017 and on the profit for the period ended 31 December 2017.

DIRECTORS' REPORT

l. Human resources

Employment of disabled persons:

The Group has no disabled persons in its employment. However, applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Health, safety and welfare at work:

The Group places a high premium on the health, safety and welfare of its employees in their place of work. Medical facilities are provided for employees and their immediate families at the Group's expense, up to stated limits.

m. 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.

	Group 31 December 2017 Number	%	Bank 31 December 2017 Number	%	Bank 31 December 2016 Number	%
Board						
Male	7	87	7	87	7	87
Female	1	13	1	13	1	13
Management						
Male	6	60	5	60	9	64
Female	4	40	4	40	5	36
Non-Management						
Male	106	55	92	55	67	58
Female	87	45	72	45	49	42

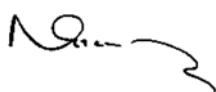
n. Employee consultation and training

The Group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on various factors affecting the performance of the Group. In line with this, formal and informal channels of communication are employed in keeping the staff abreast of various factors affecting the performance of the Group. The Group organises in-house and external training for its employees.

o. Auditors

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

BY ORDER OF THE BOARD



Alawusa Adewuyi
FRC/2013/ICSA/00000001663
Company Secretary
10 Keffi Street Ikoyi
Lagos.
16 February 2018

CORPORATE GOVERNANCE REPORT

During the year, FBNQuest Merchant Bank Limited ("the Bank") and its subsidiaries ("the Group") ran their 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, FBNQuest 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 wholly-owned subsidiary of 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 FirstBank Group is celebrated for.

ii. The Board

The Bank had an eight (8) member Board as at 31 December 2017. 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 1 October 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 FBNQuest 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 ongoing basis are not compromised. The Board also makes certain that the competence, independence and integrity of FBNQuest Merchant Bank Limited's internal and external audit processes are not jeopardised.

Mindful of their 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 FBNQuest Merchant Bank Limited, the Board delegated responsibility for the day-to-day operation and administration of FBNQuest 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 Officer 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 FBNQuest 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 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 FBNQuest 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 FBNQuest Merchant Bank Limited's risk assets profile.
- iv. To review the methodologies for assessing FBNQuest 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 FBNQuest 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; and
- 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 the status of actions taken by Management; and
- 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; and
- 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 the system and if considered necessary, recommend additional procedures to enhance the system of internal controls; and

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:

- Assisting the Board to discharge its responsibilities to exercise due care, diligence and skill in relation to FBNQuest 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.
 - Establishing a formal written policy on the overall risk management system of the Bank;
 - 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 Bank's risk management policy on a periodic basis to accommodate major changes in internal and external factors; and
 - 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:
- 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.
 - 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 FBNQuest 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.

Board Governance Committee

The purpose of the Board Governance Committee ('BGC') 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; and
- 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 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.

FBNQuest Merchant Bank Limited'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

FBNQuest Merchant Bank Limited and its subsidiaries ("the Group") 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 Group. The Group 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 Group as a result of its existence and operations include reputational and strategy risks. This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

Risk management philosophy

The Group'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 Group'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 Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group's activities are material enough to impact on the continued adoption of existing policies. The Group, 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 Group's risk management framework via its committees:

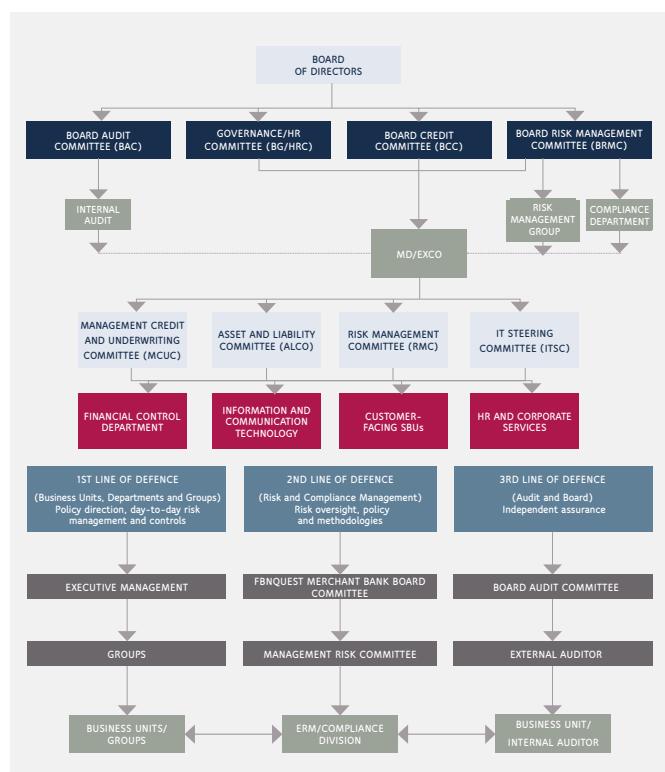
- Board Risk Management Committee,
- Board Credit Committee,
- Board Audit Committee, and
- Board Governance/Human Resources Committee

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 Group. 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 Group'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 Group. The oversight functions cut across all risk areas. The committee monitors FBNQuest 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 Group, aligning risk policies with business strategies and determining the level of risks which will be in the best interest of the Group. The Committee's oversight functions cut across all risk areas involved in the Group's operations. The Risk Management Committee (RMC) assists the BRMC in the implementation of Group'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 Group 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 Group 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 Group operates a functional Risk Management and Control (RM&C) Group that manages all aspects of risk, including threats and opportunities. FBNQuest 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 requires 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 Group at the end of the year and of its profit or loss. The responsibilities include ensuring that the Group:

- i. Keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Group 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.

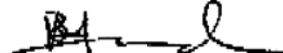
The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable judgements and estimates, in conformity with:

- 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.

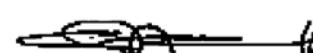
The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and of its profit for the period. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation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

Nothing has come to the attention of the Directors to indicate that the Group will not remain a going concern for at least 12 months from the date of this statement.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:



Bello Maccido
Chairman
FRC/2013/CISN/00000002366
16 February 2018



Kayode Akinkugbe
Managing Director
FRC/2013/IODN/00000003063
16 February 2018

REPORT OF THE BOARD AUDIT COMMITTEE

TO THE MEMBERS OF FBNQUEST 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 FBNQuest Merchant Bank Limited hereby report on the financial statements for the year ended 31 December 2017 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 Group 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 2017 were satisfactory and reinforce the Group'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 Group's system of accounting and internal control.



Oluyele Delano, SAN
Chairman, Board Audit Committee
FRC/2013/NBA/00000003035
14 February 2018

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 FBNQUEST MERCHANT BANK LIMITED

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of FBNQuest Merchant Bank Limited ("the Bank") and its subsidiaries (together "the group") as at 31 December 2017, and of their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with 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

FBNQuest Merchant Bank Limited's consolidated and separate financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2017;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies.

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 consolidated and separate 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.



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

Key audit matters

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

Key audit matter

Loan impairment provision - ₦432million

We focused on the 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 2017, gross loans and advances to customers amounted to ₦39.6billion against which loan impairment provision of ₦432.2million was recorded. The net balance of ₦39.2billion accounts for 28% of bank's total assets.

The basis of provision is set out in the accounting policies in note 2.8 in the financial statements while critical judgements relating to the calculation of the impairment provisions are summarised in note 6 in the consolidated and separate financial statements.

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.

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

This matter is considered a key audit matter in both the consolidated and separate financial statements.

How our audit addressed the key audit matter

We evaluated management's assessment of impairment triggers and reviewed their determination of impairment on individual facilities. We performed a detailed review of the customers' credit files, account statements and the nature of the facility to determine whether or not the customers met with their contractual obligations as well as other factors that could indicate deterioration in the financial condition and the borrowers' capacity to repay. We challenged management where our assessment differed from theirs.

We obtained management's estimate of impairment based on their estimated cash flows. For facilities determined to have impairment triggers, we assessed the basis on which management has estimated the recoverable amount. We recalculated the recoverable amount and related impairment charge and compared these to the amounts determined by management.

For the collective impairment assessment, we evaluated the reasonableness of management's assumptions with respect to the inputs into the collective impairment model. Specifically, we assessed the reasonableness of the Probability of Default (PD) by determining an average of how loan customers went into default over prior periods. We evaluated the reasonableness of the Loss Given Default (LGD) by comparing it with the bank's historical data and supporting documents.



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

Key audit matter

Recoverability of deferred tax assets - ₦9.7billion

The analysis of the recoverability of the deferred tax assets was significant to the 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.

The deferred tax asset balance is mainly attributable to unutilised tax losses. The risk exists that future taxable profits will not be sufficient to fully cover the deferred tax asset.

The disclosures in relation to deferred taxes are included in note 30 to the consolidated and separate financial statement. Deferred tax asset has been identified as a significant accounting estimate and judgement made by the Directors as disclosed in note 6 to the consolidated and separate financial statements.

The recoverability of recognised deferred tax assets is mainly dependent on the Group'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 such as new revenue streams and expected growth rates of revenue streams that would generate future taxable income for the Group.

This matter is considered a key audit matter in both the consolidated and separate financial statements.

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 deferred tax asset. We then challenged the cash flow forecast and deferred tax utilisation computations:

Specifically:

- We challenged management's assumption on the growth rate of taxable and non-taxable transaction income vis-a-vis the historical trends and current business plan.
- We tested the reasonableness of management's estimate of future taxable profits based on the bank's historical growth rate experience.
- We also agreed with some of the new revenue streams used for the estimation for the recoverability of the deferred tax assets to the bank's underlying records.



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

Other information

The Directors are responsible for the other information. The other information comprises: Corporate Governance Report, Director's Report, Statement of Director's Responsibilities, Audit Committee Report, 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 report and Chairman's Statement, Performance Highlights, Business Review and Risk Management Report which are expected to be made available to us after that date.

Our opinion on the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information 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 Chairman's Statement, Performance Highlights, Business Review and Risk Management Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those in charge of governance.

Responsibilities of the Directors and those charged with governance for the consolidated and separate financial statements

The Directors are responsible for the preparation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

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

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

We communicate with 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 consolidated and separate 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.



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

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;
- 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 statement of financial position and statement of other 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 40 to the consolidated and separate financial statements; and
- v) except for the contraventions disclosed in note 43 to the consolidated and separate 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

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



20 April 2018

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

<i>In thousands of Nigerian Naira</i>	Note	Group	Bank	Bank
		31 December	31 December	31 December
		2017	2017	2016
Interest income	7	19,040,180	18,994,331	12,839,870
Interest expense	8	(12,081,170)	(12,119,198)	(8,199,829)
Net interest income		6,959,010	6,875,133	4,640,041
Impairment charge	9	(545,234)	(471,429)	(35,367)
Net interest income after impairment charge		6,413,776	6,403,704	4,604,674
Fee and commission income	10a	5,601,799	4,146,430	2,995,209
Fee and commission expense	10b	(186,527)	(181,977)	(89,252)
Net fees and commission income		5,415,272	3,964,453	2,905,957
Net gains on foreign exchange	11	257,469	164,610	885,182
Net gains from financial assets held-for-trading	11a	865,975	835,468	(200,615)
Net losses on derivative financial instruments	11b	-	-	(121,086)
Other operating income	12	308,906	6,176	9,097
Operating income		13,261,399	11,374,411	8,083,209
Personnel expenses	14	(3,148,623)	(2,763,435)	(1,215,888)
Depreciation of property and equipment	28	(268,530)	(258,581)	(130,516)
Amortisation of intangible assets	29	(527,047)	(469,441)	(10,379)
Other operating expenses	13	(3,150,280)	(2,934,890)	(1,810,516)
Operating expenses		(7,094,479)	(6,426,347)	(3,167,299)
Profit before tax		6,166,918	4,948,065	4,915,910
Income tax expense	15	(1,283,304)	(863,601)	(16,083)
Profit for the period		4,883,615	4,084,464	4,899,827
<hr/>				
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
Net fair value gain/(loss) on available-for-sale financial assets				
-Unrealised net gain/(loss) arising during the period, net of tax	37	2,002,270	1,996,103	(2,736,305)
Other comprehensive income/(loss) for the period, net of tax		2,002,270	1,996,103	(2,736,305)
Total comprehensive income for the year		6,885,884	6,080,567	2,163,522
<hr/>				
Earnings per share from continuing operations attributable to the equity holders during the period				
Basic and diluted earnings per share (expressed in kobo per share)	16		114	

The accompanying notes are an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION

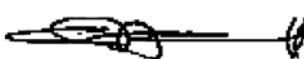
AS AT 31 DECEMBER 2017

<i>In thousands of Nigerian Naira</i>	Note	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
ASSETS				
Cash and balances with Central Bank of Nigeria	17	3,072,985	3,072,985	65,701
Loans and advances to banks	19	14,953,328	14,020,829	5,650,754
Loans and advances to customers	20	39,164,047	39,153,234	41,684,102
Financial assets held-for-trading	21	4,352,566	3,319,701	17,677,609
Investment securities:				
- Available-for-sale	22	49,026,893	48,888,808	20,836,198
- Held-to-maturity	23	3,902,759	3,902,759	-
Pledged assets	24	6,823,144	6,823,144	36,286,655
Other assets	25	5,140,954	3,993,045	4,644,967
Investment in subsidiaries	26	-	1,737,106	-
Deposit with Nigerian Stock Exchange	27	1,150	-	-
Property and equipment	28	1,875,507	1,790,618	1,056,192
Intangible assets	29	3,120,903	2,840,915	972,585
Deferred tax asset	30	9,234,405	9,113,547	8,397,897
Derivative financial assets	44	32,562	32,562	-
Total assets		140,701,203	138,689,253	137,272,660
LIABILITIES				
Due to banks	31	10,323,992	11,639,548	38,863,965
Due to customers	32	87,952,326	87,490,984	64,727,659
Current income tax liability	15b	2,249,412	1,579,252	363,559
Other liabilities	33	12,889,550	11,607,283	4,358,420
Deferred tax liabilities	30	81,822	-	-
Derivative financial liabilities	44	32,562	32,562	-
Total liabilities		113,529,664	112,349,629	108,313,603
EQUITY				
Share capital	34	4,301,577	4,301,577	4,301,577
Share premium	35	3,904,731	3,904,731	3,904,731
Retained earnings	35	10,369,344	9,570,194	14,013,717
Statutory reserve	35	7,174,165	7,174,165	6,561,495
Credit risk reserve	35	1,809,688	1,809,688	2,594,371
Available-for-sale (AFS) reserve	37	(414,564)	(420,731)	(2,416,834)
Other reserve	46	26,598	-	-
Total equity		27,171,539	26,339,624	28,959,057
Total equity and liabilities		140,701,203	138,689,253	137,272,660

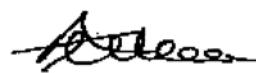
Signed on behalf of the Board of Directors on 16 February 2018 by:



Bello Maccido
Chairman
FRC/2013/CISN/00000002366



Kayode Akinkugbe
Managing Director/CEO
FRC/2013/IODN/00000003063



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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

Group In thousands of Nigerian Naira	Available- for-sale reserve								Total equity
	Share capital	Share premium	Retained earnings	Statutory reserves	Credit risk reserve	Other reserve			
Balance at 1 January 2017	4,301,577	3,904,731	(2,416,834)	14,013,717	6,561,495	2,594,371	-	-	28,959,057
Profit for the period	-	-		4,883,615	-	-	-	-	4,883,615
Other comprehensive income									
Fair value movement or gain on available-for-sale	-	-	2,002,270	-	-	-	-	-	2,002,270
Net difference on business combination							26,598	26,598	
Total comprehensive income	-	-	2,002,270	4,883,615	-	-	26,598	26,598	6,912,483
Transaction with owners									
Dividend payable				(8,700,000)					(8,700,000)
Transfers during the period	-	-	-	172,013	612,670	(784,683)			-
At 31 December 2017	4,301,577	3,904,731	(414,564)	10,369,344	7,174,165	1,809,688	26,598	27,171,540	

Bank In thousands of Nigerian Naira	Available- for-sale reserve								Total equity
	Share capital	Share premium	Retained earnings	Statutory reserves	Credit risk reserve				
Balance at 1 January 2017	4,301,577	3,904,731	(2,416,834)	14,013,717	6,561,495	2,594,371	-	-	28,959,057
Profit for the period	-	-	-	4,084,464	-	-	-	-	4,084,464
Other comprehensive income									
Fair value movement or gain on available-for-sale	-	-	1,996,103	-					1,996,103
Total comprehensive income	-	-	1,996,103	4,084,464	-	-	-	-	6,080,567
Transaction with owners									
Dividend payable				(8,700,000)					(8,700,000)
Transfers during the period	-	-	-	172,013	612,670	(784,683)			-
At 31 December 2017	4,301,577	3,904,731	(420,731)	9,570,194	7,174,165	1,809,688	26,339,624		
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 period	-	-	-	4,899,827	-	-	-	-	4,899,827
Other comprehensive income									
Fair value movement or gain on available-for-sale	-	-	(2,736,305)	-	-	-	-	-	(2,736,305)
Total comprehensive income	-	-	(2,736,305)	4,899,827	-	-	-	-	2,163,522
Transaction with owners									
Dividend payable				(1,048,000)					(1,048,000)
Transfers during the period	-	-	-	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

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of Nigerian Naira	Note	Group	Bank	Bank
		31 December 2017	31 December 2017	31 December 2016
Operating activities				
Cash generated from operations	38	25,730,749	25,569,933	3,192,044
Interest received		21,963,337	22,533,143	13,775,702
Interest paid		(12,072,357)	(10,936,977)	(8,258,871)
Incentive bonus paid		-	-	(511,000)
Income tax paid	15b	(363,559)	(363,559)	(184,192)
Net cash generated from operating activities		35,258,169	36,802,540	8,013,683
Investing activities				
Payment for acquisition of subsidiary, net of cash acquired	46	434,649	-	-
Proceeds from sale of investment securities		19,904,322	19,146,985	43,731,299
Purchase of investment securities		(40,880,874)	(40,394,415)	(52,549,837)
Acquisition of shares in subsidiaries		-	(1,737,106)	-
Purchase of property and equipment	28	(1,102,382)	(1,037,110)	(225,334)
Proceeds from sale of property and equipment		8,849	8,849	6,293
Purchase of intangible asset	29	(2,340,959)	(2,337,771)	(272,920)
Net cash generated from investing activities		(23,976,395)	(26,350,568)	(9,310,499)
Cash flows from financing activities				
Dividend paid		(1,048,000)	(1,048,000)	-
Net cash flow from financing activities		(1,048,000)	(1,048,000)	-
Increase/(decrease) in cash and cash equivalents		10,233,774	9,403,972	(1,296,816)
Cash and cash equivalents at beginning of year		10,077,068	10,077,068	11,271,563
Effect of exchange rate fluctuations on cash held		187,395	84,698	102,321
Cash and cash equivalents at 31 December 2017	18	20,498,237	19,565,738	10,077,068

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1 GENERAL INFORMATION

Reporting entity

These financial statements are the consolidated financial statements of FBNQuest Merchant Bank Limited "the Bank", and its subsidiaries (hereafter refer to as "the Group"). FBNQuest Merchant Bank Limited (formerly called Kakawa Discount House Limited) 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 out the business of a discount house and commenced operations on 16 November 1995. In May 2015, the Central Bank of Nigeria (CBN) license for merchant Banking was obtained and merchant banking operations commenced on 2 November 2015.

The principal activities of the Group are 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.

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

10 Keffi street
Ikoyi
Lagos

The report and consolidated financial statements were authorised for issue by the Directors on 16 February 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated and separate financial statements have been prepared in accordance with the going concern principle under the historical cost convention as modified by the valuation of available-for-sale financial assets and financial assets at fair value through profit and loss. The financial statements are presented in Nigerian currency (Naira) and rounded to the nearest thousand.

The financial statements comprise the consolidated statement of comprehensive income, consolidated statement of financial position, the consolidated statement of changes in equity, consolidated statement of cash flows and the related notes for the Bank and the Group.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Directors to exercise judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. The assumptions and accounting estimates used for the year ended 31 December 2017 are consistent with the assumptions and estimates in the financial statements of the prior year.

The Consolidated statement of financial position is arranged in order of liquidity.

The Directors believe that the underlying assumptions are appropriate and that the Group's consolidated financial statements therefore present the financial position and results fairly.

Statement of compliance with International Financial Reporting Standards

The Consolidated and separate financial statements of the parent and the Group have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards as issued by IASB, the requirements of the Nigerian Companies and Allied Matters Act (CAMA) and with the Banks and Other Financial Institution Act (BOFIA). Additional information required by national regulations is included where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2.2 Accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except as described in the note below on the adoption of new and amended standards.

2.3 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

Amendments to the following standard(s) became effective in the annual period starting from 1 January 2017. The new reporting requirements as a result of the amendments and/or clarifications have been evaluated and their impact or otherwise are noted below:

(b) Standards and interpretation effective during the year

Amendments to the following standard(s) became effective in the reporting period from 1 January 2017. They do not have any material impact on the accounting policies, financial position or performance of the Group.

IFRS AND EFFECTIVE DATE	SUBJECT OF AMENDMENT
Amendments to IFRS 12 Disclosure of interest in other entities (effective 1 January 2017)	This amendment clarifies that the disclosures requirement apply to interest held for sale and discontinued operations in accordance with IFRS 5, but does not apply to certain employee benefit plans, separate financial statements to which IAS 27 applies, certain interest in joint ventures held by entities that do not share in joint control and the majority of interest in another entity accounted for in accordance with IFRS 9.
Amendments to IAS 7 -Statement of Cash flow (effective 1 January 2017)	The amendments require disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments do not define financing activities, instead, they clarify that financing activities are based on the existing definition used in IAS 7.
Amendments to IAS 12- Recognition of deferred tax assets on unrealised losses (effective 1 January 2017)	This amends IAS 12 Income Taxes to clarify the following aspects: <ul style="list-style-type: none"> - Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. - The carrying amount of an asset does not limit the estimation of probable future taxable profits. - Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. - An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.
Amendments to IFRS 7- Disclosure of financial instruments (effective 1 January 2017)	The standard amends IFRS 7 to remove the phrase "and interim periods within those annual periods" from paragraph 44R, clarifying that offsetting disclosures are not required in the condensed interim financial report. However, if the IFRS 7 disclosures provide a significant update to the information reported in the most recent annual report, an entity is required to include the disclosures in the condensed interim financial report.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

(c) Standard and interpretation issued/amended but not yet effective:

A number of standards and interpretations, and amendments thereto, have been issued by the IASB which are not yet effective for these consolidated 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)

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 amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVOCI) 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.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

IFRS 9 Financial Instruments impact assessment

The Group will apply IFRS 9, initially on 1 January 2018 and will not restate comparative information. During 2017, the Group performed an impact assessment of the three aspects of IFRS 9 on the financial instruments. This assessment was based on available information at the reporting date and may be subject to changes arising from further reasonable and supportable information becoming available to the Group in the year of transition - 2018.

Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects an increase in the loss allowance resulting in a negative impact on equity. In addition, the Group will implement changes in classification of certain financial instruments.

a) Classification and measurement

IFRS 9 provides a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics and eliminates some of the classifications applicable under IAS39 as summarised below:

IFRS 9		IAS 39
Classifications and measurement models	Classifications	Measurement models
Amortised cost	Loans and receivables Held-to-maturity	Amortised cost
Fair value through profit or loss (FVTPL)	FVTPL	FVTPL
Fair value through other comprehensive income (FVOCI)	Available-for-sale (AFS)	FVOCI

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the Group expects not only to hold the assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis.

The equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during prior periods for these investments. The Group will apply the option to present fair value changes in OCI, which will modify the treatment of fair value gains or losses as it can no longer be recycled to profit or loss on disposal but can be moved within equity.

Loans and trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

b) Impairment

The impairment model under IFRS 9 reflected 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.

IFRS 9 requires the Group to record expected credit losses on all of its debt securities measured at FVOCI, loans and trade receivables, either on a 12-month or lifetime basis depending on the assessment of a significant increase in credit risk at reporting date subsequent to initial recognition.

The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group has also applied the simplified approach for its debt instruments such as FGN bonds and Treasury bills that have low credit risk at the reporting date.

The ECL model assesses changes in credit quality since initial recognition using a three-stage approach.

The stages are:

- Stage 1 – these are financial assets that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date. For these assets, entities are required to recognise a 12 month expected loss allowance on initial recognition. Interest revenue is calculated on the gross carrying amount of the asset.
 - Stage 2 – these are financial assets that have experienced significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset.
 - Stage 3 – these are financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).
- This assessment is preliminary because not all transition work has been completed as at the time of this report. The actual impact of adopting IFRS 9 on 1 January 2018 could change due to:

- the ECL models/systems are still undergoing refining and validations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

(c) Hedge accounting

The Group does not anticipate that the application of the IFRS 9 hedge accounting requirements will have a material impact on the Group's 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.

The Group is still assessing the impact of the standard.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations. The Group is still assessing the impact of the standard.

iv) IFRIC 23 Uncertainty over income tax treatments (Effective for periods beginning on or after 1 January 2019).

The Interpretations Committee issued IFRIC 23 on uncertainty over income tax treatments, in June 2017.

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 where there is uncertainty over income tax treatments. Most entities would have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material, hence the need for Management to assess to existing models against the specific guidance in the interpretation and consider the impact IFRIC 23 would have on income tax accounting.

This standard does not have significant impact on the Group.

(d) Other standards that are not effective during the period and are not relevant to the Group include:

IAS 7 - Disclosure initiative amendment (Effective 1 January 2017)

Amendments to IFRS 10 and IAS 28 sale or contribution of assets between an investor and its associate and joint venture (Deferred indefinitely).

2.4 Consolidation

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

Subsidiaries

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

The Group applies the predecessor method to account for business combinations under common control. The consideration transferred for the acquisition of a subsidiary is the carrying/book value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The combination is done prospectively from the date control is transferred (no restatement).

The consideration transferred includes the carrying value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their carrying values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Any contingent consideration to be transferred by the Group is recognised at carrying value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.

Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date carrying value of any previous equity interest in the acquiree over the carrying value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the carrying value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of financial position as part of the equity.

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

Business combinations with entities under common control

A business combination involving entities or businesses under common control is excluded from the scope of IFRS 3: Business Combinations. The exemption is applicable where the combining entities or businesses are controlled by the same party both before and after the combination. Where such transactions occur, the Group, in accordance with IAS 8, uses its judgement in developing and applying an accounting policy that is relevant and reliable. In making this judgement, Directors consider the requirements of IFRS dealing with similar and related issues and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework.

There is no ideal approach and the Group believes that Predecessor approach leads to an accounting outcome that is relevant to the users of the Group's financial information. Accordingly, the Group has elected to use the Predecessor method to account for business combinations with entities under common control.

Accordingly, the Group's policy is that the assets and liabilities of the business transferred are measured at their existing book value in the consolidated financial statements of the parent, as measured under IFRS. The Company incorporates the results of the acquired businesses only from the date on which the business combination occurs (no restatement).

Change in ownership interests in subsidiaries without change of control

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

Disposal of subsidiaries

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

This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.5 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 Group's functional and presentation currency.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

(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.

2.6 Financial instruments

In accordance with IAS 39 - Financial Instruments Recognition and Measurement, all financial assets and liabilities - which include derivatives financial instruments - are recognised in the financial statements and measured in accordance with their assigned category.

i) Recognition and measurement

Regular-way purchases and sales of financial assets are recognised on settlement date which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised 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. Financial assets are derecognised when the right to receive cash flows from the investments have expired or the Group has transferred substantially all the risk and rewards of ownership. Available-for-sale financial assets and assets at fair value through profit and loss are carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest rate method.

When securities classified as available-for-sale are sold or impaired the accumulated fair value adjustments recognised in equity are included in the income statement as 'Net gains/(losses) on investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in income statement as part of 'Interest income'. Dividends on available-for-sale securities are recognised in the income statement as part of 'Other operating income'.

ii) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques. All derivatives are carried as assets when the fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value with changes in fair value recognised in the income statement unless the Bank chooses to recognise the hybrid contracts at fair value through profit or loss.

iii) Determination of fair value

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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.

iv) 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 Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

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

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.

vi) Reclassification of financial assets

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

The Group 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 Group 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 Group 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 EIR from the date of the change in estimate.

2.7 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.

i) Financial assets

Classification

The Group classifies its financial assets in 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. Management determines the classification of its financial assets at initial recognition. The Group uses settlement dates accounting for regular way contracts when recording financial assets transactions. The classification made can be seen in the table as follows:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Category (as defined by IAS 39)	Classes as determined by the Group			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 Central Bank of Nigeria		Cash
		Loans and advances to Banks		Operating balances with CBN
		Loans and advances to customers		Current account balances
		Other Assets		placements
				Intermediation investments
				Staff loans
				Fees receivable
				InterGroup receivable
				Other receivables
	Available-for-sale	Investment Securities	Listed Debt	Treasury Bills
				Federal Government of Nigeria Bonds
			Unlisted Equity	Shares
		Pledged Assets	Listed Debt	Treasury Bills
				Federal Government of Nigeria Bonds
	Held-to-maturity	Investment Securities	Listed Debt	Treasury Bills
				Federal Government of Nigeria Bonds
			Unlisted Equity	Shares
		Pledged Assets	Listed Debt	Treasury Bills
				Federal Government of Nigeria Bonds
Financial liabilities	Financial liabilities at amortised cost	Due to Banks		Tenored InterGroup deposits
				Open Buy Back liabilities (Treasury Bills)
		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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

a) 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 Group 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'.

Derivatives are also categorised as held-for-trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise, they are classified as non-current.

b) 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:

- (a) those that the Group intends to sell immediately or in the short-term, which are classified as held-for-trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;
- (b) those that the Group upon initial recognition designates as available-for-sale; or
- (c) 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).

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'.

The Group's loans and receivables comprise of loan and advances to Bank and customers and other assets. Cash and balances with Central Bank of Nigeria are also included in loans and receivables.

c) 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 of 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

d) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's Management has the positive intention and ability to hold to maturity, other than:

- (a) those that the Group upon initial recognition designates as at fair value through profit or loss;
- (b) those that the Group designates as available-for-sale; and
- (c) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the income statement and reported as part of 'Interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the income statement as 'Net gains/(losses) on investment securities'.

e) Cash and cash equivalents

Cash and cash equivalents are balances that are held for the primary purpose of meeting short-term cash commitments.

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

2.8 Impairment of financial assets

The Group 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.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

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;
- 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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

a) 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 Group'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 Group 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'.

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

b) Assets classified as available-for-sale

The Group 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 Group 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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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.

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.

2.9 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 Group 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 Group. 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 Group 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 Group. The instruments are classified in the financial statements according to their nature and purpose.

3. 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 Group 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.

NOTES TO THE FINANCIAL STATEMENTS

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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 on the statement of comprehensive income as part of 'other operating 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 Group. Interest earned whilst holding trading securities are reported as part of interest income.

4. 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 Group 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.

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.

4.1 Property and equipment

(i) Recognition and measurement

The Group 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 recognized 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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

(iii) Depreciation

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

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

The estimated useful lives for the current are as follows:

- Freehold buildings	- 50 years
- Land	- Not depreciated
- 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 Group.

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

(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.

4.2 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 Group 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 Group 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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

4.3 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.

4.4 Earnings per share

The Group 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 Group 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.

4.5 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 Group'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 Company and Allied Matters Act.

(c) Statutory appropriations

Central Bank of Nigeria (CBN) regulation requires the Bank to make an annual appropriation to a statutory reserve. An appropriation of 15% of profit after tax is made if the statutory reserve is less than the paid-up share capital and 10% 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 Group 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.

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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.

4.6 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.

4.7 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 Group 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 Group or the Group 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 cannot 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.

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 Group.

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

4.8 Employee benefits

Defined contribution plan

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

For defined contribution plans, the Group pays contributions to an administered pension fund administrator on a contractual basis. The Group 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 Group contribute 8% and 10% respectively of each of the qualifying staff salary in line with the provisions of the Pension Reforms Act 2014.

4.9 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 relates 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 Group does not offset current income tax liabilities and current income tax assets.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 Group 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.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

5 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

There have been no changes in the risk management department or in any risk management policies since the year end except as described below:

5.1 Market risk

Market risk is the risk that changes in market prices, such as interest rate, security prices and foreign exchange rates will affect the Group'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.

5.1.1 Exposure to market risks – Trading portfolios

The principal tools used to measure and control market risk exposure within the Group's trading portfolios are the position and loss limits. Specific limits have been set on overall position, individual security and losses to prevent undue exposure. Risk Management and Control Group ensures that these limits and triggers are adhered to by the Group.

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

- Treasury Bills
- Bonds (Spot and Repo transactions)
- Money market products
- Foreign exchange products

5.2.1 Exposure to Interest Rate Risks – 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 in the non-trading portfolios of the Group is managed principally through the monitoring of Earnings-At-Risk (EAR) and interest rate gaps, as well as 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 Group also performs regular stress tests on its trading and non-trading portfolios. In performing this, the Group ensures there are quantitative criteria for building the scenarios. The Group 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 Group's liquidity. The key potential risks the Group 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 intergroup takings to manage the overall position arising from the Group's non-trading activities.

The tables below summarise the Group's interest rate gap position on all portfolios:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Group 31 December 2017	Carrying amount	Variable interest-bearing	Fixed interest-bearing	Non-interest bearing
Financial assets:				
Cash and balances with Central Bank of Nigeria	3,072,985	-	-	3,072,985
Loans and advances to banks	14,953,328	-	6,091,824	8,861,504
Loans and advances to customers	39,164,047	17,860,313	21,303,734	-
Financial assets held-for-trading	4,352,566	-	3,503,612	848,954
Investment securities:	-			
- Available-for-sale investments	49,026,893	-	48,850,728	176,165
- Held-to-maturity	3,902,759	-	3,902,759	-
Pledged assets	6,823,144	-	6,823,144	-
Other assets	3,998,685	-	-	3,998,685
Deposit with Nigeria Stock Exchange	1,150	-	1,150	-
Derivatives assets	32,562	-	32,562	-
	125,328,119	17,860,313	90,509,513	16,958,293
Financial liabilities:				
Due to banks	10,323,992	-	10,323,992	-
Deposit from customers	87,952,326	-	87,952,326	-
Other liabilities	12,889,550	-	-	12,889,550
Derivative liabilities	32,562	-	32,562	-
	111,198,430	-	98,308,880	12,889,550

Bank 31 December 2017	Carrying amount	Variable interest-bearing	Fixed interest-bearing	Non-interest bearing
Financial assets:				
Cash and balances with Central Bank of Nigeria	3,072,985	-	-	3,072,985
Loans and advances to banks	14,020,829	-	5,350,410	8,670,419
Loans and advances to customers	39,153,234	17,860,313	21,292,921	-
Financial assets held-for-trading	3,319,701	-	3,319,701	-
Investment securities:	-			
- Available-for-sale investments	48,888,808	-	48,812,969	75,838
- Held-to-maturity	3,902,759	-	3,902,759	-
Pledged assets	6,823,144	-	6,823,144	-
Other assets	3,213,699	-	-	3,213,699
Derivatives assets	32,562	-	32,562	-
	122,427,721	17,860,313	89,534,466	15,032,941
Financial liabilities:				
Due to banks	11,639,548	-	11,639,548	-
Deposit from customers	87,490,984	-	87,490,984	-
Other liabilities	11,607,283	-	-	11,607,283
Derivative liabilities	32,562	-	32,562	-
	110,770,377	-	99,164,094	11,607,283

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Bank 31 December 2016	Carrying amount	Variable interest-bearing	Fixed interest-bearing	Non-interest bearing
Financial assets:				
Cash and balances with Central Bank of Nigeria	65,701	-	-	3,249,326
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	20,836,198	-	20,769,776	66,422
Pledged assets	36,286,655	-	36,286,655	-
Other assets	3,482,014	-	-	4,644,967
	125,683,033	27,137,157	93,559,155	9,333,299
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

Bond price sensitivity

The Group 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 $\pm \text{₦1}$.
- The chosen reasonable change in market prices was then applied to the Group's bond trading portfolio as at end of the year.

As at 31 December 2017, the Group had ₦2.42bn in its trading position (2016: ₦13.78bn). If the price of instruments designated as financial assets held-for-trading increased or decreased by 100bps with all variables held constant, the impact on potential profit or loss would be as shown in the table below:

12 months to 31 December 2017

	Group		Bank	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	16,733	11,713	16,733	11,713
Decrease	(16,733)	(11,713)	(16,733)	(11,713)

12 months to 31 December 2016

	Pre-tax	Post-tax
Increase	140,971	140,510
Decrease	(140,971)	(140,510)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Treasury bills discount rate sensitivity

The Group 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 a significant proportion of changes in discount rates falls in the range of +/- 50 basis points.
- A ±50 basis points fluctuation in market discount rates was applied to the Group'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 2017, if discount rates on treasury bills increased or reduced by 50 basis points with all other variables held constant, the potential profit or loss would be as shown below:

	12 months to 31 December 2017		12 months to 31 December 2016	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	6,246	4,372	48,732	48,091
Decrease	(6,246)	(4,372)	(48,732)	(48,091)

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

- The Group carried out the following in determining the sensitivity of its available-for-sale position to fluctuations in market yields of financial instruments fair valued through OCI:
- Daily bond prices and treasury bills discount rates in 2017 were obtained, to determine actual volatility levels recorded.

±100 basis point and ± 50 basis point changes in market yields of bonds and treasury bills respectively were applied to the Group's holdings in AFS bonds and treasury bills as at end of the year to determine the impact on the Group's Other Comprehensive Income (OCI) position.

Group	12 months to 31 December 2017	
	Pre-tax	Post-tax
AFS bonds		
Increase	(1,557,319)	(1,090,124)
Decrease	1,557,319	1,090,124
AFS Treasury Bills		
Increase	528,317	369,822
Decrease	(528,317)	(369,822)

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FOR THE YEAR ENDED 31 DECEMBER 2017

Bank	12 months to 31 December 2017		12 months to 31 December 2016	
AFS Bonds	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	(1,557,319)	(1,090,124)	80,225	79,170
Decrease	1,557,319	1,090,124	(80,225)	(79,170)
AFS Treasury Bills	12 months to 31 December 2017		12 months to 31 December 2016	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	528,317	369,822	84,401	83,291
Decrease	(528,317)	(369,822)	(84,401)	(83,291)

5.2.2 Foreign exchange risk

The Group 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 Group's exposure to foreign currency exchange rate risk at 31 December 2017. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

Group <i>In thousands of Nigerian Naira</i>	Carrying amount	Naira	USD	EUR	GBP	Total
31 December 2017						
Financial assets						
Cash and balances with Central Bank of Nigeria	3,072,985	3,072,985	-	-	-	3,072,985
Loans and advances to banks	14,953,328	2,578,469	11,903,839	321,632	149,388	14,953,328
Loans and advances to customers	39,164,047	33,410,982	5,240,507	512,558	-	39,164,047
Financial assets held-for-trading	4,352,566	4,168,966	183,600	-	-	4,352,566
Investment securities	52,929,652	52,470,652	459,000	-	-	52,929,652
Pledged assets	6,823,144	6,823,144	-	-	-	6,823,144
Other assets	3,998,685	3,998,685	-	-	-	3,998,685
Derivative assets	32,562	-	32,562	-	-	32,562
	125,326,969	106,523,883	17,819,508	834,190	149,388	125,326,969
Financial liabilities						
Due to banks	10,323,992	6,140,462	3,811,626	222,516	149,388	10,323,992
Deposit from customers	87,952,326	82,782,808	5,145,718	275	23,524	87,952,326
Other liabilities	12,889,550	12,440,191	433,022	16,337	-	12,889,550
Derivative liabilities	32,562	-	32,562	-	-	32,562
	111,198,430	101,363,462	9,422,928	239,128	172,912	111,198,430

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FOR THE YEAR ENDED 31 DECEMBER 2017

Bank <i>In thousands of Nigerian Naira</i>	Carrying amount	Naira	USD	EUR	GBP	Total
31 December 2017						
Financial assets						
Cash and balances with Central Bank of Nigeria						
3,072,985	3,072,985	-	-	-	-	3,072,985
Loans and advances to banks	14,020,829	1,645,970	11,903,839	321,632	149,388	14,020,829
Loans and advances to customers	39,153,234	33,400,169	5,240,507	512,558	-	39,153,234
Financial assets held-for-trading	3,319,701	3,136,101	183,600	-	-	3,319,701
Investment securities	52,791,567	52,332,568	459,000	-	-	52,791,567
Pledged assets	6,823,144	6,823,144	-	-	-	6,823,144
Other assets	3,213,699	3,213,699	-	-	-	3,213,699
Derivative assets	32,562	-	32,562	-	-	32,562
	122,427,721	103,624,635	17,819,508	834,190	149,388	122,427,721
Financial liabilities						
Due to banks	11,639,548	7,456,018	3,811,626	222,516	149,388	11,639,548
Deposit from customers	87,490,984	82,321,467	5,145,718	275	23,524	87,490,984
Other liabilities	11,607,283	11,157,924	433,022	16,337	-	11,607,283
Derivative liabilities	32,562	-	32,562	-	-	32,562
	110,770,377	100,935,409	9,422,928	239,128	172,912	110,770,377

Bank <i>In thousands of Nigerian Naira</i>	Carrying amount	Naira	USD	EUR	GBP	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	35,360,026	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	114,801,354	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
Due to customers	64,727,659	61,424,399	3,303,260	-	-	64,727,659
Other liabilities	4,358,422	3,909,064	433,022	16,337	-	4,358,422
	107,950,046	99,620,381	8,313,329	16,337	-	107,950,046

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Foreign exchange risk sensitivity analysis

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

The following table details the Group'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.

	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
<i>In thousands of Nigerian Naira</i>	Impact on profit		
NGN/US\$ exchange rate - increase 10%	896,812	896,812	253,496
NGN/US\$ exchange rate - decrease 10%	(896,812)	(896,812)	(253,496)

5.3 Liquidity risk

Liquidity risk is the potential inability of the Group to meet its obligations as at when due. This includes the inability to quickly liquidate its assets with minimal loss in value.

Management of liquidity risk

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

- Maintenance of minimum levels of liquid and marketable securities above the regulatory requirement of 20%. The Group has set for itself more conservative in-house limits above this regulatory requirement to which it adheres.
- Monitoring of its historical cash flows to ascertain in/outflow trends. The Group also makes forecasts of anticipated deposits and withdrawals to determine their potential effect on the Group.
- Regular measurement and monitoring of its liquidity position/ratios in line with regulatory requirements and in-house limits.
- Monitoring of deposit concentration, and ensuring diversification of its funding sources.
- Use of a Management authorisation process for purchases into the available-for-sale (AFS) and held-to-maturity (HTM) portfolios for all securities.
- Maturity gap analysis.
- Maintaining a contingency funding plan with committed funding lines established with specific financial institution(s).

The Group's Asset and Liability Committee (ALCO) is charged with the responsibility of managing the Group's liquidity position. This position is monitored daily, while stress tests covering a variety of scenarios are regularly conducted. All liquidity risk management policies and procedures are subject to review and approval by Board.

A key measure used by the Group in controlling its liquidity risk is the ratio of liquid assets to deposits liabilities. Details of the Group's ratio of net liquid assets to deposit liabilities were as follows:

	2017	2016
At end of period	74.05%	77.48%
Average for the period	74.84%	75.41%
Maximum for the period	85.87%	84.59%
Minimum for the period	68.60%	58.49%

The regulatory benchmark given by CBN for merchant Banks during the year was 20% and the Group was well within this threshold throughout the year ended 31 December 2017.

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FOR THE YEAR ENDED 31 DECEMBER 2017

5.3.1 Contractual maturity of financial assets and liabilities

The following tables show the undiscounted cash flows on the Group's financial statement 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:

Group 31 December 2017	Carrying amount ₦'000	Gross nominal inflow/ (outflow)		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
		₦'000	₦'000					
Financial assets								
Cash and balances with CBN	3,072,985	3,072,985	3,072,985		-	-	-	-
Loans and advances to banks	14,953,328	14,953,328	14,953,328		-	-	-	-
Loans and advances to customers	39,164,047	40,287,287	22,398,509	11,240,448	4,982,875	157,592	1,507,862	
Financial assets held-for-trading	4,352,566	6,253,075	1,137,096	894,989	74,341	3,201,995	944,655	
Investment securities	52,929,652	62,026,250	6,985,037	37,338,380	1,171,622	12,084,408	4,446,803	
Pledged assets	6,823,144	7,875,032		7,875,032	-	-	-	-
Other assets	3,998,685	3,998,685	3,998,685		-	-	-	-
Derivative assets	32,562	32,562	32,562		-	-	-	-
	125,326,969	138,499,204	52,578,202	57,348,849	6,228,838	15,443,995	6,899,320	
Financial liabilities								
Due to banks	10,323,992	11,553,513	11,553,513		-	-	-	-
Due to customers	87,952,326	89,118,025	82,212,345	6,905,679	-	-	-	-
Other liabilities	12,889,550	12,889,550	12,889,550		-	-	-	-
Derivative liabilities	32,562	32,562	32,562		-	-	-	-
	111,198,430	113,593,650	106,687,970	6,905,679	-	-	-	-
Liquidity gap	14,128,539	24,905,554	(54,109,768)	50,443,169	6,228,838	15,443,995	6,899,320	

Bank 31 December 2017	Carrying amount ₦'000	Gross nominal inflow/ (outflow)		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
		₦'000	₦'000					
Financial assets								
Cash and balances with CBN	3,072,985	3,072,985	3,072,985		-	-	-	-
Loans and advances to banks	14,020,829	14,053,157	14,053,157		-	-	-	-
Loans and advances to customers	39,153,234	40,276,463	22,387,685	11,240,448	4,982,875	157,592	1,507,862	
Financial assets held-for-trading	3,319,701	2,220,210	104,231	894,989	74,341	3,201,995	944,655	
Investment securities	52,791,567	61,931,445	6,890,232	37,338,380	1,171,622	12,084,408	4,446,803	
Pledged assets	6,823,144	7,875,032		7,875,032	-	-	-	-
Other assets	3,213,699	3,213,699	3,213,699		-	-	-	-
Derivative assets	32,562	32,562	32,562		-	-	-	-
	122,427,721	135,675,553	49,754,551	57,348,849	6,228,838	15,443,995	6,899,320	
Financial liabilities								
Due to banks								
Due to customers	11,639,548	12,869,069	12,869,069		-	-	-	-
Other liabilities	87,490,984	88,656,683	81,751,003	6,905,679	-	-	-	-
Derivative financial liabilities	11,607,283	11,607,283	11,607,283		-	-	-	-
	32,562	32,562	32,562		-	-	-	-
Liquidity gap	110,770,377	113,165,597	106,259,917	6,905,679	-	-	-	-
	11,657,344	22,509,956	(56,505,366)	50,443,170	6,228,838	15,443,995	6,899,320	

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Bank 31 December 2016	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
		Up to 90 days ₦'000	90 days to 1 year ₦'000					
Financial assets								
Cash and balances with CBN	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		-	-	-	-
Investment securities	20,836,198	27,003,658	3,369,520	14,125,752	1,681,153	1,388,777	6,138,456	
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		-	-	-	-
Derivative assets	-							
	125,683,033	139,017,265	85,556,938	57,712,227	7,766,150	1,468,776	6,507,254	
Financial liabilities								
Due to banks								
Due to customers	38,863,965	38,860,215	38,860,215		-	-	-	-
Other liabilities	64,727,659	65,500,987	61,236,679	4,264,308	-	-	-	-
Derivative financial liabilities	4,358,420	4,358,420	4,358,420		-	-	-	-
	-	-	-	-	-	-	-	-
Liquidity gap	107,950,044	108,719,622	104,455,314	4,264,308	-	-	-	-
	17,732,989	30,297,643	(38,892,456)	53,447,919	7,766,150	1,468,776	6,507,254	

5.3.2 Repricing period of financial assets and liabilities

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

Group	Carrying amount ₦'000	Total ₦'000	Up to 90 days ₦'000	90 days to		1 year and 3 years ₦'000	3 years and 5 years ₦'000	Over 5 years ₦'000						
				1 year ₦'000	years ₦'000									
31 December 2017														
Financial assets														
Cash and balances with CBN	3,072,985	3,072,985	3,072,985		-	-	-	-						
Loans and advances to banks	14,953,328	6,747,230	6,747,230		-	-	-	-						
Loans and advances to customers	39,164,047	39,164,047	27,543,009	6,307,130	4,874,449	161,527	277,933							
Financial assets held-for-trading	4,352,566	4,352,566	1,134,218	799,487	59,086	1,863,238	496,538							
Investment securities	52,929,652	52,929,652	9,175,149	37,416,484	974,408	8,155,925	2,207,687							
Pledged assets	6,823,144	6,823,144		6,823,144		-	-	-						
Other assets	3,998,685	-	-	-	-	-	-	-						
Derivative financial assets	32,562	-	-	-	-	-	-	-						
	125,326,969	113,089,624	47,672,591	46,346,245	5,907,943	10,180,690	6,890,320							
Financial liabilities														
Due to banks	10,323,992	10,323,992	10,323,992		-	-	-	-						
Deposit from customers	87,952,326	87,952,326	82,245,089	5,707,237		-	-	-						
Other liabilities	12,889,550	-	-	-	-	-	-	-						
Derivative financial liabilities	32,562	-	-	-	-	-	-	-						
	111,198,430	98,276,318	92,569,081	5,707,237		-	-	-						
Repricing gap	14,128,539	14,813,306	(44,896,490)	40,639,008	5,907,943	10,180,690	2,982,158							

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Bank	Carrying amount		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						
	Total ₦'000	Up to 90 days ₦'000												
31 December 2017														
Financial assets														
Cash and balances with CBN	3,072,985	3,072,985	3,072,985		-	-	-	-						
Loans and advances to banks	14,020,829	6,000,479	6,000,479											
Loans and advances to customers	39,153,234	39,153,234	27,533,937	6,305,389	4,874,449	161,527	277,933							
Financial assets held-for-trading	3,319,701	3,319,758	101,410	799,487	59,086	1,863,238	496,538							
Investment securities	52,791,567	52,791,568	9,175,149	32,278,399	974,408	8,155,925	2,207,687							
Pledged assets	6,823,144	6,823,144	-	6,823,144	-	-	-							
Other assets	3,213,699	-	-	-	-	-	-							
Derivative financial assets	32,562	-	-	-	-	-	-							
	122,427,721	111,161,168	45,883,960	46,206,419	5,907,943	10,180,689	2,982,158							
Financial liabilities														
Due to banks														
Deposit from customers	11,639,548	8,643,720	8,643,720		-	-	-	-						
Other liabilities	87,490,984	87,490,984	81,783,747	5,707,237	-	-	-	-						
Derivative financial liabilities	11,607,283	-	-	-	-	-	-							
	32,562	-	-	-	-	-	-							
Repricing gap	110,770,377	96,134,704	90,427,467	5,707,237	-	-	-							
	11,657,344	15,026,464	(44,543,506)	40,499,182	5,907,943	10,180,689	2,982,158							

Bank	Carrying amount		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						
	Total ₦'000	Up to 90 days ₦'000												
31 December 2016														
Financial assets														
Cash and balances with CBN	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	-	-	-	-							
Investment securities	20,836,198	20,836,198	9,766,866	5,721,102	579,853	-	4,768,377							
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	-	-	-	-							
Derivative financial assets	-	-	-	-	-	-	-							
	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														
Deposit from customers	38,863,965	38,863,965	38,863,965		-	-	-	-						
Other liabilities	64,727,659	64,727,659	60,802,763	3,924,896	-	-	-	-						
Derivative financial liabilities	4,358,420	4,358,423	4,358,423	-	-	-	-							
	17,732,989	17,732,986	(18,468,213)	17,352,661	13,824,744	68,400	4,955,394							
Repricing gap	107,950,044	107,950,047	104,025,151	3,924,896	-	-	-							

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5.4 Credit Risk

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

The Group'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 Group's risk assets and minimise concentration risk;
- institutionalisation of sound credit culture in the Group; and
- achieve consistent and continuous income stream for the Group.

The risk assets creating units - Fixed Income and currency trading Division and Corporate Grouping 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 Group continues to focus attention on intrinsic and concentration risks inherent in its business to manage the Group'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 Group. Credit risks arising on trading securities is managed independently but reported as a component of market risk exposure.

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 Group, 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 Group in the management of credit risk.

Credit Risk Measurement

The Group 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 Group 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.

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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 Group is handled by Relationship Managers with further review by Risk Management and Control before it goes through the approval process.

The relationship between the Group'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		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	C		
B			
CCC		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	D		
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

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The Group'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 Group 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 Group's own assessment through the use of internal ratings tools.

5.4.1 Risk limit control and mitigation policies

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

The Group's internal single obligor limit is set at a maximum of 35% of shareholders' funds (SHF), this within the stipulated regulatory single obligor limit currently prescribed at 50% of the Group's shareholders' funds. Although the Group 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 Group, 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 Group 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 Group. During the year, limits can be reviewed and realigned (outright removal, reduction or increase) to meet the exigencies of the prevailing macroeconomic events.

FBNQuest 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.

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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 Group 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.

FBNQuest 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. Intergroup placement limits are also guided by the regulatory single obligor limit, which currently is 50% of the Bank's shareholders' funds.

5.4.2 Maximum exposure to credit risk

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

Classification	Maximum exposure		
	Group	Bank	
	31 December 2017	31 December 2017	31 December 2016
Financial assets:			
Cash and balances with Central Bank of Nigeria	3,072,985	3,072,985	65,701
Loans and advances to banks	14,953,328	14,020,829	5,650,754
Loans and advances to customers	39,164,047	39,153,234	41,684,102
Financial assets held-for-trading	4,352,566	3,319,757	17,677,609
Investment securities:		-	-
- Available-for-sale investments	49,026,893	52,630,600	20,836,195
- Financial assets held-to-maturity	3,902,759	3,800,467	-
Pledged assets	6,823,144	3,115,732	36,286,655
Other assets	5,140,954	3,993,046	3,482,016
	126,436,676	123,106,650	125,683,032
Loans exposure to total exposure	42.80%	43.19%	37.66%
Debt securities exposure to total exposure	50.70%	51.07%	59.52%
Other exposures to total exposure	6.50%	5.74%	2.82%

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 worst-case scenario of credit risk exposures to the Group at 31 December 2017 and 31 December 2016, 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, 42.80% of the Group's total maximum exposures are derived from Loans and advances to banks and customers (2016: 37.66%) while 50.70% of the Group's total maximum exposures represents exposures to investments in debt securities (2016: 59.52%). 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.

5.5 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.

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Geographical concentration of risks of financial assets with credit risk exposure

The following table breaks down the Group'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 Group has allocated exposures to regions based on the country of domicile of its counterparties.

Group	31 December 2017		
	Within Nigeria	Outside Nigeria	Total
Cash and balances with Central Bank of Nigeria	3,072,985	-	3,072,985
Loans and advances to banks	8,431,225	6,522,103	14,953,328
Loans and advances to customers	39,164,047	-	39,164,047
Financial assets held-for-trading	4,352,566	-	4,352,566
Investment securities:			-
- Available-for-sale investments	49,026,893	-	49,026,893
- Held-to-maturity	3,902,759	-	3,902,759
Pledged assets	6,823,144	-	6,823,144
Other assets	3,998,685	-	3,998,685
	118,772,304	6,522,103	125,294,407

Bank	31 December 2017		
	Within Nigeria	Outside Nigeria	Total
Cash and balances with Central Bank of Nigeria	3,072,985	-	3,072,985
Loans and advances to banks	7,498,726	6,522,103	14,020,829
Loans and advances to customers	39,153,234	-	39,153,234
Financial assets held-for-trading	3,319,701	-	3,319,701
Investment securities:			-
- Available-for-sale investments	48,888,808	-	48,888,808
- Held-to-maturity	3,902,759	-	3,902,759
Pledged assets	6,823,144	-	6,823,144
Other assets	3,213,699	-	3,213,699
	115,873,056	6,522,103	122,395,159

	31 December 2016		
	Within Nigeria	Outside Nigeria	Total
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
Investment securities:			-
- 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	3,482,016	-	3,482,016
	124,484,780	1,198,255	125,683,035

5.5.1 Industry/sectoral exposure to credit risk

The Group'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 as follows:

Group	Construction and real estate	Information and communication	Financial institutions	Oil and Gas	Transport and storage	Manufacturing	Others	Total
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
31 December 2017								
Cash and balances with Central Bank of Nigeria	-	-	-	3,072,985	-	-	-	3,072,985
Loans and advances to banks	-	-	14,953,328	-	-	-	-	14,953,328
Loans and advances to customers	3,486,624	5,941,939	2,145,766	1,107,202	-	11,056,693	1,692,616	13,017,343
Financial assets held-for-trading	-	-	840,352	1,397,485	-	-	1,069,329	1,045,200
Investment securities	-	459,000	-	113,912	47,975,854	-	-	4,380,886
Pledged assets	-	-	-	-	6,823,144	-	-	6,823,144
Other assets	-	-	-	-	-	-	3,998,685	3,998,685
	3,486,624	6,400,939	2,145,766	17,014,794	59,269,468	11,056,693	1,692,616	14,086,872
								10,140,636
								125,294,408

Bank	Construction and real estate	Information and communication	Financial institutions	Oil and Gas	Transport and storage	Manufacturing	Others	Total
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
31 December 2017								
Cash and balances with Central Bank of Nigeria	-	-	-	3,072,985	-	-	-	3,072,985
Loans and advances to banks	-	-	14,020,829	-	-	-	-	14,020,829
Loans and advances to customers	3,486,624	5,941,939	2,145,766	1,107,202	-	11,056,693	1,692,616	13,017,343
Financial assets held-for-trading	-	-	122,135	1,397,485	-	-	754,938	1,045,200
Investment securities	-	459,000	-	-	47,957,063	-	-	4,375,504
Pledged assets	-	-	-	-	6,823,144	-	-	6,823,144
Other assets	-	-	-	-	-	-	3,213,699	3,213,699
	3,486,624	6,400,939	2,145,766	15,250,166	59,250,677	11,056,693	1,692,616	13,772,281
								9,339,455
								122,395,217

Bank	Construction and real estate	Information and communication	Financial institutions	Oil and Gas	Transport and storage	Manufacturing	Others	Total
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
31 December 2016								
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	-	6,554,000	3,319,871	2,345,061	3,001,819	10,021,215	292,384	14,726,170
Financial assets held-for-trading	-	-	-	-	17,677,609	-	-	17,677,609
Investment securities	-	-	-	-	524,672	20,207,216	-	104,310
Pledged assets	-	-	-	-	36,286,655	-	-	36,286,655
Other assets	-	-	-	-	1449,184	-	-	1,449,184
	6,554,080	3,319,871	10,035,372	77,173,299	10,021,215	292,384	14,830,480	1,423,502
								123,650,203

Credit quality of financial assets using internal ratings

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

Group	Construction and real estate ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and Gas ₦'000	Transport and storage ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
31 December 2017	Agriculture ₦'000	Telecoms ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and Gas ₦'000	Transport and storage ₦'000	Manufacturing ₦'000	Others ₦'000
Classification	-	-	-	59,033,589	-	-	754,938	-
Grades								59,788,528
A	3,486,624	5,139,394	2,145,766	17,014,662	235,878	11,056,693	1,692,616	13,017,343
B	-	1,261,545	-	-	-	-	-	10,455,360
C	3,486,624	6,400,939	2,145,766	17,014,662	59,269,467	11,056,693	1,692,616	13,772,281
								10,455,360
								125,294,409

Bank	Construction and real estate ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and Gas ₦'000	Transport and storage ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
31 December 2017	Agriculture ₦'000	Telecoms ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and Gas ₦'000	Transport and storage ₦'000	Manufacturing ₦'000	Others ₦'000
Classification	-	-	-	59,014,798	-	-	754,938	-
Grades								59,769,736
A	3,486,624	5,139,394	2,145,766	15,250,166	235,878	11,056,693	1,692,616	13,017,343
B	-	1,261,545	-	-	-	-	-	9,339,455
C	3,486,624	6,400,939	2,145,766	15,250,166	59,250,676	11,056,693	1,692,616	13,772,281
								9,339,455
								122,395,216

Bank	Construction and real estate ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and Gas ₦'000	Transport and storage ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
31 December 2016	Agriculture ₦'000	Telecoms ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and Gas ₦'000	Transport and storage ₦'000	Manufacturing ₦'000	Others ₦'000
Classification	-	4,056,674	3,191,502	-	3,003,082	6,084,056	-	6,603,391
Grades								22,938,705
A	-	2,513,102	128,588	1,727,120	-	4,992,621	288,987	4,678,513
B	-	65,317	-	-	140,000	-	3,404,151	190,204
C	-	6,635,093	3,320,090	1,727,120	3,003,082	11,216,677	288,987	3,992
								3,613,460
								41,071,300

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5.6 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. The Bank recognises an allowance of 0.01% 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 of 0.01% in this category.
- 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 homogeneous 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.

5.6.1 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 ₦'000	Corporates ₦'000	Bank ₦'000	Government ₦'000	Total ₦'000
31 December 2017					
Neither past due nor impaired	336,216	37,986,229	-	-	38,322,445
Past due but not impaired	-	-	-	-	-
Past due and impaired	-	1,262,965	-	-	1,262,965
Gross	336,216	39,249,194	-	-	39,585,410
Less allowances for impairment					
Specific impairment	-	(420,995)	-	-	(420,995)
Collective impairment	-	(11,182)	-	-	(11,182)
Total allowance	-	(432,177)	-	-	(432,177)
Net loans and advances	336,216	38,817,017	-	-	39,153,234
31 December 2016					
Neither past due nor impaired	289,984	35,029,821	2,346,198	3,003,276	40,669,279
Past due but not impaired	-	95,231	-	-	95,231
Past due and impaired	-	1,439,803	-	-	1,439,803
Gross	289,984	36,564,854	2,346,198	3,003,276	42,204,313
Less allowances for impairment					
Specific impairment	-	(500,547)	-	-	(500,547)
Collective impairment	(141)	(16,929)	(1,137)	(1,456)	(19,662)
Total allowance	(141)	(517,476)	(1,137)	(1,456)	(520,210)
Net loans and advances	289,843	36,047,378	2,345,061	3,001,820	41,684,103

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5.7 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 2017					
A	-	24,467,356	-	-	24,467,356
B	-	7,622,936	-	-	7,622,936
C	336,216	6,446,351	-	-	6,782,567
	336,216	38,536,643	-	-	38,872,859
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

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	Staff	Corporates	Bank	Government	Total
31 December 2017					
0 - 90 days	-	-	-	-	-
FV of collateral	-	-	-	-	-
Amount of undercollateralisation	-	-	-	-	-
31 December 2016					
0 - 90 days	-	95,231	-	-	95,231
FV of collateral	-	-	-	-	-
Amount of undercollateralisation	(95,231)	-	-	-	(95,231)

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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:

Internal Rating Grades	Staff	Corporates	Bank	Government	Total
31 December 2017					
Gross loans	-	1,274,779	-	-	1,274,779
Impairment	-	(420,995)	-	-	(420,995)
Net Amount	-	853,784	-	-	853,784
FV of collateral	-	-	-	-	-
Amount of undercollateralisation	(853,784)	-	-	-	(853,784)
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)

5.7.1 Sensitivity of exposure at default to changes in loan loss impairment

Exposure at default 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 exposure at default as at reporting date.

a). Sensitivity of exposure at default - probability at default (PD)

As at 31 December 2017, 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 and exposure at default, would have been as set out in the tables below:

	31 December 2017		31 December 2016	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	(1,118)	(923)	(1,966)	(1,960)
Decrease	1,118	923	1,966	1,960

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

b). Sensitivity of exposure at default - loss given default (LGD)

As at 31 December 2017, 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 and exposure at default, would have been as set out in the tables below:

	31 December 2017		31 December 2016	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	(559)	(462)	(983)	(895)
Decrease	559	462	983	895

c). Sensitivity of exposure at emergence period (EP)

As at 31 December 2017, 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 2017		31 December 2016	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	(3,726)	(3,076)	(6,554)	(5,964)
Decrease	3,726	3,076	6,554	5,964

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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.

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.

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:

Group		Gross amount	Collateral
	31 December 2017		
	<i>In thousands of Nigerian Naira</i>		
Against past due and impaired		1,262,964	1,262,964
Against past due but not impaired		-	-
Against neither past due nor impaired		38,333,258	23,463,309
		39,596,222	24,726,273

Type of collateral	Against past due and impaired	Against past due but not impaired	Against neither past due nor impaired
Cash/Treasury bills	-	-	502,145
Government guarantee	1,262,964	-	-
Bank guarantee	-	-	600,000
Mortgage property	-	-	16,773,000
Others ¹	-	-	5,588,164
	1,262,964	-	23,463,309

¹Others include domiciliation, asset debenture, negative pledge, etc.

NOTES TO THE FINANCIAL STATEMENTS

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Bank			
31 December 2017		Gross amount	Collateral
In thousands of Nigerian naira			
Against past due and impaired		1,262,964	1,262,964
Against past due but not impaired		-	-
Against neither past due nor impaired		38,322,446	23,463,309
		39,585,410	24,726,273
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		40,669,275	28,767,200
		42,204,309	30,067,003
31 December 2017		Against past due but not impaired	Against neither past due nor impaired
In thousands of Nigerian Naira			
Type of collateral	Against past due and impaired		
Cash/Treasury bills	-	-	502,145
Government guarantee	1,262,964	-	-
Bank guarantee	-	-	600,000
Mortgage property	-	-	16,773,000
Others ¹	-	-	5,588,164
	1,262,964	-	23,463,309
31 December 2016		Against past due but not impaired	Against neither past due nor impaired
In thousands of Nigerian Naira			
Type of collateral	Against past due and impaired		
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

¹Others include domiciliation, asset debenture, negative pledge, etc.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Debt securities

The table below shows analysis of debt securities into the different classifications:

31 December 2017	Financial assets held-to-maturity	Financial assets held-for-trading	Investment securities	Assets pledged as collateral	Total
Federal Government bonds	-	732,485	7,035,687	1,100,000	8,868,172
State Government bonds	-	-	236,965	-	236,965
Corporate bonds	-	1,922,273	4,233,481	-	6,155,754
Treasury bills	3,800,467	900,897	44,078,192	2,015,732	46,994,821
Eurobond	-	-	470,658	-	470,658
	3,800,467	3,555,655	56,054,983	3,115,732	62,726,370
<hr/>					
31 December 2016					
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

The Group's investment in risk-free Government securities constitutes 90% of debt instruments portfolio (31 December 2016: 99%). Investment in corporate bond accounts for the outstanding 10% (31 December 2016: 1%).

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 2017

5.8 Fair value measurement of financial instruments

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial report.

Group

a). Financial instruments not measured at fair value

<i>In thousands of Nigerian Naira</i>	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and balances with Central Bank of Nigeria	i	3,072,985	3,072,985	-
Loans and advances to banks	ii	14,953,328	14,953,328	-
Loans and advances to customers	iii	39,164,047	39,164,047	-
Investment securities	iv	3,902,759	3,902,759	-
Other assets	v	5,140,954	5,140,954	-
Financial liabilities				
Due to banks	vi	10,323,992	10,323,992	-
Due to customers	vii	87,952,326	87,952,326	-
Other liabilities	viii	2,249,412	2,249,412	-
Bank				
Financial assets				
Cash and balances with Central Bank of Nigeria	i	3,072,985	3,072,985	65,701
Loans and advances to banks	ii	14,020,829	14,020,829	5,650,754
Loans and advances to customers	iii	39,153,234	39,153,234	41,684,102
Investment securities	iv	3,902,759	3,902,759	-
Other assets	v	3,993,045	3,993,045	4,644,967
Financial liabilities				
Due to banks	vi	11,639,548	11,639,548	38,863,965
Due to customers	vii	87,490,984	87,490,984	64,727,659
Other liabilities	viii	11,607,283	11,607,283	4,358,420

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

- i Cash and balances with Central Bank of Nigeria (CBN) include cash and deposits with the CBN. The carrying amount of the balances with CBN is a reasonable approximation of the fair value, which is the amount receivable on demand.
- ii Loans and advances to banks include balances with other Groups within and outside Nigeria, and short-term placements. The carrying amount of the balance is a reasonable approximation of the fair value, which is the amount receivable on demand.
- iii Loans and advances to customers are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows, expected to be received. Expected cash flows are discounted using the effective interest rate to determine fair value as there is no active market.
- iv The fair value for investment securities is based on estimated future cash flows discounted using the effective interest rate to determine fair value as there is no active market.
- v Carrying amounts of other assets are a reasonable expectation of their fair values which are payable on demand.
- vi The estimated fair value of balances due to other Groups is the amount repayable on demand as at 31 December 2017.
- vii The estimated fair value of deposits from customers is the amount repayable on demand as at 31 December 2017.
- viii Carrying amounts of other liabilities are a reasonable expectation of their fair values which are payable on demand.

Group	Fair value hierarchy - financial instruments not measured at fair value			
	In thousands of Nigerian Naira	Level 1	Level 2	Total
31 December 2017				
Financial assets				
Cash and balances with Central Bank of Nigeria	- 3,072,985	-	3,072,985	
Loans and advances to banks	- 14,953,328	-	14,953,328	
Loans and advances to customers	- 39,164,047	-	39,164,047	
Other assets	- 5,140,954	-	5,140,954	
Financial liabilities				
Due to banks	- 10,323,992	-	10,323,992	
Due to customers	- 87,952,326	-	87,952,326	
Other liabilities	- 12,889,550	-	12,889,550	
Bank				
Fair value hierarchy - financial instruments not measured at fair value				
31 December 2017				
Financial assets				
Cash and balances with Central Bank of Nigeria	- 3,072,985	-	3,072,985	
Loans and advances to banks	- 14,020,829	-	14,020,829	
Loans and advances to customers	- 39,153,234	-	39,153,234	
Other assets	- 3,993,045	-	3,993,045	
Financial liabilities				
Due to banks	- 11,639,548	-	11,639,548	
Due to customers	- 87,490,984	-	87,490,984	
Other liabilities	- 11,607,283	-	11,607,283	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Bank		Level 1	Level 2	Level 3	Total
<i>In thousands of Nigerian Naira</i>					
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	-	5,650,754	
Loans and advances to customers	-	41,684,102	-	41,684,102	
Other assets	-	3,482,014	-	3,482,014	
Financial liabilities					
Due to banks	-	38,863,965	-	38,863,965	
Due to customers	-	64,727,659	-	64,727,659	
Other liabilities	-	4,358,420	-	4,358,420	

b). Financial instruments measured at fair value

IFRS 7 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 Group'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)

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Group Fair value hierarchy 31 December 2017 <i>In thousands of Nigerian Naira</i>	Level 1	Level 2	Level 3	Total
Financial assets				
Held-for-trading:				
- Treasury bills	900,896	-	-	900,896
- Pledged treasury bills	-	-	-	-
- Federal Government of Nigeria bonds	940,862	1,477,943	-	2,418,805
Derivative assets measured at fair value through profit and loss:	-	32,562	-	32,562
Available-for-sale:				
- Treasury bills	35,072,769	1,728,760	-	36,801,529
- Pledged treasury bills	5,869,015	954,129	-	6,823,144
- Federal Government of Nigeria bonds	7,035,687	-	-	7,035,687
- State bonds	211,800	24,078	-	235,878
- Corporate bonds	4,528,139	330,853	-	4,858,992
- Unlisted equities	-	-	89,423	89,423
- Listed equities	5,384	-	-	5,384
Liabilities				
Financial liabilities at fair value through profit or loss	-	32,562	-	32,562
- Derivative liability	-	32,562	-	32,562

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Bank	31 December 2017	In thousands of Nigerian Naira	Level 1	Level 2	Level 3	Total
Financial assets						
<i>Held-for-trading:</i>						
- Treasury bills		900,896	-	-	900,896	
- Pledged treasury bills		-	-	-	-	-
- Federal Government of Nigeria bonds		940,862			-	2,418,805
			1,477,943			
Derivative assets measured at fair value through profit and loss:		-	32,562	-	32,562	
<i>Available-for-sale:</i>						
- Treasury bills		35,053,979	1,728,760	-	36,782,739	
- Pledged treasury bills		5,869,015	954,129	-	6,823,144	
- Federal Government of Nigeria bonds		7,035,687	-	-	7,035,687	
- State bonds		211,800	24,078	-	235,878	
- Corporate bonds		4,427,813	330,853	-	4,758,666	
- Unlisted equities		-	-	75,838	75,838	
- Equities		-	-	-	-	-
Liabilities						
Financial liabilities at fair value through profit or loss						
- Derivative liability		-	32,562	-	32,562	

Bank	31 December 2016	In thousands of Nigerian Naira	Level 1	Level 2	Level 3	Total
Financial assets						
<i>Held-for-trading:</i>						
- Treasury bills		3,902,793	-	-	3,902,793	
Pledged treasury bills		10,411,564	-	-	10,411,564	
- Federal Government of Nigeria bonds		13,774,816	-	-	13,774,816	
<i>Available-for-sale</i>						
- Treasury bills		10,668,465	-	-	10,668,465	
- Pledged treasury bills		25,875,091	-	-	25,875,091	
- Federal Government of Nigeria bonds		7,991,129	-	-	7,991,129	
- State bonds		1,547,622	-	-	1,547,622	
- Corporate bonds		-	104,310	-	104,310	
- Unlisted equities		-	-	66,422	66,422	

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(a) 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 Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily 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).

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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.

(c) Financial instruments in level 3

The following table presents the changes in level 3 instruments of the Group for the period ended:

31 December 2017 <i>In thousands of Nigerian Naira</i>	Unlisted equities	Total
Opening balance	66,422	66,422
Gain/(losses) recognised through OCI	9,416	9,416
Acquisition	-	-
Closing balance	75,838	75,838
Total gains or losses for the period included in the OCI at the end of the reporting period	9,416	9,416

31 December 2016

Opening balance	45,066	45,066
Gains/(losses) recognised in the profit or loss	21,356	21,356
Acquisition	-	-
Closing balance	66,422	66,422
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	21,356	21,356

Unquoted equity investments in available-for-sale portfolio relates to 74million investment in Financial Markets Dealers Quotation (FMDQ) and ₦1.4mn investment in Nigeria Inter-Group Settlement System. The markets where these securities could be traded are not readily ascertained hence the classification within level 3 of the fair value hierarchy.

The Group has no current plans of disposing these securities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

5.9 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 Group's ability to continue as a going concern and (iii) to maintain an optimal capital structure suitable for the Group'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 Group. 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 with 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017, the Bank's capital adequacy ratio was 16.14% (31 December 2016: 22.59%).

The following table shows the composition of regulatory capital and risk weighted assets for the Bank:

<i>In thousands of Nigerian Naira</i>	31 December 2017	31 December 2016
Tier 1 capital		
Share capital	4,301,577	4,301,577
Share premium	3,904,731	3,904,731
Retained earnings	9,570,194	14,013,717
Statutory reserve	7,174,165	6,561,495
Tier 1 capital before regulatory deduction	24,950,667	28,781,520
Regulatory deductions		
Deferred tax asset	9,590,372	8,801,880
Other intangible assets	2,840,915	972,585
Total regulatory deduction	(12,431,287)	(9,774,465)
Eligible tier 1 capital	12,519,379	19,007,055
Tier 2 capital		
Fair value reserves	(420,731)	(2,416,834)
Eligible tier 2 capital	(420,731)	(2,416,834)
Total eligible capital	12,098,649	16,590,221
Risk-weighted assets		
Credit risk	54,707,895	50,977,063
Operational risk	11,725,375	9,616,170
Market risk	10,496,029	12,837,627
Total risk-weighted assets	76,929,299	73,430,860
Capital adequacy ratio	15.73%	22.59%
Tier 1 capital ratio	16.27%	25.88%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

6 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 judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions are changed. Management believes that the underlying assumptions are appropriate and that the Group's financial statements, therefore, present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements include:

(a) Recoverability of deferred tax assets

The Group has deferred tax assets amounting to ₦10.5billion (31 December 2016: ₦8.8billion) out of which only ₦9.7billion has been recognised. The deferred tax assets are primarily due to taxable losses of ₦10.5billion (31 December 2016: ₦27.64 billion). The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved profit projections of the Group. The losses can be carried forward indefinitely and have no expiry date.

(b) Impairment charges on financial assets

The Group reviews its loan portfolios for impairment on an ongoing basis. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment. For individually significant financial assets that has been deemed to be impaired, Management has deemed that cashflow from collateral obtained would arise within 24 months where the financial asset is collateralised.

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.

The use of historical loss experience is supplemented with significant Management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from that suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information.

In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment loss derived solely from historical loss experience.

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Group's impairment charge on financial assets are set out in the financial risk management section.

The estimation of impairment losses is subject to uncertainty, which has increased in the current economic environment, and is highly sensitive to factors such as the level of economic activity, unemployment rates, property price trends, and interest rates. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience.

(c) Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed under note 2.6. The Group 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,

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily 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 2017, the Group disclosed its investment in available-for-sale state and corporate bond as ₦5.0billion (31 December 2016: ₦2.1billion) 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 data (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 Group 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Group	Fair value at 31 December	Valuation 2017 technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Description					
Nigeria Interbank Settlement Systems	1,358	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 14.90%	The higher the P/E ratio of similar trading companies, the higher the fair value
FMDQ OTC Securities Exchange	74,480	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 14.90%	The higher the P/E ratio of similar trading companies, the higher the fair value
Ivory African Bond	100,327	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 20.00%	The higher the P/E ratio of similar trading companies, the higher the fair value
	176,165				

Bank	Fair value at 31 December	Valuation 2017 technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Description					
Nigeria Interbank Settlement Systems	1,358	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	74,480	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
	75,838				

Bank	Fair value at 31 December	Valuation 2016 technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Description					
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				

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
7 INTEREST INCOME			
Loans and advances to customers	8,520,677	8,520,584	5,226,393
Loans and advances to banks	1,151,716	1,110,223	882,337
Financial assets held-for-trading	1,187,357	1,187,357	1,383,950
Investment securities			
- Available-for-sale	8,138,598	8,134,335	5,347,190
- Held-to-maturity	41,832	41,832	-
	19,040,180	18,994,331	12,839,870
8 INTEREST EXPENSE			
Due to banks	2,661,019	2,661,019	1,405,200
Due to customers	9,420,151	9,458,179	6,794,629
	12,081,170	12,119,198	8,199,829
9 IMPAIRMENT (CHARGE)/WRITEBACK			
Specific impairment	79,552	79,552	226,004
Collective impairment	8,482	8,482	31,676
Impairment charge on non-financial assets	(633,268)	(559,463)	(167,329)
Amounts written off during the year as uncollectible	-	-	(125,718)
	(545,234)	(471,429)	(35,367)
10A FEES AND COMMISSION INCOME			
Credit-related fees	306,685	306,685	474,212
Brokerage and structuring fees	3,622,360	3,529,925	2,384,402
Letters of credit commissions and fees	241,509	241,509	78,755
Other fees and commissions	1,431,244	68,311	57,840
	5,601,798	4,146,430	2,995,209
10B FEES AND COMMISSION EXPENSE			
Group charges	186,527	181,977	89,252
	186,527	181,977	89,252

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
11 NET GAINS ON FOREIGN EXCHANGE			
Gain on foreign currency translation	257,469	164,610	885,182
	257,469	164,610	885,182
11a Net gains/losses on financial assets at FVTPL			
Trading gain/(loss)	980,325	964,154	(21,728)
Financial assets at FVTPL	(114,350)	(128,686)	(178,887)
	865,975	835,468	(200,615)
11b Net loss on derivative financial instruments			
Loss from valuation of derivatives (note 44)	-	-	(121,086)
	-	-	(121,086)
12 OTHER OPERATING INCOME			
Sundry income	316,373	41,430	5,329
Dividend income	27,787	-	-
(Loss)/gain on sale of property and equipment	(35,254)	(35,254)	3,768
	308,906	6,176	9,097
13 OPERATING EXPENSES			
Auditors' remuneration	79,153	60,000	50,000
Directors' emoluments (note 42)	299,023	275,481	453,596
Administration and general expenses	308,258	279,731	106,040
Insurance	305,743	303,449	278,161
Rent and rates	124,920	124,920	129,992
Travelling	270,487	260,867	97,505
Donations	65,900	65,650	6,670
Corporate development	145,225	141,209	12,575
Other operating expenses	129,220	35,065	73,285
Periodicals and subscriptions	73,533	61,988	37,338
Consultancy	212,689	200,078	208,223
Training	182,958	173,282	54,199
License fees	767,182	767,182	230,170
Communication and postage expenses	68,421	68,421	26,749
Repairs and maintenance	117,567	117,567	46,013
	3,150,280	2,934,890	1,810,516

Auditor's remuneration represents fees for both the interim and full year audits of the Group and Bank for the year ended 31 December 2017. The Bank also paid the auditors professional fees in the sum of ₦62,842,500 for non-audit service (IT Transformation consultancy service) rendered during the year. This service, in the Bank's opinion, did not impair the independence and objectivity of the external auditors.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016			
14 PERSONNEL EXPENSES						
Wages and salaries	2,986,820	2,614,273	1,134,242			
Pension costs:						
- Defined contribution plans to PFAs	161,803	149,162	79,776			
- Defined contribution plans (Voluntary contribution)	-	-	1,870			
	3,148,623	2,763,435	1,215,888			
15 TAXATION						
Corporate tax provision	2,089,619	1,529,518	314,400			
Nigeria Information Technology Development Agency Levy	70,053	49,734	49,159			
Prior year under provision	-	-	55,927			
	2,159,672	1,579,252	419,486			
Deferred tax	(876,368)	(715,651)	(403,403)			
Income tax expense	1,283,304	863,601	16,083			
Reconciliation of effective tax rate						
	Group	Bank	Bank			
	31 December 2017	31 December 2017	31 December 2016			
	₦'000	%	₦'000	%	₦'000	%
Profit before income tax	6,166,918		4,948,065		4,915,910	
Income tax using the domestic corporation tax rate	1,850,075	30%	1,484,419	30%	1,474,773	30.0%
Minimum tax	560,101	11%	-	0%	-	0.0%
Dividend tax	1,529,518	31%	1,529,518	31%	314,400	6.4%
Technology tax	70,053	1%	49,734	1%	49,159	1.0%
Prior year underprovision	-	0%	-	0%	55,927	1.1%
Income not subjected to tax	(4,650,607)	(94%)	(4,020,234)	(81%)	(1,886,383)	(38.4%)
Expenses not deductible for tax purposes	1,924,164	39%	1,820,164	37%	8,207	0.2%
Income tax expense	1,283,304	18.55%	863,601	17.45%	16,083	0.33%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
15b Current income tax liabilities			
At start of year	363,559	363,559	128,265
Prior year under provision	-	-	55,927
Payments made during the year	(363,559)	(363,559)	(184,192)
Current year's provision	2,249,412	1,579,252	363,559
At end of year	2,249,412	1,579,252	363,559

16 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the period.

Profit attributable to equity holders	4,883,615
Weighted average number of ordinary shares in issue (in '000s)	4,301,577
Weighted average number of ordinary shares in issue (in '000s)	4,301,577
Basic earnings per share (expressed in Kobo per share)	114

(b) Diluted

The Group does not have potential ordinary shares with convertible options and therefore there is no dilutive impact on the profit attributable to the equity holders of the parent (31 December 2016: Nil).

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
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17 CASH AND BALANCES WITH CENTRAL BANK OF NIGERIA

Cash	1,908	1,908	1,908
Balances with Central Bank excluding mandatory reserve deposits	898,279	898,279	63,793
Included in cash and cash equivalents	900,187	900,187	65,701
Mandatory reserve deposits with Central Bank of Nigeria	2,172,798	2,172,798	-
	3,072,985	3,072,985	65,701

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
18 CASH AND CASH EQUIVALENTS			
Cash and cash equivalents for purposes of the cash flow statements 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			
Cash and balances with Central Bank of Nigeria	900,187	900,187	65,701
Treasury bills with original maturities less than three months	5,642,110	5,642,110	4,794,352
Loans and advances to banks with original maturities less than three months	13,955,938	13,023,439	5,217,015
	20,498,235	19,565,736	10,077,068

19 LOANS AND ADVANCES TO BANKS

Current account balances with banks within Nigeria	1,207,811	1,027,230	632,579
Current account balances with banks outside Nigeria	6,998,287	6,993,120	740,005
Placements with financial institutions within Nigeria	6,747,230	6,000,479	4,278,170
	14,953,328	14,020,829	5,650,754
Collective impairment	-	-	-
	14,953,328	14,020,829	5,650,754

20 LOANS AND ADVANCES TO CUSTOMERS

	Gross amount	Collective impairment	Specific impairment	Carrying amount
Group				
31 December 2017				
Loans and advances to customers	9,249,194	(11,182)	(420,995)	38,817,018
Staff loans	347,028	-	-	347,029
	39,596,222	(11,182)	(420,995)	39,164,047
Current				21,608,393
Non-current				17,555,654
				39,164,047
				41,684,102

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

20 Loans and advances to customers (continued)

	Gross amount	Collective impairment	Specific impairment	Carrying amount
Bank				
31 December 2017	39,249,194	(11,182)	(420,995)	38,817,018
Loans and advances to customers	336,216		-	336,216
Staff loans	39,585,410	(11,182)	(420,995)	39,153,234
31 December 2016				
Loans and advances to customers	41,914,328	(19,522)	(500,547)	41,394,259
Staff loans	289,984	(141)	-	289,844
	42,204,312	(19,663)	(500,547)	41,684,103
			21,597,580	24,128,448
Current			17,555,654	17,555,655
Non-current			39,153,234	41,684,103

Reconciliation of impairment allowance on loans and advances to customers for Group and Bank:

	31 December 2017			31 December 2016		
	Specific impairment	Collective impairment	Total impairment	Specific impairment	Collective impairment	Total impairment
At 1 January	500,547	19,664	520,211	726,551	51,339	777,890
Increase in impairment allowance	-	-	-	-	-	-
Reversal of impairment	(79,552)	(8,482)	(88,034)	(226,004)	(31,675)	(257,680)
Balance at the end of the year	420,995	11,182	432,177	500,547	19,664	520,210

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016

21 FINANCIAL ASSETS HELD-FOR-TRADING

Federal Government of Nigeria (FGN) bonds	2,418,805	2,418,805	13,774,816
Treasury bills	900,896	900,896	3,902,793
Unlisted equity investments	284,749	-	-
Listed equity investments	748,116	-	-
	4,352,566	3,319,701	17,677,609

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
Investments securities			
22 AVAILABLE-FOR-SALE			
Debt securities			
Treasury bills	36,801,529	36,782,739	10,668,465
Federal Government of Nigeria Bonds	7,035,687	7,035,687	7,991,129
State bonds	235,878	235,878	1,547,622
Corporate bonds	4,858,992	4,758,666	562,560
Equity securities			
Listed equity investments	5,384	-	-
Unlisted equity investments	89,423	75,838	66,422
Total investments securities	49,026,893	48,888,808	20,836,198
Current	42,656,135	42,656,135	15,480,174
Non-current	6,370,759	6,232,673	5,356,024
	49,026,893	48,888,808	20,836,198
23 HELD-TO-MATURITY			
Corporate Bonds	3,902,759	3,902,759	-
	3,902,759	3,902,759	-
24 PLEDGED ASSETS			
Available-for-sale			
Treasury bills	6,823,144	6,823,144	25,875,091
	6,823,144	6,823,144	25,875,091
Held-for-trading			
Treasury bills	-	-	10,411,564
	6,823,144	6,823,144	36,286,655

Treasury bills are pledged to other financial institutions as collateral for takings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
25 OTHER ASSETS			
Financial assets:			
Fees receivables	3,113,345	2,348,122	1,112,748
AGSMEIS Investment fund	244,991	244,991	-
Account receivable	-	-	850,000
Intercompany receivable	613,236	613,236	1,449,184
Other receivable	31,013	11,250	73,982
	4,002,585	3,217,599	3,485,914
Less allowances for impairment	(3,900)	(3,900)	(3,900)
	3,998,685	3,213,699	3,482,014
Non financial assets:			
Withholding tax receivable	1,211,811	848,636	821,072
Prepayments	657,502	657,502	509,210
	5,867,998	4,719,837	4,812,296
Less allowances for impairment	(727,044)	(726,792)	(167,329)
	5,140,954	3,993,045	4,644,967
Current	3,684,155	3,477,067	4,442,250
Non-current	1,456,799	515,978	202,717
	5,140,954	3,993,045	4,644,967
Allowance for impairment on financial asset			
Balance at 1 January	3,900	3,900	3,900
Write-off of provision	-	-	-
	3,900	3,900	3,900
Allowance for impairment on non financial asset			
Balance at 1 January	167,329	167,329	-
Additional provision	559,463	559,463	167,329
	726,792	726,792	167,329

Agri - Business/Small and Small and Medium Enterprises Scheme (AGSMEIS)

The AGSMEIS is maintained to support the Federal Government's effort at promoting Agricultural businesses and Small and Medium Enterprises. All Deposit Money Banks (DMBs) are required to set aside 5% of their Profit After Tax for equity investment in permissible activities as stipulated in the scheme guidelines. The fund is domiciled with CBN.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
26 INVESTMENT IN SUBSIDIARIES			
Investment in FBNQuest Securities Limited	-	1,448,100	-
Investment in FBNQuest Assets Management Limited	-	289,006	-
	-	1,737,106	-

The Bank owns 100% shareholding of each of the subsidiaries.

26.1 Group entities

Set out below are the Group's subsidiaries. Unless otherwise stated, the subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by the Group. The country of incorporation is also their principal place of business.

There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of any member of the Group to the extent that regulation does not inhibit the Group from having access, and in liquidation scenario, this restriction is limited to its level of investment in the entity.

	31 December 2017
FBNQuest Securities Limited	1,448,100
FBNQuest Asset Management Limited	289,006
	1,737,106

The Group consolidates its subsidiary undertakings. The nature of the business of all the subsidiaries involve the provision of asset management services.

26.2 The summarised financial information of the subsidiaries is as follows

i Condensed statement of comprehensive income	FBNQAM 31 December 2017	FBNQSEC 31 December 2017
Operating income	3,184,431	581,844
Total operating expenses	(1,270,407)	(458,628)
Net impairment gain/(loss) on financial assets	-	-
Profit/(loss) before income tax	1,914,024	123,216
Income tax expense	(690,913)	(40,699)
Profit/(loss) for the period	1,223,111	82,517

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

ii Condensed statement of financial position

As at 31 December 2017	31 December 2017	31 December 2017
Assets		
Cash and cash equivalents	1,042,444	1,210,948
Financial assets held-for-trading	284,748	748,116
Investment securities - AFS	100,327	37,758
Loans and receivables	1,126,838	31,885
Property and equipment	72,873	12,016
Intangible assets	129,543	150,444
Deferred tax assets	-	122,719
Deposit with NSE		1,150
	2,756,773	2,315,036

Financed by:

Accruals and other liabilities	937,183	351,219
Customer deposits		466,265
Tax payable	657,860	12,060
Deferred tax liabilities	81,822	-
Total equity	1,079,908	1,485,492
	2,756,773	2,315,036

iii Condensed cash flows

Net cash from operating activities	1,157,260	(96,131)
Net cash from financing activities	219,675	(135)
Net cash from investing activities	(680,000)	19,704
Increase/(decrease) in cash and cash equivalents	696,935	(76,562)
Effects of exchange rate changes on cash and cash equivalents	-	-
Cash and cash equivalents at beginning of period	345,510	1,287,510
Cash and cash equivalents at end of period	1,042,445	1,210,948

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
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27 DEPOSIT WITH NIGERIAN STOCK EXCHANGE

FBNQuest Securities Limited	1,150	-	-
	1,150	-	-

28 PROPERTY AND EQUIPMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Group	In thousands of Nigerian Naira 2017	Freehold building	Land	Motor vehicle	Office improvement	Furniture fittings	Office equipment	Computer Equipment	Total
Cost									
At 1 January	675,355	200,000	367,610	-	72,723	111,118	125,590	1,552,396	
Asset acquired on business combination	-	29,263	-	-	-	303	1	29,566	
Addition for the year	-	563,513	70,832	42,881	13,973	411,183	1,102,382		
Disposals during the year	-	(87,428)	-	(9,825)	(3,793)	(532)	(101,578)		
At 31 December	675,355	200,000	872,957	70,832	105,779	121,601	536,241	2,582,765	
Depreciation									
At 1 January	76,106	-	138,985	-	62,044	104,227	114,842	496,204	
Charge for the year	18,531	-	195,227	7,493	9,853	4,303	33,122	268,530	
Disposals during the year	-	-	(47,739)	-	(5,716)	(3,793)	(229)	(57,477)	
At 31 December	94,637	-	286,474	7,493	66,181	104,739	147,735	707,258	
Net book value									
At 31 December, 2017	580,718	200,000	586,484	63,339	39,598	16,862	388,508	1,875,507	
Bank									
Cost									
At 1 January	675,355	200,000	367,610	-	72,723	111,118	125,590	1,552,396	
Addition for the year	-	499,154	70,832	42,818	13,122	411,183	1,037,110		
Disposals during the year	-	(87,428)	-	(9,825)	(3,793)	(532)	(101,578)		
At 31 December	675,355	200,000	779,336	70,832	105,716	120,447	536,241	2,487,927	
Depreciation									
At 1 January	76,106	-	138,985	-	62,044	104,227	114,842	496,204	
Charge for the year	18,531	-	185,375	7,493	9,853	4,207	33,122	258,581	
Disposals during the year	-	-	(47,739)	-	(5,716)	(3,793)	(229)	(57,477)	
At 31 December	94,637	-	276,622	7,493	66,181	104,642	147,735	697,310	
Net book value									
At 31 December, 2017	580,718	200,000	502,714	63,339	39,535	15,805	388,507	1,790,618	
Bank									
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)	(57,477)	
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 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	-	10,677	6,890	10,748	1,056,192	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29 INTANGIBLE ASSETS

	Computer software	Work-in-progress	Total
Group			
2017			
Cost			
At 1 January	200,977	958,084	1,159,061
Acquired on business combination	334,407	-	334,407
Additions for the year	2,028,297	312,662	2,340,959
Transfers	875,744	(875,744)	-
At 31 December 2017	3,439,425	395,002	3,834,427
Amortisation			
At 1 January	186,476	-	186,476
Charge for Year	527,047	-	527,047
At 31 December 2017	713,524	-	713,524
Bank			
2016			
Cost			
At 1 January	200,977	958,084	1,159,061
Additions for the year	2,026,737	311,034	2,337,771
Transfers	875,744	(875,744)	-
At 31 December 2016	3,103,458	393,374	3,496,832
Amortisation			
At 1 January	186,476	-	186,476
Charge for Year	469,441	-	469,441
At 31 December 2016	655,917	-	655,917
Bank			
2015			
Cost			
At 1 January	195,977	-	195,977
Additions for the year	5,000	958,084	963,084
Transfers	-	-	-
At 31 December 2015	200,977	958,084	1,159,061
Amortisation			
At 1 January	176,097	-	176,097
Charge for Year	10,379	-	10,379
	186,476	-	186,476
At 31 December 2015 (Group)	2,725,901	395,002	3,120,903
At 31 December 2015 (Bank)	2,447,541	393,374	2,840,915
At 31 December 2015 (Bank)	14,501	958,084	972,585

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

30 DEFERRED TAX

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2016: 30%).

Deferred income tax assets and liabilities are attributable to the following items:

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
a) Deferred tax assets			
Tax loss carry forward	(9,711,230)	(9,590,372)	(8,801,880)
Deferred tax liabilities			
Property, plant and equipments and intangible assets	558,647	476,825	403,983
Net	(9,152,583)	(9,113,547)	(8,397,897)
b) Deferred tax assets			
Tax loss carry forward	(9,234,405)	(9,590,372)	(8,801,880)
Deferred tax liabilities			
Property, plant and equipments and intangible assets	81,822	476,825	403,983
Net	(9,152,583)	(9,113,547)	(8,397,897)
c) Deferred tax assets			
The balance comprises temporary differences attributable to:			
Tax losses	8,992,593	8,904,028	8,277,894
Unabsorbed capital allowance	531,031	512,268	463,849
Impairment charge	174,152	174,076	59,837
Others	13,454	-	300
Total deferred tax asset	9,711,230	9,590,372	8,801,880
Set-off of deferred tax liabilities pursuant to set-off provisions	(476,825)	(476,825)	(403,983)
Net deferred tax balance	9,234,405	9,113,547	8,397,897
Deferred tax liabilities			
The balance comprises temporary differences attributable to:			
Unrealised exchange difference	(12,460)	-	(283,258)
Property, plant and equipment	(69,361)	(476,825)	(117,312)
Others	-	(3,413)	(3,413)
Total deferred tax liabilities	(81,821)	(476,825)	(403,983)
- Deferred tax asset to be recovered after more than 12 months	9,711,230	9,590,372	8,801,880
- Deferred tax liability to be recovered after more than 12 months	(558,646)	(476,825)	(403,983)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Movements in temporary differences during the period:

Group

	1 January	Recognised	Recognised	31 December
	2017	in profit and loss	in OCI	2017
Tax losses	8,277,894	714,699	-	8,992,593
Unabsorbed capital allowance	463,849	184,439	-	648,288
Unrealised exchange difference	(283,258)	213,897	-	(69,361)
Impairment charge	59,837	114,314	-	174,151
Property, plant and equipment	(117,312)	(489,229)	-	(606,541)
Others	(3,113)	3,113	13,454	13,454
	8,397,896	741,233	13,454	9,152,583

Bank

2017	1 January	Recognised	Recognised	31 December
	2017	in profit and loss	in OCI	2017
Tax losses	8,277,894	626,134	-	8,904,028
Unabsorbed capital allowance	463,849	178,136	-	641,985
Unrealised exchange difference	(283,258)	283,258	-	-
Impairment charge	59,837	114,239	-	174,075
Property, plant and equipment	(117,312)	(489,229)	-	(606,541)
Others	(3,113)	3,113	-	(0)
	8,397,897	715,651	-	9,113,547

Bank

2016	1 January	Recognised	Recognised	31 December
	2016	in profit and loss	in OCI	2016
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)	1,573	-	(3,113)
	7,994,494	403,402		8,397,897

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 Group has a deferred tax assets amounting to ₦10.5billion as at 31 December 2017 (31 December 2016:₦8.8million), however only ₦9.72billion has been recognised as at 31 December 2017 (31 December 2016 :₦8.8million). Based on Management assessment, the deferred tax asset recognised is recoverable against future tax profits.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
31 DUE TO BANKS			
Due to banks comprise:			
Tenored intergroup deposit	10,323,992	11,639,548	4,577,047
Open buy back - Treasury bills	-	-	34,286,918
	10,323,992	11,639,548	38,863,965
Current	10,323,992	11,639,548	38,863,965
Non-current	-	-	-
	10,323,992	11,639,548	38,863,965
32 DUE TO CUSTOMERS			
Call deposits	4,973,741	4,512,399	3,387,354
Term deposits	82,978,585	82,978,585	61,340,305
	87,952,326	87,490,984	64,727,659
Current	87,952,326	87,490,984	64,727,659
	87,952,326	87,490,984	64,727,659
Due to customers only include financial instruments classified as liabilities at amortised cost.			
33 OTHER LIABILITIES			
Financial liabilities:			
Customer deposits for letters of credit	1,028,884	1,028,884	449,357
Accounts payable	725,523	364,239	392,517
Dividend payable	8,700,000	8,700,000	1,048,000
Uncleared effects	13,670	13,670	1,679,738
Accrued liabilities	2,421,473	1,500,490	788,808
	12,889,550	11,607,283	4,358,420
Current	12,889,550	11,607,283	4,358,420
Non-current	-	-	-
	12,889,550	11,607,283	4,358,420
34 SHARE CAPITAL			
(i) Authorised			
4.5 billion ordinary shares of ₦1 each	4,500,000	4,500,000	4,500,000
(ii) Issued and fully paid			
4.3 billion ordinary shares of ₦1 each	4,301,577	4,301,577	4,301,577

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

35 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.

Retained earnings: Retained earnings comprise the undistributed profits from previous years, which have not been reclassified to the other reserves.

Statutory reserve: Undistributable earnings required to be kept by the Central Bank of Nigeria.

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 reserves calculated under IFRS.

36 DIVIDENDS

An interim dividend of ₦8.7billion (31 December 2016: ₦1.048bn) was proposed and approved by the Board of Directors on 18 December 2017. This interim dividend has been recognised as a liability in the shareholders' equity as at 31 December 2017.

37 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 consolidated income statement until the asset has been sold or impaired.

Below is the movement in available-for-sale reserves

	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
At beginning of the period	(2,416,834)	(2,416,834)	319,471
Fair value movement during the period	2,002,270	1,996,103	(2,736,305)
At end of the period	(414,564)	(420,731)	(2,416,834)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

38 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
Profit before income tax	6,166,918	4,948,065	4,915,910
<hr/>			
Adjustments for:			
- Depreciation (note 28)	268,530	258,581	130,516
- Amortisation (note 29)	527,047	469,441	10,379
- Loss/(gain) on sale of property and equipment (note 12)	35,254	35,254	(3,768)
- Impairment charge/(writeback) (note 9)	545,234	471,429	35,367
- Net (losses)/gains from financial assets held-for-trading (note 11a)	(865,975)	(835,468)	200,615
- Net loss on derivative financial instruments (note 11b)	-	-	121,086
- Unrealised foreign exchange gain on revaluation (note 11)	(257,469)	(164,610)	(885,182)
- Net interest income	(6,920,982)	(6,875,133)	(4,640,042)
	(501,442)	(1,692,441)	(115,118)
<hr/>			
Changes in working capital:			
- Restricted deposit	(2,736,450)	(2,736,450)	-
- Loans and advances to customers	3,113,634	3,113,634	(4,365,018)
- Financial assets held-for-trading	3,697,308	3,375,669	(21,042,639)
- Pledged assets	29,463,511	29,463,511	4,794,352
- Other assets	(672,820)	92,458	(3,946,438)
- Due to banks	(27,229,481)	(27,211,866)	28,659,998
- Due to customers	21,568,553	21,568,553	(2,589,643)
- Other liabilities	(972,064)	(403,137)	1,796,550
Cash generated from/(used in) operations	25,730,749	25,569,933	3,192,044

39 CONTINGENT LIABILITIES AND COMMITMENTS

Litigation

The Group is party to three (3) 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. Contingent liability that may arise from the cases is estimated at nil (31 December 2016: nil).

Loan commitments

Loan commitments are irrevocable commitments to provide credits under pre-specified terms and conditions. The Group's loan commitments are usually conditioned on the maintenance of a satisfactory financial standing by the customer and absence of defaults on other covenants. At the balance sheet date, the Group had loan commitments amounting to ₦12.225billion (31 December 2016: Nil) in respect of various loan contracts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

40 RELATED PARTY TRANSACTIONS

The Group is a member of the FBNHoldings Group. The Group 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 volumes of related-party transactions, outstanding balances at the year-end, and relating expense and income for the year are as follows:

40.1 Loans and advances to related parties

The Group 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 Group's portfolio. Details of these are described below:

	31 December 2017	31 December 2017	31 December 2016
	Entities controlled by parent	Key Management personnel	
Period ended 31 December 2017			
Loans and advances			
Loans outstanding at 1 January	-	212,961	161,212
Loans issued during the period	-	36,062	109,500
Loan repayments during the period	-	(93,269)	(57,751)
Loans outstanding at 31 December	-	155,754	212,961
Interest income earned	-	7,993	8,518

The loans issued to key management personnel during the year of ₦36.06mn (2016: ₦110mn) are repayable monthly over a period of between two to twenty years and have interest rates of 8% (2016: 4%).

40.2 Deposits from related parties

Year ended 31 December 2017	Entities controlled by parent	Key Management personnel	Others
Due to customers			
Deposits at 1 January			
Deposits at 1 January	13,223,666	56,578	69,378
Movement during the period	(1,875,259)	(53,510)	(3,888)
	11,348,407	3,068	65,490
Due to banks	2,943,720	-	-
Deposits at 31 December	14,292,127	3,068	65,490
Interest expenses on deposits	31,809	116	2,222
Year ended 31 December 2016			
Due to 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	-	-
Deposits at 31 December	13,223,666	56,578	69,378
Interest expenses on deposits	28,169	4,143	418

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

40.3 Other transactions and balances with related parties

Name of entity	Nature of transaction	31 December 2017	31 December 2016
FBN Insurance Brokers	Insurance premium	41,758	21,115
FBNQuest Capital Group	Interest expense	8,295	13,708
FBNQuest Asset Management	Interest expense	33,326	-
FBNQuest Asset Management	Tenored takings	1,015,556	-
FBNQuest Capital Group	Interest income	8,714	9,856
FBNQuest Capital Group	Fee and commission income	613,236	1,449,184
FBNQuest Capital Group	Fees receivable	613,236	1,449,184
FBNQuest Capital Group	Derivative liabilities	32,562	-
FBNQuest Capital Group	Placement	570,000	1,045,000
FBN Limited	Due from	6,931,536	-
FBN Limited	Interest expense	-	6,563
FBNQuest Securities Ltd	Interest expense	6,766	-
FBNQuest Securities Ltd	Tenored takings	300,000	-
FBNQuest Securities Ltd	Deposit	4,799	-
FBN Holdings Plc	Tenored takings	883,791	-
FBN Holdings Plc	Interest expense	324,458	-

40.4 Key management compensation

In thousands of Nigerian Naira	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
Wages and salaries	445,866	445,866	489,723
Defined contribution plan to PFAs	28,124	28,124	30,947
	473,990	473,990	520,670

The definition of related parties includes the close members of family of key personnel and any entity over which key management exercise control. The key management personnel have been identified as the Executive and Non-Executive Directors of the Group and the Senior Management. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with FBNQuest Merchant Group Limited.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

41 EMPLOYEES

The average number of persons employed by the Group during the period was as follows:

	Number		
	Group	Bank	Bank
	31 December	31 December	31 December
Management	10	9	14
Non-Management	193	164	116
	203	173	130

The average number of staff employed during the financial year was 199 out of which fifty (50) were female representing 39% of the total workforce. Of the Top Management staff, five (5) are women representing 40% of Top Management staff.

Compensation for the above staff excluding Executive Management:

<i>In thousands of Nigerian Naira</i>	Group	Bank	Bank
	31 December	31 December	31 December
	2017	2017	2016
Wages and salaries	2,986,820	2,614,273	1,134,242
Other pension costs	161,803	149,162	79,776
	3,148,623	2,763,435	1,214,018

The number of employees of the Group, other than Directors, who received emoluments in the following ranges (excluding pension contributions and certain benefits) were:

	Number		
	Group	Bank	Bank
	31 December	31 December	31 December
₦350,001 - ₦600,000	-	-	-
₦600,001 - ₦700,000	-	-	-
₦700,001 - ₦1,150,000	-	-	-
₦1,150,001 - ₦1,600,000	1	1	-
₦1,600,001 - ₦2,100,000	1	1	-
₦2,100,001 - ₦2,500,000	-	-	2
₦2,500,001 - ₦3,500,000	25	19	9
₦3,500,001 - ₦5,500,000	32	25	17
₦5,500,001 - ₦10,500,000	57	51	55
₦10,500,001 and above	87	76	47
	203	173	130

In accordance with the provisions of the Pensions Reform Act 2014, the Group commenced a contributory pension scheme in January 2005. The contribution by the Group is 10% of the employees' basic salary, housing and transport allowances. The contribution paid by the Group during the period was ₦149.16million (31 December 2016: ₦79.8million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

42 DIRECTORS' EMOLUMENTS

Remuneration paid to the Group's Directors was:

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
Fees and sitting allowances	76,797	76,797	77,861
Executive compensation	204,667	181,125	145,703
Terminal benefits	-	-	212,962
Other Director expenses	17,559	17,559	17,070
	299,023	275,481	436,526

Fees and other emoluments disclosed above include amounts paid to:

Chairman	18,517	18,517	14,291
Highest paid Director	67,500	67,500	62,048

The number of Directors who received fees and other emoluments (excluding pension contributions and certain benefit) in the following ranges was:

	Number		
	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
	8	8	8
₦5,000,001 and above	8	8	8
	8	8	8

43 COMPLIANCE WITH REGULATORY BODIES

During the year ended 31 December 2017, the Group had three contraventions of regulatory provisions and had since paid the attending penalties thereon. Below is the analysis of the contravention:

Contraventions	Regulatory provisions	Penalties ₦'000
Late submission of FINA returns on 3 occasions	CBN circular ref no. BSD/DIR/GEN/ LAB/07/011 dated 10 April 2014	75

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

44 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount which is recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are indicative of neither the market risk nor the credit risk.

<i>In thousands of Nigerian Naira</i>	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
Derivative financial asset			
Instrument type:			
Non-deliverable foreign currency futures	32,562	32,562	-
The movement in derivative assets is as follows:			
Balance, beginning of the year	-	-	-
Fair value of derivatives derecognised in the year	-	-	-
Fair value of derivatives acquired in the year	32,562	32,562	-
Balance, end of the year	32,562	32,562	-
Notional amounts	3,963,766	3,963,766	-
Derivative financial liabilities			
Instrument type:			
Non-deliverable foreign currency futures	(32,562)	(32,562)	-
The movement in derivative assets is as follows:			
Balance, beginning of the year	-	-	121,086
Fair value of derivatives derecognised in the year	-	-	(121,086)
Fair value of derivatives acquired in the year	(32,562)	(32,562)	-
Balance, end of the year	(32,562)	(32,562)	-
Notional amounts	3,963,766	3,963,766	1,512,754

The nil impact of the derivative on the statement of comprehensive income was due to the Company acquiring the derivative on behalf its sister company (FBNQuest Capital Ltd) from CBN.

45 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

46 BUSINESS COMBINATION

The Bank has applied the Predecessor method to account for this business combination because the approach leads to an accounting outcome that is more relevant to users of the Bank's financial information. On the date of acquisition, book values of the entities were used and the results of the entities have been consolidated from the date control was obtained (1 August 2017).

The details of the business combination are as follows:

	Group 31 December 2017	Bank 31 December 2017	Bank 31 December 2016
Net difference (note 46.3)	26,598	-	-
Net movement in the period	-	-	-
At the end of the period	26,598	-	-

46.1 The net difference is analysed below:

	FBNQ AM	FBNQ SEC
Difference on business combination under common control	4,859	21,739

This is the net difference between the book values of the net asset acquired and the fair value of consideration paid by FBNQuest Merchant Bank to acquire two entities from another subsidiary controlled by the same Parent (FBN Holdings Plc).

Details of purchase consideration, the net assets acquired and goodwill/bargain purchase are as follows:

The fair value of the total consideration transferred as follows:

150,000,000 ordinary shares (AM)	289,006
2,000,000 ordinary shares (SEC)	1,448,100
	1,737,106

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

46.2 The book value of the identifiable assets and liabilities of the entities recognised as a result of the acquisition are as follows:

	TOTAL	FBNQ SEC	FBNQ AM
ASSETS			
Cash and cash equivalent	2,171,755	1,403,577	768,178
Deposit with NSE	1,150	1,150	-
Financial assets at fair value through profit/loss	786,208	536,700	249,508
Investment securities:	-	-	-
- Available-for-sale investments	335,743	55,712	280,031
- Held-to-maturity investments	-	-	-
Loan and receivables	471,903	13,122	458,781
Other assets	2,786	2,786	-
Intangible assets	334,407	179,810	154,597
Property and equipment	29,566	13,900	15,666
Deferred tax assets	130,694	130,694	-
TOTAL ASSETS	4,264,212	2,337,451	1,926,761
LIABILITIES			
Current tax liabilities	310,296	17,889	292,407
Customers deposit	298,781	298,781	-
Deferred tax liabilities	40,237		40,237
Other liabilities	1,851,194	550,942	1,300,252
TOTAL LIABILITIES	2,500,508	867,612	1,632,896
NET ASSETS ACQUIRED	1,763,704	1,469,839	293,865

46.3 The net difference arising is determined as follows:

Purchase consideration (ordinary and preference shares)	1,737,106
Book value of net assets acquired	1,763,704
Net difference	(26,598)

(The net difference has been recognised in equity as "other reserves")

There were no differences in accounting policies between the combined entities of the Group.

46.4 Cost of acquisition (discharged by cash)	1,737,106
Cash and cash equivalents in subsidiaries acquired	2,171,755
Net cash flow	(434,649)

47 DIRECTOR-RELATED EXPOSURES

The Group has no Director-related exposures as at 31 December 2017.

STATEMENT OF VALUE ADDED

FOR THE YEAR ENDED 31 DECEMBER 2017

	Group December 2017 ₦'000	%	Bank December 2017 ₦'000	%	Bank December 2016 ₦'000	%
Gross earnings	26,074,329	258	24,147,015	286	16,528,743	264
Interest expense	(12,081,170)	(119)	(12,119,198)	(144)	(8,199,829)	(131)
	13,993,159		12,027,817		8,328,914	
Impairment loss on financial assets	(545,234)	(5)	(471,429)	(6)	(35,367)	(1)
	13,447,925		11,556,388		8,293,547	
Bought in materials and services	(3,336,807)	(33)	(3,116,867)	(37)	(2,020,854)	(32)
Value-added	10,111,116	100	8,439,520	100	6,272,693	100
Distribution of value-added						
To government:						
Taxes	1,283,304	25	863,601	10	16,083	0
To employees:						
Salaries and benefits	3,148,623	60	2,763,435	32	1,215,888	19
The future:						
For replacement of fixed assets/intangible assets						
(depreciation and amortisation)	795,577	15	728,020	9	140,895	2
To augment reserves	-	1	4,084,464	49	4,899,827	77
	5,227,504	100	8,439,520	100	6,272,692	100

This statement shows the distribution of wealth created by the Group during the period.

OTHER NATIONAL DISCLOSURES

FIVE-YEAR FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 2017

Bank	31 December 2017 ₦'000	31 December 2016 ₦'000	31 December 2015 ₦'000	31 December 2015 ₦'000	31 December 2014 ₦'000
Statement of financial position					
ASSETS					
Cash and balances with Central Bank of Nigeria	3,072,985	65,701	277,266	1,274	195,407
Loans and advances to banks	14,020,829	5,650,754	7,962,268	1,895,817	1,038,612
Loans and advances to customers	39,153,234	41,684,102	36,649,753	26,867,023	25,769,122
Financial assets held-for-trading	3,319,701	17,677,609	10,695,464	7,365,735	6,329,511
Investment securities:					
- Available-for-sale	48,888,808	20,836,198	41,042,494	50,640,807	44,675,182
- Loans and receivable	-	-	458,250	-	4,009,761
- Held-to-maturity	3,902,759	-	-	-	-
Pledged assets	6,823,144	36,286,655	-	-	19,900,000
Other assets	3,993,045	4,644,967	865,860	525,198	73,016
Investment in subsidiaries	1,737,106	-	-	-	-
Property and equipment	1,790,618	1,056,192	963,896	1,001,300	1,051,423
Intangible assets	2,840,915	972,585	19,879	27,144	29,594
Deferred tax assets	9,113,547	8,397,897	8,083,415	5,184,615	2,523,366
Derivative financial assets	32,562	-	-	-	-
TOTAL ASSETS	138,689,253	137,272,660	107,018,545	93,508,913	105,594,994
LIABILITIES					
Due to Central Bank of Nigeria	-	-	-	-	670,000
Due to banks	11,639,548	38,863,965	5,600,186	6,229,200	37,648,126
Due to customers	87,490,984	64,727,659	71,631,378	68,818,719	52,551,604
Other liabilities	11,607,283	4,358,420	900,970	208,565	478,598
Current income tax liability	1,579,252	363,559	128,264	84,864	87,096
Derivative financial instrument	32,562	-	367,041	1,002,431	265,150
Deferred tax liability	-	-	88,921	81,441	100,729
TOTAL LIABILITIES	112,349,629	108,313,603	76,425,220	91,801,303	97,685,406
NET ASSETS	26,339,625	28,959,057	17,083,693	13,793,691	13,368,995

FIVE-YEAR FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 2017

Bank	31 December	31 December	31 December	31 December	31 December
	2017 ₦'000	2016 ₦'000	2015 ₦'000	2015 ₦'000	2014 ₦'000
CAPITAL AND RESERVES					
Share capital	4,301,577	4,301,577	4,301,577	4,000,000	4,000,000
Share premium	3,904,731	3,904,731	3,904,731	3,000,000	3,000,000
Retained earnings	9,570,194	14,013,717	9,235,023	7,169,775	4,911,927
Available-for-sale (AFS) reserve	(420,731)	(2,416,834)	319,471	(3,874,860)	(1,572,188)
Statutory reserve	7,174,165	6,561,495	5,826,521	3,856,868	3,198,913
Credit risk reserve	1,809,688	2,594,371	4,256,212	1,725,602	255,039
Deposit for shares	-		-	1,206,308	-
SHAREHOLDERS' FUNDS	26,339,624	28,959,057	17,083,693	13,793,691	13,368,995
Income statement					
Operating income	11,374,411	8,083,209	6,088,826	4,087,557	4,735,094
Operating expenses	(6,426,347)	(3,167,299)	(2,262,516)	(2,280,777)	(1,886,212)
Profit before tax	4,948,065	4,915,910	3,826,310	1,806,780	2,848,882
Tax	(863,601)	(16,083)	2,739,201	2,579,584	(176,423)
Profit after tax	4,084,464	4,899,827	6,565,511	4,386,364	2,672,459
Earnings per share - basic	93k	109k	153k	110k	67k

OTHER NATIONAL DISCLOSURES

STATEMENT OF PRUDENTIAL ADJUSTMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

	31 December 2017 ₦'000	31 December 2016 ₦'000
Prudential guidelines provision:		
Balance brought forward:		
- Specific provisions	2,299,291	2,199,927
- General provisions	815,290	655,274
	3,114,581	2,855,201
(Write back)/Charge for the year:		
- Specific provisions	(105,106)	99,364
- General provisions	(36,917)	160,016
	(142,023)	259,380
Balance carried forward:		
- Specific provisions	2,194,185	2,299,291
- General provisions	778,373	815,290
	2,972,558	3,114,581
 IFRS impairment provisions:		
- Specific allowance for impairment	420,995	500,547
- Collective allowance for impairment	11,182	19,663
- Other assets: impairment	730,692	-
	1,162,869	520,210
 Required credit risk reserve at end of the year	1,809,689	2,594,371
 Balance at beginning of the year	2,594,371	4,256,212
Additional reversal to credit risk reserve	(784,682)	(1,661,841)
Balance at end of the period	1,809,689	2,594,371

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
FBNQ MB	FBNQuest 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
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
NAFEX	Nigerian Autonomous Foreign Exchange Rate Fixing
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
ROAE	Return on average equity
SEC	Securities and Exchange Commission
SME	Small and Medium Enterprise
TBBI	Treasury Bills Backed Investment
TBills	Treasury Bills
UHNWI	Ultra High Net Worth Individuals



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