FBN Merchant Bank

RICH HERITAGE
BRIGHT FUTURE

FBN Merchant Bank Limited

Annual Report and Accounts 2015

IN THIS REPORT

The term 'FBN Holdings Plc' or the 'Group' means FBNHoldings together with its subsidiaries, which include FBN Merchant Bank Limited. FBN Holdings Plc is a non-operating holding legal entity 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). FBN Holdings Plc is the parent company of all companies in the FirstBank Group. In this report the abbreviations '₦mn', '₦bn' and '₦trn' represent millions, billions and trillions of naira respectively.

FBN Holdings Plc is structured under four business groups, namely: Commercial Banking, Merchant Banking and Asset Management[1], Insurance, and Other Financial Services[2].

- The Commercial Banking business comprises First Bank of Nigeria Limited, FBNBank (UK) Limited, FBNBank DRC Limited, FBNBank Ghana Limited, FBNBank The Gambia Limited, FBNBank Guinea Limited, FBNBank Sierra Leone Limited, FBNBank Senegal Limited, First Pension Custodian Nigeria Limited and FBN Mortgage Limited. FirstBank (Nigeria) is the lead entity of the Commercial Banking business.
- Merchant Banking and Asset Management business consists of FBN Merchant Bank and FBN Capital Limited. Subsidiaries of FBN Capital include: FBN Trustees Limited, FBN Capital Asset Management Limited, FBN Funds Limited and FBN Securities Limited.
- The Insurance business comprises FBN Insurance Limited, FBN General Insurance Limited and FBN Insurance Brokers Limited.
- Other Financial Services include the Group's non-operating holdings company and other non-banking financial services businesses, primarily FBN Microfinance Bank which provides microfinance services. The Group's interest in FBN Microfinance Bank Limited was sold to Letshego Holdings in December 2015.

This report encompasses FBN Merchant Bank Limited. Unless otherwise stated, the profit or loss statement analysis compares the 12 months to December 2015 to the corresponding 12 months of 2014, and the financial position comparison relates to the corresponding position at 31 December 2014. Unless otherwise stated, all disclosed figures relate to continuing operations. Relevant terms that are used in this document but are not defined under applicable regulatory guidance or International Financial Reporting Standards (IFRS) are explained in the glossary or abbreviation section of this report. This report is also available online at www.fbnmerchantbank.com.

There is an option to view a navigable PDF copy of the First Bank of Nigeria Ltd report as well as standard PDFs of other subsidiary reports at the download centre. A compact disc (CD) containing the annual report and accounts for FBN Holdings Plc and First Bank of Nigeria Ltd, as well as information on outstanding dividend claims and a list of all our business locations, is available on request by contacting FBN Holdings Plc, Investor Relations department, Samuel Asabia House, 35 Marina Street, Lagos.

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

[1] Following the acquisition of the merchant banking licence, the Investment Banking and Asset Management business (IBAM) is now the Merchant Banking and Asset Management business (MBAM).

[2] Other Financial Services will no longer be classified as one of the main operating companies following the sale of the Microfinance business, which is classified under this category.

INTRODUCTION

After obtaining the final approval for a merchant banking licence from the Central Bank of Nigeria in May 2015, Kakawa Discount House Limited commenced operations in November 2015 as FBN Merchant Bank.

OVERVIEW

Who we are

Kakawa Discount House Limited (KDH) was established in 1995. KDH traded in and held Federal Government bonds, treasury bills and other eligible financial instruments purchased by banks, corporate bodies and other investing public. The business was acquired by FBN Holdings Plc in 2014.

After obtaining the final approval for a merchant banking licence from the Central Bank of Nigeria on 18 May 2015, KDH commenced operations on 2 November 2015 as FBN Merchant Bank Limited. Our key businesses comprise fixed income securities trading, wealth management and corporate finance services.

We serve a diverse customer base of high net worth individuals (HNIs), small and medium enterprise (SME) business owners, corporate organisations, banks and other financial institutions. We are a customer-centric organisation, cultivating and maintaining long-standing relationships with our customers. We leverage our customer relationship management application to enrich our relationships with our customers and increase our share of their wallet. We create value by trading, investing and financing on behalf of our clients, and our revenue streams comprise fees, interest income and profit margins from our trading activities.

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

Our vision

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

Our mission

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

Our values

Our core values are as follows:

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

Our brand values are as follows:

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

  We work united as one firm, and raise our collective game to become an inspiring and trusted partner to clients
- **Empowered: Through Diligence, Innovation and Excellence.**

  We are free to challenge convention, constantly raise the bar, and contribute towards intelligent and insightful solutions.
- **Impactful: Through Integrity, Teamwork and Excellence.**

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

FBN HOLDINGS PLC (FBNH)

COMMERCIAL BANKING

- **First Bank of Nigeria Ltd**
  - FBNBank (UK) Ltd
  - FBNBank DRC Ltd
  - FBNBank Ghana Ltd
  - FBNBank The Gambia Ltd
  - FBNBank Guinea Ltd
  - FBNBank Sierra Leone Ltd
  - FBNBank Senegal Ltd
  - First Pension Custodian Ltd
  - FBN Mortgages Ltd

MERCHANT BANKING AND ASSET MANAGEMENT[1]

- **FBN Merchant Bank Ltd**
- **FBN Capital Ltd**
  - FBN Trustees Ltd
  - FBN Capital Asset Management Ltd
  - FBN Funds Ltd
  - FBN Securities Ltd

INSURANCE

- **FBN Insurance Ltd**
  - FBN General Insurance
- **FBN Insurance Brokers Ltd**

OTHER FINANCIAL SERVICES[2]

- **FBN Microfinance Bank Ltd**

1 Following the acquisition of the merchant banking licence, the Investment Banking and Asset Management business (IBAM) is now the Merchant Banking and Asset Management business (MBAM).

2 Other Financial Services is no longer classified as one of the main operating companies following the sale of the microfinance business which was classified under this category.

PERFORMANCE HIGHLIGHTS

Our financial performance was strong in spite of a challenging operating environment. For the first 10 months of the year we operated as a discount house and commenced merchant banking activities on 2 November 2015, following the granting of a merchant banking licence by the Central Bank of Nigeria (CBN). Our discount income grew by 20%, from ₦12.6 billion in 2014 to ₦15.1 billion in 2015. Other income recorded a 99% increase from ₦679 million in 2014 to ₦1.4 billion in 2015, mainly from trading activities, valuation of derivatives, fees, commissions, sundry income and loan recoveries. Our operating costs fell by 0.42% to ₦2.3 billion. Thus, we ended the year with a profit after tax of ₦6.6 billion, a 49.7% increase on the previous year's figure of ₦4.4 billion.

20%

DISCOUNT INCOME GREW BY 20%, FROM ₦12.6 BILLION IN 2014 TO ₦15.1 BILLION IN 2015

₦6.57bn

PROFIT – A 49.7% INCREASE ON THE PREVIOUS YEAR'S FIGURE OF ₦4.4 BILLION

-0.42%

OUR OPERATING COSTS FELL BY 0.42% TO ₦2.3 BILLION

CHAIRMAN'S STATEMENT

Bello Maccido, Chairman

"The Company is entering a new era in its history, as a merchant bank. What will stand us in good stead are the time-tested values of teamwork, integrity, innovation and vision..."

DEAR SHAREHOLDERS,

It gives me great pleasure to welcome you all to the 21st Annual General Meeting of our Company. We present to you our annual report and financial statements for the financial year ended 31 December 2015 and our outlook for the new financial year.

THE OPERATING ENVIRONMENT

Global economy

The year 2015 held both the good and the unexpected for the world's economy. Compared with the recent past, economic growth was stronger in advanced economies but weaker in emerging markets and developing economies. Despite a modest economic recovery in advanced countries, global growth slowed in 2015, from 3.4% to about 3.1%. This was mainly due to the dip in growth in emerging markets and developing countries caused by a combination of factors, including a decline in commodity prices, geopolitical tensions and the effect of past rapid credit growth.

Among the advanced economies, recovery was most significant in the United States and the United Kingdom. Economic indicators such as inflation, unemployment and growth rates improved moderately, returning to near pre-crisis levels and giving room for policy adjustment consideration in both countries. The long-awaited US interest rate rise occurred late in 2015, signalling the commencement of policy normalisation in the USA as well as the beginning of a gradual tightening cycle. It is expected that, with continued economic improvement, the Bank of England will tow the path of its US counterpart and also adopt measures to forestall major impacts of its rate adjustments on the global economy amid slowing growth.

A rise in credit and intra-European trade growth point to a broadening recovery in the euro area. Since the start of the European Central Bank's (ECB) quantitative easing programme in the first quarter of the year, credit conditions have improved, and consumer spending and investments have also grown with the support of low fuel prices in member countries. Confidence in the euro area recovery fell with the advent of the Greece debt crisis and the possibility of Greece's departure. This potentially precarious situation was averted with a commitment to austerity measures by the Greek Government and third bailout package of €86 billion from the ECB and other key creditors. The quantitative easing programme of the Bank of Japan, however, did not record as much success; private consumption and investment failed to pick up and export growth remained subdued. In spite of this, commitment to sustained policy accommodation remains a positive for both Japan and for the euro area.

Unlike the advanced economies, the emerging markets appear trapped in a growth crisis emanating firstly from a slowdown in China, followed by weak commodity prices and a dearth of structural economic reforms. Russia and Brazil experienced deeper levels of recession and may struggle to recover with sustained low oil prices and weakening investor confidence. Thus, by the end of 2015, the Indian economy remained the gleam of hope for investors and developing countries, who relied greatly on its export demands as it remained strong and continued to outperform its peers. India appears to be well positioned to withstand near-term headwinds and volatility in global financial markets. Developing economies, which have been most susceptible to low commodity prices, tightening borrowing conditions and a slowdown in trade from major partners, may therefore take a cue from India's example by strengthening their business environments, following through with structural reforms, and formulating and implementing supportive policies. Even so, the pace of growth in emerging markets and developing economies is expected to be slower again in 2016.

Domestic economic environment

2015 was a challenging year for the Nigerian economy due to high levels of political uncertainty around the outcome of the general elections, dependency on oil export revenue, declining external reserves, and security concerns in the northern part of the country. Economic growth was disappointing while the potential risks of recession and stagflation existed. Nigeria experienced significant vulnerabilities to fluctuations in crude oil prices, pressures on the naira as a result of the strengthening of the dollar and high dependency on importation, and record high inflation rates that exceeded the Central Bank of Nigeria (CBN)'s inflation target limit of 6%–9%.

Administrative and policy measures were adopted to manage the country's exposure to global shocks and moderate the impact of lower government revenues. The CBN limited access to the use of foreign exchange (forex) to control depletions of the external reserves amid declining accretions, and adjusted policy rates to stimulate lending to key growth sectors of the economy following lower-than-expected growth performance. It also provided a bailout package to about 27 states of the federation due to lower federal account allocations, minimal internally generated revenues and pending financial obligations. The federal ministers were appointed in November 2015 and have begun taking steps to check revenue leakages, improve the national budgeting system and further diversify the economy.

Political concerns diminished both externally and internally with the relatively peaceful conduct of the general elections and successful handing over of power to a newly elected government. Strides were also made during the year in the war against terrorism through counter-terrorism attacks by the Nigerian army. The three focus areas of the Buhari-led government continue to be security, corruption and the economy. Economic milestones are anticipated in 2016 now that the federal ministers have been appointed and the discussions on the national budget for the new year have begun. Economic indicators such as rates of growth, foreign exchange, inflation, crude oil prices and the external reserves level will remain important and closely watched by policy makers in 2016. However, even more important will be Nigeria's ability to build resilience in the face of a changing external environment.

FINANCIAL SERVICE INDUSTRY

Banking sector

The Dutch Auction System was cancelled by the CBN in the first quarter of the year and the interbank foreign exchange became the official window through which demands for foreign exchange were handled. This action brought stability to the foreign exchange market, reduced the gaps in exchange rates at the parallel markets, and addressed some initial concerns of J.P. Morgan due to the inclusion of Federal Government of Nigeria (FGN) bonds on its Emerging Market Bond Index. However, the gap between the exchange rate on the interbank market and the bureau de change (BDC) segment soon widened due to demand pressures resulting in forex restriction for the importation of 41 goods and services towards the end of the year.

The CBN continued to deploy administrative forex control measures, including limitations to daily forex withdrawals and transactions and use of newly implemented Bank Verification Numbers (BVN) in forex purchase with BDCs. It retained its stance on the devaluation of the naira, which was held at the cost of the phasing out of FGN bonds from the J.P. Morgan Emerging Market Bond Index in October 2015. In response to the action taken by J.P. Morgan, the CBN introduced increased liquidity in the forex market to encourage foreign investors to hold on to FGN bonds. However, it became clear that many foreign investors had already exited the bond market as a result of uncertainties associated with the general elections. Thus, the market was mostly dominated by local investors.

Rates fell in both the interbank and bond markets following increased liquidity in the forex market and the banking system. The CBN's Monetary Policy Committee (MPC) had earlier harmonised the cash reserve ratios (CRR) for public sector and private sector deposits from 75% and 20% respectively to 31%. This harmonised CRR was subsequently reduced to 25% to limit liquidity pressures on the banking system as a result of the implementation of the Treasury Single Account (TSA), which required that all public sector funds be domiciled with the CBN. The CRR was further reduced to 20% at the MPC's meeting in November, which also saw the monetary policy rate reduced from 13% to 11%.

Declining growth rate amid an upward inflationary trend became a key policy consideration for the MPC. The gross domestic product (GDP) growth rate significantly declined to 2.84% in the third quarter of 2015 from 6.23% in the corresponding quarter of 2014. Hence, the MPC embarked on policy formulation that would stimulate growth in high-potential sectors of the economy. While evidence of increased bank lending to high-growth sectors of the economy was yet to emerge by year end, it is expected that the CBN and MPC will review policies for effectiveness and will ensure that policies in 2016 are geared towards supporting GDP growth and strengthening the naira and accretions to external reserves.

Conversion from a discount house to merchant bank

In May 2014, the Company obtained an approval in principle to convert to a merchant bank from the CBN. In accordance with the terms of this approval, the Company applied for the final approval for merchant banking at the end of November 2014.

The Company continued its discount house business until it obtained final approval from the CBN in May 2015 to convert to a merchant bank. Preparations for satisfying the operational expectations for merchant banking were completed at the end of October and the Company commenced merchant banking on 2 November 2015.

The Merchant Bank commenced full operations in January 2016 with a broader-based platform, leveraging on the synergies replete in the FBNHoldings Group and the long-standing goodwill of FBNHoldings to quickly establish the Company at the forefront of the Nigerian merchant banking subsector.

FBN Merchant Bank Limited's performance

2015 was a challenging period for the Nigerian economy. Apart from being an election year, when business traditionally slows down due to investors waiting to see the economic direction taken by the new government before making investment decisions, it was also a transitional year for the Company. The volatility experienced in the 2014 financial year continued into 2015, leading to spikes in rates and general uncertainty in the market. Due to purposeful leadership, your Company took advantage of the volatilities and rode the economic headwinds profitably in 2015, thereby delivering commendable returns to shareholders.

Discount and Similar Income stood at ₦15.1 billion, with a profit before tax (PBT) of ₦3.8 billion, representing an increase of 120% from the ₦1.8 billion recorded in the previous year. Total assets are ₦106.6 billion, representing an increase from the previous year's position of ₦91.8 billion. Similarly, shareholders' funds stood at ₦27.8 billion.

Change of ownership

In the course of the year, FBN Capital Limited transferred its shares to FBN Holdings Plc to pave the way for conversion to full merchant banking. With the transfer of ownership, the Company became a full subsidiary of FBN Holdings Plc. This development brings immeasurable benefits to the Company and its stakeholders. FBN Capital Ltd now has oversight from the holding company's Board, and the ability to leverage FirstBank Group's strength, expertise, network and rich heritage.

BOARD MATTERS/RE-CONSTITUTION OF THE BOARD OF DIRECTORS

The Chairman of the Company, Ibukun Awosika, resigned from the Company effective close of business 31 December 2015 to become Chairman of First Bank of Nigeria Limited, a sister company and the flagship of the Group. The Board of Directors is proud that the Company produced the chairperson of First Bank of Nigeria Limited and of our association with her.

As a director of the Company and the immediate past Group Chair Executive Officer of FBNHoldings, I became the new Chairman of the Company on 1 January 2016.

In the course of the year, the CBN approved the appointments of Andrew Reicher and Oluyele Delano, SAN, as independent directors of the Company in full compliance with the CBN's Corporate Governance Code. Also, Dr Omobola Johnson joined the Board of Directors in October. As the country's first and immediate past Minister for Communications, her contributions to Board deliberations are fast becoming invaluable.

'Laoye Jaiyeola retired as Managing Director on 31 March 2015 after successfully holding the reigns of the Company for nine and a half years. Between 1 April and 25 November, 'Gboyega Fatoki stood in as Acting Managing Director/CE, before the CBN approved the appointment of Kayode Akinkugbe. Kayode is joined by Taiwo Okeowo as Deputy Managing Director. The two bring extensive experience of financial services gained with both local and foreign businesses. It is the Board's conviction that the two of them, with management support, will lead the Company successfully into its next stage of growth.

Alongside these changes in personnel, the Board's strengths remain the openness and experience of the members, their commitment to the Company's growth and their passion for the opportunity to forge a new venture and make a resounding success of it.

By operation of law and in compliance with Section 249(1) of the Companies and Allied Matters Act, the appointment of Dr Omobola Johnson by the Board of Directors in the course of the year is expected to be ratified at this meeting.

The Company is entering a new era in its history, as a merchant bank. What will stand us in good stead are the time-tested values of teamwork, integrity, innovation and vision, which, I can assure shareholders, are found in abundance in the new entity. Indeed, management has coined the acronym 'Tidier', which stands for Teamwork, Integrity, Diligence, Innovation, Excellence and Respect, to guide the Company going forward and which will be the benchmark for assessing every function and step that both individual staff and management take. I implore my colleagues on the Board of Directors that, as the Company begins another stage in its journey to greatness, the tempo, dedication, candour and commitment required to support the expected growth will be fully displayed to the satisfaction of all stakeholders.

Corporate governance

Towards the end of the year, the Company received a minor penalty from the Securities and Exchange Commission (SEC) for not notifying the Commission of some changes to the Company name in the approved format. The penalty has been paid and the issue settled. Aside from this minor infraction, I am pleased to advise that the Company did not record any corporate governance breach in its operations for the 2015 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 the firm of J.K. Randle International (a copy of the comprehensive report for the financial year under review will be presented to shareholders at the 2016 General Meeting). This is particularly gratifying given the changes in ownership and management during the year. Consequently, I am able to assure all stakeholders that best corporate governance practices remain the foundation of the Company.

Change of business model

At the reporting date in the last financial year, the Company had an approval in principle to convert its operations to merchant banking. I am pleased to announce that full merchant banking approval was received from the CBN in May 2015. The necessary operational requirements were satisfied and merchant banking business commenced in November 2015.

Company relocation

Due to the conversion to merchant banking and enlarged headcount to manage the expected increase in business effectively, management sought a bigger and more suitable office to accommodate the Company. I am pleased to announce that we have now relocated to a premises at 10 Keffi Street, Ikoyi, Lagos. Necessary regulatory approvals for the relocation of the Company have been obtained.

OUTLOOK

2016 promises to be a year of economic recovery in spite of new realities. The gradually improving macroeconomic environment is expected to moderate the key concerns of the previous year, thereby restoring investor and market confidence. Ongoing economic reforms are likely to open up new opportunities that your Company will take advantage of while optimising existing ones. We anticipate new opportunities in the non-oil and gas sector due to supporting policies and an increased focus by the Federal Government. Although the effects of the low price of crude oil may linger, they are likely to diminish with lower government dependency on the oil sector. Increased internally generated revenue will cater for some of the loss in crude oil revenues, while responses to continued calls for private and foreign participation in infrastructural development will provide the enabling environment for enhanced growth.

The value of the naira remains a major source of concern as the currency has depreciated to new lows against the dollar. The CBN Governor's tight stance on the non-devaluation of the currency may have resulted in a wait-and-see approach given the low level of foreign investment into the country. Also, the restrictions on forex access had a negative impact on some sectors of the economy, such as manufacturing, due to making it more difficult to import materials needed for production. This contributed to sluggish economic growth and an upward trend in inflation as a result of imported items costing more. A stable exchange rate environment is paramount to the CBN and essential for inflow of investments into the country. Therefore, we foresee the CBN taking steps to address the concerns surrounding the strength of the naira in 2016.

Your Company strongly believes that amid the difficulties lie great opportunities, and hence will take strides to continue to deliver value to all our stakeholders. We will remain relevant in our industry and leverage on the size and strength of our parent company to make our mark. Our legacy and emerging new business model create competitive and new avenues to serve you better. Professionalism remains our hallmark and our unwavering commitment stays firm. We shall continue to be known for our relentlessness in exploring new opportunities and fulfilling our promises to you.

CONCLUSION

Distinguished shareholders, may I express appreciation to our customers, counterparties and business partners whose contribution and continued patronage guaranteed our existence over the years.

I thank our shareholders, whose tremendous support has helped to keep the Company steady and retain customer confidence amid the ongoing change in our business model.

To the members of the Board, I am pleased to be one of you and acknowledge your commitment and time to Board deliberations. I look forward with excitement to your continued candour and vibrancy at our future deliberations.

I also extend my thanks to the management and staff of our company for your tenacity and professionalism amid the ongoing change. My charge to you is to be trailblazers in the 2016.

Thank you.

Bello Maccido
Chairman

BUSINESS REVIEW

FBN Merchant Bank recorded a strong financial performance during 2015 despite the challenging operating environment and ongoing business model transformation.

CHIEF EXECUTIVE OFFICER'S REVIEW

Kayode Akinkugbe, MD/CEO

"In 2016, we will continue to explore opportunities to take informed risks to increase our revenues and grow our balance sheet..."

COMPANY'S PERFORMANCE

FBN Merchant Bank (FBN MB) recorded a strong financial performance during the 2015 financial year despite the challenging operating environment and our ongoing business model transformation. We operated as a discount house for the first 10 months of the financial year and commenced merchant banking activities on 2 November 2015 following the Central Bank of Nigeria (CBN)'s issuance of the final merchant banking licence.

Looking ahead to 2016, we plan to roll out a broader selection of merchant banking products and services. The new business model will comprise the following divisions: Corporate Banking; Investment Banking; Sales comprising Institutional Sales and Personal Sales (High Net Worth Individuals and Emerging Affluents); and Markets comprising; Fixed Income, Currencies and Treasury.

OPERATING ENVIRONMENT

The banking industry was negatively impacted by significant macroeconomic headwinds, which included dwindling global oil prices, rising inflation, lower government revenues and foreign exchange controls, leading to the devaluation of the naira. As a result, foreign investors continued to exit the market, or adopt a 'wait and see' approach. In addition, uncertainties about the outcome of the 2015 general elections, and the subsequent delay in the appointment of the executives further slowed down economic growth and negatively impacted business activities for most of the year.

The Fixed Income segment was characterised by periods of volatility and much lower trading activity, while the banking industry in general was characterised by slower loan growth.

In preparation for the delisting of Nigerian bonds from the J.P. Morgan EM Bond Index in October 2015, and commencement of the operation of the Treasury Single Account (TSA), the CBN stopped issuing Open Market Operation (OMO) bills in a bid to reduce the impact on naira liquidity. This caused a drop in yields to an all-time low of 0.5%. The relatively low interest rates reduced our funding costs in the last quarter of the year; however, it affected our ability to mobilise liabilities. Other key steps taken by the CBN to increase the banking sector liquidity include: reduction in the monetary policy rate (MPR) from 13% to 11% and cash reserve ratio (CRR) from 25% to 22.5% in November 2015.

Notwithstanding the tough operating environment, we seized the arbitrage opportunities in the market presented by the periods of volatility to generate income and value for our shareholders. We established new customer relationships, and re-structured the Corporate Finance (Corporate Banking) team into six industry segments. In addition, we leveraged Group synergies by cross-selling our products and services to other members of the FBNHoldings Group.

STAKEHOLDERS

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

In accordance with the Company's policy of continuous development, domestic and international training is provided to employees. The Company encourages diversity by consistently ensuring equal opportunity employment. We have been able to achieve male to female gender diversity ratio of 54% to 46% among all employees; 64% to 36% among top executives, and 75% to 25% among Board members. In addition to our compensation and welfare benefits, we operate a contributory pension plan in line with the Pension Reform Act.

STRATEGY

Our strategy has been to optimise our trading and risk asset portfolio performance, build customer intimacy, strengthen our operational excellence, drive a strong performance culture and improve our operating platform (people, processes and technology). As we expand our business model following our transition to a merchant bank, we will develop new strategies to compete effectively in our business segment.

Other key initiatives include the ongoing IT transformation project. Key applications such as Oracle Financials, Finacle Core Banking solution, Salesforce Customer Relationship Management (CRM) solution to mention a few are expected to 'go-live' in 2016.

RISKS AND OPPORTUNITIES

FBN 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 has been determined by the respective impact on earnings, capital adequacy, liquidity and stakeholders' interests. The increasingly tough 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).

FINANCIAL AND NON-FINANCIAL PERFORMANCE AND ACHIEVEMENTS

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

We seized market opportunities and, as a result, our gross discount income comprising loans and advances, treasury bills and government bonds, grew by 20%, from ₦12.6 billion in 2014 to ₦15.1 billion in 2015. Other income increased by 99% from ₦679 million in 2014 to ₦1.4 billion in 2015. The strong growth in other income was driven by net gains from financial assets held for trading; gain on derivative financial instruments, fees and commissions, sundry income and loan recoveries. Operating costs declined marginally (0.42%) from ₦2.28 billion to ₦2.27 billion. We ended the year on a very strong note with a profit before tax (PBT) of ₦3.8 billion, 120% increase on the previous year's PBT of ₦1.8 billion.

OUTLOOK

In 2016, we anticipate a more challenging operating environment for a number of reasons: rising inflation, slower economic growth, dwindling government revenues as a result of the fall in global crude oil prices and foreign exchange controls. Notwithstanding, we anticipate that the implementation of key economic policies designed to stimulate growth and the expansionary 2016 National Budget will help mitigate the impact of the tough operating environment.

Our clients now more than ever require us to deliver value added solutions. We plan to differentiate ourselves in the merchant banking segment by building a strong client centric operating model. We expect that access to a wider funding base, a broader business platform, bench strength and greater focus on extracting synergies will enable us to generate another solid financial performance. In 2016, we will continue to explore opportunities to take informed risks to increase our revenues and grow our balance sheet while we continue to proactively manage our liquidity and capital.

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

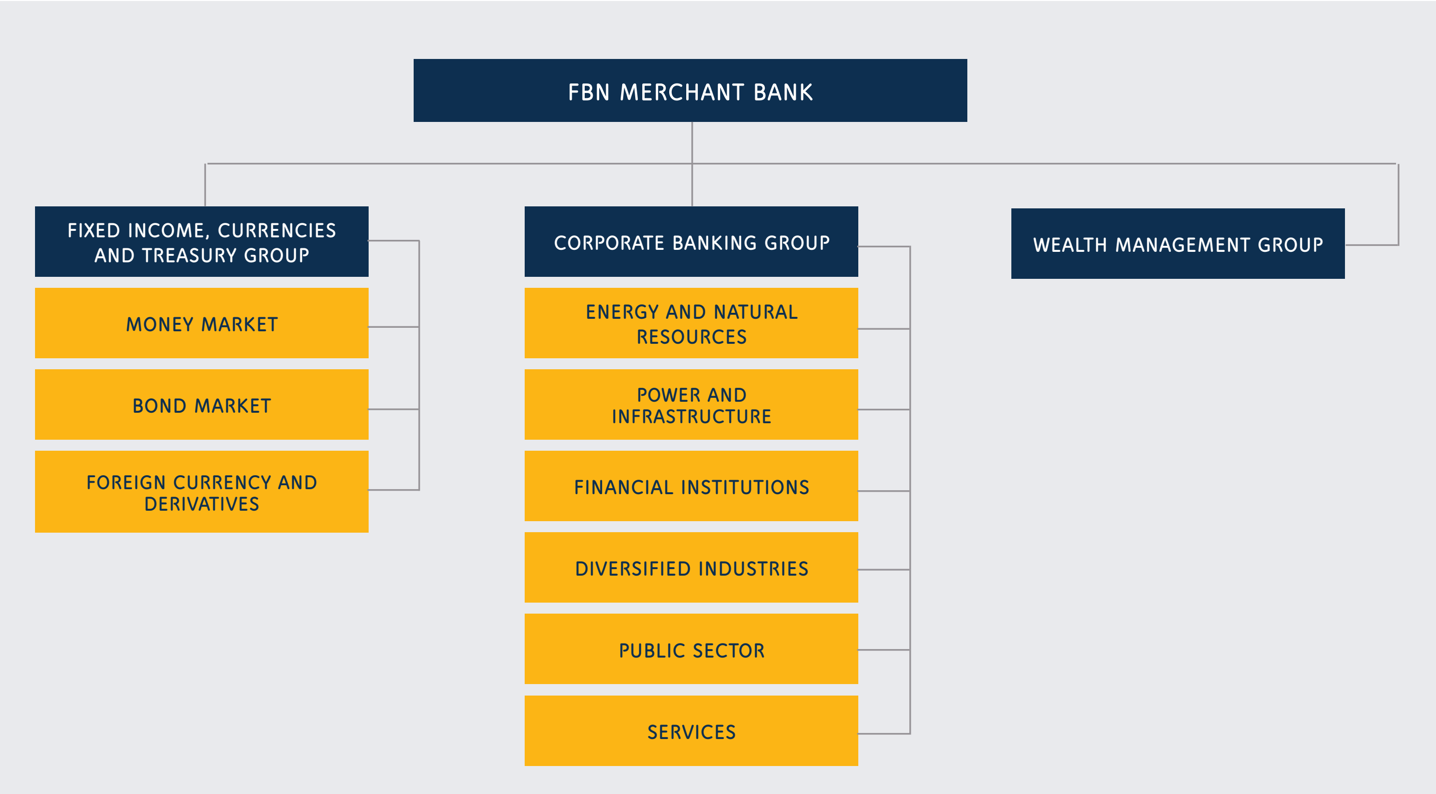
Thank you.

Kayode Akinkugbe
MD/CEO

DIVISIONAL OPERATING REVIEW

Below is the current operating structure.

FBN MERCHANT BANK STRUCTURE



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

CORPORATE BANKING GROUP

Bimbola Wright, Head, Corporate Banking Group

INTRODUCTION

The Corporate Banking group (CBG) offers a full bouquet of financial services, including financial advisory, project finance, loan syndication, trade finance, loan products and capital market products (debt and equity) across all segments of the Nigerian economy. The group has a primary focus on creating quality risk assets, developing liability products and mobilising deposits targeted at continuous balance sheet and revenues growth.

In identifying and creating quality risk assets, the group adheres to best practice credit principles and complies with regulatory guidelines. Transactions are considered on their merit against the Risk Assets Acceptance Criteria (RAAC) Policy, with credit structures tailored to suit customer needs and ensuring shareholder funds are protected.

Key products

- Current accounts
- Loans
- Structured investment products
- Project financing
- Receivables financing
- Trade finance
- Lease financing
- Asset-backed facilities
- Negotiable instruments
- Bonds and guarantees

Key products offered include loans, commercial papers/promissory notes and asset-backed facilities. To date, we have actively funded the power and infrastructure, manufacturing, FMCG, oil and gas, food and beverages, real estate, information and communication technology, transportation and construction sectors.

With a strong focus on the achievement of its corporate aspirations, the group has identified and selected six priority sectors with regards to the prospects of growth and profitability. These sectors are:

- Energy and natural resources
- Power and infrastructure
- Diversified industries
- Services
- Financial services
- Government institutions

KEY OPPORTUNITIES/CHALLENGES IN 2015

The lull in the market on account of the 2015 elections, continuously weakening oil prices, the resultant pressure on official exchange rates and fiscal policy uncertainties created a sluggish economic climate and had a negative impact on risk asset creation in local and foreign currency. In spite of the challenges, we recorded strong growth by adopting a more aggressive approach to the market and by enhancing our distribution strength in the year. This is reflected in our financial performance as follows:

PERFORMANCE HIGHLIGHTS

- ₦2 billion net interest income generated within the year.
- Year on year, net interest income grew by 92.31%.
- A total of ₦23.50 billion short- and long-term loans were booked during the year, with the year-end balance standing at ₦36.65 billion.
- The loan book grew by 36.4% year on year, from ₦26.87 billion in 2014 to ₦36.65 billion in 2015.

FINANCIAL SNAPSHOT

Metric	FYE 2015 '₦'bn	FYE 2014 '₦'bn	Growth (%)
Net interest income	2.00	1.17	70.94
Loans	36.65	26.87	36.4
Deposits	11.24	12.36	(9.13)

The decline in FYE 2015 deposits by 9.13% was mainly due to pricing constraints, client migration to other asset classes (government securities) and withdrawals for year-end activities.

KEY RISKS

- **Interest rate risk:** This was mitigated by benchmarking the pricing of risk assets to market-driven rates such as the Nigerian Inter-Bank Offered Rate (NIBOR), London Inter-Bank Offered Rate (LIBOR) and Nigerian Inter-bank Treasury Bills' True Yields (NITTY). This is to ensure that the applicable interest rate on risk assets reflect market realities and also limit the tenor of our fixed rate exposures.
- **Credit risk:** This is a fall-out of crystallisation of credit default risk. Deep understanding of relevant sectors as well as an internal strong credit risk management framework have contributed to minimising this risk.
- **Risks arising from third-party dependence:** Reliance on correspondent banks' increased turnaround times in settlements and payments, with the potential for occasional delays. However, our transition to merchant banking and continuous improvement in our customer relationships continue to assist in mitigating this risk.

STRATEGIES AND OUTLOOK FOR 2016

The Corporate Banking group's strategic focus is developing deep-rooted relationships with mid- to top-tier customers across selected economic sectors.

The Corporate Banking group manages all corporate relationships of FBN Merchant Bank and provides the platform for offering the full range of the organisation's products and services. Consequently, the group will continue to nurture long-term relationships across the entire value chain, from transaction origination through financial close and beyond.

Strategic initiatives

- Upgrading the existing information technology (IT) platform to facilitate deployment of additional services including, but not limited to, transaction accounts, internet banking and customer relationship management infrastructure.
- Driving merchant banking segment advocacy and interface with regulators towards creating a strong dual regulatory system.
- Deploying innovative products driven by identified customer needs.

Tactical initiatives

- Continue to build and enhance risk management capability.
- Leverage opportunities for greater Group synergies within FBN Holdings Plc.

WEALTH MANAGEMENT GROUP

Debbie Irabor, Head, Wealth Management Group

INTRODUCTION

The Wealth Management group (WMG) was created with the sole purpose of generating cheaper and stable liabilities, as well as creating investment opportunities for individuals. The WMG is structured along Private Banking Personal Banking, and Business Banking (for small and medium enterprises (SMEs) in the Abuja and Port Harcourt regions), in all sectors of the economy.

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

Key products and services include:

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

BUSINESS MODEL

Liabilities generated from the group are used to fund assets created by Treasury and Corporate Finance.

KEY PERFORMANCE HIGHLIGHTS

- Wealth's assets under management (AUM) as at 31 December 2015: ₦57.76 billion.
- Strong active customer base (retail, institutional clients)
  - Retail (personal and private banking) – 3,082
  - Business banking – 97.
- 15% growth in customer base.
- Obtained and converted significant number of referrals from existing customers.
- Converted identified prospects leveraging group marketing presentations.
- Increased business volumes from high net worth individuals (HNIs).
- Greater cross-selling of products and services.

CHALLENGES/KEY RISKS

- Thinning margins due to rising funding costs.
- Political and security issues in the north and south regions of Nigeria.
- Monetary and economic policies that adversely affected returns in money market investments.
- Devaluation of the naira, resulting in investors seeking alternative investment sources.
- Scepticism of some customers about change in business model.
- Significant reduction of inflows from Nigerians in the diaspora.

Mitigants

- Cross-selling of products and services.
- Continuous enlightenment of customers about the benefits of the merchant banking business while reassuring them of the safety of their investments.

STRATEGIES AND OUTLOOK FOR 2016

Strategies

- Cross-selling: leverage expanded products and service offerings from other members of the FBNHoldings Group to acquire/ retain customers.
- Leverage the strong FBNHoldings Group brand to acquire new customers.
- Continue to leverage customer loyalty for referrals.
- Group marketing: leverage existing customers in the oil and gas sector and multinational companies for group marketing presentation opportunities; identify and convert other group marketing opportunities.

FIXED INCOME, CURRENCIES AND TREASURY

Abimbola Onyeji, Head, Fixed income, Currencies and Treasury (FICT)

INTRODUCTION

The Fixed Income, Currencies and Treasury (FICT) unit is responsible for managing the company's balance sheet and liquidity position as well as for trading on behalf of the Company in the money market, fixed income and foreign exchange markets.

The department comprises four sub-units: Local Currency/Assets and Liability Management (ALM); Treasury Bills; Bonds; and Foreign Exchange. The department operated under the Discount House guidelines until 31 October 2015, which made it ineligible to trade foreign exchange. Therefore, performance for 2015 does not include any income from foreign exchange trading. However, upon commencement of operations as FBN Merchant Bank in November 2015, the department is now eligible to trade foreign exchange, and will start trading in 2016 now our licence to trade has been received from the Central Bank of Nigeria (CBN).

KEY OPPORTUNITIES

The market was extremely volatile in 2015. As a result, we saw wide swings in interest rates that created several opportunities for profit making. The volatility was mainly due to changes in the CBN's policies.

Key instances include:

a. In a bid to reduce the demand pressure for foreign exchange, the CBN continued to tighten liquidity by increasing the frequency of its Open Market Operation (OMO) auctions. This in turn caused an extreme liquidity squeeze, which saw interbank rates peaking at an all-time high of 100%. The unit was able to capitalise on its unique position of not being an authorised foreign exchange dealer.
b. Following the announcement by J.P. Morgan that it had put Nigeria on negative watch with a possibility of delisting by October 2015, there was a massive sell-off of government securities. This caused yields to spike as high as 19% and 17% at the short and long ends respectively. We capitalised on the sell-off by building our portfolio.
c. In preparation for the delisting of Nigerian bonds by J.P. Morgan in October 2015 and the commencement of the Treasury Single Account (TSA), the CBN stopped issuing OMO bills in a bid to reduce the impact on the naira's liquidity. This caused a drop in yields to an all-time low of 0.5%. The treasury bills trading desk was able to take profit on exiting the portfolio.

Challenges experienced during the year included a reduction in the volume of our erstwhile placement limits and uncertainty over the new government's policy direction, which had an impact generally on investors' appetites for Federal Government of Nigeria (FGN) securities. We were also unable to commence foreign exchange trading due to our inability to open a US correspondent account.

BUSINESS MODEL

The business creates value by intermediating in the interbank market and trading as a primary dealer and market maker in the bonds and treasury bills markets. The business also takes long-term positions in these securities to earn interest income.

PERFORMANCE

Financial performance: FICT achieved a strong performance, recording c₦4.5 billion in net revenues in 2015.

Market share/rankings: Our ranking on the FMDQ OTC Securities Exchange league table for treasury bills remained stable at 11th, while our ranking for bonds dropped from 9th to 11th.

KEY RISKS

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

Liquidity risk

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

MITIGANTS

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

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.

Settlement risk

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

MITIGANTS

- Settlement is made via delivery versus payment.

Compliance risk

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

MITIGANTS

- The Compliance team keeps a record of all rules and regulations and monitors daily to ensure compliance.
- The FITC 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.

STRATEGIES AND OUTLOOK FOR 2016

We anticipate an upward trend in interest rates once the Federal Government starts funding the budget deficit; therefore, our strategy in the short term is to take profit on existing portfolios and make short-term investments that will produce yields within one year. We will invest in portfolios with longer-term yields when Government's funding of the deficit starts to impact interest rates.

We will also focus on trading activities in order to take advantage of market volatility to increase income.

In addition, we will grow the foreign currency balance sheet in collaboration with other members of the Group and commence foreign exchange trading.

RELATIONSHIPS AND RESPONSIBILITY

During the 2015 financial year, FBN Merchant Bank Limited sustained its brand proposition through service excellence driven by the Customer Care team, on the principle that customers are the lifeblood of the business. The measurement of the team's success is reflected in increased customer referrals despite the very inclement economic climate, resulting in an increased customer base and greater brand loyalty.

CUSTOMER SATISFACTION

During the year, the Customer Care team increased interaction with customers through the use of toll-free lines. This enabled quicker responses and therefore faster resolutions of customer requests/challenges. We were also pleased to record a sharp reduction in customer complaints. It is gratifying to state that there was an increase during the year in the number of enquiries about our services that were converted into new customers.

Electronic platforms were used to disseminate corporate, market and regulatory information to stakeholders, and to keep customers abreast of the progress of the Company, particularly regarding the transition from discount house business to merchant banking.

The Customer Care team remained consistent in providing support to the business units. As a result, it ensured customer dealings with the Bank and its representatives remained positive and successful. The turnaround time and customer feedback initiatives also helped in rendering excellent service to support the Company's products.

INFORMATION TECHNOLOGY (IT) REPORT

The IT group has remained consistent in ensuring corporate business objectives, shareholder value targets and customer satisfaction requirements are met. The IT group worked with key business units in facilitating business solutions that would drive new product lines in the merchant banking business, such as a foreign exchange trading framework, integration with the interbank transaction switching network to support instant payment and electronic banking services, and the upgrade of key transactional systems for improved security and service efficiency.

In 2015, the need to comply with banking policy regulations was key to our banking operations, especially with the Bank changing its business line. The IT group had to address key risk considerations arising from new product lines and the applicable regulatory reporting requirements supporting these products. The IT group facilitated an overhaul of the regulatory reporting systems to meet new requirements for merchant banking operations and subsequently improved the efficiency and delivery times of our risk and regulatory reports.

To ensure that the benefits of our enhanced enterprise risk management framework were reflected in our overall operations, IT risk was a key focus of IT operations in 2015. We are delighted to state that there was an overall improvement in the IT group's risk profile, with a sharp reduction in identified risks and improved service availability. This resulted in an improved service performance across the Bank. It is pertinent to add that the IT group's significantly reduced cost profile within the year is directly attributable to the savings arising from reduced support costs.

OUR PEOPLE

Employment of disabled persons

FBN Merchant Bank Limited continues to maintain a policy of giving fair consideration to the applications for employment made by disabled persons with due regard to their abilities and aptitudes. The Company's policy prohibits discrimination against disabled persons in the recruitment, training and career development of its employees. In the event of members of staff becoming disabled, efforts will be made to ensure that their employment with the Company continues and that appropriate training is provided.

Health, safety and welfare at work

FBN Merchant Bank enforces strict health and safety rules and practices in the work environment, which are reviewed and tested regularly. Medical facilities at top-class private hospitals are provided to staff and their immediate families at the Company's expense.

Fire-prevention and fire-fighting equipment are installed in 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

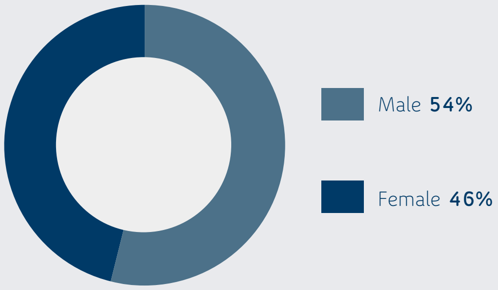
FBN Merchant Bank ensures, through various forum, that employees are informed on matters relating to them. Formal and informal channels are also employed in communication with employees with an appropriate two-way feedback mechanism.

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

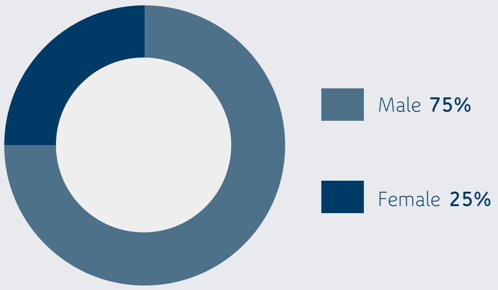
Diversity in the workplace

The Company ensures business is conducted in a professional manner by consistently ensuring equal employment opportunity.

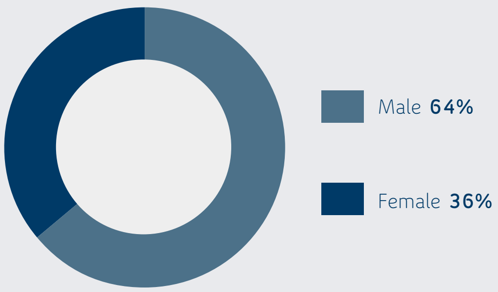
EMPLOYEES



BOARD MEMBERS (EXECUTIVE AND NON-EXECUTIVE)



TOP MANAGEMENT STAFF



GOVERNANCE

FBN Merchant Bank is committed to maintaining good corporate governance practices and the incorporation of sustainable banking principles as a means of achieving long-term success.

CHAIRMAN'S INTRODUCTION

Bello Maccido, Chairman

"In addition to its compliance with the provisions of the Code, the Company continued to institutionalise, track and implement various good corporate governance initiatives."

At FBN Merchant Bank Limited, we are committed to achieving our vision and mission for the benefit of our stakeholders through a commitment to excellence, partnership and innovation. In assuming our task, we have ensured maintenance of good corporate governance practice and the incorporation of sustainable banking principles as a means of achieving long-term success while ensuring that we are environmentally and socially responsible.

During the year, the Company ran its operations in line with the provisions of the Central Bank of Nigeria's Code of Corporate Governance for Banks and Other Financial Institutions (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 Company continued to institutionalise, track and implement various good corporate governance initiatives.

LEADERSHIP

THE BOARD OF DIRECTORS

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

Ibukun Awosika

(Appointed Chairman 30 September 2014, retired 31 December 2015) Joined the Board on 30 September 2014

Knowledge and skill: Ibukun Awosika has a great interest in social and economic issues and is a co-founder and past chairman of Women in Business, Management and Public Service (WIMBIZ). An ordained pastor and founder of the Christian Missionary Fund, Ibukun works with hundreds of missionaries across Nigeria to change lives through the provision of medical, educational and other supplies. As a fellow of the African Leadership Initiative, the Aspen Global Leadership Network, the Institute of Directors and the Society for Corporate Governance Nigeria, Ibukun aspires to use her opportunities in life to help entrepreneurs create jobs primarily for unemployed young people. She is a member of the Nigerian Economic Summit Group (NESG), served on the National Job Creation Committee (NJCC) and sits on the International Advisory Board of IESE Business School in Barcelona, Spain. Ibukun is a multiple award-winning entrepreneur and the first Nigerian recipient of the prestigious International Women Entrepreneurial Challenge (IWEC) Award, having been nominated by the US Department of State in 2008. She is a graduate of the University of Ife (now Obafemi Awolowo University) with a BSc (Hons) in Chemistry, an alumna of the Chief Executive Programme of the Lagos Business School; holds a Global Executive MBA from IESE Business School; and completed the Global CEO Programme of The Wharton School, IESE, and the China European International Business School (CEIBS).

Experience:

- Member, Board of Directors, First Bank of Nigeria Limited
- Founder and Chief Executive Officer, The Chair Center Group
- Member, Board of Directors, Cadbury Nigeria Limited
- Past Chairman, Board of Directors, FBN Capital Limited
- Past Chairman, Board of Directors, FBN Life Assurance Limited
- Member, Board of Directors, Digital Jewels Limited
- Chairman, Board of Directors, House of Tara Limited
- Member, Board of Directors, The Convention on Business Integrity
- Member, Presidential Advisory Council on Nigeria, Nigeria Industrial Revolution Plan (PAC-NIRP)
- Member, Presidential Advisory Committee, Micro, Small and Medium Enterprise (MSME)
- Member, Board of Directors, Nigerian Sovereign Investment Authority
- Member, Presidential Jobs Board of Nigeria

Bello Maccido

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

Chairman, Board Credit Committee; Member, Board Audit Committee*

BAC BCC

Knowledge and skill: Bello Maccido has over 31 years' business experience, 25 of which represent hands-on experience handling a wide spectrum of financial services. An accomplished corporate and investment banker, his experience covers retail, corporate and investment banking at various institutions, including Ecobank Nigeria Plc, New Africa Merchant Bank Limited, and FSB International Bank Plc, where he rose to become Acting Managing Director/ Chief Executive. He was a National Council Member of the Nigerian Stock Exchange between 2009 and 2012, a member of the Finance Committee, National Council on Privatisation, and sat on the Implementation Committee of Financial System Strategy (FSS) 2020 and the Presidential Monitoring Committee on NDDC. Bello has a degree in law from the Ahmadu Bello University, Zaria, and was called to the Nigerian Bar in 1985. He obtained a master's degree in Business Administration, specialising in managerial finance, from Wayne State University, Detroit, USA. He is a chartered stockbroker and has attended executive management programmes at Harvard Business School, the Wharton School and IMD, Lausanne, Switzerland. He holds the traditional title 'Wakilin Sokoto'.

Experience:

- Group Chief Executive officer, FBN Holdings Plc (resigned 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 & Marketing, Ecobank Nigeria Plc
- Council Member, Nigerian Stock Exchange, March 2009–May 2012
- Member, Finance Committee, National Council on Privatisation (NCP)
- Member, Implementation Committee, Financial System Strategy (FSS) 2020
- Member, Presidential Monitoring Committee on Niger Delta Development Commission (NDDC)
- Member, Ministerial Task Force on Refineries

* Once appointed Chairman of the Board, Bello Maccido ceased to be a member of any of the committees, in line with corporate governance rules.

Andrew Reicher

(Independent Director) Joined the Board on 8 December 2014

Chairman, Board Risk Management Committee; Member, Board Credit Committee

BCC BRMC

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 the Chairman, Africa Renewable Energy Fund, and has held a series of positions in leading financial institutions such as Citibank/Citicorp, Botts & Co and Credit Suisse; he was also the Chief Investment Officer and Infrastructure Head at CDC/Actis. Andrew has an MA in Economics from Cambridge University, UK, where he was awarded a Double First and the University's Wrenbury Prize for Economics, and a master's in Economics from the University of Pennsylvania, USA.

Experience:

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

Oluyele Delano, SAN, MCI Arb

(Independent Director) Joined the Board on 9 February 2015

Chairman, Board Audit Committee; Member, Board Risk Management Committee

BAC BRMC

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

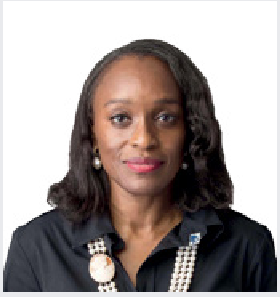
In 1998, Oluyele assumed his current position in the Lagos office of ALP, and in 2006 was elevated to the Inner Bar, becoming one of the youngest senior advocates in Nigeria to receive the Silk. He has been involved in notable multimillion-dollar transactions in which he has advised key government and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

Experience:

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

Membership Key

- BAC Board Audit Committee
- BCC Board Credit Committee
- BGC Board Governance Committee
- BRMC Board Risk Management Committee



Dr Omobola Johnson

Joined the Board on 6 October 2015

Member, Board Audit Committee and Board Credit Committee; Chairman, Board Governance Committee

BAC BCC BGC

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 is a founding Chairperson and member of the Board of Trustees of Women in Management and Business (WIMBIZ), a non-governmental organisation that seeks to improve the success rate of female entrepreneurs and increase the proportion of women in senior positions in corporate organisations. She is a member of the World Economic Forum's Global Agenda Council on Africa, and of the United Nations Development Programme's closed high-level Broadband Commission Working Group on Gender, the main objective of which is to promote the empowerment and digital inclusion of women. Omobola is also a member of the International Telecommunication Union's M-Powering Development Advisory Board, charged with extending the benefits of mobile technology to all strata of society in order to build a truly inclusive information society, with special focus on remote rural and underserved areas. Omobola obtained a BSc in Electrical and Electronic Engineering from the University of Manchester, UK, and an MSc in Digital Electronics from King's College/Chelsea College (now known as Kings College), University of London. She also gained a Doctorate of Business Administration from Cranfield University, also in the UK.

Experience:

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

Kayode Akinkugbe

Joined the Board on 30 September 2014

Appointed Managing Director/ CEO 24 November 2015; Chairman, Board Risk Management Committee and Board Credit Committee

BCC BRMC

Knowledge and skill: Kayode Akinkugbe is the Managing Director and Chief Executive of FBN Merchant Bank Limited. He has over 23 years' experience working in top-tier global investment banks in the UK and Nigeria, where he was focused on arranging finance and providing strategic advice to public and private sector organisations. Kayode has a proven track record of meeting business and financial targets and has, over the course of his career, originated and executed over USD9 billion of structured debt, project finance and equity financing across banks and capital markets; advised on over USD5 billion of merger and acquisitions transactions (privatisation, buy-side); and executed hedging solutions while generating significant revenue for his stakeholders. Kayode graduated from the University of Ibadan with a degree in economics; he subsequently attended the London School of Economics where he obtained an MSc in International Accounting and Finance, and he also holds an MBA from Cranfield School of Management, UK.

Experience:

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

Membership Key

BAC Board Audit Committee
BCC Board Credit Committee
BGC Board Governance Committee
BRMC Board Risk Management Committee

Taiwo Okeowo

Joined the Board as Deputy Managing Director on 24 November 2015

Knowledge and skill: Taiwo Okeowo is a seasoned professional with over 26 years' experience in investment banking. He has considerable experience in project finance, mergers, acquisitions, restructuring and securities underwriting. Under his stewardship, FBN Capital's investment banking team achieved the number one position in the Nigerian transaction league tables in Equity Capital Market (2007 and 2008) and Debt Capital Market (2009-2011). He is the 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 CFA Charterholder and a Fellow of the Institute of Chartered Accountants of Nigeria.

Experience:

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

'Gboyega Fatoki

Joined the Board as Executive Director on 12 July 2012

Knowledge and skill: 'Gboyega Fatoki is an IT professional by background, with over 30 years' experience in the field. However, he has effectively converted from back-office support to being an astute resources manager, as demonstrated by his elevation by the Board to the post of Executive Director in 2012. Before that he was responsible for coordinating the setting up of the company's IT system. Prior to joining the Kakawa Discount House, now FBN Merchant Bank, 'Gboyega was with the Nigerian-American Merchant Bank. He is an alumnus of the London Business School's Senior Executive Programme and the Senior Management Programme of Lagos Business School. He is a certified Information Systems Auditor and an honorary member of the Chartered Institute of Bankers (CIBN). In further recognition of his management prowess, the Board appointed him Acting Managing Director/CEO in April 2015, a position he held until a permanent appointment was made later that year.

Experience:

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

BOARD ROLES AND RESPONSIBILITIES

Responsibilities

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

The role of the Board Chairman and members

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

ROLE OF THE CHAIRMAN

- Ensures the Board carries out its governance role in the most effective manner possible.
- Sets the agenda for Board meetings and ensures the Board remains focused on its governance roles.
- Ensures Board meetings are run in an efficient manner.
- Ensures the various Board committees are set up and properly governed, and assists the Board in its oversight functions.
- Holds the Annual General Meeting.

ROLE OF THE MANAGING DIRECTOR/CEO

- Provides strategic direction and alliances in line with overall corporate strategy and ensures effective implementation.
- Develops 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 the Company's reputation, image, brand and external communication.
- Liaises with external consultants and regulatory bodies' representatives (CBN, tax authorities, external auditors, consultants, etc.) on behalf of the organisation and ensure compliance with same.
- Provides necessary reports to the Board as may be required.

ROLE OF THE NON-EXECUTIVE DIRECTOR

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

ROLE OF THE INDEPENDENT DIRECTOR

- Employs neutral, specialised/expert skills towards achieving a balance of knowledge, skills, judgement and other directional resources.
- Serves as check on the management of the Company by providing unbiased and independent views to the Board.
- Helps 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.

ROLE OF THE COMPANY SECRETARY

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

Board changes during the year

In the course of the financial year, there were several changes to the composition of the Board. 'Laoye Jaiyeola retired from his position of Managing Director/CEO in March. As Managing Director/CEO of Kakawa Discount House Limited, 'Laoye had led the Company's transformation into a merchant bank. He was succeeded in an acting capacity by the Executive Director, 'Gboyega Fatoki, who held the fort until the appointment of Kayode Akinkugbe, a non-executive director, as Managing Director/CEO in November. Ibukun Awosika also announced her resignation from the Board effective 31 December to take up the appointment of Chairman, First Bank of Nigeria Limited on 1 January 2016. Bello Maccido a non-executive director, was appointed to the Chairmanship of the Company in her place.

Oluyele Delano, SAN was appointed as an independent director in February; Dr Omobola Johnson was appointed as a non-executive director in October, and Taiwo Okeowo was appointed as the Deputy Managing Director in November. Until his appointment, he was the Deputy Managing Director of FBN Capital Limited.

Board activities

The Board met quarterly throughout the year. In addition to the formal, scheduled meetings, a retreat was held in 2015 to facilitate interaction between the Board and executive management. In line with the Board appraisal review, the Board also ensured that it did not rely solely on the embedded monitoring process within the Company to discharge its responsibilities as it regularly received and reviewed reports on the status of internal controls.

Board discussions

Board focus areas for 2015: The primary focus of the Board was the receipt of all regulatory approvals for the conversion of the Company from a discount house into a merchant bank. This was concluded in May and merchant banking operations commenced in November after all pre-operational requirements were satisfied. In addition, the integration of the business, people and systems, including effective management of the business upon conversion, was a key focus and successfully managed.

How the Board spent its time: Board meetings dwelt on the areas highlighted above. The issues were reviewed and resolved effectively, which is reflected in the overall performance of the Company for the year, which saw it surpass its financial target by almost 7% despite the very challenging economic environment and the transitory activities carried out within the year.

Board focus areas for 2016: An improvement in the macroeconomic environment is expected in 2016, leading to restored investor and market confidence. The Board will therefore focus on exploring new opportunities while optimising existing ones in a bid to ensure continued value delivery to our stakeholders.

Attendance at Board meetings

Attendance at Board meetings was as shown below:

Name	10 March 2015	29 April 2015	14 July 2015	28 Oct 2015	24 Nov 2015
Ibukun Awosika	✓	✓	✓	✓	✓
'Laoye Jaiyeola*	✘	-	-	-	-
'Gboyega Fatoki	✓	✓	✓	✓	✓
Bello Maccido	✓	✓	✘	✓	✓
Kayode Akinkugbe	✓	✓	✓	✓	✓
Andrew Reicher**	N/A	✓	✓	✓	✓
Oluyele Delano, SAN**	N/A	✓	✓	✓	✘
Dr Omobola Johnson**	N/A	N/A	N/A	✓	✓
Taiwo Okeowo**	N/A	N/A	N/A	N/A	✓

*Re-assigned during the year
**Appointed during the year
N/A – Not Applicable

COMMITTEE REPORTS

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

Board Audit Committee (BAC)

Oluyele Delano, SAN (Chairman)

The BAC was chaired by Kayode Akinkugbe until April when the BAC was reconstituted, after which Oluyele Delano, SAN was appointed Chairman. The overall purpose of the Committee is to drive the Board's strategic and oversight functions in the areas of financial reporting, internal and external audits.

FINANCIAL REPORTING

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

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

EXTERNAL AUDIT

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

INTERNAL AUDIT

- Reviews the objectives of the risk-based internal audit function and the annual plan of action.
- Reviews and approves the scope of internal audit work, including annual risk-based audit and spot-check plans, and reviews compliance therewith.
- 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.
- Authorises or directs the internal auditor to carry out special assignments over and above the approved annual audit plan and report thereon.

INTERNAL CONTROL SYSTEMS

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

ATTENDANCE AT BAC MEETINGS

Name	5 March 2015	29 April 2015	26 October 2015
Bello Maccido	✓	✓	✓
Kayode Akinkugbe*	✓	✓	N/A
Oluyele Delano, SAN**	N/A	N/A	✓

*Re-assigned during the year
**Appointed during the year
N/A – Not Applicable

Board Credit Committee (BCC)

Kayode Akinkugbe (Chairman)

The BCC was chaired by Kayode Akinkugbe until April when the BCC was reconstituted. Following this, Bello Maccido was appointed Chairman, a position he held until 31 December, after which he became Chairman of the Company. The terms of reference of this Committee include to:

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

ATTENDANCE AT BCC MEETINGS

Name	29 April 2015	13 July 2015	26 October 2015
Bello Maccido	✓	✘	✓
Kayode Akinkugbe	✓	✓	✓
Andrew Reicher**	N/A	✓	✓
Gboyega Fatoki*	✓	N/A	N/A

*Re-assigned during the year
**Appointed during the year
N/A – Not Applicable

Board Governance Committee (BGC)

Dr Omobola Johnson (Chairman)

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 the following:

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

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

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

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

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

Board Risk Management Committee (BRMC)

Kayode Akinkugbe (Chairman)

The BRMC was chaired by Bello Maccido until April, when the BRMC was reconstituted, after which Andrew Reicher was appointed. 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 Management framework.
- The entrenching of a culture of good enterprise risk management and risk awareness.

The objectives of the Committee include the following:

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

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

i. Enterprise Risk Management:
   - Reviewing and recommending to the board for approval the Enterprise 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 unit/subsidiary 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.
- Ensuring a robust contingency plan and continuity of business imperatives with in-built capabilities for minimising disruption in the event that mission critical threats crystallise.

ii. Internal control efficiency

This involves evaluating the following:

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

iii. Ensuring compliance

This involves ensuring that the Company has a comprehensive compliance framework for regulations and guidelines of money laundering and financial crimes:

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

ATTENDANCE AT BRMC MEETINGS

Name	29 April 2015	13 July 2015	26 October 2015
Bello Maccido	✓	✓	✓
Kayode Akinkugbe	✓	✓	✓
Andrew Reicher*	N/A	✓	✓

*Appointed during the year
N/A – Not Applicable

MANAGEMENT COMMITTEES

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

The Executive Management is entrusted with the following powers:

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

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

ASSET AND LIABILITY COMMITTEE (ALCO)

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

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

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

THE COMPOSITION OF THE ALCO

	TITLE
Chairman	Managing Director/CEO
Members	· All members of Executive Management Committee · Company Secretary and Head of the Corporate Services group · Heads of all business facing units · Head, Research & Strategy unit · Head, Financial Control
Secretary	A member of Risk Management and Control

INFORMATION AND COMMUNICATION TECHNOLOGY STEERING COMMITTEE (ICTSC)

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

The ICTSC 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 ICTSC ensure business objectives are being adequately addressed and that the project remains under control.

These responsibilities are carried out through the following functions:

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

THE COMPOSITION OF THE ICTSC

	TITLE
Chairman	Managing Director/CEO
Members	· Deputy Managing Director · Executive Director · All Group Heads · All Departmental Heads
Champion	Head, Information and Communication Technology
Observer	IT Auditor
Secretary	Deputy Head, Information and Communication Technology

MANAGEMENT CREDIT AND INVESTMENT COMMITTEE (MCIC)

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

THE COMPOSITION OF THE MCIC

	TITLE
Chairman	Managing Director/CEO
Members	· Deputy Managing Director · Executive Director · Group Head, Corporate Investment · Group Head, Treasury · Group Head, Wealth Management · Head, Risk Management and Control · Company Secretary and Head, Corporate Services group · Chief Dealer · Head, Information and Communication Technology
Attending Members	· Chief Bond Dealer · Head, Institutional Investment Management · Head, Corporate Finance Department · Head, Financial Control · Head, Operational Risk Management
Secretary	A member of Risk Management and Control

RISK MANAGEMENT COMMITTEE (RMC)

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

The objectives of the Committee include:

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

THE COMPOSITION OF THE RMC

	TITLE
Chairman	Managing Director/CEO
Members	· Deputy Managing Director · Executive Director · Group Head, Corporate Investment · Group Head, Treasury · Group Head, Wealth Management · Head, Risk Management and Control · Company Secretary and Head, Corporate Services group · Chief Dealer · Head, Information and Communication Technology · Chief Bond Dealer · Head, Corporate Finance Department · Head, Operational Risk Management
Secretary	A member of Risk Management and Control

EFFECTIVENESS

Board effectiveness

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

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

Composition

The Company had an eight-member board as at 31 December 2015 comprised of two women and six men, slightly short of a 70/30 gender ratio. The Board is mindful of this and is poised to ensure more female representation on the Board. The directors are representatives of FBN Holdings Plc, with three of them in an executive capacity. Two of the five non-executive directors are independent directors, in compliance with section 5:3:6 of the Code of Corporate Governance for Banks and Other Financial Institutions. The directors are therefore all financially literate and equipped with the requisite knowledge. Nevertheless, despite their expertise, the directors are empowered to and seek professional advice on appropriate issues at the expense of the Company.

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

Appointment philosophy and induction process

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

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

Remuneration

The remuneration of members of the Board of Directors is limited to a sitting allowance, directors' fees and reimbursable(s). Total emoluments paid to the directors in 2015 were ₦149,886,000.00, broken down as follows:

DESCRIPTION	AMOUNT (₦)
Fees and sitting allowances	405,000
Executive compensation	47,720,000.00
Other director expenses	101,760,000.00

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

Tenure of directors

The Company aligns its policy on tenure of directors with that contained in the Central Bank of Nigeria's Code of Corporate Governance for Banks and Other Financial Institutions, 2014; i.e., 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

During the financial year, the Company had one contravention of regulatory provisions, a delay in obtaining the approval of the Securities and Exchange Commission (SEC) for being a capital market operator before changing the name to FBN Merchant Bank. The SEC was subsequently informed of the proposed change and the approval process that was pending with the Company's primary regulator, CBN. A penalty of ₦215,000 imposed by the SEC for the contravention has since been paid. Besides this minor infraction, the Company did not record any corporate governance breach in its operations.

ACCOUNTABILITY

RISK GOVERNANCE FRAMEWORK

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

The Bank has exposure to the following major risks from its use of financial instruments:

- Market risk
- Liquidity risk
- Credit risk

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

RISK MANAGEMENT PHILOSOPHY

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

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

RISK MANAGEMENT FRAMEWORK

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

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

- Board Risk Management Committee
- Board Credit Committee
- Board Audit Committee
- Board Governance Committee.

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

- Management Credit and Investment Committee (MCIC)
- Asset and Liability Committee (ALCO)
- Risk Management Committee (RMC)
- ICT Steering Committee (ICTSC)
- Other ad hoc committees

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

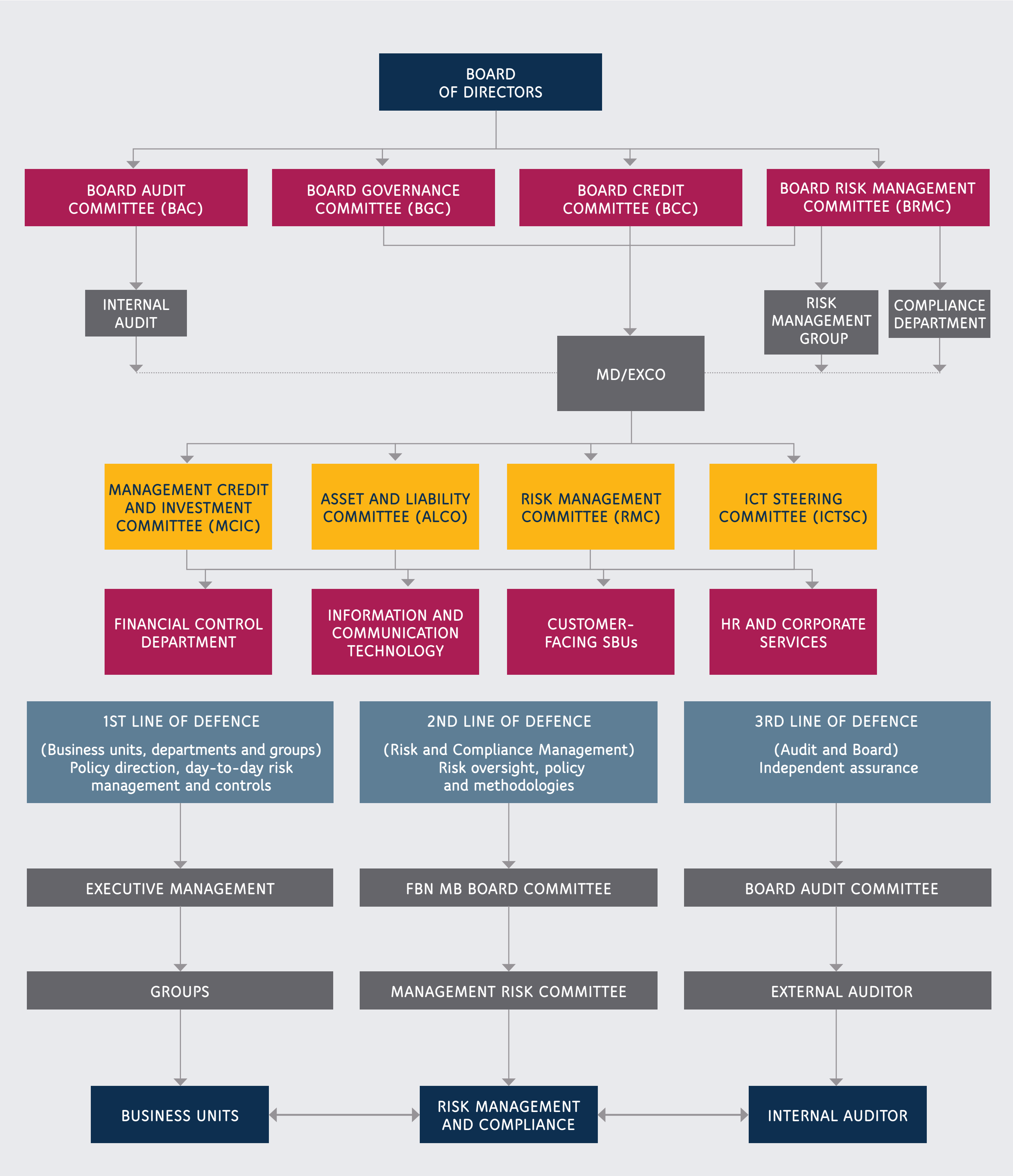
The Board and Management committees are responsible for reviewing and recommending risk management policies, procedures and profiles, including risk philosophy, risk appetite and risk tolerance of the Bank. The oversight functions cut across all risk areas. The committees monitor FBN Merchant Bank's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

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

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

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

The Bank's Risk Management Organogram



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

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

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

- Enterprise Risk Management (ERM) framework
- Risk Asset and Acceptance Criteria (RAAC)
- Credit Risk Policy
- Market and Liquidity Risk Policy
- Operational Risk Policy
- Concentration Limit Policy
- Business Continuity Management (BCM) Policy
- Performance Management framework
- Related Parties Policy
- Strategic and Reputational Risk Policy
- Standard manuals of operations

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

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

WHISTLEBLOWING POLICY

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

FBN Merchant Bank Limited's Whistleblowing Policy seeks to:

- 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.

RISK FACTORS

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

INTRODUCTION

RISK MANAGEMENT SUMMARY

In carrying out business activities geared towards the actualisation of our vision of becoming a world-class investment bank and creating value for all stakeholders, we are constantly aware of inherent risks and continually seek ways to mitigate them. While we are aware of the value-eroding possibilities of emerging risks in our operating environment, we are equally sensitive to opportunities from properly managing such risks. The focus of our risk management processes and efforts are aligned with our long-term objectives, thereby ensuring sustainability of performance.

PRINCIPAL RISKS

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

The change in our business model in 2015 brought new focus on some strategic risks. Apart from this, the increasingly tough macroeconomic terrain in Nigeria and attendant effects on credit risk factors, market risks, settlement, operational and liquidity risks remain principal risk factors. Therefore, the need for greater focus on elevated risk levels in different sectors and market segments, including a tighter regulatory regime, is of principal concern.

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

MARKET RISK

HOW MARKET RISK IMPACTS FBN MERCHANT BANK LIMITED	RISK MITIGATION AND MANAGEMENT ACTIONS
The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Treasury group, and include positions arising from market making and proprietary position taking, together with financial assets that are managed on a fair value basis. The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.	Market risk is the risk that changes in market prices, such as interest rates, security prices and foreign exchange rates, will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk. Overall authority for market risk is vested in the Asset and Liability Committee (ALCO). However, the Risk Management and Control (RM&C) group is responsible for the development of detailed risk management policies (subject to review and approval by the Board) and for the day-to-day review of their implementation. Interest rate risk is managed principally through monitoring interest rate gaps and carrying out scenario analysis. ALCO is the body charged with monitoring exposures to interest rate risks and is assisted by the RM&C. The principal tools used to measure and control market risk exposure within the Bank's trading portfolios are the position and loss limits. Specified limits have been set on overall position, individual security and losses to prevent undue exposure and the RM&C ensures that these limits and triggers are adhered to by the Bank. The Bank also performs regular stress tests on its trading and non-trading portfolios. In performing this, the Bank ensures there are quantitative criteria in building the scenarios. The Bank determines the effect of changes in interest rates on interest income, volatility in prices on trading income, and changes in funding sources and uses on the Bank's liquidity. The key potential risks the Bank was exposed to from these instruments were price risk, basis risk and risk to net margins. However, all potential risk exposures in the course of the year were successfully mitigated as mentioned above. Interest rate movements affect reported equity in the following ways: · Retained earnings arising from an increase or decrease in net interest income and the fair value changes reported in profit or loss. · Fair value reserves arising from an increase or decrease in fair value of available-for-sale financial instruments reported directly in other comprehensive income. Overall non-trading interest rate risk positions are managed by the Treasury group, which uses investment securities and interbank takings to manage the overall position arising from the Bank's non-trading activities. The Bank carried out the following in determining sensitivity of its profit to fluctuations in market prices of 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's daily fluctuations in bond prices, which indicates that a significant proportion of changes in price falls within the range of ± ₦1. · The chosen reasonable change in market prices was then applied to the Bank's bond trading portfolio as at year end.

HOW MARKET RISK IMPACTS FBN MERCHANT BANK LIMITED	RISK MITIGATION AND MANAGEMENT ACTIONS
	The Bank carried out the following in determining sensitivity of its profit to fluctuations in market discount rates of treasury bills: · Daily market discount rates were obtained and trended for the different maturities of treasury bills in issue as at the reporting date. · A reasonably possible change was determined from one year's daily fluctuations in discount rates of treasury bills. The exercise indicates that a significant proportion of changes in discount rates fall in the range of ± 50 basis points. · The range of ± 50 basis points fluctuation in market discount rates was then applied to the Bank's treasury bills' trading portfolio at year end to determine the impact on its profit or loss position. The Bank carried out the following in determining sensitivity of its available-for-sale financial instruments to fluctuations in market prices of financial instruments fair valued through other comprehensive income (OCI): · Daily bond prices and treasury bills discount rates were obtained and trended for the financial assets. · A reasonably possible change was determined from one year's daily fluctuations in bond prices and treasury bills discount rates. · The range of ± ₦1 and ± 50 basis points (2014: ± ₦1 and ± 50 basis points) changes in market prices of bonds and treasury bills respectively were then applied to the Bank's holdings in available-for-sale bonds and treasury bills as at year end to determine impact on its OCI position.

LIQUIDITY RISK

HOW LIQUIDITY RISK IMPACTS FBN MERCHANT BANK LIMITED	RISK MITIGATION AND MANAGEMENT ACTIONS
Liquidity risk is the current and future likelihood of the Bank's inability to meet its obligations when they fall due without incurring additional costs or unacceptable losses. It also means the likelihood of inability to recognise and address changes in market conditions that affect its ability to liquidate assets quickly with minimal loss in value.	A brief overview of the Bank's liquidity management processes includes the following: · Maintenance of minimum levels of liquid and marketable assets above the regulatory requirement of 20%. The Bank has set for itself more stringent in-house limits above this regulatory requirement to which it adheres. · Monitoring of its cash flow and financial position trends. The Bank also makes forecasts of anticipated deposits and withdrawals to determine their potential effect on the Bank. · Regular measurement and monitoring of its liquidity position/ratios in line with regulatory requirements and in-house limits. · Monitoring of deposit concentration, and ensuring diversification of funding sources. · Use of management authorisation process for purchases into the available-for-sale and held-to-maturity portfolios for bonds and treasury bills. · Maintaining a contingency funding plan with specific financial institution(s) based on committed lines.

HOW LIQUIDITY RISK IMPACTS FBN MERCHANT BANK LIMITED	RISK MITIGATION AND MANAGEMENT ACTIONS
	The Bank's Asset and Liability Committee (ALCO) is charged with the responsibility of managing the Bank's daily liquidity position. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity risk management policies and procedures are subject to review and approval by the Board. In addition, gap reports are prepared monthly to measure the maturity mismatches between assets and liabilities. The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to deposits liabilities. For this purpose, liquid assets include cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. The Bank majorly generates fixed-term deposits from its non-bank customers. Although the contractual maturities of these deposits are short, the Bank has over the years established strong relationships with its customers, such that their actual maturities extend far beyond the contractual dates. As a result, the Bank has established a behavioural pattern for the deposits from its non-bank customers.

CREDIT RISK

HOW CREDIT RISK IMPACTS FBN MERCHANT BANK LIMITED	RISK MITIGATION AND MANAGEMENT ACTIONS
Lending and other related activities form part of the Bank's business. The Bank recognises this and has placed commensurate emphasis on effective management of its exposure to credit risk. The Bank defines credit risk as the risk of a counterparty's failure to meet the terms of any lending contracts with the Bank or otherwise to perform as agreed. Credit risk arises any time the Bank's funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements.	The risk asset creating units – Treasury and Corporate Finance – are required to implement all credit policies and procedures in line with the approval limits granted by the Board. The business units are responsible for the quality and performance of their risk asset portfolio and for monitoring and controlling all credit risks in their portfolio. Internal Audit undertakes regular audits of business units, while the Risk Management and Control (RM&C) group carries out regular credit quality reviews. The Bank continues to focus attention on intrinsic and concentration risks inherent in its business to manage the Bank's portfolio risk. It sets portfolio concentration limits that are measured under the following parameters: limits per obligor, industry/sector and maturity bucket. Sector and maturity limits reflect the risk appetite of the Bank. Credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure. The Board of Directors has delegated responsibility for the management of credit risk to the Board Credit Committee (BCC). Executive Management, through the Management Credit and Investment Committee (MCIC), is responsible for oversight of the Bank's credit risk, including: · Formulating credit policies for the Bank, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. · Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Executive Committee and 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.

HOW CREDIT RISK IMPACTS FBN MERCHANT BANK LIMITED	RISK MITIGATION AND MANAGEMENT ACTIONS
	· Developing and maintaining the Bank's criteria for categorising exposures, and to focus management on the attendant risks. The criteria as contained in the Risk Assets Acceptance Criteria (RAAC) and Credit Risk Policy take care of exposures to banks and related regulated institutions, and large quoted corporates, conglomerates and multinationals. The responsibility for approving and reviewing the RAAC and Credit Risk Policy lies with the BCC. · Reviewing compliance with exposure and concentration limits, and promotion of best practices throughout the Bank in the management of credit risk. There were changes to the RAAC and other credit risk management policies during the period following commencement of merchant banking operations. However, there was no fundamental change in the Bank's risk appetite in relation to assumption of, and approach to, credit risk. The Bank undertakes lending activities after careful analysis of the borrower's general character, capacity to repay, cash flow, credit history, organisational/management quality, financial condition, market position, business operations, industry and other factors. The Bank acknowledges that there are diverse intrinsic risks inherent in the vagaries of its business segments and, as a result, applies different parameters to adequately dimension the risks in each business segment. FBN Merchant Bank's rating grade as defined by its RAAC deals with all credit risk counterparties, covering all the Bank's credit exposure to corporate, commercial, conglomerates and multinationals. However, it excludes banks and other financial institutions regulated by the Central Bank of Nigeria (CBN). The obligor rating in FBN Merchant Bank is handled by relationship managers with further review by the RM&C before it goes thought the approval process. The Bank's operational measurements for credit risk are in conformity with the impairment allowances required under the International Financial Reporting Standards (IFRS), IAS 39, and are based on losses that have been incurred at the date of the statement of financial position, that is the incurred loss model rather than expected losses. The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. FBN Merchant Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring the credit risk of loans and advances at a counterparty level, the Group considers three components: (i) the Probability of Default (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derives the Exposure At Default (EAD); and (iii) the likely 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.

HOW CREDIT RISK IMPACTS FBN MERCHANT BANK LIMITED	RISK MITIGATION AND MANAGEMENT ACTIONS
	For debt securities, external rating such as Agusto & Co. Fitch, Standard & Poor's or their equivalents are used by the Risk Management department for managing the credit risk exposures, supplemented by the Bank's own assessment through the use of internal ratings tools.
	FBN Merchant Bank applies limits to control credit risk concentration and ensure proper diversification of its risk assets portfolio. The Bank maintains limits for individual obligors, sectors and maturities/tenors.
	The Bank adopts an individual obligor limit as set by the regulators, which is currently at 50% of the Bank's shareholders' funds. Although the Bank is guided by this regulatory limit, it applies additional parameters internally in determining the suitable limits that an individual borrower should have. These include: obligor rating, position in the industry and perceived requirements of key players, financial analysis, etc.
	The Bank, based on guidelines set by the regulators, imposes industry/economic sector limits to guide against concentration risk. The industry/sector limits are arrived at after rigorous analysis of the risks inherent in the industry or economic sector. The limits are usually recommended by the RM&C and approved by the Board.
	The Bank also imposes limits on the maturity buckets of the risk assets portfolio. The maturity bucket limits are a reflection of the risk appetite and liquidity profile of the Bank. During the year, limits can be reviewed and realigned (outright removal, reduction or increase) to meet the exigencies of the prevailing macroeconomic events.
	FBN Merchant Bank also sets internal credit approval limits in the credit process. Approval decisions are guided by the Bank's strategic focus as well as the stated risk appetite and the other limits established by the Board or regulatory authorities.
	The Bank ensures that each credit is reviewed and granted based on the strength of the borrower's repayment capacity, measured by its cash flow. However, the Bank also ensures its risk assets are well secured as a second way out strategy. The policies that guide collateral for facilities are embedded within the Bank's Credit Risk Policy.
	FBN Merchant Bank maintains placement lines for its bank counterparties and other financial institutions regulated by the CBN. The lines cover the settlement risks inherent in the Bank's activities with these counterparties. The limits are arrived at after conducting fundamental analysis of the counterparties, and presentation of findings to and approval by the Board. The lines are implemented by the Treasury group and monitored by the RM&C. Interbank placement limits are also guided by the regulatory single obligor limit.
	Impairment and provisioning policies
	Impaired risk assets and securities are risk assets and securities for which the Bank determines that it is unlikely that it will be able to collect all principal and interest due according to the contractual terms of the risk assets or securities agreements. The Bank classifies its risk assets and securities portfolios as follows:
	· Neither past due nor impaired are risk assets and securities on which there is no outstanding or unpaid contractual interest and/or principal repayment, and the Bank cannot establish that there is any objective evidence of impairment at the reporting date. The Bank recognises an allowance 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% on this category.

SETTLEMENT RISK

HOW SETTLEMENT RISK IMPACTS FBN MERCHANT BANK LIMITED	RISK MITIGATION AND MANAGEMENT ACTIONS
FBN Merchant Bank's activities may give rise to risk at the time of settlement of transactions and trade. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.	For certain types of transaction, the Bank mitigates this risk by conducting settlements through a settlement clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

OPERATIONAL RISK

HOW OPERATIONAL RISK IMPACTS FBN MERCHANT BANK LIMITED	RISK MITIGATION AND MANAGEMENT ACTIONS
FBN Merchant Bank Limited defines operational risk as the risk of direct or indirect loss arising from inadequate and/or failed internal processes, people and systems or from external events. This definition requires the review and monitoring of all strategies and initiatives deployed in the Bank's people management, process improvements and engineering, technology investment and deployment, management of all regulatory responsibilities and response to external threats.	To ensure a holistic framework is implemented, the Risk Management and Control (RM&C) department also monitors strategic and reputational risks from a broad perspective, and implements the following practices, tools and methodologies: • **Risk incident reporting:** This is an in-house developed web-based risk incident reporting system, called the Risk Register, and is deployed via the Bank's intranet for logging of operational risk incidents bank-wide. All staff members are encouraged to report operational risk incidents that occurred within their work spaces whether or not they resulted in actual losses. As a result, FBN Merchant Bank has collated operational risk event data over the years. Information gathered is used to support identification of risk concentrations, process improvements and strengthening of controls. • **Risk mapping and assessment:** This is a quantitative and qualitative risk assessment process in FBN Merchant Bank, which is carried out every two years and which enables risk profiling and risk mapping of prevalent operational risks. All auditable units and departments are covered in the exercise. Risk assessments are also carried out on new products, systems and processes, with the objective of ensuring that appropriate controls are in place to mitigate identified risks. An in-house developed web-based system has also been put in place for conducting risk assessment on customers in line with extant Know Your Customer (KYC) and anti-money laundering (AML) regulations. Customers can be rated high, medium and low. The system is also used to keep a log of customers who fall in the category of politically exposed persons (PEP) based on CBN regulations. The risk rating of customers determines the internal processes and approaches to be adopted in managing those relationships. • **Business Continuity Management (BCM):** To ensure the resilience of FBN Merchant Bank business to any disruptive eventuality, the Bank has in place a robust Business Continuity Management Policy, which assures timely resumption of its business with minimal financial losses or reputational damage, and continuity of service to its customers, vendors and regulators. The Bank has a warm contingency site outside its premises, and various degrees of tests are carried out monthly, quarterly and annually to ensure that recovery benchmarks and targets are achieved. The tests also ensure that various teams are aware of their roles and responsibilities. The BCM Policy is reviewed annually and when necessary in line with changes in business, operational and regulatory requirements.

HOW OPERATIONAL RISK IMPACTS FBN MERCHANT BANK LIMITED	RISK MITIGATION AND MANAGEMENT ACTIONS
	• **Information risk management awareness and monitoring:** Strategies for ensuring the confidentiality, availability and integrity of all the Bank's information assets (hardware, software, documents, backup media, etc.) are continuously reviewed and monitored, and key risks identified reported to key stakeholders. Where applicable, implementation of controls by relevant stakeholders is also tracked and reported on. External consultants and other experts are employed from time to time to review, assess and audit the Bank's IT infrastructure to ensure that the information assets are secured and protected. • **Compliance department:** The Bank has a separate department charged with monitoring compliance, with relevant regulations, circulars, directives and approved policies. Compliance management involves close monitoring of KYC compliance by the Bank, escalation of audit non-conformances, complaints management and observance of the Bank's zero-tolerance culture for regulatory breaches. It also entails an oversight role for monitoring adherence to regulatory guidelines and global best practice on an ongoing basis. • **Operational risk reporting:** Weekly, monthly and quarterly reports highlighting key operational risks identified are circulated to relevant stakeholders for awareness and timely implementation of mitigation strategies. Reports are also generated and circulated on a need basis. • **Operational risk management governance structure:** The Board, through its Board Risk Management Committee (BRMC), oversees the Bank's operational risk function. It ensures that the Operational Risk Policy is robust and provides a framework for the Bank's operational risk profile and limits. It also determines the adequacy and completeness of the Bank's risk detection and measurement systems; assesses the adequacy of risk mitigants; reviews and approves contingency plans for specific risks; and lays down the principles on how operational risk incidents are to be identified, assessed, controlled, monitored and measured. The BRMC reviews operational risk reports on a quarterly basis. The Risk Management Committee (RMC) monitors the activities of operational risk and approves key decisions made before presentation to the Board. It ensures the implementation of the guiding operational risk framework Bank-wide, and ensures that all departments in the Bank are fully aware of the risks embedded in respective process flows and business activities. All process owners are responsible for the day-to-day management of operational risks prevalent in respective units, departments and groups of the Bank. The Internal Audit function conducts independent reviews on the implementation of operational risk policies and procedures Bank-wide.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF FBN MERCHANT BANK LIMITED (FORMERLY KAKAWA DISCOUNT HOUSE LIMITED)

pwc

Report on the financial statements

We have audited the accompanying financial statements of FBN Merchant Bank Limited ('the bank'). These financial statements comprise the statement of financial position as at 31 December 2015 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the bank's financial affairs at 31 December 2015 and of its financial performance and its 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.

Report on the other legal 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 comprehensive income are in agreement with the books of account;
iv. the information required by Central Bank of Nigeria Circular BAD/1/2004 on insider related credits is disclosed in Note 33 to the financial statements;
v. 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/0000000/2002
April 2016

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

Continuing operations	Note	2015 ₦'000	2014 ₦'000
Discount and similar income	5	15,092,465	12,554,181
Discount and similar expense	6	(9,878,417)	(8,836,409)
Net discount income		5,214,048	3,717,772
Impairment (charge)/write back on financial assets	10	(465,641)	(309,672)
Net discount income after impairment charge on loans and receivables		4,748,407	3,408,100
Net gains from financial assets held for trading	7a	934,736	473,360
Net gain/(loss) on derivative financial instruments	7b	151,565	(737,281)
Other operating income	8	262,871	943,378
Operating income		6,097,579	4,087,557
Staff expenses	9	(1,237,972)	(665,074)
Depreciation	20	(124,390)	(132,363)
Amortisation	21	(9,261)	(8,448)
Other operating expenses	9	(899,646)	(1,474,892)
Operating expenses		(2,271,269)	(2,280,777)
Profit before tax		3,826,310	1,806,780
Income tax credit	11a	2,739,201	2,579,584
Profit for the year		6,565,511	4,386,364
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net fair value gains/(losses) on available for sale financial assets			
Unrealised net gain/(loss) arising during the year, net of tax	29	4,194,331	(2,302,672)
Other comprehensive income/(loss) for the year, net of tax		4,194,331	(2,302,672)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		10,759,842	2,083,692
Profit attributable to equity holders of the Bank		6,565,511	4,386,364
		6,565,511	4,386,364
Basic			
From continuing operations (kobo)	12	153	110
Earnings per share for profit attributable to owners of the Bank	12		
Basic (kobo)	12	153	110

The notes on pages 53 to 113 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Note	2015 ₦'000	2014 ₦'000
ASSETS			
Balances with the CBN	13	277,266	1,274
Loans and advances to banks	15	7,962,268	1,895,817
Loans and advances to customers	16	36,649,753	26,867,023
Financial assets held for trading	17	10,695,464	7,365,735
Investment securities:			
Available for sale	18	41,042,494	50,640,807
Other assets	19	865,860	525,198
Property and equipment	20	963,896	1,001,300
Intangible assets	21	19,879	27,144
Deferred tax asset	22	8,083,415	5,184,615
Total assets		106,560,295	93,508,913
LIABILITIES			
Due to banks	23	5,600,186	6,229,200
Due to customers	24	71,631,378	68,818,719
Derivative financial instruments	37	367,041	1,002,431
Current income tax liability	11b	128,264	84,864
Other liabilities	25	900,970	208,565
Deferred tax liabilities	22	88,921	81,441
Total liabilities		78,716,760	76,425,220
EQUITY			
Share capital	26	4,301,577	4,000,000
Share premium	27	3,904,731	3,000,000
Retained earnings	27	9,235,023	7,169,775
Statutory reserve	27	5,826,521	3,856,868
Credit risk reserve	27	4,256,212	1,725,602
Available-for-sale (AFS) reserve	29	319,471	(3,874,860)
Deposit for shares	30	-	1,206,308
Total equity		27,843,535	17,083,693
Total equity and liabilities		106,560,295	93,508,913

Signed on behalf of the Board of Directors on 16 February 2016 by:

Bello Maccido
Chairman
FRC/2013/CISN/00000002366
MULTI/00000005480

Kayode Akinkugbe
Managing Director
FRC/2013/CIBN/00000001782

Oyeniyi Fakunle
Chief Financial Office
FRC/2013/

STATEMENT OF CHANGES IN EQUITY

	Share capital ₦'000	Share premium ₦'000	Available-for-sale reserve ₦'000	Retained earnings ₦'000	Statutory reserves ₦'000	Credit risk reserve ₦'000	Deposit for shares ₦'000	Total equity ₦'000
Balance at 1 January 2014	4,000,000	3,000,000	(1,572,188)	4,911,928	3,198,913	255,039	-	13,793,693
Profit for the year	-	-	-	4,386,364	-	-	-	4,386,364
Other comprehensive income								
Available-for-sale fair value movements – net of tax	-	-	(2,302,672)	-	-	-	-	(2,302,672)
Total comprehensive income	-	-	(2,302,672)	4,386,364	-	-	-	2,083,692
Transaction with owners								
Deposit for shares	-	-	-	-	-	-	1,206,308	1,206,308
Transfer from retained earnings	-	-	-	(2,128,517)	657,955	1,470,562	-	-
At 31 December 2014	4,000,000	3,000,000	(3,874,860)	7,169,775	3,856,868	1,725,602	1,206,308	17,083,693

	Share capital ₦'000	Share premium ₦'000	Available-for-sale reserve ₦'000	Retained earnings ₦'000	Statutory reserves ₦'000	Credit risk reserve ₦'000	Deposit for shares ₦'000	Total equity ₦'000
Balance at 1 January 2015	4,000,000	3,000,000	(3,874,860)	7,169,775	3,856,868	1,725,602	1,206,308	17,083,693
Profit for the year	-	-	-	6,565,511	-	-	-	6,565,511
Other comprehensive income								
Available-for-sale fair value movements – net of tax	-	-	4,194,331	-	-	-	-	4,194,331
Total comprehensive income	-	-	4,194,331	6,565,511	-	-	-	10,759,842
Transaction with owners								
Deposit for shares	301,577	904,731	-	-	-	-	(1,206,308)	-
Transfer from retained earnings	-	-	-	(4,500,264)	1,969,653	2,530,610	-	-
At 31 December 2015	4,301,577	3,904,731	319,472	9,235,023	5,826,521	4,256,212	-	27,843,535

The notes on pages 53 to 113 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Note	2015 ₦'000	2014 ₦'000
Operating activities			
Cash (used in)/generated from operations	31	(13,336,772)	3,639,912
Interest received		14,288,416	14,370,302
Interest paid		(9,853,249)	(8,952,600)
Tax paid	11b	(50,270)	(103,962)
Net cash (used in)/generated from operating activities		(8,951,875)	8,947,731
Financing activities			
Deposit for shares	30	-	1,206,308
Net cash generated from financing activities		-	1,206,308
Investing activities			
Sale of investment securities – loans and receivables		-	4,922,419
Purchase of investment securities – loans and receivables		-	912,658
Sale of investment securities – available for sale		46,789,082	4,000,000
Purchase of investment securities – available for sale		(32,322,091)	(13,555,582)
Purchase of property and equipment	20	(108,996)	(82,579)
Purchase of intangible asset	21	(1,995)	(6,000)
Proceeds from sale of property and equipment		13,255	20,525
Net cash generated from/(used in) investing activities		14,369,255	(5,613,875)
Increase in cash and cash equivalents		5,417,380	4,540,164
Analysis of changes in cash and cash equivalents			
At start of year		(5,854,183)	(1,314,019)
At end of year	14	11,271,563	5,854,183
		5,417,380	4,540,164

The notes on pages 53 to 113 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1 GENERAL INFORMATION

1.1 Reporting entity

FBN Merchant Bank Limited '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 licence on 31 October 1995 to carry on the business of a discount house and commenced operations on 16 November 1995. Recently, the Bank has transformed into a Merchant Bank. The Central Bank of Nigeria (CBN) licence for merchant banking was obtained in May 2015, while merchant banking operations commenced on 2 November 2015.

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

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

2 Broad Street Marina
PO Box 4238
Lagos

1.2 Statement of compliance with International Financial Reporting Standards

The Bank financial statements for the year ended 31 December 2015 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and also comply with the requirements of the Nigerian Companies and Allied Matters Act (CAMA). Additional information required by national regulations is included where appropriate.

These financial statements were authorised for issue by the directors on 16 February 2015.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Introduction to summary of accounting policies

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

2.2 Basis of preparation

i. The financial statements of FBN Merchant Bank Limited ('the Bank') has been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comprise the statement of financial position, income statement and statement of comprehensive income showing as one statement, the statement of cash flows, the statement of changes in equity and the notes.

ii. The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The area involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the financial are disclosed in the notes to the financial statements.

iii. The Bank classifies its expenses by the nature of expense method.

iv. The financial statements are presented in naira, which is the Bank's functional and presentation currency (note 2.4).

v. The figures shown in the financial statements are stated in thousands.

vi. The disclosures on risks from financial instruments are presented in the financial risk management report contained in note 3.

vii. The statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments.

viii. The cash flows from operating activities are determined by using the indirect method and the net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities in the corresponding note. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated.

ix. The cash flows from investing and financing activities are determined by using the indirect method. The Bank's assignment of the cash flows to operating, investing and financing category depends on the Bank's business model (management approach).

2.3 Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial period.

Standards and interpretations effective during the reporting period

No standard nor amendment to existing standard took effect during the reporting period. Hence, there was no impact on the accounting policies, financial positions or performance of the Bank.

(a) New and amended standards issued but not yet effective

Below are the IFRS and IFRIC interpretations that are issued/amended but effective for the first time for the financial year beginning on or after 1 January 2016.

IFRS AND EFFECTIVE DATE	SUBJECT OF AMENDMENT
Amendments to IFRS 11, Joint Arrangements (effective 1 January 2016)	This amendment applies to Joint Arrangements, which requires an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3's Business Combination) to apply all of the business combination accounting principles in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in IFRS 11 and to disclose the information required by IFRS 3 and other IFRS for business combination. The amendments apply both to the initial acquisition of an interest in joint operation and the acquisition of an additional interest in a joint operation.
Amendments to IAS 1, Presentation of Financial Statements (effective 1 January 2016)	This amendment clarifies guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
Amendments to IAS 27, Separate Financial Statements (effective 1 January 2016)	This amendment aimed to restore the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.
IFRS 7, Financial Instruments: Disclosures (effective 1 July 2016)	The standard amends IFRS 7 to remove the phrase 'and interim periods within those annual periods' from paragraph 44R, clarifying that offsetting disclosures is not required in the condensed interim financial report. However, if the IFRS 7 disclosures provides 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.
Amendments to IAS 19, Employee Benefit (Defined Benefit Plan) (effective 1 July 2016)	The standard amends IAS 19 to clarify that high quality corporate bonds used in estimating the discount rate for post employment benefits should be denominated in the same currency as the benefits to be paid (thus the depth of the market for high quality corporate bond should be assessed at currency level).
Amendments to IAS 34, Interim Financial Reporting (effective 1 July 2016)	This amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross reference between the financial statements and wherever they are included within the greater interim financial report (e.g., management commentary or risk report).
Amendments to IFRS 14, Regulatory Deferral Accounts (effective 1 January 2016)	IFRS 14 is designed as a limited scope standard to provide an interim, short-term solution for rate regulated entities that have not yet adopted IFRS. Its purpose is to allow rate regulated entities adopting IFRS for the first time to avoid changes in accounting policies in respect of regulatory deferral accounts until such time as the International Accounting Standard Board (IASB) can complete its comprehensive project on the rate regulated activities. This standard would not have an impact on the Company as it is not the first time preparer of IFRS financial statements.
Amendments to IFRS 5, Non-Current Asset Held for Sale and Discontinued Operations (effective 1 July 2016)	The standard amends IFRS 5 with specific guidance on changes in disposal methods, for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases for which held for distribution accounting is discontinued. The amendments clarify that changing from one of these disposal methods to the other should not be considered to be a new disposal plan; rather it is a continuation of the original plan.
Amendments to IAS 38, Intangible Assets (effective 1 January 2016)	This amendment introduces a rebuttable presumption that a revenue based amortisation method for intangible assets is inappropriate for the same reasons as stated in amendments to IAS 16 above. The amendments stated that there are limited circumstances where rebuttable presumptions can be overcome. This is when the intangible asset is expressed as a measure of income and when it can be demonstrated that revenue and consumption of economic benefits of the intangible asset are highly correlated although there are no clear details as to the admissible evidence that is required to overcome the presumptions.

(b) New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Merchant Bank, except for IFRS 9 Financial Instruments (Classification and Measurement).

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

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

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

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

Classification and measurement of financial assets and financial liabilities
With respect to the classification and measurement under IFRS 9, all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value. IFRS 9 introduces a two-step classification approach. First, an entity considers its business model – that is, whether it holds the financial asset to collect contractual cash flows rather than to sell it prior to maturity to realise fair value changes. If the latter, the instrument is measured at fair value through profit or loss (FVTPL). If the former, an entity further considers the contractual cash flow characteristics of the instrument. Specifically: (a) a debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option; (b) a debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option; (c) all other debt instruments must be measured at FVTPL; (d) all equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

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

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

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

2.4 (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 ('000) naira, which is the Bank's functional and presentation currency.

2.4 (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 remeasured.

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

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

2.5 Financial assets and liabilities

i. Financial assets

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

CLASSIFICATION

The Bank 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 assets were acquired. Management determines the classification of its financial assets at initial recognition. The Bank did not have any held to maturity investment at the reporting date. The Bank uses settlement dates accounting for regular way contracts when recording financial assets transactions. The classification made can be seen in the table as follows:

CATEGORY (AS DEFINED BY IAS 39)		CLASSES AS DETERMINED BY THE BANK		SUBCLASSES
Financial assets	Financial assets at fair value through profit or loss	Financial assets held for trading	Debt securities	Treasury bills
				Federal Government of Nigeria bonds
		Pledged assets	Debt securities	Treasury bills
	Loans and receivables	Balances with the CBN		Cash
				Operating balances with the CBN
		Loans and advances to banks		Current account balances
				Placements
		Loans and advances to customers		Intermediation investments
				Staff loans
		Investment securities	Unlisted debt securities	State Government bonds
				Corporate bonds
		Other assets		Accounts receivables
				Others
	Available for sale	Investment securities	Listed debt	Treasury bills
				Federal Government of Nigeria bonds
			Listed equity	Shares
			Unlisted equity	Shares
		Pledged assets	Listed debt	Treasury bills
				Federal Government of Nigeria bonds

CATEGORY (AS DEFINED BY IAS 39)		CLASSES AS DETERMINED BY THE BANK		SUBCLASSES
Financial liabilities	**Financial liabilities at fair value through profit or loss**	Derivative financial instrument liabilities	Unlisted	Cross currency swap
		Other liabilities		Staff share scheme liability
	Financial liabilities at advertised cost	Overdrawn balances with the CBN		Operating balances with the CBN
		Deposit from banks		Tenored interbank deposits
				Open buy back liabilities (treasury bills)
		Due to customers		Call deposits
				Intermediation money
				Fixed deposit
		Other liabilities		Other account payable

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

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

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:

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

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

Interest on loans is included in the statement of comprehensive income as 'Discount and similar 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'.

The Bank's loans and receivables comprise certain debt investments securities (bonds issued by state governments and corporate entities), loan and advances to banks, loan and advances to customers and other receivables in other assets. Cash and balances with the CBN 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.

(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 Bank's management has the positive intention and ability to hold to maturity, other than:

- those that the Bank, upon initial recognition, designates as at fair value through profit or loss;
- those that the Bank designates as available for sale; and
- 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 'Discount and similar 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'. The Bank does not have any held to maturity financial assets as at 31 December 2015.

RECOGNITION AND MEASUREMENT

Regular-way purchases and sales of financial assets are recognised on settlement date which is the date on which the Bank commits to purchase or sell the asset. 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 Bank 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.

Gains and losses arising from changes in fair value of the 'financial assets through profit or loss' are recognised in profit or loss in the period in which they arise. Changes in fair value of the 'available-for-sale financial assets' are recognised in other comprehensive income. 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 'gains and losses from investment securities'.

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

ii. Financial liabilities

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

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

iii. Derivative financial instruments and hedging activities

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.

iv. 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.

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.

v. Derecognition of financial instruments

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

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

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

vi. Reclassification of financial assets

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

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

2.6 Sale and repurchase agreement

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

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

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

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.

2.8 Impairment of financial assets

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

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

- 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.

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

(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 Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

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

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

2.9 Revenue recognition

Discount income and expense

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

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

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

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

Fees and commission income

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

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

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

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

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

Fees and commission income are reported 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 Bank. Interest earned whilst holding trading securities are reported as discount and similar income.

Dividend income

Dividends are recognised in the income statement in 'Other operating income' when the entity's right to receive payment is established.

2.10 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 includes cash and balances with the CBN, treasury bills of less than three months maturity and loans and advances to banks.

2.11 Leases

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

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

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

2.12 Property and equipment

i. Recognition and measurement

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

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

ii. Subsequent costs

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

iii. Depreciation

Depreciation 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 and comparative periods are as follows:

Leasehold improvements over the shorter of the useful life of the item or lease term. Land is not depreciated.

- Freehold buildings - 50 years
- Office improvements - 4 years
- Motor vehicles - 3 years
- Furniture and fittings – 4 years
- Computer equipment – 3 years
- Office equipment – 3 years

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

iv. Derecognition

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

2.13 Intangible assets

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

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

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

- Computer software - five years

2.14 Impairment of non-financial assets

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

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.15 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 Bank 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 Bank and it is probable that the difference will not reverse in the foreseeable future.

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

2.16 Employee benefits

Defined contribution plan

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

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

2.17 Provisions, contingent liabilities and assets

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

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

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

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

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

2.18 Share capital

(a) Share issue costs

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

(b) Dividends

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

Dividends proposed by the directors but not yet approved by members are disclosed in the financial statements in accordance with the requirements of the 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.

(d) Credit risk reserve

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

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

A more accelerated provision may be made 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.

2.19 Deposit for shares

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

2.20 Earnings per share

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

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

2.21 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.

2.22 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank or the Bank has a present obligation as a result of past events which is not recognised because it is not probable that an outflow of resources will be required to settle the obligation; or the amount cannot be reliably estimated. Contingent liabilities have not been recognised in these financial statements but are disclosed in the note to the financial statements.

3 FINANCIAL RISK MANAGEMENT REPORT

3.1 Introduction and overview

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

- Market risk
- Liquidity risk
- Credit risk

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

Risk management philosophy

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

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

Risk management framework

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

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

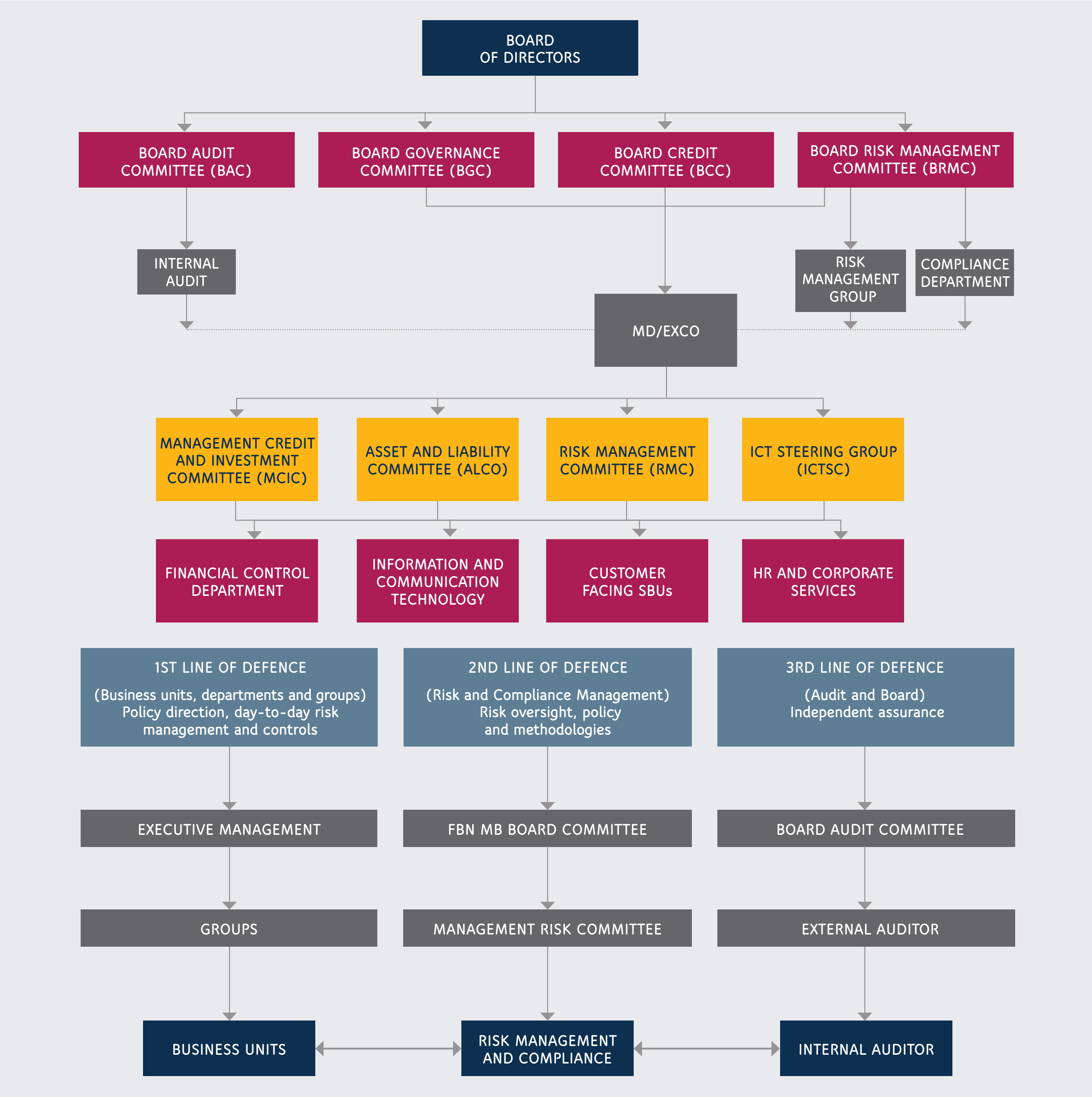
- Board Risk Management Committee
- Board Credit Committee
- Board Audit Committee
- Board Governance Committee.

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

- Management Credit and Investment Committee (MCIC)
- 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 circumstances.

The Bank's Risk Management Organogram is as follows:



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

- The **Board Credit Committee (BCC)** considers and approves all lending exposures and other credits in excess of limits assigned to the **Executive Committee (EXCO)** by the Board, which is exercised on behalf of EXCO by the **Management Credit and Investment Committee (MCIC)**. The MCIC 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 make recommendations to the Board and management as appropriate. The BAC is assisted by the Internal Audit department in carrying out these functions. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Committee.
- The **Board Risk Management Committee (BRMC)** is responsible for formulating strategies for enterprise risk management, evaluating overall risks faced by the Bank, aligning risk policies with business strategies and determining the level of risks that will be in the best interest of the Bank. The Committee's oversight functions cut across all risk areas involved in the Bank's operations. The **Risk Management Committee (RMC)** of the Management 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.
- The **Board Governance Committee (BGC)** 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)** establishes the Bank's standards and policies covering the various components of market risk, including issues on interest rate, liquidity, investment and trading risk. It ensures that market risk exposures that can have potential impact on the Bank's income are monitored, controlled and managed through stress tests and simulations.
- **The Risk Management and Control (RM&C) group** is responsible for implementing approved risk policies and procedures. The RM&C is also responsible for identifying, controlling, monitoring and reporting risk issues, and serves as the Secretariat for the Management committees. Market and credit risks are the most critical risks to the RM&C as exposures arising from security trading, investments and lending activities account for the major portion of the Bank's assets and source of its revenue.

Risk management methodology

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

- Enterprise Risk Management (ERM) framework
- Risk Asset and Acceptance Criteria (RAAC)
- Credit Risk Policy
- Market and Liquidity Risk Policy
- Operational Risk Policy
- Concentration Limit Policy
- Business Continuity Management (BCM) Policy
- Performance Management framework
  - Related Parties Policy
  - Strategic and Reputational Risk Policy
  - Standard manuals of operations

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

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

Risk management overview

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

3.2 Financial instruments by categories

The Bank's financial instruments are categorised as follows:

At 31 December 2015	Financial assets at fair value through profit or loss ₦'000	Available for sale ₦'000	Loans and receivables ₦'000	Financial liabilities at fair value through profit or loss ₦'000	At amortised cost ₦'000
Financial assets:					
Cash and balances with the CBN	-	-	-	-	-
Balances with the CBN	-	-	277,266	-	-
Loans and advances to banks					
Current account balances with banks within Nigeria	-	-	461,447	-	-
Placements with financial institutions within Nigeria	-	-	7,500,822	-	-
Loans and advances to customers					
Intermediation investments	-	-	36,324,483	-	-
Other loans - staff loans	-	-	325,270	-	-
Financial assets held for trading					
Treasury bills	10,695,464	-	-	-	-
FGN bonds	-	-	-	-	-
Investment securities					
Available for sale					
– Treasury bills	-	8,947,281	-	-	-
– FGN bonds	-	20,925,877	-	-	-
– Listed equities	-	-	-	-	-
– State bonds	-	9,212,539	-	-	-
– Corporate bonds	-	1,911,731	-	-	-
– Unlisted equities	-	15,066	-	-	-
Other assets					
Account receivable	-	-	-	-	-
Others (less allowance for impairment)	-	-	44,790	-	-
Financial liabilities:					
Due to banks					
Tenored interbank deposit	-	-	-	-	-
Open buy back – treasury bills	-	-	-	-	5,600,184
Due to customers					
Call deposits	-	-	-	-	486,439
Intermediation money	-	-	-	-	3,372,483
Fixed deposits	-	-	-	-	67,772,456
Derivative financial instrument	-	-	-	367,041	-
Other liabilities					
Accrued liabilities	-	-	-	-	578,701
Other accounts payable	-	-	-	-	322,271
	10,695,464	41,012,494	44,934,077	367,041	78,132,533

At 31 December 2014	Financial assets at fair value through profit or loss ₦'000	Available for sale ₦'000	Loans and receivables ₦'000	Financial liabilities at fair value through profit or loss ₦'000	At amortised cost ₦'000
Financial assets:					
Cash and balances with the CBN	-	-	-	-	-
Balances with the CBN	-	-	1,274	-	-
Loans and advances to banks					
Current account balances with banks within Nigeria	-	-	952,533	-	-
Placements with financial institutions within Nigeria	-	-	943,284	-	-
Loans and advances to customers					
Intermediation investments	-	-	26,578,640	-	-
Other loans – staff loans	-	-	288,383	-	-
Financial assets held for trading					
Treasury bills	7,365,735	-	-	-	-
FGN bonds	-	-	-	-	-
Investment securities					
Available for sale					
– Treasury bills	-	25,936,551	-	-	-
– FGN bonds	-	22,366,586	-	-	-
Unlisted equities	-	15,066	-	-	-
Loans and receivables	-	-	-	-	-
– State bonds	-	1,721,426	-	-	-
– Corporate bonds	-	601,178	-	-	-
Other assets					
Account receivable	-	-	9,198	-	-
Others (less allowance for impairment)	-	-	516,000	-	-
Financial liabilities:					
Due to banks					
Tenored interbank deposit	-	-	-	-	6,229,200
Due to customers					
Call deposits	-	-	-	-	481,635
Intermediation money	-	-	-	-	7,446,274
Fixed deposits	-	-	-	-	60,890,810
Derivative financial instrument	-	-	-	1,002,431	-
Other liabilities					
Accrued liabilities	-	-	-	-	30,556
Other accounts payable	-	-	-	-	178,010
	7,365,735	50,640,807	29,289,312	1,002,431	75,256,484

3.3 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 Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

Management of market risk

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

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

Exposure to market risk – trading portfolios

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

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

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

Exposure to interest rate risk – trading and non-trading portfolios

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

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

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

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

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

At 31 December 2015	Carrying amount ₦'000	Fixed interest bearing ₦'000	Non-interest bearing ₦'000
Financial assets:			
Cash and balances with the CBN	277,266	-	277,266
Balances with the CBN	-	-	-
Loans and advances to banks			
Current account balances with banks within Nigeria	461,447	-	461,447
Placements with financial institutions within Nigeria	7,500,822	7,500,822	-
Loans and advances to customers			
Intermediation investments	36,324,483	36,324,483	-
Other loans - staff loans	325,270	325,270	-
Financial assets held for trading			
Treasury bills	10,695,464	10,695,464	-
FGN bonds	-	-	-
Investment securities			
Available for sale			
– FGN bonds	8,947,281	8,947,281	-
– Treasury bills	20,925,877	20,925,877	-
– Listed equities	-	-	-
– State bonds	9,212,539	9,212,539	-
– Corporate bonds	1,911,731	1,911,731	-
– Unlisted equities	45,066	-	45,066
Other assets			
Account receivable	-	-	-
Others (less allowance for impairment)	44,790	-	44,790
	96,672,036	95,843,467	828,569
Financial liabilities:			
Open buy back - treasury bills	5,600,186	5,600,186	-
Due to customers			
Call deposits	486,439	486,439	-
Intermediation money	3,372,483	3,372,483	-
Fixed deposits	67,772,456	67,772,456	-
Derivative financial instrument	367,041	367,041	-
Other liabilities			
Accrued liabilities	578,701	-	578,701
Other accounts payable	322,270	-	322,270
	78,499,576	77,598,605	900,971

At 31 December 2014	Carrying amount ₦'000	Fixed interest bearing ₦'000	Non-interest bearing ₦'000
Financial assets:			
Cash and balances with the CBN	1,274	0	1,274
Balances with the CBN	-	-	-
Loans and advances to banks			
Current account balances with banks within Nigeria	952,533	0	952,533
Placements with financial institutions within Nigeria	943,284	943,284	0
Loans and advances to customers			
Intermediation investments	26,578,640	26,578,640	-
Other loans – staff loans	288,383	288,383	-
Financial assets held for trading			
Treasury bills	7,365,735	7,365,735	-
FGN bonds	-	-	-
Investment securities			
Available for sale			
– Treasury bills	25,936,551	25,936,551	-
– FGN bonds	22,366,586	22,366,586	-
– Unlisted equities	15,066	-	15,066
Loans and receivables			
– State bonds	1,721,426	1,721,426	-
– Corporate bonds	601,178	601,178	-
Other assets			
Account receivable	7,143	-	7,143
Others (less allowance for impairment)	516,000	-	516,000
	87,293,799	85,801,783	1,492,016
Financial liabilities:			
Due to the CBN	-	-	-
Due to banks			
Tenored interbank deposit	6,229,200	6,229,200	-
Open buy back – treasury bills	-	-	-
Due to customers			
Call deposits	481,635	481,635	-
Intermediation money	7,446,274	7,446,274	-
Fixed deposits	60,890,810	60,890,810	-
Derivative financial instrument	1,002,431	1,002,431	-
Other liabilities			
Accrued liabilities	30,556	-	30,556
Other accounts payable	178,010	-	178,010
	76,258,916	76,050,350	208,566

Exposure to interest rate risk on non-trading portfolios

As at 31 December 2015, if interest rates on floating rate assets and liabilities held at amortised cost had increased or decreased by 200 basis points with all other variables held constant, the impact on profit or loss would have been as set out in the table below. In arriving at the 200 basis point used for the sensitivity analysis of interest rate, the fluctuation in the interest rate of the Bank's major assets and liabilities, as represented by movements in the Nigerian Inter-Bank Offered Rate (NIBOR) were considered as follows:

- Average monthly 90-day NIBOR rate ranged between 10.09% and 22.26%, with average of 13.25% (2014: 11.08% and 18.29%, with average of 13.50%) over the period, an average change of about 200 basis points.
- The discount rate on various maturities of treasury bills ranged between 0.2% and 20.00% (2014: 8.00% and 15.77%) over the financial period as published by Financial Markets Dealers Quotation (FMDQ). This represents a variability of about 1,980 basis points (2014: 777 basis points) in the observed discount rates for the year.
- A 100 basis point proportional change in the cost of fund was also assumed (2014: 100 basis points).

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

	12 months to 31 December 2015		12 months to 31 December 2014	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	735,669,586	500,255,319	571,176,634	388,400,111
Increase	(562,293,170)	(382,359,355)	(571,176,634)	(388,400,111)

Bond price sensitivity

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

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

As at 31 December 2015, the Bank had a Nil position in its FGN Bonds trading position (2014: Nil). If price of bonds designated as financial assets held for trading increased or decreased by ₦1 (2014: ₦1) with all variables held constant, the impact on mark to market profit or loss would have been as set out in the table below:

	12 months to 31 December 2015		12 months to 31 December 2014	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	Nil	Nil	Nil	Nil
Increase	Nil	Nil	Nil	Nil

Treasury bills discount rate sensitivity

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

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

As at 31 December 2015, if discount rates on treasury bills increased or reduced by 50 basis points (2014: 50 basis points) with all other variables held constant, the impact on mark-to-market profit or loss would have been as set out in the tables below:

	12 months to 31 December 2015		12 months to 31 December 2014	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	36,587,979	24,879,826	13,568,493	9,226,575
Increase	(36,777,226)	(25,008,514)	(13,568,493)	(9,226,575)

Financial instruments held as available for sale

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

- Daily bond prices and treasury bills discount rates were obtained and trended for the financial assets.
- A reasonably possible change was determined from one year daily fluctuation in bond prices and treasury bills discount rates.
- The range of ± ₦1 and ± 50 basis points (2014: ± ₦1 and ± 50 basis points) changes in market prices of bonds and treasury bills respectively were then applied to the Bank's holdings in AFS bonds and treasury bills as at year end to determine impact on its OCI position.

AFS Bonds as at 31 December 2015

	12 months to 31 December 2015		12 months to 31 December 2014	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	372,194,109	253,091,994	(524,741,845)	(356,824,455)
Increase	(221,486,511)	(150,610,827)	524,741,845	356,824,455

AFS treasury bills as at 31 December 2015

	12 months to 31 December 2015		12 months to 31 December 2014	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	31,572,045	21,468,990	32,866,296	22,349,081
Increase	(18,223,403)	(12,391,914)	(32,866,296)	(22,349,081)

Equity price risk

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

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

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

3.4 Liquidity risk

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

Management of liquidity risk

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

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

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

Exposure to liquidity risk

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

	2015	2014
At end of period	63.11%	74.19%
Average for the period	66.47%	66.94%
Maximum for the period	75.83%	76.99%
Minimum for the period	54.05%	60.57%

The regulatory benchmark given by CBN for merchant banks during the year was 20% and the Bank was well within this threshold throughout the year ending 31 December 2015.

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

3.5 Credit risk

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

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

- maintenance of an efficient risk assets portfolio;
- adequately diversify the Bank's risk assets and minimise concentration risk;
- institutionalisation of sound credit culture in the Bank; and
- achieve consistent and continuous income stream for the Bank.

The risk assets creating units – Treasury and Corporate Finance – 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 Risk Management and Control (RM&C) group carry out regular credit quality reviews.

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

Management of credit risk

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

- Formulating credit policies for the Bank, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Executive Committee and the BCC/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 RAAC and Credit Risk Policy lies with the BCC.
- Reviewing compliance with exposure and concentration limits, and promotion of best practices throughout the Bank in the management of credit risk.

There were changes to the RAAC and other credit risk management policies during the period following commencement of merchant banking operations. However, there were no fundamental change in the Bank's risk appetite in relation to assumption of, and approach to, credit risk.

Credit risk measurement

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

FBN Merchant Bank's rating system as defined by its RAAC deals with all credit risk counterparties, covering all the Bank's credit exposure to corporate, commercial, conglomerates and multinationals. However, it excludes banks and other financial institutions regulated by the Central Bank of Nigeria (CBN). Obligor rating in FBN Merchant Bank is handled by relationship managers with further review by Risk Management and Control (RM&C) before it goes thought the approval process.

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

EXTERNAL RATING	INTERNAL RATING	DESCRIPTION	CHARACTERISTICS
AAA	A	Highly outstanding investments	· 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

EXTERNAL RATING	INTERNAL RATING	DESCRIPTION	CHARACTERISTICS
AA A	B	Above average investments	· Very high investment quality · Very low expectation of default risk
BBB BB B	C	Average investments	· 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 are more likely to impair capacity for payment · Typically in stable industries · Strong debt repayment capacity and coverage · Good asset quality and liquidity position · Very good management
CCC CC	D	Acceptable investments	· 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
C D	E	Unacceptable investments	· 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

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

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

FBN Merchant Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring the credit risk of loans and advances at a counterparty level, the Group considers three components: (i) the Probability of Default (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derives the Exposure At Default (EAD); and (iii) the likely 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 or their equivalents are used by the Risk Management department for managing the credit risk exposures, supplemented by the Bank's own assessment through the use of internal ratings tools.

Risk limit control and mitigation policies

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

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

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

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

FBN Merchant Bank also sets internal credit approval limits on 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 (% OF SINGLE OBLIGOR LIMIT)*
Board of Directors	No limit but subject to regulatory limit
Executive Committee (EXCO)	≤10% of shareholders' funds
*Regulatory legal lending limit = 50% of shareholders' funds per obligor	

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

FBN Merchant Bank maintains placement lines for its bank counterparties and other financial institutions regulated by the CBN. The lines cover the settlement risks inherent in the Bank's activities with these counterparties. The limits are arrived at after conducting fundamental analysis of the counterparties, and presentation of findings to and approval by the Board. The lines are implemented by the Treasury Group and monitored by the RM&C. Interbank placement limits are also guided by the regulatory single obligor limit, which is currently 50% of the Bank's shareholders' funds.

Maximum exposure to credit risk

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

	Maximum exposure	
Classification	31 December 2015 ₦'000	31 December 2014 ₦'000
Financial assets:		
Cash and balances with the CBN		
Balances with the CBN	277,266	1,274
Loans and advances to banks		
Current account balances with banks within Nigeria	461,447	952,533
Placements with financial institutions within Nigeria	7,500,822	943,284
Loans and advances to customers		
Intermediation investments	36,324,483	26,578,640
Other loans – staff loans	325,270	288,383
Financial assets held for trading		
Treasury bills	10,695,464	7,365,735
Federal Government of Nigeria (FGN) bonds	-	-
Investment securities:		
Available for sale:		
– Treasury bills	8,947,281	25,936,551
– FGN bonds	20,925,877	22,366,586
– State bonds	9,212,539	1,721,426
– Corporate bonds	1,911,731	601,178
– Unlisted equities	-	-
Other assets		
Account receivable	-	38,376
Others (less allowance for impairment)	44,790	90,417
	96,626,970	86,884,383
Loans exposure to total exposure	45.69%	32.01%
Debt securities exposure to total exposure	53.50%	64.07%
Other exposures to total exposure	0.81%	1.25%

The Bank did not have any exposure to off-balance sheet items as at 31 December 2015 (2014: Nil). Balances included in other assets in the table on page 79 are those subject to credit risks. Items not subject to credit risk have been excluded. The table shows a worse-case scenario of credit risk exposures to the Bank at 31 December 2015 and 31 December 2014, without taking into consideration any of the collateral held or other credit enhancements attached, if any. The exposures set out in the table on page 79 are based on gross amounts as reported in the statement of financial position.

As shown in the table, 45.73% of the Bank's total maximum exposures are derived from loans and advances to banks and customers (2014: 31.80%) while 52.59% of the Bank's total maximum exposures represents exposures to investments in debt securities (2014: 63.65%). 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.

Industry/sectoral exposure to credit risk

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

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% on 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.

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. 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 uncollectable. 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.

The total amount held in credit risk reserve for loans and advances in line with extant CBN's regulatory requirement is ₦2,817,909,000 (2014: ₦1,725,602,000).

Risk assets collateral

The Bank ensures that every risk asset is reviewed and granted based on the strength of the borrower’s 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.

The Bank ensures that every risk asset is reviewed and granted based on the strength of the borrower's 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.

Analysis of collateral held as at 31 December 2015

	Value of collateral (₦)	Type of collateral
Cash/treasury bills/bonds backed placements	167,283,333	Cash/Treasury bills
Government guaranteed facility	4,243,596,580	Government guarantee
Bank guaranteed facility	2,842,085,906	Bank guarantee
Asset-backed facility	5,616,669,000	Mortgage property

Analysis of collateral held as at 31 December 2014

	Value of collateral (₦)	Type of collateral
Cash/treasury bills/bonds backed placements	-	Cash/Treasury bills
Government guaranteed facility	3,576,839,086	Government guarantee
Bank guaranteed facility	4,272,140,180	Bank guarantee
Asset-backed facility	18,039,211,217	Mortgage property

3.6 Settlement risk

FBN Merchant Bank's activities may give rise to risk at the time of settlement of transactions and trade. Settlement risk is the risk of loss due to the failure of 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.

3.7 Operational risk

FBN 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, management of all regulatory responsibilities and response to external threats.

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

Risk incident reporting

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

Risk mapping and assessment

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

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

Business continuity management (BCM)

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

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 also employed from time to time to review, assess and audit the Bank's information technology infrastructure to ensure that the information assets are secured and protected.

Compliance department

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

Operational risk reporting

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

Operational risk management governance structure

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

The Risk Management Committee (RMC) monitors the activities of operational risk and approves key decisions made before presentation to the Board. It ensures the implementation of the guiding operational risk framework Bank-wide, and ensures that all departments in the Bank are fully aware of the risks embedded in respective process flows and business activities. All process owners are responsible for the day-to-day management of operational risks prevalent in respective units, departments and groups of the Bank. The Internal Audit function conducts independent reviews on the implementation of operational risk policies and procedures Bank-wide.

3.8 Capital management

FBN Merchant Bank is directly supervised by its regulator, the Central Bank of Nigeria (CBN), who sets and monitors capital requirements for the Bank. The Central Bank of Nigeria implemented Basel II for all regulated financial institutions in January 2014. In implementing current capital requirements, the CBN requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank's regulatory capital currently comprises only tier 1 capital, which includes ordinary share capital, share premium and retained earnings after deductions for intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

FBN Merchant Bank's financial instruments are categorised mainly as trading or non-trading portfolios, and risk-weighted assets are determined according to specified regulatory requirements that seek to reflect the varying levels of risk attached to each type of asset and exposure. The CBN requires all regulated institutions to adopt the standardised credit risk approach and basic indicator approach (operational risk) in the computation of capital charge.

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 CBN. The 2014 comparative figures have also been restated based on the Basel II guidelines. In accordance with extant CBN regulations, a minimum ratio of 10% is to be maintained.

Capital adequacy ratio N'000	December 2015	December 2014
Ordinary share capital	4,301,577	4,000,000
Statutory reserve	5,826,521	3,856,868
Share premium	3,904,731	3,000,000
Retained earnings	9,235,023	7,169,775
Available-for-sale reserve	319,472	-
Deposit for shares	-	1,206,308
	23,587,324	19,232,951
Less: Fair value reserve for available-for-sale securities	-	(3,874,860)
Less: Deferred tax asset	(8,083,415)	(5,184,615)
Total regulatory capital	15,503,909	10,173,476
Risk-weighted assets	67,312,790	45,270,219
Capital adequacy ratio	23.03%	22.47%

3.9 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

	Notes	At 31 December 2015 Carrying amount ₦'000	At 31 December 2015 Fair value ₦'000	At 31 December 2014 Carrying amount ₦'000	At 31 December 2014 Fair value ₦'000
Financial assets:					
Cash and balances with the CBN					
Balances with the CBN	i	277,266	277,266	1,274	1,274
Loans and advances to banks					
Current account balances with banks within Nigeria	ii	461,447	461,447	952,533	952,533
Placements with financial institutions within Nigeria	ii	7,500,822	7,500,822	943,284	943,284
Loans and advances to customers					
Intermediation investments	iii	36,324,483	36,148,083	26,578,640	26,578,640
Other loans - staff loans		325,270	323,107	288,383	288,383
Other assets					
Account receivable	v	-	-	9,198	9,198
Others	v	44,790	44,790	90,417	90,417
Financial liabilities:					
Due to banks					
Tenored interbank deposit	vi	-	-	6,229,200	6,229,200
Open buy back - treasury bills		5,600,184	5,600,184	-	-
Due to customers					
Call deposits	vi	486,439	486,439	481,635	481,635
Intermediation money	vi	3,372,483	3,372,483	7,446,274	7,446,274
Fixed deposits	vi	67,772,456	67,772,456	60,890,810	60,890,810
Other liabilities					
Other accounts payable	vii	900,972	900,972	208,566	208,566

i. Cash and balances with the CBN include cash and deposits with the CBN. The carrying amount of the balances with the 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 banks within 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 of investment securities, loans and receivables was estimated using indicative prices quoted on Financial Market Dealers Quotations website.

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 deposits from banks and customers is the amount repayable on demand as 31 December 2015.

vii. Carrying amounts of other liabilities are a reasonable expectation of their fair values, which are payable on demand.

Fair value hierarchy – financial instruments not measured at fair value

31 December 2015	Level 1 ₦'000	Level 2 ₦'000	Level 3 ₦'000	Total ₦'000
Financial assets:				
Cash and balances with the CBN				
Balances with the CBN	-	277,266	-	277,266
Loans and advances to banks				
Current account balances with banks within Nigeria	-	461,447	-	461,447
Placements with financial institutions within Nigeria		7,500,822		7,500,822
Loans and advances to customers				
Intermediation investments	-	-	36,324,483	36,324,483
Other loans – staff loans	-	-	325,270	325,270
Investment securities:				
Other assets				
Account receivable	-	7,143	-	7,143
Others	-	44,790	-	44,790
Financial liabilities:				
Due to banks				
Tenored interbank deposit	-	-	-	-
Open buy back – treasury bills	-	5,600,184	-	5,600,184
Due to customers				
Call deposits	-	486,439	-	486,439
Intermediation money	-	3,372,483	-	3,372,483
Fixed deposits	-	67,772,456	-	67,772,456
Other liabilities				
Other accounts payable	-	900,972	-	900,972

31 December 2014	Level 1 ₦'000	Level 2 ₦'000	Level 3 ₦'000	Total ₦'000
Financial assets:				
Cash and balances with the CBN	-	1,274	-	1,274
Balances with the CBN				
Loans and advances to banks	-	952,533	-	952,533
Current account balances with banks within Nigeria	-	943,284	-	943,284
Placements with financial institutions within Nigeria				
Loans and advances to customers	-	-	26,578,640	26,578,640
Intermediation investments	-	-	288,383	288,383
Other loans - staff loans				
Investment securities:				
Loans and receivables	-	-	-	-
State bonds	-	-	-	-
Corporate bonds				
Other assets	-	9,198	-	9,198
Account receivable	-	454,761	-	454,761
Others				
Financial liabilities:				
Due to the CBN	-	-		-
Due to banks				
Tenored interbank deposit	-	6,229,200	-	6,229,200
Open buy back - treasury bills	-	-	-	-
Due to customers				
Call deposits	-	481,635	-	481,635
Intermediation money	-	7,446,274	-	7,446,274
Fixed deposits	-	60,890,810	-	60,890,810
Other liabilities				
Other accounts payable	-	208,566	-	208,566

(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 Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3

Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Fair value hierarchy

31 December 2015	Level 1 ₦'000	Level 2 ₦'000	Level 3 ₦'000	Total ₦'000
Financial assets:				
Held for trading:				
Treasury bills	10,695,464	-	-	10,695,464
Pledged treasury bills	-	-	-	-
FGN bonds	-	-	-	-
Available for sale:				
Treasury bills	8,947,281	-	-	8,947,281
Pledged treasury bills	-	-	-	-
FGN bonds	20,925,877	-	-	20,925,877
State bonds	9,212,539	-	-	9,212,539
Corporate bonds	1,911,731	-	-	1,911,731
Unlisted equities	-	-	45,066	45,066
Financial liabilities				
Derivative financial instrument	-	-	367,041	367,041

31 December 2014:	Level 1 ₦'000	Level 2 ₦'000	Level 3 ₦'000	Total ₦'000
Financial assets				
Held for trading:				
Treasury bills	7,365,735	-	-	7,365,735
Pledged treasury bills	-	-	-	-
FGN bonds	-	-	-	-
Available for sale:				
Treasury bills	25,936,551	-	-	25,936,551
Pledged treasury bills	-	-	-	-
FGN bonds	22,366,586	-	-	22,366,586
State bonds	1,721,426	-	-	1,721,426
Corporate bonds	601,178	-	-	601,178
Unlisted equities	-	-	15,066	15,066
Financial liabilities	-	-	-	-
Derivative financial instrument	-	-	1,002,431	1,002,431

(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 Markets Dealers Quotation (FMDQ) Plc, which are classified as held for trading or available for sale.

(b) Financial instruments in level 2

Valuation techniques 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; and
- 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 Bank for the year ended:

31 December 2015 In thousands of Nigerian naira	Unlisted equities	Derivative financial instruments	Total
Opening balance	15,066	1,002,431	987,365
(Losses) recognised in profit or loss			
Settlements	30,000	(635,390)	665,390
Closing balance	45,066	367,041	321,975
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	-	(151,565)	(151,565)
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	-	-	-

31 December 2014 In thousands of Nigerian naira	Unlisted equities	Derivative financial instruments	Total
Opening balance	15,066	265,150	280,216
Gains/(losses) recognised in profit or loss	-	737,281	737,281
Settlements	-	-	-
Closing balance	15,066	1,002,431	987,365
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	-	737,281	737,281
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	-	-	-

Unquoted equity investments in available-for-sale portfolio relates to ₦15 million investment in Financial Markets Dealers Quotation (FMDQ) and ₦66,000 investment in Nigeria interbank settlement system. These companies are not quoted hence their fair values could not be reliably measured. Also, the markets where these securities could be traded are not readily ascertained hence the classification within level 3 of the fair value hierarchy.

The Bank has no current plans of disposing of these securities.

Maturity profile

The table below presents the analysis of the undiscounted gross cash flows on the Bank's financial assets and liabilities and on the basis of their earliest possible maturity.

31 December 2015	Carrying amount ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year to 3 years ₦'000	3 years to 5 years ₦'000	Over 5 years ₦'000
Financial assets:						
Cash and balances with the CBN						
Balances with the CBN	277,266	277,266	-	-	-	-
Loans and advances to banks						
Current account balances with banks within Nigeria	461,447	461,447	-	-	-	-
Placements with financial institutions within Nigeria	7,500,821	7,500,821	-	-	-	-
Loans and advances to customers						
Intermediation investments	36,324,483	18,066,389	4,466,740	3,220,195	10,571,159	-
Other loans - staff loans	325,270	4,205	23,835	60,430	20,713	216,087
Financial assets held for trading						
Treasury bills	10,695,464	1,740,474	8,954,990	-	-	-
FGN bonds	-	-	-	-	-	-
Investment securities						
Available for sale						
- FGN bonds	20,925,877	-	13,849,934	1,355,602	-	5,740,340
- Treasury bills	8,947,281	2,783,998	6,163,284	-	-	-
- Listed equities	-	-	-	-	-	-
- State bonds	9,212,540		101,128	7,778,091	-	1,323,321
- Corporate bonds	1,911,730		531,276	816,177	564,277	-
- Unlisted equities	45,066	-	-	-	-	45,066
Loans and receivables						
State bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Pledged assets						
Available for sale						
- Treasury bills	-	-	-	-	-	-
Held for trading						
- Treasury bills	-	-	-	-	-	-
Other assets						
Account receivable	7,143	-	7,143	-	-	-
Others (less allowance for impairment)	44,790	44,790	-	-	-	
	96,679,178	30,879,389	34,098,332	13,220,495	11,156,149	7,324,814

31 December 2015	Carrying amount ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year to 3 years ₦'000	3 years to 5 years ₦'000	Over 5 years ₦'000
Financial liabilities:						
Due to the CBN	-	-	-	-	-	-
Due to banks						
Tenored interbank deposit	-		-	-	-	-
Open buy back – treasury bills	5,600,186	5,600,186	-	-	-	-
Due to customers						
Call deposits	486,439	486,439	-	-	-	-
Intermediation money	3,372,483	3,365,207	7,276	-	-	-
Fixed deposits	67,772,456	65,991,540	1,780,916	-	-	-
Derivative financial instrument	367,041	-	367,041	-	-	-
Other liabilities						
Other accounts payable	900,971	900,971		-	-	-
Staff share scheme liability	-	-	-	-	-	-
	78,499,576	76,344,343	2,155,233	-	-	-
Cumulative liquidity gap	18,179,602	(45,464,954)	31,943,099	13,220,495	11,156,149	7,324,814

31 December 2014	Carrying amount ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year to 3 years ₦'000	3 years to 5 years ₦'000	Over 5 years ₦'000
Financial assets:						
Cash and balances with Central Bank of Nigeria						
Balances with Central Bank of Nigeria	1,274	1,274	-	-	-	-
Loans and advances to banks						
Current account balances with banks within Nigeria	952,533	952,533	-	-	-	-
Placements with financial institutions within Nigeria	943,284	943,284	-	-	-	-
Loans and advances to customers						
Intermediation investments	26,578,639	6,120,566	4,909,259	11,366,078	-	4,182,737
Other loans - staff loans	288,383	-	17,196	84,176	14,515	172,496
Financial assets held for trading						
Treasury bills	7,365,735	3,957,092	3,408,643	0	0	0
FGN Bonds	-	-	-	-	-	-
Investment securities						
Available for sale						
– FGN bonds	22,366,586	-	-	14,831,274	482,915	7,052,397
– Treasury bills	25,936,551	5,774,594	20,161,957	-	-	-
– Listed equities	-	-	-	-	-	-
– State bonds	1,721,426	-	-	1,133,476	587,950	-
– Corporate bonds	601,178	-	-	452,713	148,465	-
– Unlisted equities	15,066	-	-	-	-	15,066

31 December 2014	Carrying amount ₦'000	Up to 90 days ₦'000	90 days to 1 year ₦'000	1 year to 3 years ₦'000	3 years to 5 years ₦'000	Over 5 years ₦'000
Loans and receivables						
State bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Pledged assets						
Available for sale						
– Treasury bills	-	-	-	-	-	-
Held for trading						
– Treasury bills	-	-	-	-	-	-
Other assets						
Account receivable	38,376	-	34,343	-	-	4,033
Others (less allowance for impairment)	21,246	3,204	-	18,042	-	-
	86,830,277	17,752,547	28,531,397	27,885,759	1,233,845	11,426,729
Financial liabilities:						
Due to the CBN	-	-	-	-	-	-
Due to banks						
Tenored interbank deposit	6,229,200	6,229,200	-	-	-	-
Open buy back – treasury bills	-	-	-	-	-	-
Due to customers						
Call deposits	481,635	481,635	-	-	-	-
Intermediation money	7,446,274	7,400,691	45,583	-	-	-
Fixed deposits	60,890,810	59,688,633	1,202,177	-	-	-
Derivative financial instrument	1,002,431	-	1,002,431	-	-	-
Other liabilities						
Other accounts payable	208,566	172,893	35,673	-	-	-
Staff share scheme liability	-	-	-	-	-	-
	76,258,916	73,973,052	2,285,864	-	-	-
Cumulative liquidity gap	10,571,361	(56,220,505)	26,245,534	27,885,759	1,233,845	11,426,729

Sectoral analysis

31 December 2015	Real estate ₦'000	Telecoms ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and gas ₦'000	Transport and storage ₦'000	Power and energy ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Financial assets:										
Cash and balances with the CBN										
Balances with the CBN	-	-	277,266	-	-	-	-	-		277,266
Loans and advances to banks										
Current account balances with banks within Nigeria	-	-	461,447	-	-	-	-	-		461,447
Placements with financial institutions within Nigeria	-	-	7,500,822	-	-	-	-	-		7,500,822
Loans and advances to customers								-	-	
Intermediation investments	8,260,669	4,432,641	505,892	-	13,343,888	372,777	-	9,075,216	333,400	36,324,483
Other loans - staff loans	-	-	-	-	-	-	-	-	325,270	325,270
Financial assets held for trading										
Treasury bills	-	-	-	10,695,464	-	-	-	-	-	10,695,464
FGN Bonds	-	-	-	-	-	-	-	-	-	-
Investment securities										
Available for sale										
- FGN bonds	-	-	-	20,925,877	-	-	-	-	-	20,925,877
- Treasury bills	-	-	-	8,947,281	-	-	-	-	-	8,947,281
- Listed equities	-	-	-	-	-	-	-	-	-	-
- State bonds	-	-	-	9,212,539	-	-	-	-	-	9,212,539
- Corporate bonds	-	-	689,765	-	-	1,095,554	-	126,412	-	1,911,731
- Unlisted equities	-	-	-	-	-	-	-	-	-	-
Loans and receivables										
- State bonds	-	-	-	-	-	-	-	-	-	-
- Corporate bonds	-	-	-	-	-	-	-	-	-	-
Pledged assets										

31 December 2015	Real estate ₦'000	Telecoms ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and gas ₦'000	Transport and storage ₦'000	Power and energy ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Available for sale										
- Treasury bills	-	-	-	-	-	-	-	-	-	-
Held for trading										
- Treasury bills	-	-	-	-	-	-	-	-	-	-
Other assets										
Account receivable	-	-	-	-	-	-	-	-	-	-
Others (less allowance for impairment)	-	-	-	-	-	-	-	-	44,790	44,790
	8,260,669	4,432,641	9,435,192	49,781,161	13,343,888	1,468,331	-	9,201,628	703,460	96,626,970

31 December 2014	Real estate ₦'000	Telecoms ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and gas ₦'000	Transport and storage ₦'000	Power and energy ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Financial assets:										
Cash and balances with the CBN										
Balances with the CBN	-	-	1,274	-	-	-	-	-		1,274
Loans and advances to banks										
Current account balances with banks within Nigeria	-	-	952,533	-	-	-	-	-		952,533
Placements with financial institutions within Nigeria	-	-	943,284	-	-	-	-	-		943,284
Loans and advances to customers										
Intermediation investments	3,904,016	4,818,285	-	-	9,158,971	-	-	8,517,214	180,154	26,578,640
Other loans – staff loans	-	-	-	-	-	-	-	-	288,383	288,383
Financial assets held for trading										
Treasury bills	-	-	-	7,365,735	-	-	-	-	-	7,365,735

31 December 2014	Real estate ₦'000	Telecoms ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and gas ₦'000	Transport and storage ₦'000	Power and energy ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
FGN bonds	-	-	-	-	-	-	-	-	-	-
Investment securities										
Available for sale										
- FGN bonds	-	-	-	22,366,586	-	-	-	-	-	22,366,586
- Treasury bills	-	-	-	25,936,551	-	-	-	-	-	25,936,551
- Listed equities	-	-	-	-	-	-	-	-	-	-
- State bonds	-	-	-	1,721,426	-	-	-	-	-	1,721,426
- Corporate bonds	-	-	-	-	-	452,713	-	148,465	-	601,178
- Unlisted equities	-	-	-	-	-	-	-	-	-	-
Loans and receivables										
- State bonds	-	-	-	-	-	-	-	-	-	-
- Corporate bonds	-	-	-	-	-	-	-	-	-	-
Pledged assets										
Available for sale										
- Treasury bills	-	-	-	-	-	-	-	-	-	-
Held for trading										
- Treasury bills	-	-	-	-	-	-	-	-	-	-
Other assets										
Account receivable	-	-	-	-	-	-	-	-	434,782	434,782
Others (less allowance for impairment)	-	-	-	-	-	-	-	-	21,246	21,246
	3,904,016	4,818,285	1,897,091	57,390,298	9,158,971	452,713	-	8,665,679	924,565	87,211,618

Internal rating system

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

31 December 2015 Classification	Real estate ₦'000	Telecoms ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and gas ₦'000	Transport and storage ₦'000	Power and energy ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Grades										
A	-	-	8,239,535	40,568,622	-	-	-	-	-	48,808,157
B	5,040,2474	4,432,641	1,195,657	9,212,539	13,046,442	1,468,331	-	9,201,628	658,670	44,256,382
C	3,220,195	-	-	-	297,446	-	-	-	44,790	3,562,431
	8,260,668	4,432,641	9,435,193	49,781,160	13,343,888	1,468,331	-	9,201,628	703,459	96,626,970

31 December 2014 Classification	Real estate ₦'000	Telecoms ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and gas ₦'000	Transport and storage ₦'000	Power and energy ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Grades										
A	-	-	1,897,091	55,668,872	-	-	-	-	-	57,565,963
B	-	4,818,285	15,066	1,721,426	9,158,971	452,713	-	8,665,679	288,383	25,120,523
C	3,904,016	-	-	-	-	-	-	-	636,182	4,540,198
	3,904,016	4,818,285	1,912,157	57,390,298	9,158,971	452,713	-	8,665,679	924,565	87,226,684

The impairment position on the Bank's risk exposures as at 31 December 2015 is as follows:

31 December 2015 Classification	Real estate ₦'000	Telecoms ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and gas ₦'000	Transport and storage ₦'000	Power and energy ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Carrying amount	8,548,295	4,400,637	9,450,799	50,602,234	13,337,942	1,460,034	-	9,146,669	516,499	97,463,108
Individually impaired	4,237,740	-	-	-	345,141	-	-	-	-	4,582,881
Allowance for impairment	(691,683)	-	-	-	(34,868)	-	-	-	-	(726,551)
Carrying amount	3,546,056	-	-	-	310,273	-	-	-	-	3,856,329
Past due but not impaired										
Carrying amount	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	
Neither past due nor impaired	-	-	-	-	-	-	-	-	-	-
Carrying amount	5,002,238	4,400,637	9,450,799	50,602,234	13,027,669	1,460,034	-	9,146,669	516,499	93,606,778
	8,548,295	4,400,637	9,450,799	50,602,234	13,337,942	1,460,034	-	9,146,669	516,499	97,463,108

31 December 2014 Classification	Real estate ₦'000	Telecoms ₦'000	Financial institutions ₦'000	Governments ₦'000	Oil and gas ₦'000	Transport and storage ₦'000	Power and energy ₦'000	Manufacturing ₦'000	Others ₦'000	Total ₦'000
Carrying amount	3,904,016	4,818,285	1,912,157	57,390,298	9,158,971	452,713	-	8,665,679	924,565	87,226,684
Individually impaired	4,196,841	-	-	-	-	-	-	-	-	4,196,841
Allowance for impairment	(292,825)	-	-	-	-	-	-	-	-	(292,825)
Carrying amount	3,904,016	-	-	-	-	-	-	-	-	3,904,016
Past due but not impaired										
Carrying amount	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	
Neither past due nor impaired	-	-	-	-	-	-	-	-	-	-
Carrying amount	-	4,818,285	1,912,157	57,390,298	9,158,971	452,713	-	8,665,679	924,565	83,322,668
	3,904,016	4,818,285	1,912,157	57,390,298	9,158,971	452,713	-	8,665,679	924,565	87,226,684

Total exposures are summarised as follows:

	2015				2014			
Exposure to:	**Staff**	**Corporates**	**Banks**	**Governments**	**Staff**	**Corporates**	**Banks**	**Governments**
Neither past due nor impaired	**325,270**	**33,228,476**	**9,450,799**	**50,602,234**	288,383	23,731,830	1,912,157	57,390,298
Past due but not impaired	**-**	**-**	**-**	**-**	-	-	-	-
Individually impaired	**-**	**4,582,881**	**-**	**-**	-	4,196,841	-	-
Gross	**325,270**	**37,811,357**	**9,450,799**	**50,602,234**	288,383	27,928,671	1,912,157	57,390,298
Less allowances for impairment:								
Individually impaired	**-**	**726,551**	**-**	**-**	-	292,825	-	-
Total allowance	**-**	**726,551**	**-**	**-**	-	292,825	-	-
Net total exposures	**325,270**	**37,084,806**	**9,450,799**	**50,602,234**	288,383	27,635,846	1,912,157	57,390,298

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions are changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements include:

(a) Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

In classifying financial assets or liabilities as 'trading', the Bank has determined that it meets the description of trading assets and liabilities, and in designating financial assets or liabilities as 'available for sale', the Bank has determined that it has met one of the criteria for this designation. Details of the Bank's classification of financial assets and liabilities are given in note 2.5.

(b) Income taxes

The Bank is subject to income taxes in Nigeria. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Deferred tax assets

The Bank's accounting policy on measurement and recognition of deferred tax assets is discussed under note 2.15.

The Bank has deferred tax assets amounting to ₦6.9 billion (2014: ₦5.1 billion), of which the entire amount (2014: ₦5.1 billion) has been recognised. The deferred tax assets are primarily due to taxable losses of ₦4.5 billion (2014: ₦4 billion) that may be relieved against future taxable profit of the Bank.

(d) Fair value of derivatives and other financial instruments

The Bank's accounting policy on fair value measurements is discussed under note 2.5.

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

(e) Impairment of available-for-sale equity investments

The Bank follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology, operational and financing cash flow.

5 DISCOUNT AND SIMILAR INCOME

	31 December 2015 ₦'000	31 December 2014 ₦'000
Loans and advances to customers	3,994,529	2,511,781
Loans and advances to banks	2,086,935	3,281,045
Treasury bills	4,296,512	2,839,963
Government bonds	4,714,489	3,921,392
	15,092,465	12,554,181

6 DISCOUNT AND SIMILAR EXPENSE

	31 December 2015 ₦'000	31 December 2014 ₦'000
Due to banks	7,118,438	7,492,235
Due to customers	2,759,979	1,344,174
	9,878,417	8,836,409

7a NET GAINS FROM FINANCIAL ASSETS HELD FOR TRADING

	31 December 2015 ₦'000	31 December 2014 ₦'000
Trading gain	867,445	426,932
Fair value movements on held-for-trading portfolio	67,291	46,428
	934,736	473,360

7b NET GAIN/(LOSS) ON DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2015 ₦'000	31 December 2014 ₦'000
Gain from valuation of derivatives	151,565	(737,281)
	151,565	(737,281)

8 OTHER OPERATING INCOME

	31 December 2015 ₦'000	31 December 2014 ₦'000
Fees and commission	43,282	38,002
Sundry income	56,064	78,568
Gain on sale of property and equipment	-	20,185
Foreign exchange (loss)/income	(19,743)	800,701
Recoveries on loan amounts previously written off	183,268	5,922
	262,871	943,378

9 OPERATING EXPENSES

	31 December 2015 ₦'000	31 December 2014 ₦'000
Auditors' remuneration	37,000	30,000
Directors' emoluments (note 35)	149,886	462,392
Loss on sale of property and equipment	8,753	-
Administration and general expenses	200,563	212,180
Insurance	17,353	20,211
Rent and rates	13,735	18,209
Travelling	13,345	23,665
Donations	13,606	38,400
Corporate development	35,517	192,400
Office repair and maintenance expenses	77,620	195,763
Periodicals and subscriptions	29,633	23,514
Consultancy	194,778	187,837
Training	69,289	52,298
Nigeria Information Technology Development Agency levy	38,568	18,024
	899,646	1,474,892
Personnel expenses		
Wages and salaries	1,191,686	617,307
Pension costs:		
Defined contribution plans to pension fund administrators (PFAs)	23,156	32,601
Defined contribution plans to PFAs (voluntary contribution)	23,130	15,166
	1,237,972	665,074

10 IMPAIRMENT CHARGE/WRITE BACK ON FINANCIAL ASSETS

	31 December 2015 ₦'000	31 December 2014 ₦'000
Specific impairment	436,797	289,755
Collective impairment	28,844	22,495
Impairment charge on other assets (note 19)	-	(2,578)
	465,641	309,672

11a TAXATION

	31 December 2015 ₦'000	31 December 2014 ₦'000
Corporate tax	152,119	84,087
Education tax	-	-
Prior year under provision	-	16,865
	152,119	100,952
Deferred tax (note 22)	(2,891,320)	(2,680,536)
Income tax expense	(2,739,201)	(2,579,584)
Reconciliation of effective tax rate		
Profit before income tax	3,826,310	1,806,780
Income tax using the domestic corporation tax rate	1,147,893	542,034
Non-deductible expenses	26,557	96,780
Deferred tax	-	-
Minimum tax adjustments	152,119	84,087
Prior period adjustments	-	16,865
Tax exempt income	(4,065,770)	(3,319,350)
Total income tax expense in income statement	(2,739,201)	(2,579,584)

11b CURRENT INCOME TAX LIABILITIES

	31 December 2015 ₦'000	31 December 2014 ₦'000
At start of year	84,864	87,096
Prior year under provision	-	17,643
Payments made during the year	(108,718)	(103,962)
Current year's provision	152,119	84,087
At end of year	128,264	84,864

12 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares held as treasury shares.

	31 December 2015 ₦'000	31 December 2014 ₦'000
Profit attributable to equity holders	6,565,511	4,386,366
From continuing operations	6,565,511	4,386,366
Weighted average number of ordinary shares in issue (in '000s) excluding treasury shares (in '000s)	4,301,577	4,000,000
Weighted average number of ordinary shares in issue excluding treasury shares (in '000s)	4,301,577	4,000,000
Basic earnings per share (expressed in kobo per share)	153	110
From continuing operations (kobo)	153	110

13 BALANCES WITH CENTRAL BANK OF NIGERIA (CBN)

	31 December 2015 ₦'000	31 December 2014 ₦'000
Balances with the CBN (included in cash and cash equivalents)	277,266	1,274
	277,266	1,274

14 CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

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.

	31 December 2015 ₦'000	31 December 2014 ₦'000
Cash, cash equivalents and overdrafts with Central Bank of Nigeria (note 13)	277,266	1,274
Treasury bills less than three months included in financial assets held for trading	3,032,029	3,957,092
Loans and advances to banks (note 15)	7,962,268	1,895,817
	11,271,563	5,854,183

15 LOANS AND ADVANCES TO BANKS

	31 December 2015 ₦'000	31 December 2014 ₦'000
Current account balances with banks within Nigeria	461,447	952,533
Placements with financial institutions within Nigeria	7,500,821	943,284
Carrying amount	7,962,268	1,895,817

16 LOANS AND ADVANCES TO CUSTOMERS

		Impairment losses		
31 December 2015	Gross amount ₦'000	Collective impairment ₦'000	Specific impairment ₦'000	Carrying amount ₦'000
Intermediation Investments	**37,102,373**	**(51,339)**	**(726,551)**	**36,324,483**
Other loans – staff loan	**325,270**	**-**	**-**	**325,270**
	37,427,643	**(51,339)**	**(726,551)**	**36,649,753**
31 December 2014				
Intermediation Investments	26,890,890	(22,495)	(289,755)	26,578,640
Other loans – staff loan	290,244	(1,861)	-	288,383
	27,181,134	(24,356)	(289,755)	26,867,023

	31 December 2015 ₦'000	31 December 2014 ₦'000
Current	22,561,169	10,934,746
Non-current	14,088,584	15,932,277
	36,649,753	26,867,023

16.1 Movement in allowance for impairment

31 December 2015	Collective impairment ₦'000	Specific impairment ₦'000	Total ₦'000
Balance at 1 January	**24,356**	**289,755**	**314,111**
Write off of provision	**(1,861)**	**-**	**(1,861)**
Increase in impairment allowances	**28,844**	**436,796**	**465,640**
	51,339	**726,551**	**777,890**
31 December 2014			
Balance at 1 January	-	-	-
Write off of provision	-	-	-
Increase in impairment allowances	24,356	289,755	314,111
	24,356	289,755	314,111

17 FINANCIAL ASSETS HELD FOR TRADING

	31 December 2015 ₦'000	31 December 2014 ₦'000
Treasury bills	10,695,464	7,365,735
	10,695,464	7,365,735

Financial assets classified as held for trading are held for short-term trading purposes.

18 INVESTMENTS SECURITIES

	31 December 2015 ₦'000	31 December 2014 ₦'000
Available for sale		
Debt securities		
Treasury bills	8,947,281	25,936,551
FGN bonds	20,925,877	22,366,586
State bonds	9,212,539	1,721,426
Corporate bonds	1,911,731	601,178.09
Equity securities		
Unlisted equity investments	45,066	15,066
Total available-for-sale investments	41,042,494	50,640,807
Total investments securities	41,042,494	50,640,807
Current	23,429,620	48,303,137
Non-current	17,612,874	2,337,670
	41,042,494	50,640,807

19 OTHER ASSETS

	31 December 2015 ₦'000	31 December 2014 ₦'000
Account receivable	-	9,198
Withholding tax receivable	821,072	425,583
Others	7,143	29,178
	828,215	463,960
Less allowances for impairment	(3,900)	(7,933)
	824,315	456,027
Prepayments	41,546	69,171
	865,860	525,198
Current	859,473	426,849
Non-current	6,387	98,349
	865,860	525,198
Allowance for impairment		
Balance at 1 January	7,933	10,511
Write off of provision	(4,033)	-
Decrease in impairment allowances	-	(2,578)
	3,900	7,933

20 PROPERTY AND EQUIPMENT

2015	Freehold building	Land	Motor vehicle	Furniture fittings	Office equipment	Computer equipment	Total
Cost							
At 1 January	675,355	200,000	228,880	72,410	103,197	117,285	1,397,126
Addition during the year	-	-	89,800	9,470	7,740	1,986	108,996
Disposals during the year	-	-	(105,580)	(9,964)	(3,489)	(4,235)	(123,268)
At 31 December	675,355	200,000	213,100	71,915	107,448	115,036	1,382,853
Depreciation							
At 1 January	42,119	-	136,942	43,226	71,701	101,839	395,826
Charge for year	17,509	-	57,841	13,650	25,209	10,183	124,391
Disposals during the year	-	-	(86,569)	(7,398)	(3,352)	(3,942)	(101,261)
At 31 December	59,628	-	108,213	49,478	93,557	108,079	418,957
Net book value							
At 31 December 2015	615,727	200,000	104,887	22,437	13,891	6,957	963,896
At 31 December 2014	633,235	200,000	91,938	29,184	31,496	15,446	1,001,300

The Bank applies the straight-line method of depreciation of its property and equipment to allocate the cost of the assets over their estimated economic useful life.

Work in progress represents construction and renovation costs in respect of business offices. On completion of construction, the related amounts are transferred to other categories of property, plant and equipment. Land is not depreciated.

2014	Freehold building	Land	Motor vehicle	Furniture fittings	Office equipment	Computer equipment	Total
Cost							
At 1 January	665,809	200,000	255,240	83,526	115,052	162,091	1,481,718
Addition during the year	9,546	-	59,050	4,411	1,471	8,101	82,579
Disposals during the year	-	-	(85,410)	(15,528)	(13,326)	(52,907)	(167,171)
At 31 December	675,355	200,000	228,880	72,410	103,197	117,285	1,397,126
Depreciation							
At 1 January	24,769	-	161,335	44,453	59,609	140,129	430,295
Charge for year	17,350	-	61,016	14,039	25,393	14,565	132,363
Disposals during the year	-	-	(85,410)	(15,266)	(13,301)	(52,855)	(166,832)
At 31 December	42,119	-	136,941	43,226	71,701	101,839	395,826
Net book value							
At 31 December 2014	633,235	200,000	91,939	29,184	31,496	15,446	1,001,300
At 31 December 2013	641,040	200,000	93,905	39,074	55,443	21,961	1,051,423

21 INTANGIBLE ASSETS

	31 December 2015 ₦'000	31 December 2014 ₦'000
Computer software		
At 1 January	193,982	188,365
Additions	1,995	6,000
Disposal	-	(383)
At 31 December	195,977	193,982
Amortisation		
At 1 January	166,837	158,772
Charge for year	9,261	8,448
Disposal	-	(383)
At 31 December	176,098	166,837
Net book value		
At 31 December	19,879	27,144
At 31 December	27,145	29,594

22 DEFERRED TAX

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2014: 30%). Deferred income tax assets and liabilities are attributable to the following items:

	31 December 2015 ₦'000	31 December 2014 ₦'000
Deferred tax liabilities		
Property, plant and equipments and intangible assets	88,921	81,441
	88,921	81,441
Deferred tax assets		
Tax loss carry forward	(8,083,415)	(5,184,615)
	(8,083,415)	(5,184,615)
Net	(7,994,495)	(5,103,174)
Deferred tax assets		
- Deferred tax asset to be recovered after more than 12 months	(8,083,415)	(5,184,615)
- Deferred tax asset to be recovered within 12 months	-	-
Deferred tax liabilities		
- Deferred tax liability to be recovered after more than 12 months	-	-
- Deferred tax liability to be recovered within 12 months	88,921	81,441

Movements in temporary differences during the year:

2015	1 Jan 2015 ₦'000	Recognised in P&L ₦'000	Recognised OCL ₦'000	31 December 2015 ₦'000
Property and equipment and intangible assets	81,441	7,480	-	88,922
Tax loss carry forward	(5,184,615)	(2,898,800)	-	(8,083,415)
	(5,103,174)	(2,891,320)	-	(7,994,494)

2014	1 Jan 2014 ₦'000	Recognised in P&L ₦'000	Recognised OCL ₦'000	31 December 2014 ₦'000
Property and equipment and intangible assets	100,729	(19,288)	-	81,441
Tax loss carry forward	(2,523,366)	(2,661,249)	-	(5,184,615)
	(2,422,637)	(2,680,537)	-	(5,103,174)

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. The Bank has a tax credit of ₦4.52 billion (2014: ₦4.40 billion) to carry forward against future taxable income; these tax credits can be carried forward indefinitely. The Bank has deferred tax assets amounting to ₦6.93 billion (2014: ₦5.18 billion), of which the entire amount has been recognised. Based on management assessment, the deferred tax asset is recoverable against future taxable profits.

23 DUE TO BANKS

	31 December 2015 ₦'000	31 December 2014 ₦'000
Tenored interbank deposit	-	6,229,200
Open buy back – treasury bills (see note (a))	5,600,186	-
	5,600,186	6,229,200
Current	5,600,186	6,229,200
Non-current	-	-
	5,600,186	6,229,200

(a) Open buy back liabilities are short-term treasury bills repurchase transactions with Nigerian banks. The securities subject to these are disclosed in note 18.

24 DUE TO CUSTOMERS

	31 December 2015 ₦'000	31 December 2014 ₦'000
Call deposits	486,439	481,635
Intermediation money	3,372,483	7,446,274
Fixed deposits	67,772,456	60,890,810
	71,631,378	68,818,719
Current	71,631,378	68,818,719
Non-current	-	-
	71,631,378	68,818,719

Due to customers only includes financial instruments classified as liabilities at amortised cost.

25 OTHER LIABILITIES

	31 December 2015 ₦'000	31 December 2014 ₦'000
Accrued liabilities	578,701	30,555
Other accounts payable	322,269	178,010
	900,970	208,565
Current	900,970	208,565
Non-current	-	-
	900,970	208,565

26 SHARE CAPITAL

	31 December 2015 ₦'000	31 December 2014 ₦'000
i. Authorised		
4.5 billion ordinary shares of ₦1 each	4,500,000	4,500,000
ii. Issued and fully paid		
4.3 billion ordinary shares of ₦1 each	4,301,577	4,000,000

27 SHARE PREMIUM AND RESERVES

The nature and purpose of the reserves in equity are as follows:

Share premium: Premiums from the issue of shares are reported in share premium (i.e., excess of share price over nominal value).

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

Statutory reserve: Undistributable earnings required to be kept by the CBN. The Bank appropriated ₦800.55 million (2014: ₦657.96 million) representing 15% of its profit after tax to statutory reserves.

Credit risk reserve: Non-distributable regulatory reserve for the excess between the impairment reserve on loans and advances determined using the Prudential Guidelines issued by the CBN over the impairment reserve calculated under IFRS.

28 DIVIDENDS

The Bank did not pay any dividends during the year (2014: nil).

29 AVAILABLE-FOR-SALE RESERVE

The available-for-sale reserve shows the effects of the fair value measurement of financial instruments classified as available for sale.

Gains or losses are not recognised in the income statement until the asset has been sold or impaired.

Below is the movement in available-for-sale reserves:

	31 December 2015 ₦'000	31 December 2014 ₦'000
At 1 January	(3,874,860)	(1,572,188)
Fair value movement during the period	4,194,331	(2,302,672)
At 31 December	319,471	(3,874,860)

30 DEPOSITS FOR SHARES

	31 December 2015 ₦'000	31 December 2014 ₦'000
As at 1 January	1,206,308	-
Receipts during the year	-	1,206,308
Transfer to share capital	(301,577)	-
Transfer to share premium	(904,731)	-
As at 31 December	-	1,206,308

31 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	31 December 2015 ₦'000	31 December 2014 ₦'000
Profit before income tax including discontinued operations	3,826,310	1,806,780
Adjustments for:		
Depreciation (note 20)	124,391	132,363
Amortisation (note 21)	9,261	8,448
Loss/(profit) on disposal of property and equipment (note 8)	8,753	(20,185)
Unrealised fair value gains on financial instruments (note 7a)	67,291	46,428
Unrealised fair value (gain)/loss on derivative financial liability (note 37)	(151,565)	737,281
Net interest income	(5,214,048)	(3,717,772)
Changes in provision in other assets	-	(2,578)
Recoveries	183,268	5,922
Changes in working capital:		
Loans and advances to customers	(9,469,759)	(1,625,958)
Financial assets held for trading	4,322,083	2,130,362
Pledged assets	-	19,900,000
Other assets	(399,110)	(449,605)
Due to banks	(629,198)	(31,192,580)
Due to customers	2,787,674	16,156,961
Derivative financial instruments	(483,825)	-
Other liabilities	692,405	(270,032)
Cash (used in)/generated from operations	**(13,336,772)**	3,633,991

32 CONTINGENT LIABILITIES AND COMMITMENTS

Litigation

The Bank is party to two legal actions arising out of its normal business operations. The directors believe that based on currently available information and advice of counsel, none of the outcomes that result from such proceedings will have a material adverse effect on the financial position of the Bank either individually or in aggregate. Contingent liability that may arise from the cases is estimated at ₦32.84 million.

33 RELATED-PARTY TRANSACTIONS

The Bank is a member of the FBNHoldings Group. The Bank is wholly owned by FBN Holdings Plc. A number of transactions are entered into with related parties in the normal course of business. These include loans and deposits.

The volume of related-party transactions, outstanding balances at the year-end, and related expense and income for the year are as follows:

33.1 Loans and advances to related parties

The Bank granted various credit facilities to other companies that have common directors with the Bank and those that are members of the Holding Group. The rates and terms agreed are comparable to other facilities being held in the Bank's portfolio. Details of these are described below:

	Key management personnel	Others
Year ended 31 December 2014		
Loans and advances to customers	-	-
Loans outstanding at 1 January	145,042	108,424
Loans issued during the year	57,000	-
Loan repayments during the year	(24,591)	(108,424)
Loans outstanding at 31 December	177,451	-
Interest income earned	7,098	-

Year ended 31 December 2015	Key management personnel	Others
Loans and advances to customers	-	-
Loans outstanding at 1 January	177,451	-
Loans issued during the year	40,800	-
Loan repayments during the year	(57,039)	-
Loans outstanding at 31 December	161,212	-
Interest income earned	6,448	-

The loans and advances to associated companies are unsecured, carry variable interest rates and are repayable on demand.

The loans issued to key management personnel during the year of ₦40,800,000 (2014: ₦57,000,000) are repayable monthly over a period of between two to 20 years and have interest rates of 4% (2014: 4%). No provisions have been recognised in respect of loans given to key management personnel (2014: nil).

33.2 Deposits from related parties

	Key management personnel	Others
Year ended 31 December 2014		
Due to customers		
Deposits at 1 January	117,178	21,060
Movement during the year	(20,836)	41,483
Deposits at 31 December	96,342	62,543
Interest expenses on deposits	11,516	7,595

Year ended 31 December 2015	Key management personnel	Others
Due to customers		
Deposits at 1 January	**96,342**	62,543
Movement during the year	**104,091**	4,226
Deposits at 31 December	**200,433**	66,769
Interest expenses on deposits	**30,065**	8,012

The above deposits are unsecured, carry variable interest rates and are repayable on demand. There were no deposits from shareholders and entities with common directorship during the year (2014: nil).

3.3 Other transactions with related parties

There were no other transactions with related parties (2014: nil).

33.4 Key management compensation

	31 December 2015 ₦'000	31 December 2014 ₦'000
Salaries and other short-term employee benefits	359,644	507,248
	359,644	507,248

The definition of key management includes the close members of family of key personnel and any entity over which key management exercises control. The key management personnel have been identified as the executive and non-executive directors of the Bank 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 FBN Merchant Bank Limited.

34 EMPLOYEES

The average number of persons employed by the Bank during the year was as follows:

	Number	
	31 December 2015	31 December 2014
Management	9	9
Non-management	61	64
	70	73

The average number of staff employed during the financial year was one out of which none was female. Total number of women comes to 33, representing 44% of the total workforce. Of the top management staff, four are women, representing 44% of top management staff.

Compensation for the above staff excluding executive management:

	31 December 2015 ₦'000	31 December 2014 ₦'000
Wages and salaries	1,191,686	617,307
Other pension costs	46,286	47,767
	1,237,972	665,074

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

	Number	
	31 December 2015	31 December 2014
₦350,001–₦600,000	-	9
₦600,001–₦700,000	8	5
₦700,001–₦800,000	2	0
₦800,001–₦1,000,000	4	7
₦1,000,001–₦1,150,000	5	10
₦1,150,001–₦1,600,000	26	19
₦1,600,001–₦2,100,000	7	8
₦2,100,001–₦2,500,000	6	3
₦2,500,001–₦3,500,000	4	3
₦3,500,001–₦5,500,000	3	3
₦5,500,001–₦10,500,000	5	6
	70	73

35 DIRECTORS' EMOLUMENTS

Remuneration paid to the Bank's directors was:

	31 December 2015 ₦'000	31 December 2014 ₦'000
Fees and sitting allowances	405	4,275
Executive compensation	47,720	80,673
Terminal benefits	-	252,033
Other director expenses	101,760	125,411
	149,886	462,392

Fees and other emoluments disclosed above include amounts paid to:

	31 December 2015 ₦'000	31 December 014 ₦'000
Chairman	14,291	2,156
Highest paid director	62,048	308,356

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

	Number	
	31 December 2015	31 December 2014
Below ₦1,600,000	-	10
₦3,400,001 and above	8	4
	8	14

36 COMPLIANCE WITH REGULATORY BODIES

During the year ended 31 December 2015, the Bank had one contravention of regulatory provisions and has since paid the attending penalties thereon. Below is the analysis of the contravention:

Contraventions	Regulatory provisions	Penalties
Failure to obtain Security and Exchange Commission approval before changing name to FBN Merchant Bank Limited	Approval of Security and Exchange Commission before change of registered name for capital market operators	215

37 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative liabilities	31 December 2015 ₦'000	31 December 2014 ₦'000
Instrument type:		
Cross-currency swap	367,041	1,002,431
The movement in derivatives liability is as follows:		
Balance, beginning of the year	1,002,431	265,150
Fair value (gain)/loss on cross currency swap	(151,565)	737,281
Payment on maturity	(483,825)	-
Balance, end of the year	367,041	1,002,431

38 EVENTS AFTER THE REPORTING PERIOD

There were no events subsequent to the financial position date that require adjustment to, or disclosure in, these financial statements.

Audited statement of value added:

	31 December 2015 ₦'000	%	31 December 2014 ₦'000	%
Gross earnings	16,441,637		13,233,638	
Discount expense (local)	(9,878,417)		(8,836,409)	
	6,563,220		4,397,229	
Administrative overheads (local)	(1,365,287)		(1,784,564)	
Value added	5,197,933	100	2,612,665	100
Distribution of value added				
To Government:				
Taxes	(2,739,201)	(53)	(2,579,584)	(99)
To employees:				
Salaries and benefits	1,237,972	24	665,074	15
The future:				
For replacement of fixed assets (depreciation)	133,651	3	140,811	5
To augment reserves	6,565,511	126	4,386,365	169
	5,197,933	100	2,612,665	100

This statement shows the distribution of wealth created by the Bank during the year.

FIVE-YEAR FINANCIAL SUMMARY

	Dec 2015 12 Months ₦'000	Dec 2014 12 Months ₦'000	Dec 2013 12 Months ₦'000	Dec 2012 12 Months ₦'000	Dec 2011 12 Months ₦'000
ASSETS					
Cash and balances with the CBN	**277,266**	1,274	195,407	244,595	2,603
Loans and advances to banks	**7,962,268**	1,895,817	1,038,612	2,361,703	5,867,637
Loans and advances to customers	**36,649,753**	26,867,023	25,769,122	16,335,663	14,466,315
Financial assets held for trading	**10,695,464**	7,365,735	6,329,511	1,628,449	1,940,345
Investment securities:					
Available for sale	**41,042,494**	50,640,807	44,675,182	67,650,749	51,817,229
Loans and receivable	**-**	-	4,009,761	3,967,139	7,074,940
Pledged assets	**-**	-	19,900,000	15,022,586	35,247,280
Other assets	**865,860**	525,198	73,016	42,993	247,129
Property and equipment	**963,896**	1,001,300	1,051,423	1,008,216	892,731
Intangible assets	**19,879**	27,144	29,594	18,942	3,218
Deferred tax assets	**8,083,415**	5,184,615	2,523,366	2,523,366	1,781,101
Assets held for sale	**-**	-	-	250,000	-
TOTAL ASSETS	**106,560,296**	93,508,913	105,594,994	111,054,401	119,340,528
LIABILITIES					
Due to the CBN	**-**	-	670,000	-	-
Due to banks	**5,600,186**	6,229,200	37,648,126	47,282,960	90,999,825
Due to customers	**71,631,378**	68,818,719	52,551,604	49,696,617	16,380,335
Derivative financial instrument	**367,041**	1,002,431	265,150	-	-
Current income tax liability	**128,264**	84,864	87,096	480,000	393,909
Other liabilities	**900,970**	208,565	478,598	137,438	3,367,220
Deferred tax liabilities	**88,921**	81,441	100,729	88,391	-
TOTAL LIABILITIES	**78,716,760**	76,425,220	91,801,303	97,685,406	111,141,289
NET ASSETS	**27,843,535**	17,083,693	13,793,691	13,368,995	8,199,239
CAPITAL AND RESERVES					
Share capital	**4,301,577**	4,000,000	4,000,000	4,000,000	4,000,000
Share premium	**3,904,731**	3,000,000	3,000,000	3,000,000	3,000,000
Available-for-sale reserve	**319,472**	(3,874,860)	(1,572,188)	(924,423)	(4,917,378)
Retained earnings	**9,235,023**	7,169,775	4,911,927	4,327,413	3,931,760
Statutory reserve	**5,826,251**	3,856,868	3,198,913	2,798,044	2,429,583
Credit risk reserve	**4,256,212**	1,725,602	255,039	167,961	145,456
Deposit for shares	**-**	1,206,308	-	-	-
SHAREHOLDERS' FUNDS	**27,843,536**	17,083,693	13,793,691	13,368,995	8,199,239

	Dec 2015 12 Months ₦'000	Dec 2014 12 Months ₦'000	Dec 2013 12 Months ₦'000	Dec 2012 12 Months ₦'000	Dec 2011 12 Months ₦'000
Income statement					
Operating income	**6,097,579**	4,087,557	4,735,094	3,724,723	3,567,781
Operating expenses	**(2,271,269)**	(2,280,777)	(1,886,212)	(1,268,314)	(1,199,382)
Provision for losses	**-**	-	-	-	-
Profit before tax	**3,826,310**	1,806,780	2,848,882	2,456,409	2,368,399
Tax	**2,739,201**	2,579,584	(176,423)	17,316	(289,746)
Profit after tax	**6,565,511**	4,386,364	2,672,459	2,473,724	2,078,653
Earnings per share – basic	**153k**	110k	67k	62k	52k

FIVE-YEAR FINANCIAL SUMMARY – GROUP

Statement of financial position	Dec 2013 12 Months ₦'000	Dec 2012 12 Months ₦'000	Dec 2011 12 Months ₦'000	Dec 2010 12 Months ₦'000
ASSETS				
Cash and balances with the CBN	195,407	244,595	2,603	204,755
Loans and advances to banks	1,038,612	2,361,703	5,867,637	3,811,736
Loans and advances to customers	25,660,698	16,224,016	14,466,315	9,091,737
Financial assets held for trading	6,329,511	1,628,449	1,940,345	746,086
Investment securities:				
Available for sale	44,685,859	67,661,389	51,817,229	118,912,897
Loans and receivables	4,009,761	3,967,139	7,074,940	1,422,081
Pledged assets	19,900,000	15,022,586	35,247,280	19,145,113
Other assets	73,038	42,994	247,129	98,860
Property and equipment	1,051,423	1,008,216	892,731	352,716
Intangible assets	29,594	18,943	3,218	197
Deferred tax assets	2,533,399	2,533,399	1,781,101	1,474,589
Assets held for sale	-	8,717,699	-	-
TOTAL ASSETS	105,507,302	119,431,128	163,168,884	155,260,767
LIABILITIES				
Due to the CBN	670,000	-	-	-
Due to banks	37,648,126	47,282,960	90,999,825	130,567,524
Due to customers	52,541,044	49,693,789	16,380,335	17,567,808
Derivative financial instrument	265,150	-	-	-
Current income tax liability	87,096	480,000	393,909	226,302
Other liabilities	792,258	461,121	3,367,220	4,271,837
Deferred tax liabilities	100,729	88,391	-	
Liabilities held for sale	-	8,042,067	-	-
TOTAL LIABILITIES	92,104,403	106,048,328	149,876,474	152,633,471
NET ASSETS	13,402,899	13,382,800	13,292,410	2,627,295

Statement of financial position	Dec 2013 12 Months ₦'000	Dec 2012 12 Months ₦'000	Dec 2011 12 Months ₦'000	Dec 2010 12 Months ₦'000
CAPITAL AND RESERVES				
Share capital	4,000,000	4,000,000	4,000,000	4,000,000
Share premium	3,000,000	3,000,000	3,000,000	3,000,000
Treasury shares	(390,182)	(390,182)	(390,182)	(390,182)
Available-for-sale reserve	(1,572,188)	(924,423)	(4,917,378)	(10,508,678)
Retained earnings	4,911,317	4,731,377	3,931,760	4,347,461
Statutory reserve	3,198,913	2,798,044	2,429,583	2,087,353
Credit risk reserve	255,039	167,984	145,456	91,342
Deposit for shares	-	-	-	-
SHAREHOLDERS' FUNDS	13,402,899	13,382,800	13,292,410	2,627,296
Income statement				
Operating income	4,238,103	3,755,120	3,584,433	4,193,711
Operating expenses	(1,896,366)	(1,338,316)	(1,299,382)	(1,389,339)
Provision for losses	-	-	-	338,985
Profit/(loss) before tax	2,341,737	2,416,805	2,285,051	3,143,357
Tax	(176,423)	8,413	(294,379)	160,773
Profit/(loss) after tax	2,165,314	2,425,218	1,990,672	3,304,130
Earnings per share – basic	58k	66k	49k	83k
– diluted	55k	63k	49k	83k

The 2014 summary for the Group has been removed because as at 31 December 2014, the Company had disposed of the share scheme that was previously consolidated. The contributory scheme, which had never been previously consolidated, was consolidated in error.

Statement of Prudential adjustments

		31 December 2015 ₦'000	31 December 2014 ₦'000
Prudential Guidelines provision:			
Balance brought forward:			
Specific provisions		1,754,625	-
General provisions		293,020	255,039
		2,047,645	255,039
Charge for the year:			
Specific provisions		445,302	1,754,625
General provisions		362,254	37,981
		807,556	1,792,606
Balance carried forward:			
Specific provisions		2,199,927	1,754,625
General provisions		655,274	293,020
		2,855,201	2,047,645
IFRS impairment provisions:			
Specific allowance for impairment		726,551	289,755
Collective allowance for impairment		51,339	22,495
Other assets: impairment		-	9,793
		777,890	322,043
Required credit risk reserve at end of the year	(note 2.18)	2,077,310	1,725,602
Balance at beginning of the year		1,725,602	255,039
Additional transfer to credit risk reserve		2,530,610	1,470,563
Balance at end of the year		4,256,212	1,725,602

Credit risk reserves*: Provisioning is made in accordance with the Prudential Guidelines for Deposit Money Banks in Nigeria issued by the CBN 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 CBN. Appropriate disclosures have been made in Note 2.18(d) on page 64 of the financial statements.

NOTES

NOTES

NOTES

NOTES

NOTES

NOTES

NOTES

NOTES

FBN Merchant Bank

Shareholder enquiries

Email: info@firstregistrarsnigeria.com
Tel: +234 1 2799880
www.firstregistrarsnigeria.com

Head, Investor Relations

Oluyemisi Lanre-Phillips
Email: investor.relations@fbnholdings.com
Tel: +234 1 9052720

Customer enquiries

Email: ccu@fbnmerchantbank.com
Tel: +234 1 2702290-4

Registered address

10, Keffi Street,
Off Awolowo Road,
S.W. Ikoyi, Lagos
Nigeria

Registration No. RC264978
