

TIMELESS



2018

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

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

- The Commercial Banking business comprises; First Bank of Nigeria Limited, FBNBank (UK) Limited, FBNBank DRC Limited, FBNBank Ghana Limited, FBNBank The Gambia Limited, FBNBank Guinea Limited, FBNBank Sierra Leone Limited, FBNBank Senegal Limited and First Pension Custodian Nigeria Limited. FirstBank (Nigeria) is the lead entity of the Commercial Banking business.
- The Merchant Banking and Asset Management business consists of FBNQuest Merchant Bank and FBNQuest Capital Limited. The subsidiaries of FBNQuest Merchant Bank Limited include: FBNQuest Asset Management Limited and FBNQuest Securities Limited while the subsidiaries of FBNQuest Capital Limited include: FBNQuest Trustees Limited, FBNQuest Funds Limited and FBNQuest Capital Partners Limited.

This report encompasses FBNQuest Merchant Bank Limited. Unless otherwise stated, the profit and loss statement analysis compares the 12 months to December 2018 to the corresponding 12 months of 2017, and the financial position comparison relates to the corresponding position as at 31 December 2017. 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.fbnquest.com

Shareholders will receive a compact disc (CD) containing the Annual Report and Accounts for FBN Holdings Plc as well as information on outstanding dividend claims and a list of all our business locations.

There will be an option to view a navigable PDF copy of the FBN Holdings report as well as PDFs of certain subsidiary reports at the annual report portal of the Investor Relations section of the FBN Holdings website.

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

INTRODUCTION

We are setting our sight on new opportunities, navigating fresh pathways and bringing our customers to a new exciting world of possibilities. We have become the innovation hub of financial experts determined to create value for our stakeholders. From securing wealth to financing business opportunities, we live at the edge of tomorrow's insights, constantly exploring opportunities of the future, so that we can take you there first.

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OVERVIEW

OUR PROFILE

We are the Merchant Banking and Asset Management group of FBN Holdings Plc. Our businesses include Coverage and Corporate Banking, Financial Advisory, Debt Capital Markets, Equity Capital Markets, Debt Solutions, Fixed Income, Currencies and Treasury, and Wealth Management. We are committed to finding innovative solutions for our wide customer base of corporates, banks, public institutions, institutional investors and high net-worth individuals. We possess significant financial capacity, with access to the formidable heritage of the FBN Holdings Group.

We leverage our rich culture, local insights and unrivalled networks to become a trusted and inspirational partner to our customers. Our world-class team ensures that we empower and inspire good investment decisions by providing the best possible information,

analyses and perspectives, as we constantly seek opportunities to create value by applying the latest insights and technology. We operate from three locations in Nigeria: Lagos, Port Harcourt and Abuja.

VISION, MISSION AND VALUES



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 insight.



OUR BRAND VALUES

• Teamwork

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

• Empowered

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

• Impactful

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

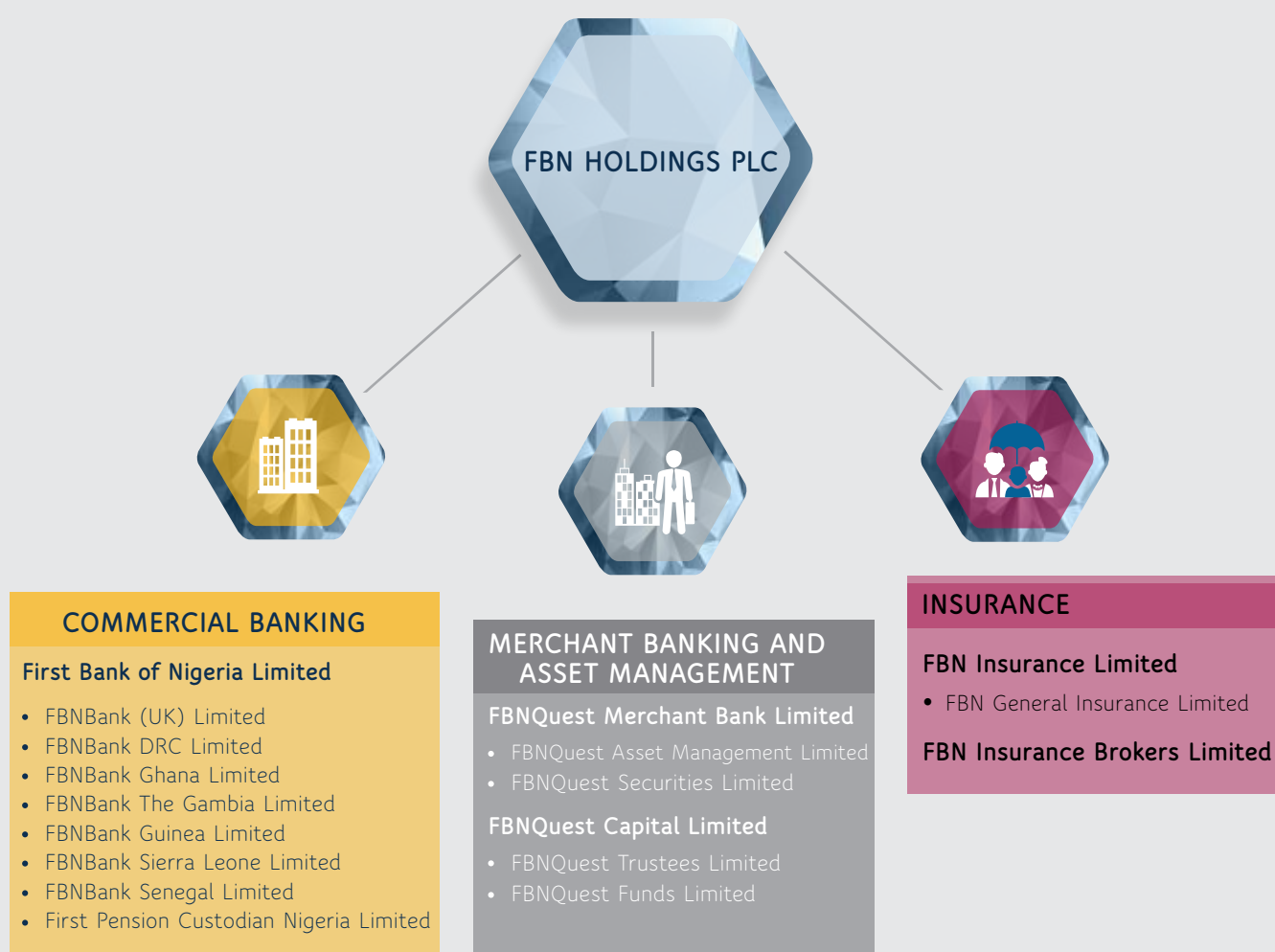


OUR STRUCTURE

FBNQuest Asset Management Limited and FBNQuest Securities are subsidiaries of FBNQuest Merchant Bank Limited. Our distinctive heritage as an organisation allows us to leverage on the specialisation of the subsidiaries of our parent company to enhance delivery and provide world-class customer solutions.

We work to understand our customer's specific needs, offering a range of investment products and services across various asset classes and sectors. From mutual funds to liquidity management, we work with individual and institutional investors to provide a strategy best suited to your investment goals and portfolios.

We provide customers with strong product and sector expertise through our highly focused equities team. We offer bespoke solutions to investors, including high net worth individuals, institutions, corporations and governments. Having developed close relationships with key regulatory institutions, we have a strong understanding of the local market and excellent investor relationships and distribution capabilities.





PERFORMANCE HIGHLIGHTS

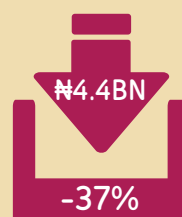
FINANCIAL HIGHLIGHTS

The operating environment in 2018 was particularly challenging for our business, mostly characterised by lower yields in the fixed income market, a handful of investment banking deals and a sluggish equity/M&A market. In addition, the competitive landscape was severely more intense with commercial banks lending aggressively.

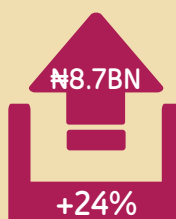
Gross earnings fell slightly by 3% in 2018 to ₦25.3bn compared to ₦26.1bn earned in 2017. The decrease was due to reduced interest income and lower interest rates. Given an increasingly competitive environment, Net Interest Income (NII) fell by 37% from ₦7.0bn (2017) to ₦4.4bn (2018) due to contracting margins as a result of lower interest rates in 2018. However, other fee income grew from ₦7.1bn in 2017 to ₦8.7bn in 2018 representing a 24% increase. Growth in other fee income was driven by an increase in fund management fees resulting from growth in AUM, and fees from trade finance and investment banking transactions.

Operating expenses increased by 39% from ₦7.3bn in 2017 to ₦10.2bn in 2018. This is attributable to significant amortisation charges on technology as well as associated business expansion costs.

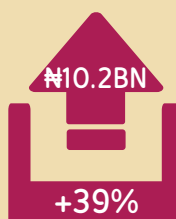
As a result, we ended the year with a profit before tax of ₦2.8bn, a 55% decrease from previous year's PBT (₦6.2bn).



INTEREST INCOME DROPPED BY
-37%
FROM ₦7.0BN IN 2017
TO ₦4.4BN IN 2018



OTHER INCOME INCREASED BY
+24%
FROM ₦7.1BN IN 2017
TO ₦8.7BN IN 2018



OPERATING EXPENSES INCREASED
BY **+39%**
FROM ₦7.3BN TO ₦10.2BN



PERFORMANCE HIGHLIGHTS

NON-FINANCIAL HIGHLIGHTS



IMPROVED SYNERGY REALISATION

There has been extensive engagement with FirstBank's e-business team to leverage scale using the USSD banking as well as the FirstMobile app. In addition, FBNQuest employees were migrated to the Group-wide Microsoft Office 365 to ensure a single platform for effective collaboration across the FBNHoldings Group.



IT TRANSFORMATION AND DIGITAL STRATEGY

We rolled out the FBN Edge app to support the Asset Management business to enhance operational efficiency and improve customer experience. FBN Edge was designed to simplify investing by allowing users set-up mutual fund accounts, manage their investments and track their progress on-the-go. This way, users enjoy an edge in investing and can take control and meet their financial goals sooner. In addition, we are at the tail end of our IT Transformation project and have successfully articulated our digital strategy to adequately address our current and future digital capabilities.



SERVICE EXCELLENCE

We completed our integration to the NIBSS platform and registered the bank with CSCS to obtain the Legal Entity Identifier (LEI) that enables clear and unique identification of the Banks as a legal entity participating in international financial transactions. Obtaining the LEI has enhanced transactions by offshore counterparties of FICT and FBNQuest Securities.



HUMAN CAPITAL MANAGEMENT

We fully embedded the Corporate and Individual Performance Management process during the year and launched the HIPO initiative to identify and retain high performing and high potential employees.



AWARDS

We also won several awards during the year which represent independent recognition of our capabilities. These awards include:

- Global Finance – Best Investment Bank in Nigeria
- The Banker: Deals of the Year Awards 2018
- Deal of the Year Africa – Islamic Finance: FG ₦100bn 7-year Inaugural Sovereign Sukuk
- EMEA Finance African Banking Awards:
 - Pan African – Best Asset Manager – FBNQuest Asset Management
 - Best Local Investment Bank (Nigeria) – FBNQuest Merchant Bank
 - Best Asset Manager (Nigeria) – FBNQuest Asset Management
 - Best Asset Manager (Africa) – FBNQuest Asset Management
 - Best Broker (Nigeria) – FBNQuest Securities
- 2018 Lagos Business School Alumni Presidents Award – FBNQuest Merchant Bank



RECOGNITION AND AWARDS

BEST INVESTMENT BANK IN NIGERIA GLOBAL FINANCE AWARDS

For the sixth consecutive year, FBNQuest Merchant Bank received the 'Best Investment Bank in Nigeria' Award. This is in recognition of its leadership position in key business areas.



BEST SOCIAL DEVELOPMENT BOND EMEA FINANCE ACHIEVEMENT AWARDS

FBNQuest Merchant Bank was named 'Best Social Development Bond'. This Award is in recognition of its role in the Mixta Real Estate transaction.



BEST LOCAL CURRENCY BOND HOUSE EMEA FINANCE ACHIEVEMENT AWARDS

FBNQuest Merchant Bank received the Award for 'Best Local Currency Bond House'. This is in recognition of the role played by the Bank in the Mixta Real Estate transaction.



BEST NAIRA BOND EMEA FINANCE ACHIEVEMENT AWARDS

FBNQuest Merchant Bank won the 'Best Naira Bond' Award. The Award recognises the significant role played by the Bank in the Debt Management Office of the Federal Government of Nigeria on the seven-year inaugural Sovereign Sukuk.



MOST INNOVATIVE BOND EMEA FINANCE ACHIEVEMENT AWARDS

FBNQuest Merchant Bank clinched the 'Most Innovative Bond' Award. This is in recognition of the Bank's role as the Nigerian Book runner to the Federal Republic of Nigeria on the inaugural SEC-Registered Diaspora Bond transaction.



BEST M&A DEAL AFRICA (MID-MARKET) EMEA FINANCE ACHIEVEMENT AWARDS

FBNQuest Merchant Bank won the 'Best M&A Deal Africa (Mid-Market)'. This is in recognition of the role played by the Bank as the Joint Financial Advisers to AMCON on the divestment of AMCON's 100% shareholding in Keystone Bank Limited.





RECOGNITION AND AWARDS

DEAL OF THE YEAR – AFRICA : ISLAMIC FINANCE THE BANKER DEALS OF THE YEAR

FBNQuest Merchant Bank won the 'Prestigious Deal of the Year in Africa' The Award recognises top financial institutions in the world with sterling performance. The Award was presented to FBNQuest Merchant Bank on account of the Debt Management Office of the Federal Government of Nigeria on the seven year inaugural Sovereign Sukuk transaction.



BEST LOCAL INVESTMENT BANK IN NIGERIA EMEA FINANCE AFRICAN BANKING AWARDS

FBNQuest Merchant Bank was recognised as the 'Best Local Investment Bank in Nigeria'. The Award was presented in recognition of the Bank's leading role in key transactions across various sectors.



DEAL OF THE YEAR – DEBT AFRICAN BANKER AWARDS

FBNQuest Merchant Bank received the 'Deal of the Year – Debt' Award. This is in recognition of the role played by the Bank in the Federal Republic of Nigeria inaugural SEC-Registered Diaspora Bond transaction.



PRESIDENT'S AWARD LAGOS BUSINESS SCHOOL ALUMNI AWARD

FBNQuest Merchant Bank received the President's Award from the Lagos Business School for the significant role played in the development of employee talent and for the promotion of sustainable development.



ISSUING HOUSE WITH HIGHEST NUMBER OF DEBT ISSUANCE NIGERIA STOCK EXCHANGE CEO AWARDS

FBNQuest Merchant Bank clinched the 'Issuing House with the highest number of Debt Issuance' Award. This is in recognition of the Bank's continuous delivery of increased value to its clients on debt-related transactions.



BEST BROKER (NIGERIA) EMEA FINANCE AFRICAN BANKING

FBNQuest Securities won the 'Best Broker' Award. This is in recognition of its dealings on the Nigerian Stock Exchange and Market Making activities, including acting as the Lead Stockbroker on the Notore Chemical Industries transaction.





RECOGNITION AND AWARDS

BEST ASSET MANAGER (NIGERIA) EMEA FINANCE AFRICAN BANKING AWARDS

FBNQuest Asset Management won the 'Best Asset Manager' Award in Nigeria.



BEST ASSET MANAGER (PAN-AFRICAN) EMEA FINANCE AFRICAN BANKING AWARDS

FBNQuest Asset Management won the 'Best Asset Manager' (Pan- Africa) Award. This is in recognition of the sterling performance of its mutual funds across all public funds and customised portfolios over the last 12 months.



BOND FUND OF THE YEAR – FBN NIGERIA EUROBOND (USD) FUND BUSINESSDAY: BANKING AND FINANCIAL INSTITUTIONS AWARDS

FBNQuest Asset Management won the 'Bond Fund of the Year' Award. This is in recognition of its strong mutual funds' performance across all public funds and portfolios.



EQUITY FUND OF THE YEAR – FBN NIGERIA SMART BETA EQUITY FUND BUSINESSDAY: BANKING AND FINANCIAL INSTITUTIONS AWARDS

FBNQuest Asset Management received the 'Equity Fund of the Year' Award. The FBN Nigeria Smart Beta Equity Fund was the first of its kind in the Nigerian market.



STRATEGIC REPORT

The operating environment in 2018 was challenging, however, our business model stayed the course and we emerged a stronger institution in the business terrain.



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MACROECONOMIC REVIEW

THE OPERATING ENVIRONMENT

Global economy

The IMF's World Economic Outlook from October shows a trimming in global growth forecasts for this year and next (from 3.9% initially projected for both years) to 3.7%. That for the US, for 2019, has been reduced from 2.7% to 2.5%. While the outlook assumes a large fiscal stimulus, it attaches greater weight to trade tensions than three months ago. The normalisation of US monetary policy is set to continue. This will bring, the Fund argues, some rebalancing of global portfolios; but the sovereign bond spreads in most EMs will remain 'contained'. In the first half of 2018, global growth shed some of the strong momentum recorded in the second half of 2017, and the expansion became less synchronised across countries. Among advanced economies, growth disappointed in the Euro area and the United Kingdom. Higher energy prices helped dampen demand while some countries were also affected by political uncertainty.

Among emerging markets, policy rates have generally increased since the spring (the sharp increase for emerging Europe reflects the policy rate hikes in Turkey). Long-term government bond yields have also generally increased, and sovereign spreads have widened over the past six months. Spreads have widened significantly more in countries with greater external financing needs. In the medium term, investment growth is projected to remain robust in emerging markets and developing economies, accounting for well over one-third of their GDP growth. In advanced economies, investment growth is expected to weaken significantly over the next five years.

The Eurozone growth forecasts for this year have dropped to fresh lows, reflecting how global trade war concerns and political uncertainty are weighing on economic activity. The revision is particularly steep for Germany, for years the locomotive of Eurozone growth. Italy, the Eurozone's third-largest economy, is expected to be one of the worst performers, with anaemic growth of just 0.7% forecast for 2019. Economies surveyed by Consensus Economics expect Eurozone gross domestic product to grow just below 1.6% this year. This compares with projected growth of 1.9% in 2018 and would mark a second consecutive annual slowdown. The Eurozone grew 2.4% in 2017, its highest level in a decade.

At its last meeting, the ECB formally announced the end of its quantitative easing programme. However, it revealed that it would continue to offer policy support for the Eurozone due to risks from trade tensions, Brexit and fiscal sustainability issues in Italy and France.

In emerging markets like China, growth is projected to slow to 6.2% in 2019. The growth projection reflects weaker credit growth and rising trade barriers.

As for global trade, higher trade barriers would disrupt global supply chains and slow the spread of new technologies, ultimately lowering global productivity and welfare. Increased import restrictions would also make tradable consumer goods less affordable, harming low-income households disproportionately.

Domestic economic environment

The latest national accounts in quarter three of 2018 from the NBS show the economy grew by 1.8% year-on-year compared with 1.5% in the previous quarter. The oil sector contracted by -2.9% year-on-year, a little better than it was in quarter two -4.0%. The NBS put average crude output in quarter three at 1.94mbpd, compared with 1.84mbpd in the previous quarter. Non-oil GDP growth accelerated to 2.3%

“On the back of improved foreign exchange liquidity following the introduction of NAFEX in 2017, the growth in capital inflows continued into first half of 2018 with reported inflows of USD11.8bn.”



STRATEGIC REPORT

year-on-year and is inching towards expansion in per head terms. Oil's formal share of real GDP amounted to just 8.6% in third quarter of 2018, which makes it the fourth largest sector in the economy after agriculture, trade, and information and communications. Oil economy may be as large as 40-50% of GDP. Trade grew for the first time this year, admittedly by a paltry 1.0% year-on-year. It is the best barometer for economic activity across Nigeria and should post a better performance in the current quarter. These are uninspiring figures and we struggle to see much acceleration beyond the slow build-up in household spending power ahead. The growth rates of 5%+ year-on-year achieved through to end-2014, driven largely by high oil prices over a five-year period, now seem far away.

“In the medium-term, investment growth is projected to remain robust in emerging market and developing economies, accounting for well over one-third of their GDP growth.”

Given Nigeria's heavy dependence on imports, foreign exchange remains an important variable. Indeed, there are several foreign exchange windows including spot and forward sales to banks for the use of importers; further sales to banks at ₦357 per US dollar for the use of the retail segment for invisibles; sales to the Bureau de Change; sales to SMEs; and the investors and exporters' window (NAFEX). We could divide MCP between the subsidised rate of ₦307 for priority transactions and those that are not subsidised by the CBN. Whatever the terminology, they have had some success. The naira exchange rate on the parallel market has appreciated to ₦363 per US dollar.

The CBN's thinking on foreign exchange is not static, and two trends should be noted. It has adjusted its daily intervention rate in small increments from ₦305.70 to ₦306.70. Meanwhile, the rate on NIFEX had moved from around ₦330 towards the rate on the investors' and exporters' window of ₦364, but has now declined to ₦355 levels. It remains our view that the authorities are in no hurry to abandon the CBN's preferential rate or unify the various windows in operation.

Following consistent slowdown for eighteen successive months, in August 2018, headline inflation posted an uptick (by 10bps) to 11.2% year-on-year. The latest report from the NBS has headline inflation year-to-year at 11.3% in November. Food price inflation rose by 2bps to 13.3% year-on-year while the core measure declined by -11bps to 9.8%. In November, month-on-month inflation was 0.8%, compared with 0.7% recorded in the previous month. The pattern for food prices was

similar, with an increase from 0.8% to 0.9%. Core inflation remained at single-digit level. The bureau's report noted that price pressures were particularly high for fuels and lubricants, personal transport as well as medical services. Legacy and structural factors such as the country's poor infrastructure are largely responsible for inflationary pressures. For imported food prices, there was a year-on-year decrease in November. The slowdown mirrors the stability of the foreign rate in the various windows in recent months and the much enhanced foreign availability.

Gross official reserves increased by USD950mn in December to USD43.12bn on the back of the Federal Government's latest Eurobond sales, which raised USD2.86bn. This accretion has been partly countered by two negative developments. The first is the continuing, and well-documented exit of some offshore portfolio players from Nigeria as well as from other emerging or frontier markets. The CBN is now a regular seller of foreign exchange at the investors' and exporters' window (NAFEX). The second is the apparent withdrawal on the Federal Government's instructions of USD1.6bn from the excess crude account. Some definitions are required for the sake of clarity, however. The Nigerian data are gross, covering just foreign exchange and exclude swap contracts. Reserves at end-December covered more than 16 months' merchandise imports, and nine months when we include services on the basis of the balance of payments (BoP) to June 2018. This remains a more than adequate buffer.

FINANCIAL SERVICE INDUSTRY

Banking sector

On the back of improved foreign exchange liquidity following the introduction of NAFEX in 2017, the growth in capital inflows continued into first half of 2018 with reported inflows of USD11.8bn. The bulk of these inflows were received through portfolio investments, which accounted for 73% of total capital inflows. However, the interest rate normalisation policy of the US Federal Open Market Committee (FOMC) led to a reversal of capital flows, particularly portfolio investments in second half of 2018.

On the political front, policy uncertainties associated with the commencement of the election cycle also contributed to the surge in capital outflows. The impact was particularly evident in the equity market, which shed -17.8% in 2018. To put the extent of the decline into context, the ASI's return was still positive (+8.5%) as at quarter one of 2018. Despite the reversal of capital flows, the CBN has been able to hold the line as the exchange rate has remained relatively stable since April 2017, due to the introduction of NAFEX.

In terms of regulatory circulars, the CBN kicked off the year with revised guidelines on internal capital generation on dividend policy. Essentially, the guidelines aim to restrict dividend payout for banks that have breached their capital ratios or are perceived as high-risk institutions. Although most of the guidelines are not new, the measure signified the apex bank's intent to compel



STRATEGIC REPORT

banks to adopt sustainable dividend payout and capital retention practices. As such, the stipulated dividend payout ranged from 'nil payout' for banks that do not meet the minimum CARs threshold to 'no restrictions' for banks with capital adequacy ratio (CARs) above the regulatory minimum, NPL ratio below 5% and a low-risk composite rating.

In quarter one of 2018, the CBN set a new financial inclusion goal for deposit money banks in the country. In order to reduce the proportion of financially excluded adults, which is currently estimated at 40%, commercial banks are to achieve a financial inclusion target of 80% by 2020. To facilitate financial inclusion, particularly in the rural areas, the CBN rolled out its exposure draft on the establishment of payment service banks (PSB). According to the draft exposure, while the PSBs will be permitted to accept deposits and carry out payments and remittances, they are excluded from granting loans or participating in securities and foreign exchange trading, amongst others.

Banks had limited capacity to create risk assets in 2018 because the economic recovery was still fragile. However, earnings growth was relatively strong, mostly driven by substantial reductions in loan loss provisions because the CBN allowed banks to take a one-off impairment charge on equity in order to comply with IFRS 9. Going into 2019, banks will have to recognise their entire loan loss provisions on the profit and loss to fully comply with the provisions of IFRS9. We expect banks to continue to adopt a cautious stance on loan growth, at least up until first half of 2019. However, we see banks benefitting from higher yields on government securities, which have moved up by 200bps since first of 2018. Although we expect to see credit growth to pick-up in second half of 2019, we forecast single digit loan growth for the year. In terms of earnings, we see ROAE declining by around 100bps to mid-teens level in 2019.

OUTLOOK

The year 2019 is expected to be less challenging. However, the economy could remain relatively fragile through the first half of the year. We see an average price for this year for spot Bonny Light of USD63bn and expect a further rise in crude oil output, to an average of 2.10mbpd this year, now that the Federal Government has accepted the correlation between its support for programmes in the Niger Delta and a relatively low incidence of sabotage. On this basis, we forecast GDP growth of 2.5% in 2019. We see a gradual easing of the pressures on household budgets ahead, and the non-oil economy in better shape as a result.



CHAIRMAN'S STATEMENT

“I am pleased to inform all our stakeholders that best corporate governance practices remain a key focus and deliverable for the Board of Directors and Management of FBNQuest Merchant Bank Limited.”



Bello Maccido
Chairman

Dear Shareholders,

It gives me great pleasure to welcome you all to the 4th Annual General Meeting of FBNQuest Merchant Bank Limited. We present to you our annual report and financial statements for the year ended 31 December 2018 and our outlook for the new financial year.

FBNQUEST MERCHANT BANK LIMITED'S PERFORMANCE

The 2018 financial year was a very turbulent one. Multiple headwinds characterised the year ranging from changes in the Federal Government's borrowing strategies that reduced the yield on Government's fixed income securities, regulatory interventions in the money market that occasioned market tightening, dearth of investment banking transactions, the gradual withdrawal of foreign investors from the fixed income bonds and equities market and the increasing challenges of local corporates to meet, their loan obligations.

Despite these challenges, your Bank achieved a profit before tax of ₦2.8bn. Total assets was ₦134.5bn, representing a decrease from the previous year's position of ₦140.6bn. Similarly, shareholders' funds stood at ₦24.6bn.

PAYMENT OF INTERIM DIVIDEND

In line with the commitment of the Board to continuously deliver shareholder value, the Directors approved an interim dividend payment of ₦707mn for the period ended 30 September 2018.

There is no recommendation from the Board for a final dividend to allow the Bank accrue the income made between October and December 2018 to reserves.

BOARD MATTERS AND RE-CONSTITUTION OF THE BOARD OF DIRECTORS

There were minimal changes in the constitution of the Board of Directors during the 2018 financial year. The Central Bank of Nigeria approved the appointment of Babatunde Odunayo as a Non-Executive Director of the Bank. Babatunde Odunayo is an experienced Boardroom executive, a Fellow of the Institute of Chartered Accountants of Nigeria with extensive and lengthy audit practice background. He brings to the Board over 30 years of practical and demonstrated leadership capabilities, most of which were spent in publicly quoted companies. He also serves on the Board's Audit and Board Credit Committees. Kindly join me in welcoming him to the Board of Directors.

The Bank is yet to appoint the second Independent Non-Executive Director. However, the appointment process has reached an advanced stage and it is expected that this matter would be concluded by the end of first quarter of 2019. The



CHAIRMAN'S STATEMENT

shareholders should rest assured that the Board is mindful of the expectation of the Central Bank of Nigeria Code of Corporate Governance on the number of Independent Non-Executive Directors required for the Board of a Merchant Bank.

Every year, I emphasise that the strength of the Board remains the candour and experience of its members, their commitment to the Bank's growth and their passion. This year is no exception, and I congratulate my colleagues on the Board for coming through a very difficult year. The task ahead demands more commitment, greater sacrifice and I charge members of the Board to rise up to the occasion as usual. Together and in consonance with Management, we will achieve our goal of becoming Africa's leading Investment Bank and Asset Manager in the near term.

CORPORATE GOVERNANCE

In the course of the year, the Company received minor penalties for delay in the submission of some returns to the CBN. This was due to certain system challenges and customer-related transactions. The customers have since refunded the penalty paid by the Bank. On the system challenges, while the penalty has been paid, Management has taken steps to ensure that the glitches that resulted in the delay in submission of the returns do not re-occur.

Aside from these infractions, I am pleased to note that the Company did not record any corporate governance breach in its operations during the 2018 financial year. The size and constitution of the Board continue to satisfy best practice.

Since inception of FBNQuest Merchant Bank, the Chairman, the Managing Director and indeed the entire Board have received commendable ratings in the Annual Performance Review and Appraisal of the Board of Directors conducted by KPMG Professional Services (a copy of the comprehensive report for the financial year under review will be presented to shareholders at the 2019 General Meeting). The 2018 Board Appraisal Report is no exception to this trend. I am pleased to inform all our stakeholders that best corporate governance practices remain a key focus and deliverable for the Board of Directors and Management of FBNQuest Merchant Bank.

CONCLUSION

The forecast for 2019 is favourable. Despite being an election year, the Management and the Board are positive that 2019 will be a profitable year. The Bank's business pipeline and the macroeconomic outlook suggest that the available opportunities if exploited will result in a phenomenal performance for the Bank.

The year 2019 is also the last year of the FBNQuest Merchant Bank's three-year strategic plan. Despite being an election year, the government's budget is, surprisingly, contractionary. Nevertheless, with the stability of foreign exchange and the more recent spike in the price of crude oil compared to the early part of 2017, the perception is that the 2019 financial year will be full of opportunities for a nimble and dynamic Bank such as ours.

The relative calm within the Niger Delta is expected to persist with resultant sustenance in Federal Government's revenue streams. The rise of insurgency in the North-East and the banditry in some parts of the North-West are a cause for concern but it is envisaged that as the election draws nearer, the Federal Government would move swiftly to quell these unwholesome activities.

With the drive towards digitalisation of the operations of the Assets Management subsidiary, we expect an upsurge in the profitability and market share of FBNQuest Merchant Bank Limited. FBNQuest Securities is also expanding its capacity for retail offerings in addition to the traditional expertise institutional offerings. The expectation, therefore, is that the merchant banking and asset management group would surpass prior year performance in the 2019 financial year.

The duty of the Board in this regard would be to ensure that the appropriate environment and support are rendered to Management to achieve set objectives and deliver value to its shareholders.

I thank our shareholders, whose tremendous support has helped to keep the Bank to consistently deliver value and retain customers' confidence and loyalty.

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

I also extend my thanks to the Management and staff of our Bank for your tenacity and professionalism amid the ongoing changes. I look forward to a tremendous 2019 financial year.

Thank you.

Bello Maccido

Chairman



MANAGING DIRECTOR'S REVIEW

“Our diversified business and product platform was our strength, and has enabled us remain competitive and mitigate downside risks to any particular business line.”



Kayode Akinkugbe
Managing Director/CEO

INTRODUCTION

The year 2018 has arguably been our most challenging year since the formation of the Investment Banking and Asset Management (IBAM) group in 2010. Notwithstanding the fragile macroeconomic environment and increasingly competitive business environment, FBNQuest Merchant Bank achieved a respectable financial performance in 2018. Although revenues declined slightly by 3% and profit before tax declined by 55% year-on-year, our prudential ratios remained broadly flat compared to 2017 numbers; capital adequacy ratio of 12.18%, liquidity and loan to deposit ratio of 54.8% and 39.0% respectively.

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

In 2018, we continued to transform the business in line with the constantly evolving operating environment in order to achieve our goal of being the dominant Investment Bank and Asset Management firm in Nigeria. Our diversified business and product platform was our strength, and has enabled us remain competitive and mitigate downside risks to any particular business line.

To enhance operational excellence as well as excellent customer experience, we rolled out the FBN Edge app to support the Asset Management business. FBN Edge was developed to simplify investing by allowing users set up mutual fund accounts, manage their investments and track their progress on-the-go. This way, users enjoy an advantage in investing and are able to take control and meet their financial goals sooner. In addition, we completed our IT transformation project and developed our digital strategy to adequately support our current and future digital capabilities.

We also completed our integration to the NIBSS platform and registered the Bank with CSCS to obtain the Legal Entity Identifier that enables clear and unique identification of the Bank as a legal entity participating in international financial transactions.

Although interest income, comprising loans and advances, treasury bills and government bonds, dropped by 37%, from ₦7.0bn in 2017 to ₦4.4bn in 2018, other income increased by 24% from ₦7.1bn in 2017 to ₦8.7bn in 2018. The improved performance was primarily driven by the asset management businesses. The strong growth in other income was driven by net gains from fee and commission income, sundry income and revaluation gain. Operating cost during the period increased by 39% from ₦7.3bn to ₦10.2bn due to head count increases, inflationary pressures and generally higher costs of doing business. We ended the year on a fair note with a profit before tax of ₦2.8bn, a 55% decrease on the previous year's profit before tax of ₦6.2bn.



MANAGING DIRECTOR'S REVIEW

We continue to deliver relatively strong numbers and increase returns to our shareholders.

STAKEHOLDERS

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

In accordance with the Bank's policy of continuous development, domestic and international training is provided for employees. The Bank encourages diversity by consistently ensuring equal

“We have been able to achieve male to female gender diversity ratio of 58% to 42% among all employees; 64% to 36% among top executives, and 88% to 12% among Board members.”

opportunity for employment. We have been able to achieve male to female gender diversity ratio of 58% to 42% among all employees; 64% to 36% among top executives, and 88% to 12% among Board members. In addition to our compensation and welfare benefits, we operate a contributory pension plan in line with the Pension Reform Act.

STRATEGIC PROGRESS

Our strategy is to be a dominant player across all our businesses. This is supported by a strong focus on customer experience, a strong performance culture as well as a strong operating platform (people, processes and technology). In addition to this, our medium-term business and operational performance is guided by our Three-Year Strategic Plan (2017-2019). We achieved most of the targets we set ourselves in the 2017-2019 strategic planning cycle and have come to a new phase in our business cycle time line. We will be defining our new medium-term strategic plan, 2020-2022, to take us into the future and to ensure that we remain focused and aligned in achieving our group objectives and

aspirations. To achieve our mission of becoming the preferred merchant bank and asset manager, we will maintain our reliance on three key growth levers: Enhancing collaboration, growth acceleration, and increasing operational efficiency.

RISK AND OPPORTUNITIES

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

OUTLOOK

The year 2019 is expected to be less challenging. However, the economy may remain relatively fragile through the first half of the year. We see an average price for this year for spot Bonny Light of USD63 per barrel and expect a further rise in crude oil output,

“We believe that with the wealth of talent, skills and experience of our people, our rich heritage, strong brand and robust financial resources, we have what is required to achieve our goals and deliver sustained value to all our stakeholders.”

to an average of 2.1 million barrels per day, this year, now that the Federal Government has accepted the correlation relationship between its support for programmes in the Niger Delta and a relatively low incidence of pipeline sabotage. On this basis, we forecast GDP growth of 2.5% in 2019. We see a gradual easing of the pressures on household budgets, and non-oil economy in months ahead.



MANAGING DIRECTOR'S REVIEW

Going into 2019, banks will have to recognise their entire loan loss provisions on the profit and loss to fully comply with the provisions of IFRS9. We expect banks to continue to adopt a cautious stance on loan growth at least up until first half of 2019. However, we see banks benefitting from higher yields on government securities, which have moved up by 200bps since the first half of 2018. Although we expect to see credit growth pick-up in the second half of 2019, we forecast single digit loan growth for the year. In terms of earnings, we see ROAE declining by around 100bps to mid-teens level in 2019.

Despite this mixed review and forecast for the year ahead, we believe that with the wealth of talent, skills and experience of our people, our rich heritage, strong brand and robust financial resources, we have what is required to achieve our goals and deliver sustained value to all our stakeholders.

Thank you.

Kayode Akinkugbe

Managing Director/CEO



OUR BUSINESS MODEL

We are the Merchant Banking and Asset Management group of FBNHoldings Group. Our businesses include Coverage and Corporate Banking, Investment Banking, Fixed Income, Currencies and Treasury, Wealth Management, Asset Management and Securities Trading. We are committed to providing innovative solutions for our diverse customer base comprising; corporates, financial institutions, government, institutional investors, affluents, emerging affluents and high net worth individuals. We create value for our clients and shareholders by selling investment and risk management products, managing funds, administering assets and trading securities.

Our businesses are structured to provide value to our customers as depicted below:

FBNQuest Merchant Bank Business Model

Business Units/Key Products	Investment Banking <ul style="list-style-type: none">● Debt Solutions● Debt Capital Markets● Equity Capital Markets● Financial Advisory	Corporate Banking <ul style="list-style-type: none">● Credit Products● Treasury● Transaction Banking	Markets <div>FICT<ul style="list-style-type: none">● Balance Sheet Management● Trading</div> <div>Equities Brokerage Trading</div>		Sales <ul style="list-style-type: none">● Institutional● Personal – UHNI, HNI, Affluent, Emerging Affluent	Asset Management <ul style="list-style-type: none">● Mutual Funds● Discretionary Funds
Value Proposition	<ul style="list-style-type: none">● Strong origination capability, deep industry knowledge and client relationship management● Superior structuring and execution capability	<ul style="list-style-type: none">● Deep client relationships across coverage sector● Develop bespoke financial solutions tailored to suite sector specific need	<ul style="list-style-type: none">● Best pricing and speed of execution● Strong client relationships● Quality research● Strong execution capability● Seamless execution of trades		<ul style="list-style-type: none">● To leverage the strength of our brand, heritage and expertise to provide solutions to both internal and external stakeholder● Advisory expertise	<ul style="list-style-type: none">● Ready suite of products● Technology● Strong track record, brand recognition and trust● Robust distribution platform● Innovative products and services
Target Customers and Focus sectors	Large or Mid-Tier Corporates, Government, Institutional Investors, Ultra High Net Worth Individuals, High Net Worth Individuals, Family Offices, Affluent, Emerging Affluent					
Location	Lagos, Port Harcourt and Abuja					

Our world-class team, significant financial capacity, rich heritage, local insights and unrivalled network put us in a unique leadership position within the Merchant Banking space. The broad product platform also enables us to cater to the diverse business needs of our clients. The focus on customer-centricity, leveraging technology also differentiates us from our peers as we are able to anticipate and proactively meet our customer needs.

We continue to transform our business in line with the constantly evolving operating environment to achieve our goal of being the dominant Investment Bank and Asset Management firm in Nigeria. In order to achieve this, the MBAM group provides products and services as follows:

- **Investment Banking:** Arranges finance through the banks and capital markets and provides strategic advice.



OUR BUSINESS MODEL

- **Corporate Banking:** Originates and manages relationships with companies across six industry verticals namely; public sector, energy and natural resources, services, diversified industries, financial institutions and power, construction and real estate.
- **Fixed Income, Currencies and Trading:** Manages FBNQuest Merchant Bank's balance sheet and liquidity position.
- **Securities Trading:** A diversified distribution platform comprising sales, trading, research and structuring activities, across various asset classes (equity, fixed income and foreign exchange).
- **Wealth Management:** Helps high net worth and ultra high net worth clients and their families grow, manage, and transition their wealth for future generations based on their investment objectives and risk profile.
- **Asset Management:** One of the leading investment management firms in Nigeria committed to providing a broad range of financial planning and investment management solutions that span various asset classes including fixed income, public equity markets, alternatives, and multi-asset class solutions.



OUR STRATEGY

FBNQuest Merchant Bank's strategy is to be a dominant player across all our businesses. This is supported by a strong focus on customer experience, a strong performance culture as well as a strong operating platform (people, processes and technology).

We aim to aggressively grow our business by increasing the scope and scale of our service offerings and employing four key growth levers: enhancing collaboration, optimising our originate-to-distribute model, reducing our cost of funds and optimising our in-house

services and processes to attract, adequately serve and retain, in order to grow our HNWI customer base.

In addition to this, our medium-term business and operational performance is guided by our three-year strategic plan (2017-2019).

We aim to become the dominant player in Nigeria by focusing on our strategic objectives detailed below.

STRATEGIC OBJECTIVES



BUSINESS REVIEW

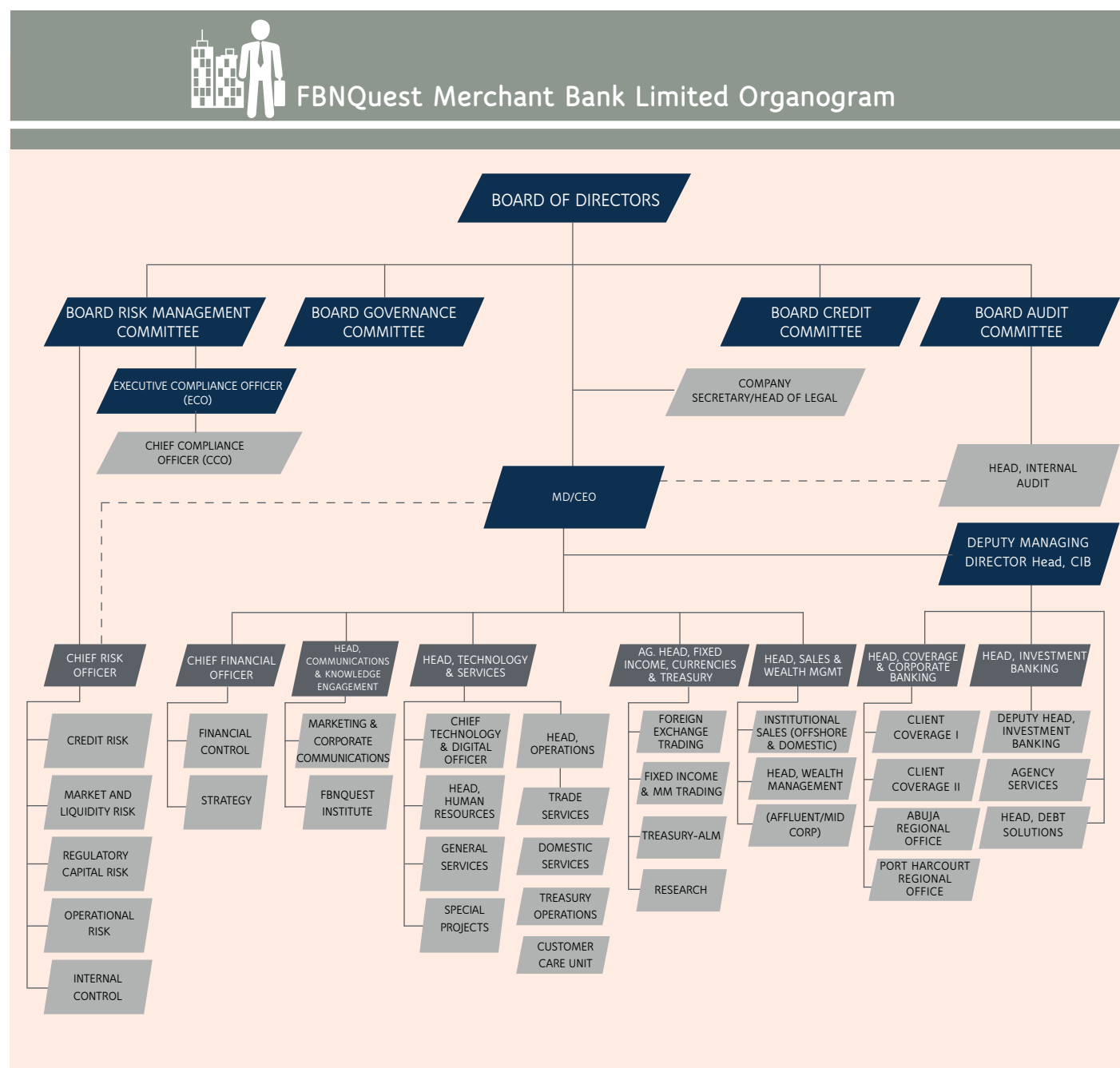
This section is a review of our divisional and subsidiary performance in 2018 and the outlook for our business in the future.





DIVISIONAL OPERATING REVIEW

Below is the operating structure of FBNQuest Merchant Bank Limited:





DIVISIONAL OPERATING REVIEW

INVESTMENT BANKING

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



Taiwo Okeowo, CFA
Deputy Managing Director/Head,
Corporate and Investment Banking

INTRODUCTION

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

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

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

DEBT SOLUTIONS

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

Our key products and services include but are not limited to:

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



DIVISIONAL OPERATING REVIEW

Key Risks And Mitigants

Foreign exchange and interest rate risks: The team relies on its structuring techniques to mitigate the adverse effect of this risk. However, as a principle, the team ensures deals are structured such that there are no currency mismatches that potentially expose projects to foreign exchange risks.

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

Reputational risk: The team seeks to maintain timely and efficient communication with clients, compliance with the company's strong enterprise risk management policies, and regulatory requirements.

Credit risk: The team insists on milestone payments on transactions, especially transactions to be executed over a long period, to mitigate against this risk.

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

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

FINANCIAL ADVISORY

The Financial Advisory team provides mergers and acquisition advisory services, restructuring and transaction advisory services to public and private sector clients across various sectors. The team leverages on deep industry knowledge and product expertise to assist clients in achieving their strategic objectives. The team has successfully advised on several landmark domestic and cross-border transactions, providing end-to-end support over the entire transaction life cycle.

Our services include:

- Mergers and Acquisition advisory (Buy-side and sell-side)
- Privatisation advisory
- Restructurings and recapitalisations
- Carve-outs, spin-offs and split-offs
- General Corporate Finance Advisory

Equity Capital Markets

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

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

Debt Capital Markets

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

Key products and services include:

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

KEY RISKS AND MITIGANTS

Foreign exchange and interest rate risks: The team relies heavily on its structuring techniques to mitigate the adverse effects of these risks.

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

Reputational risk: The team seeks to maintain timely and efficient communication with clients, compliance with the strong enterprise risk management policies, and regulatory requirements.

Credit risk: The team insists on milestone payments on transactions, especially transactions to be executed over a long period, to mitigate against this risk.

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

Market risk: The team's transaction strategy risk involves close monitoring of market conditions and trends to ensure that transactions are launched during favourable market periods.



DIVISIONAL OPERATING REVIEW

COVERAGE AND CORPORATE BANKING

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



Bimbola Wright
Head, Coverage and Corporate Banking

INTRODUCTION

The Coverage and Corporate Banking Group (CCB) originates and manages relationships with companies across identified sectors of the economy. Our team of seasoned industry and product experts are thought leaders in their verticals, enabling them propose bespoke offerings and financing structures tailored to our clients’ needs. The team leverages its vast industry network and knowledge ability to deliver optimal customer service.

Currently, the CCB business focuses on six industry verticals namely: diversified industries, services, energy and natural resources, public sector, financial institutions, power, construction and real estate. The Relationship Managers through their deep industry knowledge and understanding of customers’ businesses work together with product specialists in the Bank to identify and anticipate client’s needs and proactively proffer solutions.

The group incorporates a holistic approach towards achieving set goals, improving customer experience, and providing best-in-class service delivery through a dedicated one-stop team.

KEY RISKS AND MITIGANTS

- **High Cost of Funding:** In 2018, the Government took deliberate actions to maintain a high interest rate environment. Although positive for the country, this had an adverse impact on our business as there was an increase

in the Bank’s cost of funds which constrained the Bank’s net interest margin. To mitigate this, the group aggressively generated a combination of lower cost transaction funds and fixed deposits to enhance our margins and will continue to focus on the middle market for lower cost deposits in 2019.

- **Increased Competition from Commercial Banks:** In 2018 financial year, there was relative stability in the economy which increased liquidity in the financial markets. Commercial banks took advantage of this environment to avail loans to corporates rather than invest in government securities, as was the case in previous years. In mitigating this, the group will expand its product offerings by providing value-added services in order to retain and attract additional clients.
- **Technology Risk:** The absence of a robust IT platform which allows real time transaction banking impacted the group’s ability to grow transactional funds during the financial year. The group proposed improvements which are now being resolved internally by a project management team. The resolution will enhance service delivery going forward.
- **Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Risk:** The traditional corporate banking business, which involves deposit taking and lending activities exposes the Bank to AML/CFT risk. We have a strong and resilient compliance framework, that supports us in mitigating the exposure.



DIVISIONAL OPERATING REVIEW

SALES DIVISION

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



Tseyi Hammond
Head, Sales and Wealth Management

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

Wealth Management

INTRODUCTION

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

- Offering diversified investment opportunities through collaborations and cross-selling, with the goal of creating and increasing wealth.
- Collaborating with our in-house experts to offer advisory services, and provide the clients with a holistic view of happenings in the local and global financial markets; and.
- Maintaining a strong and sincere relationship with clients over their lifetime and extend same to the beneficiaries of their wealth.

Key Products and Services

The Wealth Management business' main service offering is financial planning, delivered through the following products:

- Fixed deposits
- Fixed income securities (Treasury Bills and Bonds)
- Mutual funds
- Commercial papers
- Equities
- Internet banking services

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

Challenges and Key Risks

- Declining fixed deposit portfolio as a result of thinning margins, and clients' requests for higher yielding assets.



DIVISIONAL OPERATING REVIEW

- Clients' behaviour and shifting demographics: Increase in retiree population and their changing needs, a shift from income accumulation to income and standard of living preservation as well as a new generation of investors-generation X and Y.
- Unavailability of, and inaccurate data on the different demographics and segments due to a fragmented market.
- Higher yielding investment instruments such as; treasury bills and alternative or substitute products.
- Clients' dissatisfaction arising from internal operational and service issues such as; payment delays, non-automation of most processes, etc.

Mitigants

- Availability of risk-assets to match liabilities and clients' quest for higher yields
- Develop onboarding strategy for generation X and Y i.e. the new age UHNW/HNW clients.
- Maintain confidentiality and a 'Trusted Advisor' status through continuous formal and informal training of Relationship Managers
- Enhance technology for reliable, robust, seamless clients' experiences, and enhanced Relationship Managers productivity
- Deliver tailored, proactive and consistent financial advisory services by leveraging all previous clients' experience and interactions.

Institutional Sales

The Institutional Sales division was set up to service a broad segment of investors including pension fund administrators, insurance companies, banks and financial institutions, local and offshore portfolio managers, public sector, large corporations, endowment funds, foundations, and co-operative societies. We work with our customers to structure the appropriate investment portfolios based on their risk appetite and needs.

The Affluent Department

The Affluent department provides investment solutions and advisory to affluent and SME segments. This team drives sales largely through cost-effective collaborations and distribution channels.

Key Products

The key products sold during the year include:

- Eurobonds
- Treasury Bills
- Local Bonds (including the Sukuk Bond)
- Commercial Papers

Institutional Sales

Institutional Sales portion of AUM/turnover from each business division as at 31 December 2018:

- Asset Management: ₦39.1bn
- Fixed Deposit: ₦40.0bn
- Capital Market Distribution: ₦161.9bn
- Equity Sales Turnover: ₦123.0bn

KEY RISKS AND MITIGANTS

Key Risks

- Customer's diversification of funds to FGN Securities.
- Political instability and economic uncertainty.
- Possibility of the devaluation of the naira, resulting in investors seeking alternative investment sources.

Mitigants

- Cross-selling of products and services.
- Continuous creation of product awareness to our customers about the benefits associated with employing professional fund management while reassuring them of the safety of their investments and better competitive pricing.
- Aggressive marketing of the identified unbanked customers and prospects.
- Liaising with treasury for attractive rates.



DIVISIONAL OPERATING REVIEW

FIXED INCOME, CURRENCIES AND TREASURY

“Our main focus is attracting liquidity and increasing efficiency while reducing transaction costs.”



Adetoun Dosunmu

Ag. Head, Fixed Income, Currencies and Treasury

INTRODUCTION

The Fixed Income, Currencies and Treasury (FICT) group is responsible for managing the Company's balance sheet and liquidity position as well as providing the Company's clients with securities trading services in the financial market. Our main focus is on attracting liquidity and increasing efficiency while reducing transaction costs.

FICT comprises five sub-units: Asset and Liability Management Unit, Fixed Income FGN Bonds Unit, Fixed Income Treasury Bills Unit, Currencies Foreign Exchange Unit and Correspondent Banking Unit.

The Asset and Liability Management Unit offers a full range of local currency products and services while ensuring that it adheres to its main responsibility of managing the Bank's liquidity position by effective gap coverage; creation of investment channels for surplus funds and balance sheet management.

The Fixed Income FGN Bonds Unit is responsible for executing the Bank's function as a Primary Dealer and Market Maker (PDMM) in Federal Government of Nigeria Bonds. The unit provides the platform for the Bank to contribute to the continual development of the Nigerian Bond Market through participation in bond issuances on behalf of the Bank and interested investors. It is also responsible for trading other fixed income securities aside from FGN Bonds such as Sub-National and Corporate Bonds.

The Fixed Income Treasury Bills Unit provides the avenue for the Bank to fulfil its obligation as one of the pioneer Primary Dealers/

Market Makers PDMM appointed by the Central Bank of Nigeria (CBN) in Treasury Bills. The Unit is also responsible for trading the security on behalf of the Bank and interested investors along with ensuring the creation of liquidity in the Treasury bill market.

The Currencies Foreign Exchange Unit offers a broad range of foreign exchange products and services with its main focus on foreign exchange trading which includes amongst others - international trade transactions, management of foreign exchange liquidity position and balance sheet management. The unit also trades Eurobonds on behalf of the Bank and its clients.

The Correspondent Banking Unit is responsible for establishing and managing relationships with off-shore (foreign) financial institutions and is the first port of call for foreign financial institutions seeking to develop a relationship with the Bank. The Unit's functions include sourcing, structuring and managing trade finance as well as other lines of credit from international financial institutions.

Key Risks and Mitigants

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

Liquidity Risk

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



DIVISIONAL OPERATING REVIEW

Mitigants

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

Settlement Risk

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

Mitigants

- Settlement is made via delivery versus payment.

Compliance Risk

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

Mitigants

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

Regulatory Risk

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

Mitigants

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

Market Risk

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

Mitigants

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

Credit Risk

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

Mitigants

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



SUBSIDIARY OPERATING REVIEW

FBNQUEST ASSET MANAGEMENT

“Our asset management business is well-positioned to become the leading asset manager in Nigeria, offering a broad range of product options on the cutting edge of innovation through an agile and efficient distribution platform.”



Ike Onyia

MD/CEO, FBNQuest Asset Management

INTRODUCTION

The FBNQuest Asset Management business has developed a track record of solid performance and prides itself in its strong fundamental and quantitative research capabilities, out of which it derives insights and perspectives to craft successful investment strategies for clients.

The asset management industry serves as an efficient mechanism for the allocation of resources between investment capital and investment opportunities. Our asset management subsidiary, FBNQuest Asset Management Limited is one of the leading investment management firms in Nigeria with a proven track record of delivering value-adding advice to clients. It is a full-service investment management firm committed to providing a broad range of financial planning and investment management solutions that span various asset classes including fixed income, public equity markets, alternatives, and multi-asset class solutions. Using pooled vehicles, independently managed portfolios and other structured solutions, this business serves the needs of various client segments including the mass affluent, affluent, high net individuals, family offices, pension funds, sovereign wealth funds, endowments and foundations, amongst others.

KEY SOLUTIONS

- Mutual Funds:** The pooled fund offering, which comprises actively managed funds and smart beta funds, is focused on achieving a variety of objectives including capital preservation, capital growth and hedging, through exposure to foreign currency denominated portfolios. These Funds appeal to all investor segments and are regulated by the Securities and Exchange Commission of Nigeria. They include the FBN Money Market Fund, the FBN Nigeria Eurobond Fund and the FBN Nigeria Smart Beta Equity Fund, which is the first factor-based fund in Nigeria, which uses simple, transparent, rules-based strategies as a basis for portfolio construction. While these solutions are often accessed by individuals, institutional investors have also actively sought portfolio exposure to these tools and benefited from the power of the collective. This is reflected in the robust growth of the FBN Money Market Fund.
- Independently Managed Portfolios:** Investors who have expressed a preference for segregated portfolios are served by the investment management and research team, through tailored portfolios constructed to suit their unique investment objectives. The client book witnessed an increase in the number of individual and institutional clients, but more importantly, a broadening of the institutional client segment.



SUBSIDIARY OPERATING REVIEW

- **Structured Products:** In collaboration with a variety of specialist teams within the merchant banking and asset management business vertical as well as through global strategic partnerships, investors can access a variety of synthetic solutions and customisable product structures to achieve their financial objectives.

KEY OPPORTUNITIES

In 2018, FBNQuest Asset Management took advantage of the bearish sentiments and high uncertainty in the Nigerian macroeconomic environment mainly due to jitters caused by fears surrounding the 2019 general elections, lack of positive fundamental drivers to drive the market upwards, the drop in oil prices and geo-political tensions (particularly the trade tensions between the USA and China). The Central Bank of Nigeria maintained its Monetary Policy Rate (MPR) at 14% and sustained a tight monetary policy environment with frequent Open Market Operations to mop up liquidity which translated to higher investment yields.

The equities market was generally broadly volatile as investors sought alternative less risky assets especially on the back of the continuous increases in interest rates by the US Federal Reserve which contributed to the sell-off of Emerging and Frontier Market risk equity assets, including Nigeria. Additionally, attractive fixed income rates led to increased apathy in the equity market. The FBN Nigeria Smart Beta Equity Fund was down -5.7% for the year outperforming the NSE ASI which returned -17.81% and its benchmark (the NSE 30) which returned -18.9%, our performance in the period was attributed to our expert portfolio management and research team.

Fixed income yields increased during the year as the CBN attempted to stem foreign exchange outflows from the country. This enabled our fund manager to re-balance portfolios and deliver more attractive returns to clients. The FBN Money Market Fund benefitted from this and returned 13.4% in 2018, outperforming its benchmark (the 91-day treasury bill rate) which returned 12.4%.

The Eurobond market saw weaker sentiment from foreign investors leading to sell-offs and higher yields. This provided an opportunity for retail investors to pick up bonds at attractive levels. FBN NEF was strategically positioned to withstand market volatility and deliver value to our clients. FBN NEF achieved a return of 4.43% in 2018 outperforming its benchmark the three-year Nigerian Eurobond which achieved a return of 1.90%.

KEY RISKS AND MITIGANTS

FBNQuest Asset Management Limited is registered with and regulated by the apex regulatory authority, the Securities and Exchange Commission (SEC), which has strict monitoring and oversight responsibilities over operators and the capital market. Recent and ongoing regulatory reforms are designed to minimise risk and enhance governance and best practice. The fiduciary responsibility for managing third-party assets of its clients is governed by legally binding agreements or trust deeds and assets under management are as a matter of practice, held separately by independent custodians.

STRATEGIES AND OUTLOOK FOR 2019

The asset management industry has evolved with the global expansion of financial markets, and will likely continue to evolve, as demand for professional investment advisory services increases, enhanced regulation and oversight threaten, technological advancements proliferate as well as disrupt, and demographic trends inspire innovation.

Our asset management business is well-positioned to become the leading asset manager in Nigeria, offering a broad range of product options on the cutting edge of innovation through an agile and efficient distribution platform.

Digitalisation will remain a key pursuit of this business as it focuses on institutionalising customer-centricity as well as in anticipation of a rapidly evolving business model that will significantly alter the investment management value chain.



SUBSIDIARY OPERATING REVIEW

FBNQUEST SECURITIES

“We have implemented global best compliance practices with respect to client confirmation e.g. following anti-money laundering guidelines.”



Fiona Ahimie

Ag. Managing Director/CEO, FBNQuest Securities

INTRODUCTION

The Markets division is the hub of our distribution platform, comprising sales, trading, research and structuring activities, across various asset classes such as equity, fixed income and foreign exchange. Our services are offered to a broad range of customers, including pension fund administrators, insurance companies, banks and financial institutions, local and offshore portfolio managers, large corporations, endowment funds, foundations and cooperative societies, high net worth individuals and retail clients.

The Securities unit generates revenue through:

- Commissions from institutions, HNI and retail clients across primary and secondary markets, capital market products, typically exchange traded;
- Buying and selling capital market products;
- Sale of research products; and
- Provision of regulatory advisory and liaison services to clients.

KEY RISKS AND MITIGANTS

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

CORPORATE RESPONSIBILITY AND SUSTAINABILITY

Our corporate responsibility and sustainability approach is designed to deliver value to our stakeholders.





OUR SOCIAL COMMITMENT

CUSTOMER EXPERIENCE



Our Customer Experience strategy in 2018 was focused on leveraging technology to enhance our customer engagement process and improve turnaround time.

We have consistently engaged our customers through various communication channels while driving value and providing a medium to share feedback to enhance our business relationship.

This was achieved with the introduction of our new contact centre team, a sub-unit within the customer care unit that manages customer interaction on our digital channels. Our well experienced contact centre team consistently track all pending issues and provide timely and relevant feedback to our customers.

To continue to support the Bank's effort to provide first-in-class service to our customers, we launched a new mobile application: FBN Edge, tailored for our asset management customers and the mass affluent market, is aimed at providing a platform for managing and monitoring investments.

As a result, technology has played a vital role in redefining our customer interactions. In 2019, our strategic plan is to reposition our contact centre to deliver 24/7 service, managing customers' requests and enquiries, and leveraging technology to manage the end-to-end transactional process. With this in place, we aim to continue to expand our business locally and globally.

INFORMATION TECHNOLOGY



With a mandate to realise the benefits of the recently completed re-platforming exercise, stabilise the technology landscape and positioning FBNQuest for digitally-led growth, the IT function in 2018 focused on evolving into a forward-leaning, commercially-aware unit capable of driving the business into new territories for profitability and sustainability.

The year 2018 saw the roll out of the FBN Edge app to support the Asset Management business, achievement of extensive collaboration with FirstBank on USSD and FirstMobile, Go Live of Oracle Financials and the migration to the FBNHoldings

Group-wide Microsoft Office 365 platform. We also completed our integration to the NIBSS platform and are set to roll out for corporate and individual clients in January 2019. Achievements of these feats demonstrated the success of the updated delivery approach.

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

The renewed alignment with the overall business strategy helped drive delivery of initiatives to provide value to customers, staff and shareholders, changing orientation from product-feature delivery to user-centric task delivery on initiatives and improved customer engagement strategies.

Following the initiation of the Digital Strategy definition, IT has set aggressive targets over the first few months of 2019 to ensure we are ready for the digital future of the Bank. Focus areas for the next six months include:

- **Orchestrating delivery:** Implement classic IT governance, and agile principles and practices to drive project focus and quality of application delivery.
- **Stabilising the core:** Review all integration points, harden systems against failure and deliver high-availability.
- **Enhancing UX:** Re-assert user experience as a primary objective ahead of application features. Include UX in design and acceptance criteria for projects.

2019 and Beyond

Leveraging current technology platforms and value optimisation of previous technology investments will continue to be paramount. We will foster technology innovation and support for emerging business lines as envisioned in the transformation strategy.

IT will partner with FBNQuest clients to co-create solutions to business problems, driving loyalty and deepening the engagement with the client community. The team is strategically focusing on demonstrating leadership in the areas of IT service management, innovation, financial technology and entrepreneurship for the benefits of our partners and consumers.



OUR SOCIAL COMMITMENT

OUR PEOPLE

FBNQuest Merchant Bank believes that highly motivated employees are the key to success. To this end, several initiatives were deployed at engendering the right culture and improving employee engagement levels. In 2018, FBNQuest Merchant Bank workforce remained fairly constant. This was primarily due to our approach to broaden and expand employee scope of responsibilities rather than increase headcount.

Employment of disabled persons

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

Health, safety and welfare at work

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

An annual Wellness Day is conducted providing employees access to medical personnel on-site from doctors, dentists, optometrists to dieticians as well as fitness and yoga instructors. In addition, employee education and counselling programs are conducted on a periodic basis to sensitise employees on their health and well-being.

Fire-prevention and fire-fighting equipment are installed at strategic locations within the Bank's premises. The Bank has both Group Personal Accident and the Workmen's Compensation Insurance cover for the benefit of its employees. It also operates a contributory pension plan in line with the Pension Reform Act.

Employee involvement and training

We conduct team-building sessions at every business location and in addition, arrange town hall sessions, focus groups and road shows, to ensure that employees are promptly and adequately informed on matters relating to them.

In accordance with the Bank's policy of continuous growth and development, in-house and on-the-job training are provided to employees. In addition to this, employees are nominated to attend local and international courses as required.

Diversity in the workplace

FBNQuest Merchant Bank has demonstrated its commitment to building a culture that embraces diversity and inclusion in the workplace. In 2018, our FBNQuest Women Interactive Network (FBNQuest WIN) conducted and participated in initiatives with the objective to improve workplace conditions of positively impacting our female workforce. In addition, maternity-friendly policies were introduced.

The Company remains an equal opportunity employer.

EMPLOYEES



BOARD MEMBERS (EXECUTIVE AND NON-EXECUTIVE)



TOP MANAGEMENT STAFF





BUILDING SUPPLIER RELATIONSHIP

The General Services department has demonstrated its commitment to building a system that engages vendors through its initiatives in 2018. One of the set objectives of the department is to achieve cost savings whilst maximising value and this has been widely successful as a result of the fostered vendor and supplier business relationship.

The year 2018 saw the implementation and execution of key projects such as the lease and fit-out of the new Alternative Congregation site, the outsourcing of the Bank's archive to a Document Management company ("DataGuard") and advent of the Power Management initiative, all for optimal and efficient use of available resources.

For improved and sustainable service delivery, General Services department conducted an engagement forum for the suppliers and vendors of the Bank. This session was carried out in collaboration with key departments to create an opportunity for the vendors to have a better understanding of our expectations and also get introduced to the products and services offered by the Group.

Outlook

The General Services strategic approach in 2019 does not exclude our suppliers. We intend to continue leveraging on the Group Shared Services' Initiatives which encourages a single procurement Centre of Excellence (CoE) and the functional responsibility of procurement within FBNQuest Group. The benefits of this initiative include better negotiations and rates on products and services, effective service delivery; better turn-around-time, improved contract management and supplier relationship management; flexible payment terms, compliance and transparency.

Similarly, 2019 will witness the roll out of the Visitor Management System (VMS), which will provide effective management of visitors' log. The implementation of the VMS will create a professional image at the front desk while interacting with suppliers and vendors, enhanced reporting, enables preregistration of visiting vendors to enhance security and the gathering of data obtained from walk-in vendors or clients to build a database for enhanced and more effective product marketing.

GOVERNANCE

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





CHAIRMAN'S INTRODUCTION

“I am pleased to advise that the Company did not record any corporate governance breach in its operations for the 2018 financial year. The size and constitution of the Board continue to satisfy best practice.”



Bello Maccido
Chairman

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

Since inception of the Merchant Bank, the Chairman, the Managing Director and indeed the entire Board have received commendable ratings in the Annual Performance Review and Appraisal of the Board of Directors conducted by KPMG Professional Services (a copy of the comprehensive report for the financial year under review will be presented to shareholders at the 2019 General Meeting).

The Board Appraisal Report for 2018 is not an exception to this trend. I emphasise that best corporate governance practices remain a key focus and deliverable for the Board of Directors and Management of the Bank.

In the course of the year, the Company received minor penalties from the CBN for delay in submitting some returns to the regulator. This was due to system challenges and customer-related transactions. The customers have since refunded the penalty paid by the Bank. On the system challenges, while the penalty has been paid, Management has taken steps to ensure that the glitches that resulted in the delay in submission of the returns do not re-occur.

Aside from these infractions, I am pleased to inform you that the Company did not record any corporate governance breach in its operations for the 2018 financial year. The size and constitution of the Board continue to satisfy best practice.

Every year, I emphasise that the strength of the Board remains the candour and experience of its members, their commitment to the Bank's growth and their passion. This year is no exception and I congratulate my colleagues on the Board for coming through a very difficult year. The task ahead demands more commitment, greater sacrifice and I charge members of the Board to rise up to the occasion in their usual fashion. Together and in consonance with Management, we will achieve our goal of becoming the leading Investment Bank and Asset manager in Africa in the near term.

Bello Maccido



LEADERSHIP

BOARD OF DIRECTORS

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

*Appointed Chairman effective 1 January 2016
Joined the Board on 30 September 2014.*

Knowledge and skill:

Bello Maccido has over 33 years' business experience, 26 of which represent hands-on experience handling a wide spectrum of financial services. An accomplished corporate and investment banker, his experience covers pension fund management, commercial, retail, corporate and investment banking at various institutions, including Ecobank Nigeria Plc, New Africa Merchant Bank Ltd and FSB International Bank Plc, where he rose to become Acting Managing Director/Chief Executive Officer, Legacy Pensions as the founding Managing Director and Chief Executive Officer, First Bank of Nigeria Ltd as Executive Director, Retail Banking, North Group from where he was appointed the Group Managing Director of FBN Holdings Plc. He retired from FBN Holdings Plc effectively on 1 January 2016 when he became the Chairman of FBNQuest Merchant Bank Ltd. He was a National Council Member of the Nigerian Stock Exchange between 2009 and 2012, a member of the Finance Committee, National Council on Privatisation, and sat on the Implementation Committee of Financial System Strategy (FSS) 2020 as well as the Presidential Monitoring Committee on Niger Delta Development Commission (NDDC).

Bello has a degree in Law from the Ahmadu Bello University, Zaria, and was called to the Nigerian Bar in 1985. He obtained a Master's degree in Business Administration, specialising in Managerial Finance, from

Wayne State University, Detroit, United States of America. He is a Chartered Stockbroker and has attended executive management programmes at Harvard Business School, the Wharton School IMD, Lausanne, Switzerland, and INSEAD, Paris France. He holds the traditional title 'Wakilin Sokoto'.

Experience:

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



Bello Maccido
Chairman



LEADERSHIP

Joined the Board May 3 May 2018

Knowledge and skill:

Babatunde Odunayo has over 40 years experience working in Agriculture, Accounting, Consultancy and Finance. He worked briefly with a State Ministry of Agriculture and later at the Federal Ministry of Agriculture. In 1977, he interned at the international accounting firm, Coopers & Lybrand where he was involved in the audit of accounts of client companies for four years. He was later appointed a Consultant in the Management Consulting Unit of the firm where he managed consulting assignments for another four years. In 1986, he was appointed the Financial Controller and later Finance Director at Hagemeyer Nigeria Plc where he led the company to the Capital Market to raise Debenture Stock and Redeemable Cumulative Preference Shared for its capital needs. In 1992, he was appointed Group Managing Director of the Honeywell Group. Following 17 years as pioneer CEO and 22 years in the service of the Honeywell Group, he retired from

the position of CEO with effect from the 1 April 2014.

Babatunde has a Bachelor of Arts degree in Agriculture from the Obafemi Awolowo University, Ile-Ife and he is a Fellow of the Institute of Chartered Accountants.

Experience:

- Executive Vice Chairman/CEO, Honeywell Flour Mills Plc
- Managing Director, Honeywell Group
- Finance Director, Hagemeyer Nigeria Plc
- Group Financial Executive, Mandilas Group
- Consultant, Coopers & Lybrand
- National Council Member, Manufacturers Association of Nigeria
- Chairman, Boulous Beverages Ltd
- Chairman, FBN Mortgages Ltd



Babatunde Odunayo
Non-Executive Director

Joined the Board on 9 February 2015

Knowledge and skill:

Oluyele Delano, SAN, MCI Arb started his practice in law 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 the Chambers, with a focus on litigation and arbitration.

In 1998, Oluyele assumed his current position in the Lagos office of Akindele Legal Practitioners (ALP), and in 2006 was elevated to the Inner Bar, becoming one of the youngest Senior Advocates of Nigeria (SAN) to receive the Silk. He has been involved in notable multi-million

dollar transactions in which he has advised key principal government and private sector interests. Oluyele obtained a Bachelor's degree in Law from the University of Southampton, United Kingdom. He is a Member of the Chartered Institute of Arbitrators, London and Lagos.

Experience:

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



Oluyele Delano, SAN, MCL Arb
Independent Non-Executive Director



LEADERSHIP

Joined the Board on 6 October 2015

Chairman, Board Governance and Human Resources Committee

Member, Board Audit Committee

Acting Chairman, Board Credit Committee

Knowledge and skill:

Dr Omobola Johnson is Nigeria's first and immediate past Minister of Communication and Technology. She brings to the Board over 27 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 Omobola served as the Country Managing Director of Accenture, and is a founding Chairperson and Member of the Board of Trustees of Women in Management and Business (WIMBIZ), a non-governmental organisation that seeks to enable and encourage the success of female entrepreneurs as well as grow the proportion of women in senior positions in corporate organisations. She is a member of the World Economic Forum's Global Agenda Council on Africa, and of the United Nations Development Programme's closed high-level Broadband Commission Working Group on Gender which has the main objective of promoting the empowerment and digital inclusion of women.

She is also a member of the International Telecommunication Union's M-Powering Development Advisory Board, charged with the responsibility of extending the benefits of mobile technology to all strata of society in order to build a truly inclusive information society, with special focus on remote rural and underserved areas. Dr Johnson obtained a BSc in Electrical and Electronic Engineering from the University of Manchester, United Kingdom, 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 in the United Kingdom.

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
- Director, Guinness Nigeria Plc
- Director, Mouka Foam Plc
- Chairman Custodian and Allied Insurance Plc



Dr Omobola Johnson

Non-Executive Director



LEADERSHIP

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

Knowledge and skill:

Kayode Akinkugbe is the Managing Director and Chief Executive Officer of FBNQuest Merchant Bank Limited. He has over 27 years' experience working in top-tier global investment banks in the United Kingdom and Nigeria, where he worked on arranging finance and providing strategic advice to public and private sector organisations. Kayode has a proven track record of meeting business and financial targets and has, over the course of his career, originated and executed over USD9bn of structured debt, project finance and equity financing across banks and capital markets; advised on over USD5bn of merger and acquisition transactions (privatisation, buy-side); and executed hedging solutions while generating significant revenue for stakeholders.

Kayode graduated from the University of Ibadan with a degree in Economics. He subsequently attended the London School of Economics where he obtained an MSc in International Accounting and Finance, and holds an MBA from Cranfield School of Management, United Kingdom.

Experience:

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



Kayode Akinkugbe
Managing Director/CEO

*Joined the Board as Deputy Managing Director on
24 November 2015.*

Taiwo Okeowo, CFA is a Chartered Financial Analyst (CFA) with over 32 years' experience in Investment Banking. He has considerable experience in project finance, mergers, acquisitions, restructuring and securities underwriting. Under his stewardship, FBNQuest 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 a Director of MainOne Cable Company Limited and former Chairman of the Fixed Income Subcommittee of the Capital Market Committee. Taiwo graduated with a First-Class Honours degree 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), a Fellow of the Institute of Chartered Accountants of Nigeria.

Experience:

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



Taiwo Okeowo, CFA
Deputy Managing Director



LEADERSHIP

Joined the Board effective 14 September 2016

U.K. Eke, MFR is a seasoned banker with deep financial services experience spanning diverse areas including risk management, consulting, taxation, process engineering, capital market operations and business assurance. He began his career with the professional firm of Deloitte Haskins & Sells International where he rose to become a Senior Audit Consultant prior to joining Diamond Bank Plc. where he worked for 19 years and resigned as Executive Director, Regional Businesses, Lagos and West.

U.K. has over 33 years of professional experience and he brings his wealth of knowledge to the Boards of a number of institutions where he serves as Non-Executive Director including First Bank of Nigeria Limited. He is the Group Managing Director/Chief Executive Officer of FBN Holdings Plc. He holds a first degree in Political Science from the University of Lagos and an MBA in Project Management

Technology from the Federal University of Technology, Owerri.

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

Experience:

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



U.K. Eke, MFR
Non-Executive Director

Joined the Board effective 31 January 2017

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

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

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

Experience:

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



Akin Osinbajo, SAN
Independent Non-Executive Director



LEADERSHIP

FBNQUEST MERCHANT BANK MANAGEMENT TEAM



Kayode Akinkugbe
Managing Director/CEO



Taiwo Okeowo, CFA
Deputy Managing Director



Bimbola Wright
Head, Coverage and Corporate Banking



Funke Ladimeji
Head, Technology and Services



Taiwo Gabriel
Chief Risk Officer



Patrick Mgbenwelu
Head, Investment Banking



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



Tseyi Hammond
Head, Sales and Wealth Management



Emily Atebe
Chief Financial Officer



Ike Onyia
Managing Director/CEO, FBNQuest Asset Management



Fiona Ahimie
Ag. Managing Director/CEO, FBNQuest Securities



LEADERSHIP

BOARD ROLES AND RESPONSIBILITIES

Responsibilities

The Board of FBNQuest Merchant Bank Limited is accountable and responsible for the performance of the Company. The Board discharges its oversight functions and provides FBNQuest Merchant Bank Limited with strategic direction through reviews and approval of major strategic plans and initiatives. The Board not only ensures that appropriate audit and risk management and control systems are in place, and that financial reporting

and compliance programmes exist, but also ensures that the processes for the evaluation of their adequacy on an ongoing basis are not compromised. The Board also makes certain that the competence, independence and integrity of internal and external audit processes of the Bank are not compromised.

The role of Directors

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

CHAIRMAN	MANAGING DIRECTOR/CEO	NON-EXECUTIVE DIRECTOR
<ul style="list-style-type: none"> • Ensure the Board carries out its governance role in the most effective manner possible • Set the agenda for Board meetings and ensure the Board remains focused on its governance roles • Ensure Board meetings are run in an efficient manner so that all points and opinions are heard • Ensure the various Board committees are set up and properly governed, and assist the Board in its oversight functions • Chair the Annual General Meeting. 	<ul style="list-style-type: none"> • Provide strategic direction and alliances in line with overall corporate strategy and ensure effective implementation • Develop credibility for the financials by providing timely and accurate analysis of budgets, financial reports to assist Board and Senior Executives in performing their responsibilities • Provide strategies to maintain and upgrade Company's reputation, image, brand and external communication • Liaise with external consultants and regulatory bodies' representatives (CBN, tax authorities, external auditors, consultants, etc.) on behalf of the Company and ensure compliance with same • Provide necessary reports to the Board as may be required. 	<ul style="list-style-type: none"> • Act honestly and in good faith in the best interest of the Company; • Exercise due diligence and skill that a reasonably prudent person would exercise in comparable circumstances • Assist the Company in achievement of its strategic corporate objectives • Devote sufficient time to Board affairs • Ensure they and the Board as a whole act in the best interest of the Company rather than that of an individual Director or any other interests.



LEADERSHIP

BOARD ROLES AND RESPONSIBILITIES

INDEPENDENT NON-EXECUTIVE DIRECTOR	COMPANY SECRETARY
<ul style="list-style-type: none"> Chair the Annual General Meeting Employ neutral, specialised or expert skills towards achieving a balance of knowledge, skills, judgement and other directional resources Serve as check to the Management of the Bank by providing unbiased and independent views to the Board Help the Board of the Bank 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. 	<ul style="list-style-type: none"> Ensure flow of information within the Board and its committees, between Senior Management and Non-Executive Directors, facilitating induction and assisting with professional development Advising the Board, through the Chairman, on all governance matters and regulatory affairs Advising all members of the Board as may be required to ensure compliance with Board procedures Administer the Company Secretariat in such manner to ensure that information on the Bank is accessible to all qualified stakeholders; Filing all statutory returns as may be required under the laws governing the Bank.

BOARD CHANGES DURING THE YEAR

There was only one change on the Board of Directors during the year. The Central Bank of Nigeria approved the appointment of Babatunde Odunayo in May 2018. Babatunde Odunayo is a Fellow of the Institute of Chartered Accountants of Nigeria, a Company Executive and he brings over 35 years practical Boardroom management experience to the Board.

BOARD ACTIVITIES

The Board met four times in the course of the year and complied with the quarterly statutory meetings in line with extant regulation. In addition, a Board and Management retreat was held in November, 2018 to engender interaction between the Board and Senior Management of the Bank and also to align the strategy and vision of the Bank with the Group Strategic Plan of the FBN Holdings Plc.

In the course of the year, the Board monitored the progress on the Board Appraisal recommendations made by KPMG Advisory Services, monitored the performance of the Bank and reviewed the report from the Strategic Business Units, monitored risk reports and compliance with extant regulations guiding the Bank.

The Committees of the Board met quarterly in line with the Central Bank of Nigeria Code of Corporate Governance. Each Committee reported its activity to the Board and resolutions were taken on the recommendations. The Board Committees effectively conducted their oversight duties on behalf of the Board of Directors thereby assisting the Board to make informed decisions as required.

Board discussions

The Board discussed the integration of the two companies that were acquired in October 2017, FBNQuest Securities Limited and FBNQuest Asset Management Limited into the FBNQuest Merchant Banking group. The Board discussed the governance process around the subsidiaries and approved the governance principles and policies for the Group.

Major discussions were on how operational efficiency would be achieved while enhancing profitability and cost reduction. Significant time was spent to review the performance of the Bank and the subsidiaries and far reaching resolutions were made in respect of this.



LEADERSHIP

How the Board spent its time

Board meetings focused on the corporate governance practice, risk management, profitability, operational excellence, integrity of the banking systems and stability. Targets were thoroughly reviewed and the divisional heads were invited, where necessary, to give the Board detailed information on markets and the business expectations.

Considerable time was also spent on the approval of policies targeted at improvement of corporate governance structures within the group, one of which was the Subsidiary Governance Framework, which governs the intercompany relationships and the expectations of the Board of Directors. The Bank had a tough year but despite this, the Board paid the sum of ₦707mn as the interim dividend for the period ended 30 September 2018. The IT transformation project featured at length in the course of deliberations of the Board in 2018

Board focus areas for 2019

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

Attendance at Board Meetings

Attendance at Board meetings in 2018 was as shown below:

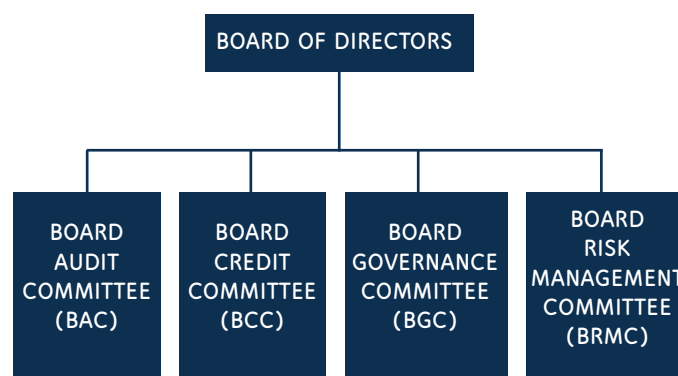
Name of Directors	24 Apr 2018	25 Jul 2018	23 Oct 2018	12 Dec 2018
Bello Maccido	✓	✓	✓	✓
Kayode Akinkugbe	✓	✓	✓	✓
Taiwo Okeowo, CFA	✓	✓	✓	✓
Akin Osinbajo, SAN	✓	✓	✓	✓
Oluyele Delano, SAN	✓	✓	✓	✓
Dr Omobola Johnson	✓	✓	✓	✓
U.K. Eke, MFR	✓	✓	✓	✓
Babatunde Odunayo**	N/A	✓	✓	✓

** = Appointed during the year

N/A = Not Applicable

Committee Reports

The effectiveness of FBNQuest Merchant Bank Limited's Board is fortified and strengthened by its four committees, namely the Board Credit Committee, the Board Audit Committee, the Board Risk Management Committee and the Board Governance and Human Resources Committee. Each committee is chaired by a Non-Executive Director and fully governed by approved charters.



BOARD AUDIT COMMITTEE (BAC)

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

Financial Reporting

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

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



LEADERSHIP

External Audit

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

Internal Audit

- Reviews the objectives of the risk-based internal audit function and the annual plan of action;
- Reviews and approves the scope of internal audit work, including annual risk-based audit and spot check plans and reviews compliance therewith;
- Assesses the adequacy and performance of the internal audit function and the adequacy of available resources;
- Reviews significant matters reported by the internal auditor;
- Reviews and assesses the implementation of approved audit recommendations;
- Reviews significant differences in opinion between management and the internal auditors;
- Reviews the cooperation and coordination between the internal and external auditors;

- Provides a structural reporting line for internal audit and facilitates the maintenance of the objectivity of the internal auditor; and
- Authorises or directs the internal auditor to carry out special assignments over and above the approved annual audit plan and report thereon,

Internal Control Systems

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

Attendance at BAC meetings

Name of Directors	14 Feb 2018	19 Apr 2018	23 Apr 2018	18 Jul 2018	25 Sept 2018	17 Oct 2018	7 Dec 2018
Oluyele Delano, SAN	✓	✓	✓	✓	✓	✓	✓
Dr Omobola Johnson	✓	Absent	Absent	✓	✓	✓	✓
U.K. Eke, MFR	✓	✓	✓	✓	✓	✓	✓
Babatunde Odunayo	N/A	N/A	N/A	✓	✓	✓	✓

Board Credit Committee (BCC)

The BCC was chaired by Dr Omobola Johnson (in acting capacity). This would be regularised upon the appointment of the second independent Non-Executive Director. The terms of reference of this Committee include to:

- reviewing credit policies of the Bank and recommend same to the Board;
- reviewing and approving all facilities exceeding the delegated authority of the Management Credit Forums as set out in the Credit Policy;
- reviewing reports and monitoring trends in the Bank's risk assets profile;



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- reviewing the methodologies for assessing risk assets and recommend appropriate exposure limits;
- reviewing and approving the restructure of credit facilities as per the Credit Policy;
- ensuring that concentration of risk assets is within the Company's defined risk tolerance parameters; and
- carrying out such other acts as the Board may from time-to-time direct the Committee.

Attendance at BCC meetings

Name of Directors	19 Jul 2018	18 Oct 2018	6 Dec 2018
Dr Omobola Johnson	✓	✓	✓
Kayode Akinkugbe	✓	✓	✓
Taiwo Okeowo, CFA	✓	✓	✓
Akin Osinbajo, SAN	✓	✓	✓
Babatunde Odunayo*	✓	✓	✓

* = Appointed during the year

N/A = Not Applicable

Board Governance/HR Committee (BGHC)

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

- Identification, approval and recommendation of individuals qualified to become members of the Board to the Board of Directors;
- Considering and making recommendations on the appointment of Top Management staff of the Company to the Board of Directors;
- Develop update and make recommendations to the Board on corporate governance principles and policies as applicable to the Company;
- Monitor compliance with such principles and policies;
- Identifying and making recommendations to the Board for approval on staff welfare, conditions of service, administrative or ethical issues as may arise; and
- Acting 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 BGHC is constituted by all the Non-Executive Directors of the Company excluding the Chairman of the Board who is not a member of any of the Committees.

Attendance at BGHC meetings

Name of Directors	19 Apr 2018	18 Jul 2018	17 Oct 2018	7 Dec 2018
Dr Omobola Johnson	✓	✓	✓	✓
Oluyele Delano, SAN	✓	✓	✓	✓
U.K. Eke, MFR	✓	✓	✓	✓
Akin Osinbajo, SAN	✓	✓	✓	✓

Board Risk Management Committee (BRMC)

The BRMC was chaired by Oluyele Delano, SAN (in an acting capacity) upon the resignation of Andrew Reicher. The overall purpose of the Committee is to protect the interest of shareholders and other stakeholders by overseeing the following:

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

The objectives of the Committee include the following:

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



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- monitoring of both business and control risks; and
 - establishment and management of compliance procedures over regulatory and legal requirements.
- ii. Improving the efficiency of the Board by accepting delegated tasks for sufficient and in-depth discussions.
 - iii. Establishing a formal written policy on the overall risk management system of the Bank.
 - iv. Improving the effectiveness of the risk management functions;
 - v. Ensuring that adequate policies are put in place to manage and mitigate adverse effects of both business and control risks.
 - vi. Re-evaluating the Company's risk management policy on a periodic basis to accommodate major changes in internal and external factors.
 - vii. Establishing robust contingency planning and continuity of business imperatives with in-built capabilities for minimising disruption in the event that mission-critical threats crystallise.

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

- i. Enterprise Risk Management:
 - reviewing and recommending to the Board for approval the Enterprise-wide Risk Management (ERM) Policy;
 - reviewing and recommending to the Board for approval the risk philosophy, risk appetite and tolerance levels;
 - monitoring the Company's plans and progress in meeting regulatory risk-based supervision requirements and migration to Basel II compliance;
 - dealing with the Company's risk-reward profiles (including the credit, market and operational risk-reward profiles) and, where necessary, recommending improvement strategies;
 - reviewing and recommending improvements regarding outstanding actions on risk management plans at business units and subsidiaries level;
 - evaluating the risks identified in those strategic plans that require Board approval to determine their impact on the risk-reward profile;

- evaluating the risk profile and risk management plans drafted for major projects, acquisitions, new ventures and new products or services to determine the impact on the risk-reward profile;
- collaborating with, and reviewing issues for consideration as identified by the Board Audit Committee;
- monitoring the firm's capital adequacy levels and capital management process, ensuring compliance with global best practice standards such as the Central Bank and Basel II; and
- ensuring a robust contingency plan and continuity of business imperatives with in-built capabilities for minimising disruption in the event that mission-critical threats arise.

- ii. Internal control efficiency:
This involves evaluating the following:

- efficiency and effectiveness of FBNQuest Merchant Bank's operations;
- accuracy of transactions capture and storage;
- reliability of financial reporting;
- effectiveness of risk management systems; and
- the adequacy of internal controls.

- iii. Ensuring compliance by:

- ensuring that the Company has a comprehensive compliance framework for regulations and guidelines of money laundering and financial crimes;
- reviewing the adequacy and effectiveness of the programme of compliance with money laundering and financial crimes regulations and guidelines established within FBNQuest Merchant Bank;
- reviewing the processes in place for ensuring that new and changed legal and regulatory requirements on money laundering and financial crimes are identified and reflected in FBNQuest Merchant Bank Limited's processes;
- reviewing the scope and depth of compliance audit activities, and the resulting impact audit findings have on the risk profile of FBNQuest Merchant Bank regarding money laundering and financial crimes;



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- ensuring the effectiveness of the Company's system for monitoring compliance with relevant laws and regulations (including internal rules) and the measures taken by Management as a result of its investigation of material incidents of non-compliance; and
- evaluating the nature and effectiveness of action plans implemented to address identified compliance.
- ensuring compliance with the Nigerian Sustainability Banking principles.
- ensuring compliance with the Cybersecurity Risk.

Attendance at BRMC meetings

Name of Directors	19 Apr 2018	23 Apr 2018	19 Jul 2018	18 Oct 2018	6 Dec 2018
Oluyele Delano, SAN	✓	✓	✓	✓	✓
Kayode Akinkugbe	✓	✓	✓	✓	✓
Akin Osinbajo, SAN	✓	✓	✓	✓	✓

MANAGEMENT COMMITTEES

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

The Executive Leadership Committee is entrusted with the following powers:

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

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

ASSET AND LIABILITY COMMITTEE (ALCO)

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

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

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

The composition of the ALCO

	TITLE
Chairman	Managing Director/CEO
Members	<ul style="list-style-type: none"> Deputy Managing Director Chief Financial Officer Chief Risk Officer Chief Compliance Officer Head, Coverage and Corporate Banking Head, Credit Risk Management Head, Sales Division Head, Wealth Management Head, Affluent Head, Fixed Income Currencies and Treasury Chief Dealer Treasury Head, Market and Liquidity Risk Management (Secretary)



LEADERSHIP

INFORMATION TECHNOLOGY STEERING COMMITTEE (ITSC)

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

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

- i. monitoring and review of the project at regular Steering Committee meetings;
- ii. providing assistance to the project when required;
- iii. controlling project scope as emergent issues force changes to be considered, ensuring that scope aligns with the agreed business requirements of project sponsor and key stakeholder groups;
- iv. resolving project conflicts and disputes, reconciling differences of opinion and approach;
- v. formal acceptance of project deliverables; and
- vi. ensuring that due diligence is followed in the selection and recommendation of service vendors for IT projects.

The composition of the ITSC

	TITLE
Chairman	Deputy Managing Director
Members	<ul style="list-style-type: none"> • Head, Technology and Services • Chief Risk Officer • Chief Compliance Officer • Head, Internal Audit • Head, IT Applications • Head, Transaction Operations • Head, IT Security and Infrastructure • Chief Technology & Digital Officer • Head, Business Process Management • Head, Organisational Transformation • Head, Operational Risk Management • Head, Affluent

MANAGEMENT CREDIT AND UNDERWRITING COMMITTEE (MCUC)

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

The composition of the MCUC

	TITLE
Chairman	Managing Director/CEO
Members	<ul style="list-style-type: none"> • Deputy Managing Director • Head, Investment Banking • Chief Risk Officer • Head, Coverage and Corporate Banking • Head, Client Coverage II • Deputy Head, Investment Banking • Head, Fixed Income, Securities and Treasury • Head, Sales Division • Head, Institutional Sales • Head, Credit Risk Management (Secretary)

RISK MANAGEMENT COMMITTEE (RMC)

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

The objectives of the Committee include:

- i. providing a sound basis for enterprise-wide risk management and internal controls as a component of good corporate governance, global best practices, and in compliance with statutory and regulatory requirements;
- ii. effective management of assets, liabilities and the associated risks for both the customer and FBNQuest Merchant Bank while balancing the cost of managing those risks and the anticipated benefits;
- iii. improving the financial performance of the institution by establishing a positive relationship between an effective risk management system and profitability;
- iv. protecting the Company from risks of significant likelihood and minimising the impact thereof in cases where it crystallises in the course of business



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- v. achieving a robust business continuity management framework with in-built capabilities for minimal disruption should mission-critical threats arise as well as evaluating its adequacy in relation to FBNQuest Merchant Bank's business and regulatory requirements.

The composition of the RMC

	TITLE
Chairman	Managing Director/CEO
Members	<ul style="list-style-type: none"> • Deputy Managing Director • Head, Coverage and Corporate Banking • Head, Investment Banking • Head, Sales Division • Head, Technology and Services • Chief Risk Officer • Head, Fixed Income, Currencies and Treasury • Chief Finance Officer • Chief Compliance Officer • Head, Legal • Head, Market and Liquidity Risk Management • Head, Credit Risk Management • Head, Operational Risk Management (Secretary)



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 Central Bank of Nigeria 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 between the Board and its Committees, and between the Executive Leadership and Non-Executive Directors. The Company Secretary facilitates Board induction and assists with professional development, and is also responsible for advising the Board through the Chairman on all governance matters and regulatory issues as well as advising members of the Board as may be required to ensure that Board processes are complied with.

Board composition

The Company had an eight-member Board as at 31 December 2018 made up of one woman and seven men, slightly short of a 70-30 gender ratio. The Board is mindful of this and is poised to ensure more female representation. The Directors are representatives of FBN Holdings Plc. One of the six Non-Executive Directors is an Independent Non-Executive Director. The Board is mindful of Section 5:3:6 of the Code of Corporate Governance for Banks and Other Financial Institutions, which stipulates minimum of two Independent Directors. One of the Independent Non-Executive Directors who resigned will be replaced before the end of first quarter, 2019. The replacement process is ongoing. The Company has requested for approval from CBN for more time to appoint the Independent Non-Executive Director. The Directors are all financially literate and possess requisite knowledge. Nevertheless, the Directors are empowered to seek professional advice on appropriate issues at the expense of the Company.

The composition of the Board of FBNQuest Merchant Bank in terms of proportion of Executive and Non-Executive Directors represents an appropriate mix with two Directors serving in executive capacity.

Appointment philosophy and induction process

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

As part of their induction process, newly appointed Directors are given an orientation pack containing the necessary information regarding how the Bank is run and taken through an induction process.

Remuneration

The remuneration of members of the Board of Directors is limited to a sitting allowance, Director's fees and reimbursable(s). Total emoluments paid to the Directors in 2018 was ₦397,007,879.82, broken down as follows:

	₦	K
Fees and sitting allowances	116,385,069	98
Executive compensation	264,239,332	70
Other Director expenses	6,384,477	14

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:



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

Tenure of Directors

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

Training

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

Board of Directors' performance evaluation

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



ACCOUNTABILITY

RISK MANAGEMENT

Introduction

The need to see both risks and opportunities requires that organisations develop the capacity to balance value protection and value creation concurrently. The primary objectives include the need to maximise returns from market opportunities by deploying superior risk management capabilities while applying global best practices and ensuring compliance with corporate governance standards.

At FBNQuest Merchant Bank, we are exposed to a number of risks with varying degrees of volatility. Key risks include credit, market, liquidity, operational, strategy, and reputational risks. The importance of each risk has been determined by the respective impact on earnings, capital, liquidity and stakeholders' interests. The increasingly uncertain macroeconomic environment continues to impact the quality of opportunities in our industry, as well as challenge our risk profile.

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

RISK GOVERNANCE FRAMEWORK

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

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

Credit risk: the current or potential risk to earnings and capital arising from the failure of an obligor of the Bank to repay principal or interest at the stipulated time or failure otherwise to perform as agreed.

Liquidity risk: risk that arises due to inability of the Bank to meet its obligations and fund its asset growth without incurring

unacceptable cost arising from borrowing at above market cost and asset sale at off-market prices.

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

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

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

RISK MANAGEMENT PHILOSOPHY

FBNQuest Merchant Bank's risk management philosophy is drawn from its mission statement and seeks to enhance the financial well-being of our stakeholders, while ensuring strong commitment to the following key principles:

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

The main guiding principles for establishing the risk policies of the Bank are the NDIC and CBN guidelines, concepts and practices defined by the Basel Committee, as applicable to the Nigerian Financial Market.



ACCOUNTABILITY

RISK MANAGEMENT FRAMEWORK

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

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

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

These committees are responsible for developing and monitoring risk policies in their specified areas, and report regularly to the full 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 the day-to-day activities of the Bank. These committees are:

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

All established committees meet on a regular basis, while other committees are constituted on an ad-hoc basis, as dictated by the evolving realities of the operating environment and the new risks observed.

The Board and Management committees are responsible for reviewing and recommending risk management policies, procedures and profiles, including the risk philosophy, risk appetite and risk

tolerances of the Bank. This oversight function cuts across all aspects of risk. In addition, the committees monitor FBNQuest Merchant Bank's plans and progress towards meeting regulatory risk-based supervision requirements (including the migration to Basel II compliance), as well as the adequacy of its regulatory and economic capital.

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

The Board Audit Committee 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 is responsible for formulating strategies for enterprise risk management, evaluating overall risks faced by the Bank, aligning risk policies with business strategies and determining the level of risks that are suitable for the Bank. The Committee's oversight functions cut across all risk areas involved in the Bank's operations. The Risk Management Committee 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 all risks identified.

The Board Governance/HR Committee is responsible for the assessment of the effectiveness of the Board as a whole, Executive Leadership Committee and the Board committees. It considers and recommends appointments of Senior Management to the full Board as well as recommendations on matters relating to staff welfare, conditions of service, administrative and other ethical issues.

The Asset and Liability Committee establishes the Bank's standards and policies covering the various components of market risk, including issues relating to interest rate, foreign exchange, liquidity, investment and trading risks. It ensures that market risk



ACCOUNTABILITY

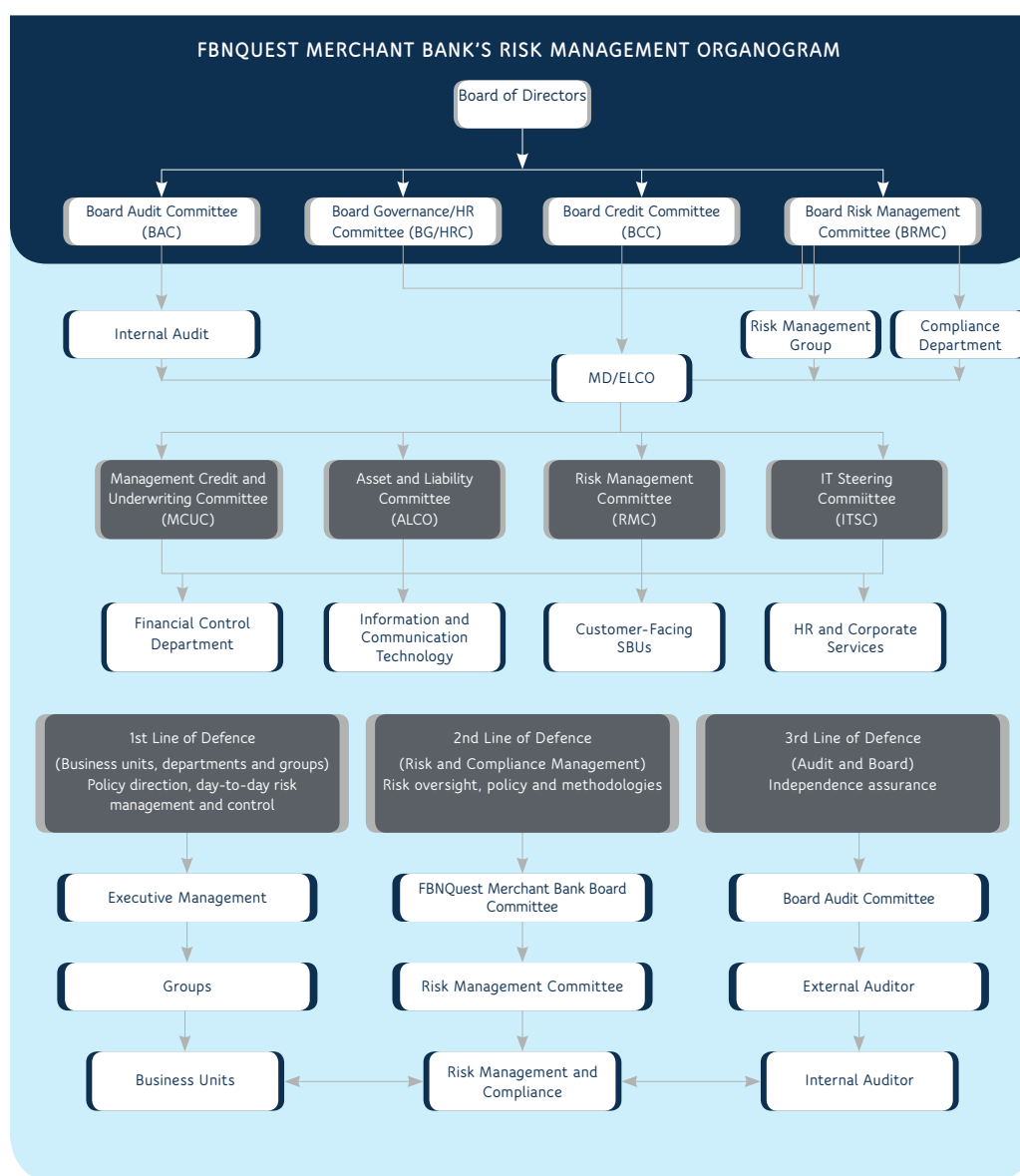
exposures that can have an impact on the Bank's income and capital are monitored, controlled and managed.

The Risk Management and Control group is responsible for implementing approved risk policies and procedures. RM&C is also responsible for identifying, controlling, monitoring and reporting risk issues, and serves as the Secretariat for the Management committees.

The Bank recognises that it is in the business of managing risks, to derive optimal returns for the benefit of all of its stakeholders. It

has, therefore; over the years detailed its approach to risk through various policies and procedures, which include the following:

- Enterprise Risk Management (ERM) Framework
- Credit Risk Policy
- Market and Liquidity Risk Policy
- Operational Risk Policy
- Concentration Limit Policy
- Business Continuity Management (BCM) Policy
- Performance Management framework
- Related Parties Policy
- Crisis Management





ACCOUNTABILITY

- Standard Manuals of Operations
- Compliance Policy
- Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) Policy
- Code of Conduct Policy
- Whistleblowing Policy
- Environmental and Social Risk Policy

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

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

ENVIRONMENTAL AND SOCIAL RISK POLICY

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

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

CREDIT RISK MEASUREMENT

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

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

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

CREDIT RISK STRATEGY

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

- Preferred customer profile in granting credit
- Allocation of credit based on exposure type, industry or economic sector, geographical location, currency and maturity.
- Target markets
- Risk-rating level based on its risk-bearing capacity and principles for diversification of protection against risks
- Quality, yield, and growth targets for the credit portfolio

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

CREDIT APPROVAL LIMITS

The Board of Directors has delegated the authority to approve all credits to the Board Credit Committee. Therefore, all credits shall have the approval of the Board Credit Committee.

From time-to-time, the Board, through the BCC, may delegate parts of its authority to the Management Credit and Underwriting Committee as deemed fit.



INTERNAL CONTROL

FBNQuest Merchant Bank's Internal Control Framework is based on internal control guidelines as recommended by the Committee of Sponsoring Organisations of the Treadway Commission.

COSO defines controls as 'a process effected by an entity's Board of Directors, Management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, financial reporting and compliance'.

These control guidelines were adopted to ensure the establishment of an internal control system that provides reasonable assurance that assets are safe-guarded, financial information is reliable; errors and frauds are prevented and the Bank is compliant with internal and external laws, directives and policies.

It is the most widely accepted international framework used to evaluate the existence and functionality of control principles covering five components:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

Policies and Guidelines

The internal control framework is supported by the Bank's Enterprise Risk Management (ERM) policy which outlines, roles and responsibilities of Directors, Management, and staff of the Bank; Risk and Control Self-Assessments which map specific risks to control mitigants; and process manuals which outline procedures for identification, management and documentation of relevant processes and sub-processes.

Strategy

FBNQuest Merchant Bank adopts the three lines of defence model which provides a simple and effective way of depicting roles and responsibilities surrounding risk and controls within the Bank.

1. **First line of defence- Risk Owners:** Comprises Senior Management who implement and maintain operational controls in each division.
2. **Second line of defence- Reviewers:** This is made up of the specialist functions which are independent of the first line of defence. They challenge and provide oversight over business processes and risks. This group includes all functions reporting to the Chief Risk Officer, the Chief Financial Officer and the Chief Compliance Officer.
3. **Third line of defence- Independent Assurance:** This comprises independent internal reviews and comprises the Chief Audit Executive and functions reporting to him.

The Bank has also instituted effective and efficient internal control measures that ensure minimal operational losses from fraud, operational lapses, customer dissatisfaction and complaints.

Improvements achieved in 2018

FBNQuest Merchant Bank concluded the year with strategic priorities for improving the efficiency of internal control. Some of our achievements are as follows:

- **Control Awareness and Engagement:** We held engagements with various business units, particularly the operations teams, during which control issues and adherence to policy and procedures were discussed exhaustively with the aim of successfully strengthening awareness of internal control and the responsibility of frontline staff in risk management.



INTERNAL CONTROL

- We achieved process efficiencies and reduction of vulnerabilities in operational processes by engaging the business to reduce the number of processing touch-points and avenues for human intervention in our processes.
- Internal control periodic reporting to the Risk Management Committee and Executive Leadership Committee on control failures and the actions taken to address such failures.

Priority for the year ahead

Enhanced monitoring of Information Technology controls to ensure adequate controls are built around the software used by FBNQuest Merchant Bank.



WHISTLEBLOWING POLICY AND PROCEDURE

Whistleblowing refers to the disclosure internally or externally by employees and other parties of malpractices as well as illegal acts or omissions at work. The whistleblower, therefore, is any person(s) including the employee, Senior Management, Directors, customers, service providers, creditors and other stakeholder(s) of the Bank who reports any form of unethical behaviour or dishonesty to the appropriate authority.

FBNQuest Merchant Bank is committed to achieving the highest possible standards of service and the highest possible ethical standards in all of its practices. The internal control and operating procedures in the Bank are intended to detect and to prevent or deter improper activities. However, even the best systems of controls cannot provide absolute safeguards against irregularities. The Bank has the responsibility to investigate and report to appropriate parties, allegations of suspected improper activities and to take appropriate actions.

The Bank recognises that its employees will often be in the best position to know when the Company's interest is being put at risk and can act as an early warning system on a variety of issues and help uncover unethical and inappropriate practices in the workplace. The Bank also acknowledges that employees wondering whether to raise concerns or 'blow the whistle' on wrongdoing will most likely fear that they may either not be listened to or that they will be putting their jobs at risk.

In Nigeria today, there is no legal protection for a whistleblower. The Bank's whistleblowing policy was therefore designed to encourage its employees to raise concerns about malpractice, danger and wrongdoing internally without fear of any negative repercussion. Any of the Bank's employee who blows the whistle will be protected by the Bank if it meets the following criteria namely:

- If the disclosure is made in good faith and is about issues within the scope.
- If the disclosure raises concerns internally.
- If the whistleblower makes reasonable wider disclosures to the prescribed or other relevant government regulatory agency, for example, outside the line management structure or to the CBN or the Police.

In line with these commitments, the Bank put in place a whistleblowing policy with the aims of providing an avenue for

stakeholders to raise concerns and receive assurance that they will be protected from reprisals or victimisation for whistleblowing in the Bank activities and practices such as:

- Unlawful activities;
- Incorrect reporting;
- Unethical and inappropriate behaviour at all levels;
- Activities that contravene other the Bank's internal policies; and
- Practices that amount to improper conduct as regards the Bank and its employees

The Bank's whistleblowing policy seeks to:

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



WHISTLEBLOWING POLICY AND PROCEDURE

Roles

The actualisation of the whistleblowing policy in the Bank rests with the Board, Senior Management and specific officers of the Bank including Chief Compliance Officer and Chief Audit Executive. To enable seamless reporting of issues, the Bank made available three channels to a whistleblower:

- Dedicated telephone line
- Dedicated e-mails
- Whistleblowing portal on the Bank's website

A prospective whistleblower may employ one or a combination of the available channels.

Responsibilities

FBNQuest Merchant Bank shall investigate all cases of reported whistleblowing and report them as appropriate to both the Board and the Regulator. Each incident shall be well investigated and promptly dealt with and resolution duly actioned within the resolution timeline encapsulated in the Policy.

However, for the years 2017 and 2018, there was no case of reported whistleblowing.



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

In compliance with Section 2.8.3 of the Central Bank of Nigeria (CBN) Revised Code of Corporate Governance for Banks for Nigeria Post Consolidation ("the CBN Code"), FBNQuest Merchant Bank Limited ("FBNQuest Merchant Bank" or "the Bank") engaged KPMG Advisory Services to carry out an appraisal of the Board of Directors ("the Board") for the year ended 31 December 2018. The CBN Code mandates an annual appraisal of the Board with specific focus on the Board's structure and composition, responsibilities, processes and relationships, individual Director competencies and respective roles in the performance of the Board.

We have performed the procedures agreed with FBNQuest Merchant Bank in respect of the appraisal of the Board in accordance with the provisions of the CBN Code. These procedures, which are limited in scope but sufficient for the Board's objectives in line with the CBN Code, are different in scope from an external audit. Consequently, no opinion is expressed by us on the activities reported upon.

Our approach to the appraisal of the Board involved a review of the Bank's Board papers and minutes, key corporate governance structures, policies and practices. This included the review of the corporate governance framework and representations obtained from questionnaires, one-on-one interviews with the members of the Board and Senior Management. We also reviewed the Bank's Corporate Governance report prepared by the Board and included in the Annual Report for the year ended 31 December 2018, and assessed the level of compliance of the Board with the CBN Code.

On the basis of our review, the Bank's corporate governance practices are largely in compliance with the key provisions of the CBN Code. Specific recommendations for further improving the Bank's governance practices have been articulated and included in our detailed report to the Board. These include recommendations on the effectiveness of the Bank's whistleblowing mechanism.

Tolu Odukale

Partner, KPMG Advisory Services

FRC/2018/ICAN/00000018175

11 April 2019

RISK FACTORS

Our vision of becoming a leading Merchant Bank and Asset Manager means we are constantly aware of inherent risks and continually seek ways to mitigate them.





RISK MANAGEMENT SUMMARY

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

PRINCIPAL RISKS

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

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

HOW CREDIT RISK IMPACTS FBNQUEST MERCHANT BANK

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

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

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

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

- Formulating credit policies for the Bank, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Executive Committee by the BCC or Board of Directors as appropriate.



RISK MANAGEMENT SUMMARY

- Reviewing and assessing credit risk in all credit exposures prior to making a commitment to customers. Renewals and reviews of facilities are subject to the same review process.
- Developing and maintaining the Bank's criteria for categorising exposures, and to focus Management on the attendant risks. The criteria as contained in the RAAC and Credit Risk Policy take care of exposures to banks and related regulated institutions, and large quoted corporates, large conglomerates and multinationals. The responsibility for approving RAAC and Credit Policy lies with the Board Credit Committee (BCC).
- Reviewing compliance with exposure and concentration limits and promotion of best practices throughout the Bank in the management of credit risk. The Bank's Credit Risk Principles and Policies were also revised by the Board in June, 2018.

The Bank recognises that loan assets constitute a significant portion of its assets. Thus, we proactively protect and strive to continually improve the health of our loan portfolio. We review all new loan applications and filter out potential problem loans at the loan application and assessment stage, as well as constantly monitor the existing loan portfolio for early warning signs.

The Bank's operational measurements for credit risk are in conformity with the impairment allowances required under the International Financial Reporting Standards (IFRS) 9, the Bank recognises a loss allowance for expected credit losses and is re-measured at each reporting date for changes in those expected credit losses. The only exception is for purchased or credit-impaired financial assets where a different impairment approach applies.

The objective of the impairment requirements is to recognise lifetime expected credit losses (ECL) for financial instruments for which there have been significant increases in credit risk since initial recognition; whether assessed on an individual or collective basis, considering all reasonable and supportable information, including that which is forward-looking.

FBNQuest Merchant Bank has developed models to support the quantification of the expected credit loss. These models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring the expected credit loss to counterparties. The Bank considers three components: (i) the Probability of Default (PD) by the client or counterparty on its contractual obligations; from which the Group derives the (ii) Exposure at Default (EAD); and (iii) the likely ratio on the defaulted obligations – the Loss Given Default (LGD). The models are reviewed regularly to monitor

their robustness relative to actual performance, and amended as necessary to optimise their effectiveness.

For debt securities, the Bank's internal rating tools, supplemented by external rating such as Augusto & Co. Fitch, Standard & Poor's or their equivalents are used by the Risk Management department in managing the credit risk exposures.

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

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

The Bank, based on guidelines set by the regulators, imposes industry or economic sector limits to guard against concentration risk. The industry or sector limits are derived from rigorous analysis of the risks inherent in the industry or economic sector, recommended by the RM&C and approved by the Board.

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

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

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

FBNQuest Merchant Bank maintains placement lines for its bank counterparties and other financial institutions regulated by CBN. The lines cover the settlement risks inherent in trading with these



RISK MANAGEMENT SUMMARY

counterparties. The limits are determined following fundamental analysis of the counterparties, and presentation of findings to and approval by the Board. The lines are implemented by the Treasury Group and monitored by RM&C. Interbank placement limits are also guided by the regulatory single obligor limit.

Impairment and Provisioning Policies

The Bank measures expected credit losses and recognises interest income on risk assets depending upon the following stages:

Stage 1: Assets that are performing. If credit risk is low as of the reporting date or the credit risk has not increased significantly since initial recognition, The Bank recognise a loss allowance at an amount equal to 12-month expected credit losses. This amount of credit losses is intended to represent lifetime expected credit losses that will result if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring.

Stage 2: Assets that have significant increases in credit risk. In instances where credit risk has increased significantly since initial recognition, the Bank measures a loss allowance at an amount equal to full lifetime expected credit losses. That is, the expected credit losses that result from all possible default events over the life of the financial instrument. For these debt instruments, interest income recognition will be based on the effective interest rate multiplied by the gross carrying amount.

Stage 3: Credit impaired. For debt instruments that have both a significant increase in credit risk plus observable evidence of impairment.

MARKET AND LIQUIDITY RISK

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

The following is a brief overview of the Bank's management process for the trading and banking book elements;

The trading book consists of assets actively traded by the Bank. These assets are limited to fixed income securities and foreign currency. The processes adopted by the Bank for managing this class of risk include;

- Daily valuation of positions
- Position limits
- Factor sensitive limits, including duration
- Loss limits

- Sensitivity and Scenario analysis
- Stress testing
- Value at Risk (VaR)
- Daily, weekly and monthly position evaluation.

The banking book highlights risks in positions that are on the balance sheet (excluding trading book positions). These risks emanate from potential adverse movements in market rates or prices, thus changing the underlying value of assets, liabilities and earnings. This risk is monitored and measured using these and other methodologies;

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

LIQUIDITY RISK MANAGEMENT

Liquidity remains critical to the normal function of the Bank, and this is reflected and evidenced by the breadth and rigour of the processes that have been implemented for the purpose of managing liquidity risk. The Bank's Asset and Liability Committee (ALCO) is charged with the responsibility for effective management of the Bank's liquidity.

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

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

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



RISK MANAGEMENT SUMMARY

SETTLEMENT RISK

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

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement clearing house. This is to ensure that those transactions are settled only when both parties have delivered value, in line with contractual obligations.

OPERATIONAL RISK

HOW OPERATIONAL RISK IMPACTS FBNQUEST MERCHANT BANK

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

RISK MITIGATION AND MANAGEMENT ACTIONS

To ensure a holistic framework is implemented, Risk Management and Control takes an enterprise-wide view in its monitoring of strategic and reputational, by implementing the following tools, practices and methodologies:

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

Risk mapping and assessment: This is a quantitative and qualitative risk assessment process in FBNQuest Merchant Bank, which is carried out every two years and which enables risk profiling and risk mapping of prevalent operational risks. All auditable units and departments are covered in the exercise. Risk assessments are

also carried out on new products, systems and processes, with the objective of ensuring that appropriate controls are in place to mitigate identified risks.

An in-house developed web-based system has also been implemented for risk assessing 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 determine the internal processes and approaches to be adopted in managing those relationships.

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

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

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



RISK MANAGEMENT SUMMARY

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

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

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

COMPLIANCE RISK

Overview

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

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or reputational damages the Bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its financial activities. Compliance risk can be simply

referred to as the risk of impairment of the Bank's integrity.

Compliance objectives

The objectives of the compliance function include the following:

- To implement sound procedures of monitoring company-wide statutory returns through appropriate use of the institution's resources, while still being consistent with the institution's goals and objectives;
- To ensure that new and changed regulatory requirements are identified and reflected in our processes where appropriate;
- To ensure that the Bank and its employees are complying with regulatory requirements, internal and external policies and procedures and relevant international developments, practices and trends;
- Establishment of standards and implementing procedures to ensure that the compliance programs throughout the Bank are effective and efficient in identifying, preventing, detecting and correcting non-compliance with applicable rules and regulations; and
- To facilitate the establishment and enhancement of a compliance culture in the Bank.

Compliance risk management strategy

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

- Compliance starts at the top and shall be a component of the Bank's culture, with the Board of Directors and Executive Management leading by example. It concerns every employee of the Bank and shall be viewed as an integral part of the Bank's business activities;
- The Bank shall hold itself up to high standards when carrying on business and always, strive to observe the spirit as well as the letter of the law. The Bank's failure to consider the impact of its actions on its shareholders, clients, employees and the markets may result in significant adverse publicity and reputational damage, even if no law has been broken;
- Good compliance risk management builds trust and protects the Bank's brand;



RISK MANAGEMENT SUMMARY

- d) Compliance is an integral part of the Bank's business activities. The identification of compliance risk, its assessment and appropriate risk response shall be elements to consider in any due diligence process; and
- e) An appropriate compliance culture, including desired ethical behaviour, shall be promoted throughout the Bank. The compliance function shall assist with the fostering of a compliance culture in the Bank. This includes the promotion of a culture that engenders awareness and recognition of the value of compliance risk identification, assessment, management, monitoring and reporting as part of daily activities.

Scope of the compliance function

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

- a) Promote the culture of compliance across all levels of the Bank through empowerment programmes, education, training and development.
- b) Reports to Senior Management and the Board: Report on Anti-Money Laundering/Combating the Financing of Terrorism (AML&CFT) and other compliance issues are submitted monthly and quarterly to Senior Management and the Board respectively. These reports provide the Board and Senior Management with information to enable them assess the Bank's compliance with its regulatory obligations. The reports also ensure that Directors and Senior Management are kept abreast on current trends and developments in the financial industry, particularly in the area of compliance or AML&CFT risk management.
- c) Know Your Customer (KYC) procedures: A duly completed account opening form and the collection of identification and other relevant information and documents are the foundation and bedrock for onboarding a customer in the Bank. Customer Due Diligence (CDD) is conducted prior to entering any banking relationship with a customer. This includes at a minimum, identity and address verification as well as ascertaining the source of income and wealth of the customer. Enhanced Due Diligence (EDD) is conducted on high-risk customers including politically exposed persons. The approval of Senior Management and Compliance is required prior to the commencement of banking relationship with such high-risk customers.

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

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

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

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

All members of staff are aware of the fact that suspicious activities and transactions should immediately be referred to the compliance unit.

To properly monitor transactions passing through the Bank's systems, the Swift Transaction Monitoring Sanction Screening and Tech Solution has been adopted. Both AML tools have been fully deployed in the Bank, providing an advancement in the means by which transactions are monitored and investigated.

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

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

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

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



RISK MANAGEMENT SUMMARY

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

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

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

g) Sanctions Compliance Management: The Bank, as a policy point does not enter any relationship with sanctioned individuals or entities. All employees, as applicable to their functions, are required to screen names of individuals and organisations who have or plan to enter a business relationship or carry out a transaction with or through the Bank against the Bank's internal watch list and Bank-deployed Thompson Reuters sanction screening application (World-check One).

Both lists contain the names of individuals and entities who have been blacklisted by various sanctioning bodies. Employees are required, as part of the Bank's policy, to refrain from any relationship and or transaction when their searches yield a true or positive match and follow the escalation procedure. Sanctions screening is done at account opening and on a real-time basis for all SWIFT transactions.

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

The Bank has in place the domestic PEP database and World-Check One to identify PEP status of customers at onboarding and in line with FATF's recommendation, the Bank employs the use of an automated monitoring tool in identifying and monitoring PEP transactions. This is achieved through the thorough review of information provided by customers and

their transaction trends.

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

i) AML/CFT principles for Correspondent Banking: The Bank only enters and maintains correspondent banking relationships with financial institutions that have implemented sufficient AML/CFT policies and procedures. To ease this process, FBNQuest Merchant Bank has subscribed to the Bankers' Almanac, an international online portal for uploading and accessing of KYC information of over 95% of the world's 250 largest financial institutions, to carry out its own KYC process on most international counterparties it does business or intend to do business with.

The Bank does not deal with shell banks nor maintain any payable through accounts. The Bank ensures that due diligence is performed annually on our correspondent relationships to avoid AML/CFT risks.

j) AML/CFT Training: The Bank as a policy, places a high value on the training of its employees. Trainings are carried out to ensure employees are conversant with the AML/CFT laws, KYC principles and other AML/CFT related information. Annual Compliance training is mandatory for all members of staff, including Senior Management and Directors. Trainings are done through e-learning or face-to-face media. Ad-hoc training also takes place by way of the dissemination of topical national and international findings to employees.

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

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

l) Record Retention: As provided for within the 'Act', customer identification documents are retained throughout the life of the account and for a minimum of five years after the



RISK MANAGEMENT SUMMARY

cessation of the banking relationship, except in cases of litigation or regulatory investigations. In the case of the latter, the records will be kept for as long as they are required. The Bank has opted to maintain customers' records for at least ten years.

- m) Subsidiaries: In compliance with international best practice, the Bank ensures that its subsidiaries AML/CFT provisions are consistent with the Bank's framework which is based on global best practices. These measures are applied to the extent that the respective subsidiary's local laws and regulations are adhered to. However, where there are discrepancies the stricter will always apply.

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

FINANCIAL STATEMENTS

The audited financial statements for the year ended 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS).





CORPORATE INFORMATION

Directors

Bello Maccido	Chairman
Kayode Akinkugbe	Managing Director/CEO
Taiwo Okeowo	Deputy Managing Director
Oluyele Delano, SAN MCL Arb	Independent Non-Executive Director
Dr Omobola Johnson	Non-Executive Director
U.K Eke, MFR	Non-Executive Director
Akin Osinbajo, SAN	Non-Executive Director
Babatunde Odunayo	Non-Executive Director - Appointed 3 May 2018

Company Secretary

Alawusa Adewuyi

Registered Office

10 Keffi Street
Ikoyi
Lagos

Bankers

Central Bank of Nigeria
First Bank of Nigeria Limited
Guaranty Trust Bank Plc
Sterling Bank Plc
FBNBank UK Limited
Bank of Beirut (UK) Ltd
FCMB UK Ltd

Solicitors

Adepetun Caxton Martins Agbor & Segun
Rudy Ezeani & Co.
Bola Olotu & Co.

Auditor

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



DIRECTORS' REPORT

The Directors present their report on the affairs of FBNQuest Merchant Bank Limited ("the Bank") together with the audited consolidated financial statements and the auditor's report for the year ended 31 December 2018.

(a) Legal form

The Bank was initially incorporated in Nigeria under the Companies and Allied Matters Act as a private limited liability company on 14 February 1995. It was granted a license on 31 October 1995 to carry on the business of a discount house and commenced operations on 16 November 1995. The Central Bank of Nigeria (CBN) license for merchant banking was obtained in May 2015 while merchant banking operations commenced on 2 November 2016.

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

(b) Principal activity and business review

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

(c) Operating results

Highlights of the Group's operating results for the year are as follows:

	GROUP		BANK	
	2018 N'000	2017 N'000	2018 N'000	2017 N'000
Gross earnings	25,378,565	26,109,581	22,402,779	24,182,268
Profit before tax	2,801,080	6,166,919	2,270,112	4,948,065
Tax expense	(483,400)	(1,283,304)	(212,100)	(863,601)
Profit after tax	2,317,680	4,883,615	2,058,012	4,084,464

(d) Directors' shareholding

The Directors do not have any direct and indirect interests in the issued share capital of the Bank (2017: Nil) as recorded in the register of Directors' shareholding and/or as notified by the Directors for the purposes of Sections 275 and 276 of the Companies and Allied Matters Act.

(e) Directors' interests in contracts

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

(f) Property, equipment and intangible assets

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

(g) Shareholding analysis

The shareholding pattern of the Bank as at 31 December 2018 (based on the issued and fully paid shares) is as stated below:



DIRECTORS' REPORT

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

(h) Substantial interest in shares

According to the register of members as at 31 December 2018, two shareholders hold the issued share capital of the Bank:

Shareholder	Number of shares held	Percentage of shareholding %
Seye Kosoko	1	-
FBN Holdings Plc	4,301,576,999	100
	4,301,577,000	100

(i) Customer complaints

In compliance with the Central Bank of Nigeria (CBN) Circular referenced FPR/DIR/CIR/GEN/01/020, the Bank established a Customer Helpdesk to handle all customers' complaints. During the year, the Bank had only 1 customer complaint with respect to delay in transfer to customer's account. This complaint has been resolved as at 31 December 2018.

(j) Donations and charitable gifts

The Group made contributions to charitable and non-political organisations amounting to ₦10.30million (2017: ₦65.90million) during the year.

Donations to charitable organisations:	GROUP		BANK	
	2018 ₦'000	2017 ₦'000	2018 ₦'000	2017 ₦'000
Teach for Nigeria Foundation	7,500	-	7,500	-
Society for Blind	-	100	-	100
Lulu Briggs Foundation	200	100	200	100
Small World Foundation	250	-	250	-
Literacy Week Sponsorship	350	1,858	350	1,858
	8,300	2,058	8,300	2,058
Donations to organisations and individuals:	GROUP		BANK	
	2018 ₦'000	2017 ₦'000	2018 ₦'000	2017 ₦'000
God Calling Movie Premiere	2,000	-	2,000	-
Nigerian Police Force	-	55,000	-	55,000
Chartered Institute of Bankers of Nigeria	-	8,192	-	8,192
Committee of Chief Compliance Officers of Bank	-	300	-	300
BMW Club of Nigeria	-	100	-	100
Chartered Institute of Stockbrokers	-	250	-	-
	2,000	63,842	2,000	63,592
	10,300	65,900	10,300	65,650



DIRECTORS' REPORT

(k) Events after the reporting period

There were no post balance sheet events which had effect on the financial statements of the Group as at 31 December 2018 and on the profit for the year ended 31 December 2018.

(l) Human resources

Health, safety and welfare at work:

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

Employment of disabled persons:

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

(m) Employee consultation and training

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

(n) Auditors

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

BY ORDER OF THE BOARD

Alawusa Adewuyi

FRC/2013/ICSAN/00000001663

Company Secretary

10 Keffi Street Ikoyi

Lagos.

6 March 2019



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies and Allied Matters Act requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of financial affairs of the Group at the end of the year and of its profit or loss. The responsibilities include ensuring that the Group:

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

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

- International Financial Reporting Standard
- Prudential guidelines for Licenced Banks
- Relevant circulars issued by Central Bank of Nigeria
- The requirements of the Banks and Other Financial Institution Act
- The requirements of the Companies and Allied Matters Act and
- The requirements of the Financial Reporting Council of Nigeria Act.

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

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

Bello Maccido

Chairman

FRC/2013/CISN/00000002366

6 March 2019

Kayode Akinkugbe

Managing Director/CEO

FRC/2013/IODN/00000003063

6 March 2019



REPORT OF THE BOARD AUDIT COMMITTEE

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

In accordance with the provisions of Section 359(6) of the Companies and Allied Matters Act, the members of the Board Audit Committee of FBNQuest Merchant Bank Limited hereby report on the condensed financial statements for the year ended 31 December 2018 as follows:

- (a) We have exercised our statutory functions under Section 359(6) of the Companies and Allied Matters Act, and acknowledge the co-operation of Management and staff in the conduct of these responsibilities.
- (b) We are of the opinion that the accounting and reporting policies of the Bank are in accordance with legal requirements and agreed ethical practices and that the scope and planning of both the external and internal audits for the year ended 31 December 2018 were satisfactory and reinforce the Bank's internal control systems.
- (c) We have deliberated the findings of the external auditors, who have confirmed that necessary cooperation was received from Management in the course of the audit and are satisfied with Management's responses thereon and with the effectiveness of the Group's system of accounting and internal control.

Oluyele Delano, SAN MCL Arb

Chairman, Board Audit Committee

FRC/2015/NBA/00000013035

27 February 2019

Members of the Board Audit Committee:

Dr Omobola Johnson

U.K. Eke, MFR

Babatunde Odunayo



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of FBNQuest Merchant Bank Limited ("the Bank") and its subsidiaries (together "the Group") as at 31 December 2018, and of their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act, the Banks and Other Financial Institutions Act and the Financial Reporting Council of Nigeria Act.

What we have audited

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

- the consolidated and separate statements of comprehensive income for the year ended 31 December 2018;
- the consolidated and separate statements of financial position as at 31 December 2018;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Key audit matters

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

Key matter	How our audit addressed the key audit matter
<p>Impairment on loans and advances to customers (₦1.4billion)</p> <p>We focused on this area due to the size of the loans and advances balance net of impairment (₦35-4billion) and because it requires significant judgement both for timing of recognition of impairment and the estimation of the size of any such impairment.</p> <p>We also focused on this area because the adoption of IFRS 9 'Financial Instruments' introduced a new, forward looking, expected credit loss (ECL) model which required significant judgement in measuring ECL.</p> <p>Areas where significant judgement was exercised includes:</p> <ul style="list-style-type: none"> • defining credit impaired facilities in consideration of default (as presumed in IFRS 9) and other events that impact estimated cash flows; 	<p>We evaluated Management's definition of default and assessed the appropriateness of quantitative thresholds and qualitative criteria used by Management in determining significant increase in credit risk (SICR) and evaluated Management's use of the low credit risk exemption.</p> <p>We adopted a substantive approach in assessing the allowance for impairment made by Management.</p> <p>We applied a risk-based target testing approach in selecting a sample of credit facilities for detailed reviews of related customer files and account statements to test Management identification of default events in accordance with established criteria. For all facilities we selected, we formed our own judgement as to</p>



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

Key matter

- determining the criteria for assessing significant increase in credit risk (SICR);
- the valuation of collaterals and other evidence of future cash flows used in the impairment calculation because of their impact on determination of recoverable amount;
- incorporating forward looking information in building the economic scenarios used in the ECL model; and
- techniques that were used to determine the probability of default (PD) and the loss given default (LGD).

See Notes 3.26ii, 6, 24 and 45 of the consolidated and separate financial statement

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

How our audit addressed the key audit matter

the stage of the facility and challenged Management where our conclusion differed from theirs.

In reviewing the valuation of collaterals and other evidence of future cash flows, we obtained the valuation reports, and evaluated the competence and independence of the valuers. We assessed the term structure of the collateral and assumptions applied for haircut adjustments.

Using our credit modelling experts, we reviewed the assumptions and methodology applied in the ECL model and assessed for reasonableness and compliance with the requirements of IFRS 9. We assessed whether the Probability of Default (PD) has been calculated using appropriate historical data. We evaluated the reasonableness of Loss Given Default (LGD) calculation by reviewing the key driver - collateral. We checked the reasonableness of forward looking information incorporated into the impairment calculations and challenged the multiple economic scenarios chosen as well as the weightings applied to non-linear losses.

We re-performed certain model calculations to confirm the risk parameter outputs and reviewed the IFRS 9 disclosures for reasonableness.

Recoverability of deferred tax assets (₦9.3billion)

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

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

The recoverability of recognised deferred tax assets is mainly dependent on the Group's ability to generate future taxable profits sufficient to utilise the carried forward tax losses. Therefore, Management has made estimates based on assumptions of expected growth rates of revenue streams that would generate future taxable income for the Group.

See Notes 3.10, 6 and 30 of the consolidated and separate financial statement

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

We adopted a substantive approach to the audit of this balance. We obtained the cash flow projections and forecast taxable profits used to support Management's recognition of deferred tax asset. We then challenged the cash flow forecast and deferred tax utilisation computations.

Specifically:

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

We also agreed the base numbers of the projections for the estimation for the recoverability of the deferred tax assets to the actual numbers and records of the base period.



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

Other information

The Directors are responsible for the other information. The other information obtained at the date of this auditor's report are Corporate Information, Directors' Report, Statement of Directors' Responsibilities, Report of the Board Audit Committee, Statement of value added, Five-Year Financial Summary and Statement of prudential adjustments, but does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

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

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



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FBNQUEST MERCHANT BANK LIMITED

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Report on other legal and regulatory requirements

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

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) the Bank has kept proper books of account, so far as appears from our examination of those books and returns adequate for our audit have been received from branches not visited by us;
- iii) the Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account;
- iv) the information required by Central Bank of Nigeria Circular BSD/1/ 2004 on insider related credits is disclosed in Note 40 to the consolidated and separate financial statements; and
- v) as disclosed in Note 43 to the consolidated and separate financial statements, the Bank paid penalties in respect of contraventions of relevant circulars issued by the Central Bank of Nigeria during the year ended 31 December 2018.

Obioma Ubah

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

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



28 March 2019



STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

		GROUP		BANK	
		31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>	Notes				
Interest income on financial assets at amortised cost	7	8,095,563	10,901,582	7,886,510	10,859,996
Interest income on financial assets at FVOCI	7	8,534,594	8,138,598	8,502,877	8,134,335
Interest expense	8	(12,272,379)	(12,081,170)	(12,333,063)	(12,119,198)
Net interest income		4,357,778	6,959,010	4,056,324	6,875,133
Impairment charges	9	(116,198)	(545,234)	(471,531)	(471,429)
Net interest income after impairment charge for credit losses		4,241,580	6,413,776	3,584,793	6,403,704
Fee and commission income	10	6,720,490	5,601,799	3,470,902	4,146,430
Net gains on foreign exchange	11	766,813	257,469	668,077	164,610
Net gains on financial assets at FVTPL	11a	1,170,768	865,975	1,159,208	835,468
Other operating income	12	90,337	344,160	715,205	41,430
Operating income		12,989,988	13,483,179	9,598,185	11,591,642
Personnel expenses	14	(3,204,381)	(3,148,623)	(2,573,040)	(2,763,435)
Depreciation of property, plant and equipment	28	(559,734)	(268,530)	(522,791)	(258,581)
Amortisation of intangible assets	29	(1,179,999)	(527,047)	(985,176)	(469,441)
Other operating expenses	13	(5,244,794)	(3,372,060)	(3,247,066)	(3,152,120)
Operating expenses		(10,188,908)	(7,316,260)	(7,328,073)	(6,643,577)
Profit before tax		2,801,080	6,166,919	2,270,112	4,948,065
Income tax expense	15	(483,400)	(1,283,304)	(212,100)	(863,601)
Profit for the year		2,317,680	4,883,615	2,058,012	4,084,464
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss					
Net fair value losses on financial assets at FVOCI					
-Net gains on investments in debt instruments measured at FVOCI	37	(1,663,954)	-	(1,665,649)	-
Net fair value gain on Available-for-sale					
-Unrealised net gain arising during the year	37	-	2,002,270	-	1,996,103
Other comprehensive (loss)/ income for the year		(1,663,954)	2,002,270	(1,665,649)	1,996,103
Total comprehensive income for the year		653,726	6,885,885	392,363	6,080,567
Basic/diluted earnings per share (kobo)	16	54	114	48	95

The accompanying notes are an integral part of the financial statements.



STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

		GROUP		BANK	
		31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>	Notes				
ASSETS					
Cash and balances with Central Bank of Nigeria	17	4,653,015	3,072,985	4,653,015	3,072,985
Due from other banks	18	17,337,847	14,953,328	14,221,127	14,020,829
Financial assets at fair value through profit or loss	20	1,876,368	4,352,566	1,302,217	3,319,701
Investment securities:					
- Fair value through OCI	21	33,668,763	-	33,592,365	-
- Available-for-sale	21	-	49,026,893	-	48,888,808
- Amortised cost	22	1,275,653	-	1,275,653	-
- Held-to-maturity	22	-	3,902,759	-	3,902,759
Pledged assets - Fair Value through OCI	23	21,099,602	6,823,144	21,099,602	6,823,144
Derivative financial assets	44	219,954	32,562	219,954	32,562
Loans and advances to customers	24	35,413,635	39,164,047	35,342,825	39,153,234
Other assets	25	5,977,171	5,140,954	6,151,414	3,993,045
Investment in Subsidiaries	26	-	-	1,381,773	1,737,106
Deposit with Nigerian Stock Exchange	27	1,150	1,150	-	-
Property and equipment	28	1,759,451	1,875,507	1,683,237	1,790,618
Intangible assets	29	1,900,356	3,120,904	1,758,235	2,840,915
Deferred tax asset	30	9,322,285	9,152,583	9,113,548	9,113,547
Total assets		134,505,250	140,619,382	131,794,965	138,689,253
LIABILITIES					
Due to banks	31	8,003,945	10,323,992	8,003,945	11,639,548
Due to customers	32	90,858,472	87,952,326	90,977,369	87,490,984
Current income tax liability	15b	716,309	2,249,412	212,353	1,579,252
Other liabilities	33	10,073,642	12,889,550	8,841,694	11,607,283
Derivative financial Liabilities	44	219,954	32,562	219,954	32,562
Total liabilities		109,872,322	113,447,842	108,255,315	112,349,629
EQUITY					
Share capital	34	4,301,577	4,301,577	4,301,577	4,301,577
Share premium	35	3,904,731	3,904,731	3,904,731	3,904,731
Retained earnings		10,596,377	10,369,345	9,516,426	9,570,194
Statutory reserve		7,482,866	7,174,165	7,482,866	7,174,165
Credit risk reserve		420,430	1,809,688	420,430	1,809,688
Fair value reserve	37	(2,099,651)	-	(2,086,380)	-
Available-for-sale (AFS) reserve	37	-	(414,564)	-	(420,731)
General reserve	44	26,598	26,598	-	-
Total equity		24,632,928	27,171,540	23,539,650	26,339,624
Total equity and liabilities		134,505,250	140,619,382	131,794,965	138,689,253

Signed on behalf of the Board of Directors on 6 March 2019 by:

Bello Maccido

Chairman

FRC/2013/CISN/00000002366

Kayode Akinkugbe

Managing Director/CEO

FRC/2013/IODN/00000003063

Emily Atebe

Chief Financial Officer

FRC/2013/ICAN/00000003197



STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

GROUP								
<i>In thousands of Nigerian Naira</i>	Share capital	Share premium	Fair value reserve	Retained earnings	Statutory reserves	Credit risk reserve	General reserve	Total Equity
As at 31 December 2017 (IAS 39)	4,301,577	3,904,731	(414,564)	10,369,345	7,174,165	1,809,688	26,598	27,171,540
- Change in accounting policy (Note 3.27ii)								
- Increase in impairment due to adoption of IFRS 9:								
- Other assets	-	-	-	(1,602,770)	-	-	-	(1,602,770)
- Loans and advances to customers	-	-	-	(882,567)	-	-	-	(882,567)
Transfer between reserves	-	-	-	1,809,688	-	(1,809,688)	-	-
Restated total equity a at 1 January 2018 (IFRS 9)	4,301,577	3,904,731	(414,564)	9,693,696	7,174,165	-	26,598	24,686,203
Profit for the year	-	-	-	2,317,680	-	-	-	2,317,680
Other comprehensive income								
Fair value movement on financial asset at FVOCI	-	-	(1,663,954)	-	-	-	-	(1,663,954)
Total comprehensive income on financial assets	-	-	(1,663,954)	2,317,680	-	-	-	653,726
Transaction with owners								
Dividend paid	-	-	-	(707,000)	-	-	-	(707,000)
Transfers during the period	-	-	(21,133)	(707,999)	308,701	420,430	-	-
At 31 December 2018	4,301,577	3,904,731	(2,099,651)	10,596,377	7,482,866	420,430	26,598	24,632,928

<i>In thousands of Nigerian Naira</i>	Share capital	Share premium	Available-for-sale reserve	Retained earnings	Statutory reserves	Credit risk reserve	General reserve	Total Equity
Balance at 1 January 2017	4,301,577	3,904,731	(2,416,834)	14,013,717	6,561,495	2,594,371	-	28,959,057
Profit for the year	-	-	-	4,883,615	-	-	-	4,883,615
Other comprehensive income	-	-	-	-	-	-	-	-
Fair value movement on financial asset at FVOCI	-	-	2,002,270	-	-	-	-	2,002,270
Net difference on business combination	-	-	-	-	-	-	26,598	26,598
Total comprehensive income on financial assets	-	-	2,002,270	4,883,615	-	-	26,598	6,912,483
Transaction with owners								
Dividend payable	-	-	-	(8,700,000)	-	-	-	(8,700,000)
Transfers during the period	-	-	-	172,013	612,670	(784,683)	-	-
At 31 December 2017	4,301,577	3,904,731	(414,564)	10,369,345	7,174,165	1,809,688	26,598	27,171,540



STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

BANK							
<i>In thousands of Nigerian Naira</i>	Share capital	Share premium	Fair value reserve	Retained earnings	Statutory reserves	Credit risk reserve	Total Equity
As at 31 December 2017 (IAS 39)	4,301,577	3,904,731	(420,731)	9,570,194	7,174,165	1,809,688	26,339,624
Change in accounting policy (Note 3.27ii)							
Increase in impairment due to adoption of IFRS 9:							
- Other assets	-	-	-	(1,602,770)	-	-	(1,602,770)
- Loans and advances to customers	-	-	-	(882,567)	-	-	(882,567)
Transfer between reserves	-	-	-	1,809,688	-	(1,809,688)	-
Restated total equity a at 1 January 2018 (IFRS 9)	4,301,577	3,904,731	(420,731)	8,894,545	7,174,165	-	23,854,287
Profit for the year	-	-	-	2,058,012	-	-	2,058,012
Other comprehensive income							
Fair value movement or gain on FVOCI	-	-	(1,665,649)	-	-	-	(1,665,649)
Total comprehensive income on financial assets	-	-	(1,665,649)	2,058,012	-	-	392,363
Transaction with owners							
Dividend paid				(707,000)	-	-	(707,000)
Transfers during the period	-	-	-	(729,131)	308,701	420,430	-
At 31 December 2018	4,301,577	3,904,731	(2,086,380)	9,516,426	7,482,866	420,430	23,539,650

<i>In thousands of Nigerian Naira</i>	Share capital	Share premium	Available-for-sale reserve	Retained earnings	Statutory reserves	Credit risk reserve	Total Equity
Balance at 1 January 2017	4,301,577	3,904,731	(2,416,834)	14,013,717	6,561,495	2,594,371	28,959,057
Profit for the year	-	-	-	4,084,464	-	-	4,084,464
Other comprehensive income							
Fair value movement on financial asset at FVOCI	-	-	1,996,103	-	-	-	1,996,103
Total comprehensive income on financial assets	-	-	1,996,103	4,084,464	-	-	6,080,567
Transaction with owners							
Dividend Payable	-	-	-	(8,700,000)	-	-	(8,700,000)
Transfers during the period	-	-	-	172,013	612,670	(784,683)	-
At 31 December 2017	4,301,577	3,904,731	(420,731)	9,570,194	7,174,165	1,809,688	26,339,624



STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

		GROUP		BANK	
		31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>	Notes				
Operating activities					
Cash generated from operations	38	19,898,595	25,730,749	16,012,862	25,569,933
Interest received		16,630,156	21,963,337	17,178,231	22,533,143
Interest paid		(12,272,378)	(12,072,357)	(11,809,512)	(10,936,977)
Incentive bonus paid		-	-	-	-
Income tax paid	15b	(2,184,343)	(363,559)	(1,578,999)	(363,559)
Net cash generated from operating activities		22,072,031	35,258,169	19,802,582	36,802,540
Investing activities					
Payment for acquisition of subsidiary, net of cash acquired		-	434,649	-	-
Proceeds from sale of investment securities		25,742,497	19,904,322	25,742,497	19,146,985
Purchase of investment securities		(25,605,537)	(40,880,874)	(25,605,537)	(40,394,415)
Acquisition of shares in subsidiaries		-	-	-	(1,737,106)
Purchase of property and equipment	28	(475,104)	(1,102,382)	(447,241)	(1,037,110)
Proceeds from sale of property and equipment		32,078	8,849	32,480	8,849
Purchase of intangible asset	29	(276,582)	(2,340,959)	(219,617)	(2,337,771)
Net cash generated from investing activities		(582,647)	(23,976,395)	(497,418)	(26,350,568)
Cash flow from financing activities					
Dividend paid		(9,407,000)	(1,048,000)	(9,407,000)	(1,048,000)
Net cash flow from financing activities		(9,407,000)	(1,048,000)	(9,407,000)	(1,048,000)
Increase/(decrease) in cash and cash equivalents		12,082,384	10,233,774	9,898,164	9,403,972
Cash and cash equivalents at beginning of year		20,498,235	10,077,066	19,565,736	10,077,066
Effect of exchange rate fluctuations on cash held		668,077	187,395	668,077	84,698
Cash and cash equivalents at 31 December	19	33,248,696	20,498,235	30,131,977	19,565,736



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1 General information

Reporting entity

These financial statements are the consolidated financial statements of FBNQuest Merchant Bank Limited “the Bank”, and its subsidiaries (hereafter referred to as “the Group”). FBNQuest Merchant Bank Limited (formerly called Kakawa Discount House Limited) was initially incorporated in Nigeria under the Companies and Allied Matters Act as a private limited liability company on 14 February 1995. It was granted a license on 31 October 1995 to carry on the business of a discount house and commenced operations on 16 November 1995. The Central Bank of Nigeria (CBN) license for merchant banking was obtained in May 2015 while merchant banking operations commenced on 2 November 2015.

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

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

10 Keffi street
Ikoyi
Lagos

The financial statements for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 27 February, 2019.

2 Basis of preparation

The consolidated and separate financial statements have been prepared in accordance with the going concern principle under the historical cost convention. The financial statements are presented in Nigerian currency (Naira) and rounded to the nearest thousand.

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

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires directors to exercise judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. The assumptions and accounting estimates used for the year ended 31 December 2018 are consistent with the assumptions and estimates in the financial statements of the prior year.

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

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

Statement of compliance with International Financial Reporting Standards

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

3 Significant accounting policies

3.1 Basis of measurement

These financial statements have been prepared on a historical cost basis, except for the following:

- Derivative financial instruments which are measured at fair value.
- Financial assets measured at fair value through profit or loss.
- Financial assets which are measured at amortised cost.
- Financial liabilities which are measured at amortised cost.
- Financial instruments measured at fair value through other comprehensive income.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3.2 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Nigerian Naira (₦) which is the Bank's functional currency and the Group's presentation currency.

3.3 Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods. There were no material changes in Management's estimates during the period.

3.4 Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has rights to variable returns from its involvement in an entity and has the ability to affect those returns through its power over the entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. Subsidiaries are fully consolidated from the date in which control is transferred to the Group. They are deconsolidated from the date control ceases.

The accounting policies of subsidiaries have been changed, where necessary, to align with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests.

In the separate financial statements, investments in subsidiaries are carried at cost less impairment.

(b) Business combinations

Business combinations are accounted for using the acquisition method.

The Group measures goodwill at the acquisition date as the total of:

- the fair value of the consideration transferred; plus
- the amount of any non-controlling interest in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree;
- less the net amount of the identifiable assets acquired and liabilities assumed (generally fair value).

When this total is negative, a bargain purchase gain is recognised in the income statement.

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of any previously held equity interest in the acquiree is re-measured to fair value at the acquisition date and any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(c) Disposal of subsidiaries

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

(d) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains or losses or incomes and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.5 Foreign currency

(a) Foreign currency transactions

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, as well as unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognised in the income statement.

Unrealised exchange differences on non-monetary financial assets are a component of the change in their entire fair value. For non-monetary financial assets measured at fair value through profit or loss, unrealised exchange differences are recognized in profit or loss. For non-monetary financial assets measured at fair value through other comprehensive income, unrealised exchange differences are recorded in other comprehensive income until the asset is sold or becomes impaired.

(b) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated to Nigerian Naira at the closing exchange rates at each reporting date. The incomes and expenses of foreign operations are translated to Nigerian Naira at average rates.

Foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interest. When a foreign operation is disposed off such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is re-classified to profit or loss as part of the gain or loss on disposal.

3.6 Interest income and interest expense

Interest income and expense for all interest bearing financial instruments, except for those classified at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or liability.

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

3.7 Fees and commissions income and expenses

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including account servicing fees, investment management and other fiduciary activity fees, sales commission, placement fees and syndication fees, are recognised as the performance obligations are met.

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3.8 Net trading and foreign exchange income

Net trading income and foreign exchange income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences. Net gains or losses on derivative financial instruments measured at fair value through profit or loss are also included in net trading income.

3.9 Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of other operating income and recognised gross of the associated withholding tax. The withholding tax expense is included as a component of taxation charge for the relevant period.

3.10 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax liability is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

3.11 Cash and balances with Central Bank of Nigeria

Cash and balances with Central Bank of Nigeria include notes and coins on hand and balances held with central banks.

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non-restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

Cash and balances with Central Bank of Nigeria are carried at amortised cost in the statement of financial position.

3.12 Trading assets

Trading assets are those assets that the Group acquires principally for the purpose of selling in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets are measured at fair value with changes in fair value recognised as part of net trading and foreign exchange income in profit or loss.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3.13 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured 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 fair value is positive and as liabilities when fair value is negative.

3.14 Property and equipment

(a) Recognition and measurement

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

(b) Subsequent costs

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

(c) Depreciation

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

The estimated useful lives for the current and comparative period are as follows:

Land	Not depreciated
Freehold buildings	50 years
Leasehold improvements	Over the shorter of the useful life of item or the lease period
Motor vehicles	4 years
Furniture and Fittings	5 years
Computer equipment	3 years
Office equipment	5 years
Work in progress	Not depreciated

Work in progress represents costs incurred on assets that are not available for use. On becoming available-for-use, the related amounts are transferred to the appropriate category of property and equipment.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate. Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in accounting estimates.

(d) De-recognition

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

3.15 Intangible assets

(a) Goodwill

Goodwill represents the excess of consideration over the Group's interest in net fair value of net identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries at the date of acquisition. When the excess is negative, it is recognised immediately in profit or loss. Goodwill is measured at cost less accumulated impairment losses.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Subsequent measurement

Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is tested annually as well as whenever a trigger event has been observed for impairment by comparing the present value of the expected future cashflows from a cash generating unit with the carrying value of its net assets, including attributable goodwill. Impairment losses on goodwill are not reversed.

(b) Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life not exceeding five years, from the date that it is available-for-use. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates.

3.16 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. Impairment losses relating to goodwill are not reversed in future periods.

3.17 Repossessed collateral

Reposessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in the relevant assets depending on the nature and the Group's intention in respect of recovery of these assets; and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. Where reposessed collateral results in acquiring control over a business, the business combination is accounted for using the acquisition method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

3.18 Deposits and debt securities issued

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Debt securities issued are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3.19 Provisions

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

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

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

3.20 Financial guarantee

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

Financial guarantee liabilities are initially recognised at their fair value, which is the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the expected credit loss provision and the unamortised premium. Financial guarantees are included within other liabilities.

3.21 Employee benefits

Post-employment benefits

Defined contribution plans

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

Obligations for contributions to defined contribution plans are recognised as an expense in profit or loss when they are due.

Termination benefits

The Group recognises termination benefits as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. The Group settles termination benefits within twelve months and are accounted for as short-term benefits.

Short term employee benefits

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

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

3.22 Share capital and reserves

(a) Share issue costs

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

(b) Dividend on ordinary shares

Dividends on the Group's ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the Group's shareholders.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

(c) Treasury shares

Where the Group or any member of the Group purchases the Group's shares, the consideration paid is deducted from the shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

3.23 Earnings per share

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

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.24 Fiduciary activities

The Group commonly acts as trustees in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and incomes arising thereon are excluded from these financial statements, as they are not assets of the Group.

3.25 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Chief Executive Officer of the Group, being the chief operating decision maker, to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. All costs that are directly traceable to the operating segments are allocated to the segment concerned, while indirect costs are allocated based on the benefits derived from such cost.

3.26 New standards adopted during the period

Except for the following new standards, the Group has consistently applied the accounting policies as set out in Notes 3.1 - 3.25 to all periods presented in these consolidated and separate financial statements.

The Group has adopted the following new standards with initial date of application of January 1, 2018.

(i) IFRS 15: Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be covered by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 is recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and the corresponding cash flows with customers.

Credit-related fees: This revenue stream arises from contracts with loan customers. It is the management fee charged by the Bank on risk assets. It is usually a flat rate agreed with the customers.

Brokerage and Structuring fees: This revenue stream arises from contract with customer. This arises from the Bank and FBNQuest Securities Limited providing financial advisory services, debt solution, equity, brokerage and debt capital advisory services to customers. The fees vary for different customers; in some cases it is based on the Bank meeting some specific milestones and in other cases it is charges as flat rates/fees upon the completion of a contract. Performance obligation is satisfied at a point in time.

Other Fees and Commission: This revenue stream arises from contract with customer. It arises from instances where the Bank and its subsidiaries purchase bonds, t-bills and equity securities on behalf of customers. The entity would have agreed a spread with the customer being fees/ commission on the services being rendered. Performance obligation is satisfied at a point in time.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(ii) IFRS 9: Financial instruments

Effective January 1, 2018, the Group adopted IFRS 9 – Financial Instruments. Consequent upon application of IFRS 9, the Group's accounting policies were changed in the areas outlined below, and these new policies became applicable from January 1, 2018. As permitted by the transition provisions of IFRS 9, we elected not to restate comparative period results. Accordingly, all comparative period information are presented in accordance with our previous accounting policies, as described in our 2017 Group Accounts. Adjustments to carrying amounts of financial assets and liabilities at the date of initial application (January 1, 2018) were recognised in opening retained earnings and other components of equity in the current period. New or amended disclosures have been provided for the current period, where applicable, and comparative period disclosures are consistent with those made in the prior year.

See impact on transition in Note 45.

a. Classification and measurement of financial instruments

Financial assets, which include both debt and equity securities are measured at initial recognition at fair value, and are classified and subsequently measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortised cost. Subsequent classification and measurement for debt securities is based on our business model for managing the financial instruments and the contractual cash flow characteristics of the instruments.

Debt instruments are measured at amortised cost if both of the following conditions are met and the asset is not designated as FVTPL: (a) the asset is held within a business model that is Held-to-Collect (HTC) as described below, and (b) the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Debt instruments are measured at FVOCI if both of the following conditions are met and the asset is not designated as FVTPL: (a) the asset is held within a business model that is Held-to-Collect-and-Sell (HTC&S) as described below, and (b) the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI.

All other debt instruments are measured at FVTPL.

The Group has irrevocably elected to measure equity instruments at FVOCI as no equity instrument is held for trading purposes.

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost.

b. Business model assessment

The Group determines the business models as the level that best reflects how portfolios of financial assets are managed to achieve the Group's business objectives. Judgement is used in determining the business models, which is supported by relevant, objective evidence including:

- How the economic activities of our businesses generate benefits, for example through trading revenue, enhancing yields or other costs and how such economic activities are evaluated and reported to key management personnel;
- The significant risks affecting the performance of our businesses, for example, market risk, credit risk, or other risks and the activities undertaken to manage those risks; and
- Historical and future expectations of sales of the loans or securities portfolios managed as part of a business model.

The Group's business models fall into three categories, which are indicative of the key strategies used to generate returns:

- Hold-to-Collect (HTC): The objective of this business model is to hold loans and securities to collect contractual principal and interest cash flows. Sales are incidental to this objective and are expected to be insignificant or infrequent.
- Hold-to-Collect-and-Sell (HTC&S): Both collecting contractual cash flows and sales are integral to achieving the objective of the business model.
- Other fair value business models: These business models are neither HTC nor HTC&S, and primarily represent business models where assets are held-for-trading or managed on a fair value basis.

c. SPPI assessment

Instruments held within a HTC or HTC&S business model are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest. SPPI payments are those which would typically be expected from basic lending arrangements. Principal amounts include par repayments from lending and financing arrangements, and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

d. Investment securities

Investment securities include all securities classified as FVOCI and amortised cost. All investment securities are initially recorded at fair value and subsequently measured according to the respective classification. Prior to our adoption of IFRS 9, Investment securities were comprised of available-for-sale securities and held-to-maturity securities.

Investment securities carried at amortised cost are measured using the effective interest method, and are presented net of any allowance for credit losses, calculated in accordance with our policy for allowance for credit losses, as described below. Interest income, including the amortisation of premiums and discounts on securities measured at amortised cost are recorded in interest income. Impairment gains or losses recognised on amortised cost securities are recorded in Allowance for credit losses. When a debt instrument measured at amortised cost is sold, the difference between the sale proceeds and the amortised cost of the security at the time of the sale is recorded as a net gain/(loss) on Investment securities in Net trading and foreign exchange income.

Debt securities carried at FVOCI are measured at fair value with unrealised gains and losses arising from changes in fair value included in fair value reserve. Impairment gains and losses are included in allowance for credit losses and correspondingly reduce the accumulated changes in fair value included in fair value reserve. When a debt instrument measured at FVOCI is sold, the cumulative gain or loss is reclassified from fair value reserve to net gain/(loss) on Investment securities in net trading and foreign exchange income.

Equity securities carried at FVOCI are measured at fair value. Unrealised gains and losses arising from changes in fair value are recorded in fair value reserve and not subsequently reclassified to profit or loss when realised. Dividends from FVOCI equity securities are recognised in other operating income.

The Group accounts for all securities using settlement date accounting and changes in fair value between the trade date and settlement date are reflected in income for securities measured at FVTPL, and changes in the fair value of securities measured at FVOCI between the trade and settlement dates are recorded in OCI except for changes in foreign exchange rates on debt securities, which are recorded in net trading and foreign exchange income.

e. Fair value option

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognising related gains and losses on a different basis (an "accounting mismatch"). The fair value option can be elected for financial liabilities if: (i) the election eliminates an accounting mismatch; (ii) the financial liability is part of a portfolio that is managed on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract. These instruments cannot be reclassified out of the FVTPL category while they are held or issued.

Financial assets designated as FVTPL are recorded at fair value and any unrealised gains or losses arising due to changes in fair value are included in net trading and income.

Financial liabilities designated as FVTPL are recorded at fair value and fair value changes attributable to changes in our own credit risk are recorded in OCI.

f. Reclassification of financial assets

Financial assets are reclassified when and only when the business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

g. Allowance for credit losses

An allowance for credit losses (ACL) is established for all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI, which are not subject to impairment assessment. Assets subject to impairment assessment include loans, overdrafts, debt securities and accrued interest receivable. These are carried at amortised cost or FVOCI and presented net of ACL on the Consolidated Statement of Financial Position. ACL on loans is presented in Allowance for credit losses – loans and advances. ACL on debt securities measured at FVOCI is presented in Fair value reserve in equity.

Off-balance sheet items subject to impairment assessment include financial guarantees and undrawn loan commitments. For all other off-balance sheet products subject to impairment assessment, ACL is separately calculated and included in Other Liabilities – Provisions. We measure the ACL at each reporting date according to a three-stage expected credit loss impairment model which is based on changes in credit risk of financial assets since initial recognition:

1) Performing financial assets:

- Stage 1 – From initial recognition of a financial asset to the reporting date, where the asset has not experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the 12 months following the reporting date. Interest income is calculated on the gross carrying amount of these financial assets.
- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the credit losses expected over the remaining lifetime of the asset. Interest income is calculated on the gross carrying amount of these financial assets.

2) Impaired financial assets

- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance is recognised equal to credit losses expected over the remaining lifetime of the asset. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

The ACL is a discounted probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period. For financial guarantees, credit loss estimates are based on the expected payments required under the guarantee contract.

Increases or decreases in the required ACL attributable to purchases and new originations, derecognitions or maturities, and remeasurements due to changes in loss expectations or stage migrations are recorded in Provision for credit losses. Write-offs and recoveries of amounts previously written off are recorded against ACL.

The ACL represents an unbiased estimate of expected credit losses on our financial assets as at the balance sheet date. Judgement is required in making assumptions and estimations when calculating the ACL, including movements between the three stages and the application of forward looking information. The underlying assumptions and estimates may result in changes to the provisions from period to period that significantly affect our results of operations.

h. Measurement of expected credit losses

Expected credit losses are based on a range of possible outcomes and consider all available reasonable and supportable information including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of expected credit losses is based primarily on the product of the instrument's probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD on the gross carrying amount over a maximum period of 12 months while Stage 2 estimates project PD, LGD and EAD on the gross carrying amount over the remaining lifetime of the instrument. Stage 3 estimates project PD, LGD and EAD on the net carrying amount over the remaining lifetime of the instrument.

An expected credit loss estimate is produced for each individual exposure. Relevant parameters are modeled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward looking information.

Expected credit losses are discounted to the reporting period date using the effective interest rate.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

i. Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life.

An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) we have the contractual ability to demand repayment and cancel the undrawn commitment; and (c) our exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle. Products in scope of this exemption include credit cards, overdraft balances and certain revolving lines of credit. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgement.

j. Assessment of significant increase in credit risk

The assessment of significant increase in credit risk requires significant judgement. The Bank's process to assess changes in credit risk is multifactor and has three main categories:

- Primary Indicators: this incorporates a quantitative element;
- Secondary Indicators (qualitative element);
- 'backstop' indicators.

i) **Primary indicators:** The quantitative element is the primary indicator of significant increases in credit risk, with the qualitative element playing a secondary role. The quantitative element is calculated based on:

- a) the change in lifetime PDs by comparing:
 - the remaining lifetime PD as at the reporting date; with
 - the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.
- b) Movement along the rating grades:
 - the rating as at the reporting date; with
 - the rating that was assigned at the time of initial recognition of the exposure

The following shall indicate a significant increase in credit risk:

- For investment grade – Two rating grade movement within investment grade and one grade out of investment grade.
For speculative grade – one rating grade movement.
- ii) **Secondary indicators:** In general, qualitative factors that are indicative of an increase in credit risk are reflected in PD models on a timely basis and thus are included in the quantitative assessment and not in a separate qualitative assessment. However, if it is not possible to include all current information about such qualitative factors in the quantitative assessment, they are considered separately in a qualitative assessment as to whether there has been a significant increase in credit risk. If there are qualitative factors that indicate an increase in credit risk that have not been included in the calculation of PDs used in the quantitative assessment, the Bank recalibrates the PD or otherwise adjusts its estimate when calculating ECLs.

Regardless however, the Bank shall consider the following as evidence of significant increase in credit risk:

Putting the loan on watch list status

- Classification of the exposure by any of the licensed private credit bureaux or the credit risk management system;
- Deterioration of relevant credit risk drivers for an individual obligor (or pool of obligors);
- Expectations of forbearance or restructuring due to financial difficulties;
- Evidence that full repayment of principal or interest without realization of collateral is unlikely, regardless of the number of days past due;
- Deterioration of credit worthiness due to factors other than those listed above.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

iii) 'Backstop' indicators: Instruments which are more than 30 days past due may be credit-impaired. There is a rebuttable presumption that the credit risk has increased significantly if contractual payments are more than 30 days past due; this presumption shall be applied unless the Bank has reasonable and supportable information demonstrating that the credit risk has not increased significantly since initial recognition.

The following shall be considered as exception:

1. Outstanding obligation is a result of an amount being disputed between the Bank and obligor where the dispute is not more than 90 days.
2. Outstanding obligation is an insignificant amount compared to the total amount due. Any amount not more than 10% shall be considered insignificant. Only applicable where there is no significant increase in credit risk and analysed on a case by case basis.

The assessment is generally performed at the instrument level and it is performed at least on quarterly basis. If any of the factors above indicate that a significant increase in credit risk has occurred, the instrument is moved from Stage 1 to Stage 2. The assessments for significant increases in credit risk since initial recognition and credit-impairment are performed independently as at each reporting period. Assets can move in both directions through the stages of the impairment model. After a financial asset has migrated to Stage 2, if it is no longer considered that credit risk has significantly increased relative to initial recognition in a subsequent reporting period, it will move back to Stage 1 after 90 days. Similarly, an asset that is in Stage 3 will move back to Stage 2 if it is no longer considered to be credit-impaired after 90 days. An asset shall not move back from stage 3 to stage 1 until after a minimum of 180 days, if it is no longer considered to be credit impaired.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default, and the borrower has the ability to fulfill their contractual obligations both in the near term and in the longer term, including periods of adverse changes in the economic or business environment.

k. Definition of default

A default is considered to have occurred with regard to a particular obligor when either or both of the following events have taken place.

- The Bank considers that the obligor is unlikely to pay its credit obligations in full, without recourse by the Bank to actions such as realising security (if held).
- The obligor is past due more than 90 days on any material credit obligation to the Bank (principal or interest). Overdrafts will be considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than current outstanding.
- Interest payments equal to 90 days or more have been capitalised, rescheduled, rolled over into a new loan (except where facilities have been reclassified).

The elements to be taken as indications of unlikelihood to pay include:

- The Bank sells the credit obligation at a material credit-related economic loss.
- The Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or (where relevant) fees.
- The Bank has filed for the obligor's bankruptcy or a similar order in respect of the obligor's credit obligation to the banking group.

l. Credit-impaired financial assets (Stage 3)

When a financial asset has been identified as credit-impaired, expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. For impaired financial assets with drawn and undrawn components, expected credit losses also reflect any credit losses related to the portion of the loan commitment that is expected to be drawn down over the remaining life of the instrument.

When a financial asset is credit-impaired, interest ceases to be recognised on the regular accrual basis, which accrues income based on the gross carrying amount of the asset. Rather, interest income is calculated by applying the original effective interest rate to the amortised cost of the asset, which is the gross carrying amount less the related ACL.

Following impairment, interest income is recognised on the unwinding of the discount from the initial recognition of impairment. ACL for credit-impaired loans in Stage 3 are established at the borrower level, where losses related to impaired loans are identified on individually significant loans.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

m. Individually assessed loans (Stage 3)

When individually significant loans are identified as impaired, we reduce the carrying value of the loans to their estimated realisable value by recording an individually assessed ACL to cover identified credit losses. The individually assessed ACL reflects the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and the impact of time delays in collecting principal and/or interest (time value of money). The estimated realizable value for each individually significant loan is the present value of expected future cash flows discounted using the original effective interest rate for each loan.

When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated realisable amount may be determined using observable market prices for comparable loans, the fair value of collateral underlying the loans, and other reasonable and supported methods based on Management judgement.

Individually-assessed allowances are established in consideration of a range of possible outcomes, which may include macroeconomic or non-macroeconomic scenarios, to the extent relevant to the circumstances of the specific borrower being assessed. Assumptions used in estimating expected future cash flows reflect current and expected future economic conditions and are generally consistent with those used in Stage 1 and Stage 2 measurement.

Significant judgement is required in assessing evidence of credit-impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Changes in the amount expected to be recovered would have a direct impact on the Provision for credit losses and may result in a change in the ACL.

n. Write-off of loans

Loans and the related ACL are written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, they are generally written off after receipt of any proceeds from the realisation of collateral. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

o. Modifications

The credit risk of a financial asset will not necessarily decrease merely as a result of a modification of the contractual cash flows. If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognised, the Bank shall assess whether there has been a significant increase in the credit risk of the financial by comparing:

- (1) the risk of a default occurring at the reporting date (based on the modified contractual terms); and
- (2) the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

A modification shall however lead to derecognition of existing loan and recognition of a new loan i.e. substantial modification if:

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

The following shall be applicable to modified financial assets:

- The modification of a distressed asset shall be treated as an originated credit-impaired asset requiring recognition of life-time ECL after modification.
- The cumulative changes in lifetime expected credit losses since initial recognition shall be recognized as a loss allowance for purchase or originated credit-impaired financial asset at the reporting date.
- The general impairment model does not apply to purchased or originated credit-impaired assets.

The following situations (qualitative) may however not lead to a derecognition of the loan:

- Change in interest rate arising from a change in MPR which is the benchmark rate that drives borrowing rates in Nigeria;
- Change in financial asset's tenor (increase or decrease);
- Change in installment amount to higher or lower amount;
- Change in the annuity repayment pattern, for example, from monthly to quarterly, half-yearly or yearly;
- Change in the applicable financial asset fee



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Modification gain or loss shall be included as part of allowance for credit loss for each financial year.

p. Classification and measurement of financial liabilities

The Group recognises financial liabilities when it first becomes a party to the contractual rights and obligations in the relevant contracts.

Under IFRS 9, financial liabilities are either classified as financial liabilities at amortised cost or financial liabilities at FVTPL.

The Group classifies its financial liabilities as measured at amortised cost, except for financial liabilities at FVTPL. This classification is applied to derivatives, financial liabilities held-for-trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses from financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the Group's own credit risk, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the Group's credit risk are also presented in profit or loss.

3.27 New standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective as at 31 December 2018 are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

a) IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

Management has assessed the impact of the amendment and identified that the amendment does not have a significant impact on the Company's financial statement.

b) IFRS 16 – Leases

This is a new standard introduced by IASB to replace existing standard IAS 17 – Leases.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

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

Lessor accounting substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Management has assessed the impact of the amendment and identified that the amendment does not have a significant impact on the company's financial statement.

c) IFRS 17 – Insurance contracts effective 1 January 2021

IFRS 17 replaces IFRS 4 effective January 1, 2021. It addresses changes in valuation and accounting for insurance contracts.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

IFRS 17 aims to set high quality and globally accepted financial reporting standards based on clearly outlined principles according to the International Accounting Standards Board (IASB). It will make global insurance reporting aligned and consistent. It also aims to apply uniform accounting standards for all types of insurance contracts.

IFRS 17 provides new basis for liability measurement and profit recognition. The measurement models are;

- i) Building Block Approach (BBA) measures the net inflow between the risk-adjusted present value of expected inflows and outflows at inception. This method is applicable for measurement of long-term and whole life insurance and reinsurance contracts.
- ii) Premium Allocation Approach (PAA) This method is applicable for measurement of short-term life, group life and general insurance.
- iii) Variable fee Approach (VFA) measures participating business where policy holder liability is linked to underlying items. This method is applicable for measurement of unit-linked contracts, deposit administration contracts.

Management has assessed the impact of the amendment and identified that the amendment does not impact on the Company's financial statement.

d) Amendments to IAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

Management has assessed the impact of the amendment and identified that the amendment does not impact on the Company's financial statement.

4.0 Financial risk management report

4.1a Introduction and Overview

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

- Market Risk
- Liquidity Risk
- Credit Risk
- Operational Risk

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

4.1b Risk management philosophy

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

- Professionalism while delivering value to the customers;
- Strong performance reporting (financial and non-financial);



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

- Good corporate governance; and
- Consistent appreciation in shareholders' value.

4.1c Risk management framework

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

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

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

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

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

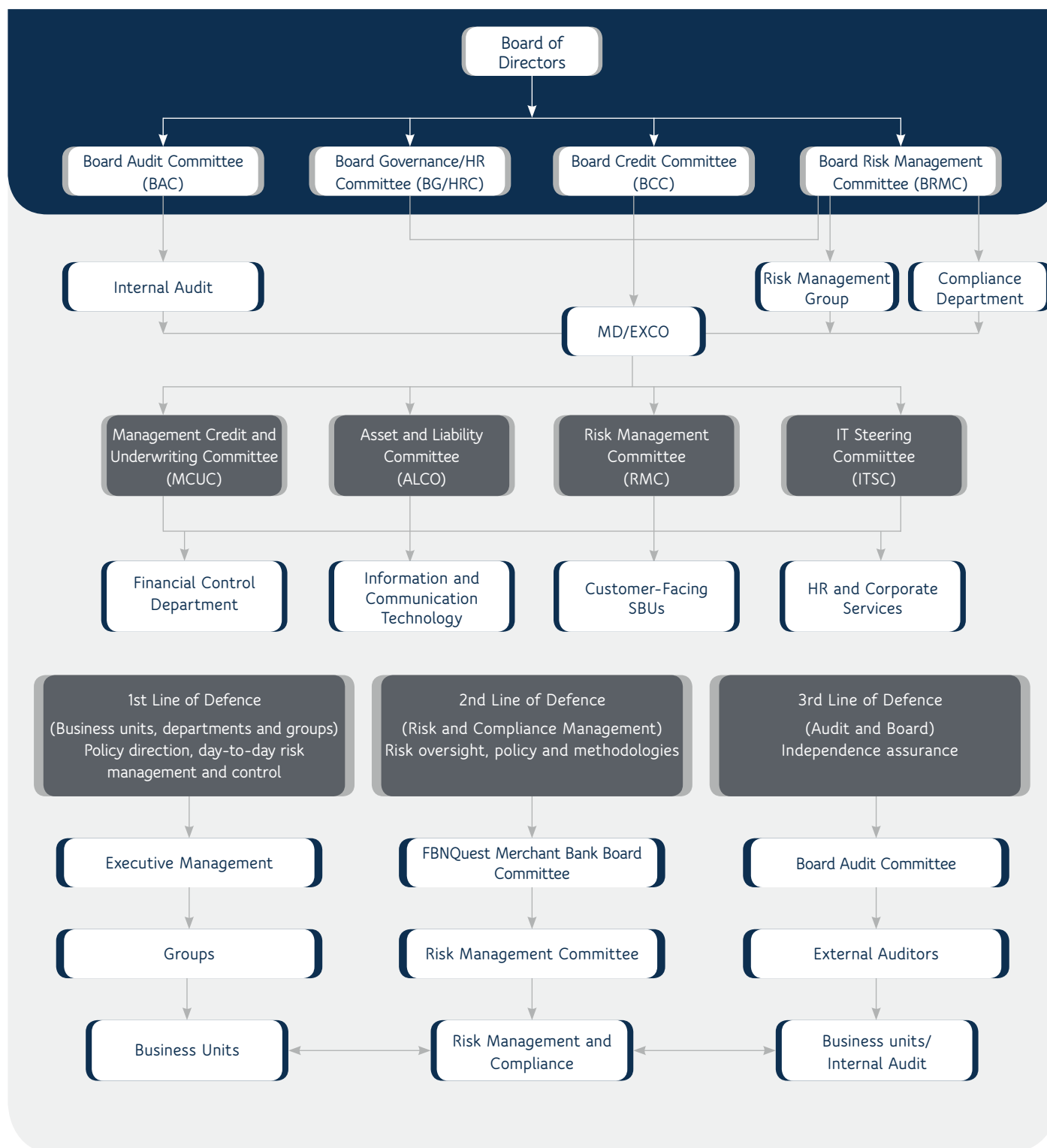
These committees meet on a regular basis while others are set up on an ad-hoc basis as dictated by the circumstances.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.2 Financial risk management report cont'd

The Group's risk management organogram is as follows:





NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

4.2 Financial risk management report cont'd

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

- The Board Credit Committee (BCC) considers and approves all lending exposures and other credits in excess of limits assigned to the Management Credit and Underwriting Committee (MCUC) by the Board. The MCUC formulates credit policies for Board approval, in consultation with business units, covering credit assessment, risk grading and reporting, collateral, regulatory and statutory requirements.
- The Board Audit Committee (BAC) is responsible for reviewing the adequacy of the external and internal audit procedures and make recommendations to the Board and Management as appropriate. The Audit Committee is assisted by the Internal Audit department, in carrying out these functions. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to Committee.
- The Board Risk Management Committee (BRMC) is responsible for formulating strategies for enterprise risk management, evaluating overall risks faced by the Group, aligning risk policies with business strategies and determining the level of risks which will be in the best interest of the Group. The Committee's oversight functions cut across all risk areas involved in the Group's operations. The Risk Management Committee (RMC) assists the BRMC in the implementation of Group's risk management strategies and policies, and ensures that adequate controls and procedures are in place to manage risks.
- The Board Governance/Human Resources Committee (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) of management establishes the Group'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 Group's income are monitored, controlled and managed through stress tests and simulations.

4.2a Risk management methodology

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

- Enterprise Risk Management (ERM) Framework policy
- Risk Asset and Acceptance Criteria (RAAC) policy
- Credit Risk Principles and Policy
- Collateral Policy
- Market and Liquidity Risk Policy
- Operational Risk Policy
- Concentration and Tenor Limit Policy
- Information Security Management System Policies
- Business Continuity Management (BCM) Policy
- Performance Management Framework
- Code of conduct policy
- Compliance Policy
- Anti-Money Laundering and Combating Financing of Terrorism Policy
- IFRS 9 Governance and Control Policy
- Methodological Framework for Expected Credit Loss
- Impairment Staging Policy
- Sovereign and Corporate Debt Methodological Framework
- Valuation Policy for LGD Valuations
- Standard Manuals of Operations

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

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.2b Risk management overview

The Group operates a functional Risk Management and Control (RM&C) Group that manages all aspects of risk, including threats and opportunities. FBNQuest Merchant Bank Group'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.

4.3a Financial risk factors

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

The financial statements as at 31 December 2018 do not include all financial risk management information and disclosures required in the annual financial statements.

There have been no changes in the risk management department while risk management policies have been updated to reflect the adoption of IFRS 9 within the period. The changes in policies have been reflected under Section 3.27.

4.3b 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.

4.3c Foreign exchange risk

The Bank is exposed to foreign exchange risks due to fluctuations in foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2018. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

GROUP

31 December 2018

<i>In thousands of Nigerian Naira</i>	Carrying amount	Naira	USD	GBP	EUR	Total
Financial assets						
Cash and balances with Central Bank of Nigeria	4,653,015	4,653,015	-	-	-	4,653,015
Due from other banks	17,337,847	3,448,898	13,457,570	54,421	376,958	17,337,847
Loans and advances to customers	35,413,635	30,788,672	4,624,963	-	-	35,413,635
Financial assets at FVTPL	1,876,368	806,146	1,070,222	-	-	1,876,368
Investment securities						
- Fair value through OCI	33,668,763	33,668,763	-	-	-	33,668,763
- Amortised cost	1,275,653	492,554	783,099	-	-	1,275,653
Pledged assets - FVOCI	21,099,602	21,099,602	-	-	-	21,099,602
Other assets	4,203,707	4,067,306	136,401	-	-	4,203,707
Derivative assets	219,954	-	219,954	-	-	219,954
	119,748,543	99,024,957	20,292,209	54,421	376,958	119,748,543
Financial liabilities						
Due to banks	8,003,945	8,003,945	-	-	-	8,003,945
Due to customers	90,858,472	74,489,497	16,042,057	-	326,918	90,858,472
Other liabilities	10,073,642	8,799,573	1,169,621	54,414	50,034	10,073,642
Derivative liabilities	219,954	-	219,954	-	-	219,954
	109,156,013	91,293,016	17,431,632	54,414	376,952	109,156,013
Commitments and guarantees						
- Performance bonds and guarantees	2,588,750	2,588,750	-	-	-	2,588,750
- Letters of credits	8,172,760	-	8,078,204	-	94,556	8,172,760
	10,761,510	2,588,750	8,078,204	-	94,556	10,761,510



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.3c Foreign exchange risk continued

BANK

31 December 2018

<i>In thousands of Nigerian Naira</i>	Carrying amount	Naira	USD	GBP	EUR	Total
Financial assets						
Cash and balances with Central Bank of Nigeria	4,653,015	4,653,015	-	-	-	4,653,015
Due from other banks	14,221,127	328,209	13,788,463	54,421	50,034	14,221,127
Loans and advances to customers	35,342,825	30,718,233	4,624,592	-	-	35,342,825
Financial assets at FVTPL	1,302,217	535,956	766,261	-	-	1,302,217
Investment securities						
- Fair value through OCI	33,592,365	33,592,365	-	-	-	33,592,365
- Amortised cost	1,275,653	492,554	783,099	-	-	1,275,653
Pledged assets - FVOCI	21,099,602	21,099,602	-	-	-	21,099,602
Other assets	4,574,807	4,538,798	36,009	-	-	4,574,807
Derivative assets	219,954	-	219,954	-	-	219,954
	116,281,565	95,958,733	20,218,378	54,421	50,034	116,281,565
Financial liabilities						
Due to banks	8,003,945	8,003,945	-	-	-	8,003,945
Due to customers	90,977,369	74,608,394	16,042,057	-	326,918	90,977,369
Other liabilities	8,841,693	7,567,624	1,169,621	54,414	50,034	8,841,693
Derivative liabilities	219,954	-	219,954	-	-	219,954
	108,042,961	90,179,963	17,431,633	54,414	376,952	108,042,961
Commitments and guarantees						
- Performance bonds and guarantees	2,588,750	2,588,750	-	-	-	2,588,750
- Letters of credits	8,172,760	-	8,078,204	-	94,556	8,172,760
	10,761,510	2,588,750	8,078,204	-	94,556	10,761,510

GROUP

31 December 2017

<i>In thousands of Nigerian Naira</i>	Carrying amount	Naira	USD	GBP	EUR	Total
Financial assets						
Cash and balances with Central Bank of Nigeria	3,072,985	3,072,985	-	-	-	3,072,985
Due from other banks	14,953,328	2,578,469	11,903,839	149,388	321,632	14,953,328
Loans and advances to customers	39,164,047	33,410,982	5,240,507	-	512,558	39,164,047
Financial assets held-for-trading	4,352,566	4,168,966	183,600	-	-	4,352,566
Investment securities	52,929,652	52,470,652	459,000	-	-	52,929,652
Pledged assets	6,823,144	6,823,144	-	-	-	6,823,144
Other assets	3,859,376	3,859,376	-	-	-	3,859,376
Derivative assets	32,562	-	32,562	-	-	32,562
	125,187,660	106,384,574	17,819,508	149,388	834,190	125,187,660
Financial liabilities						
Due to banks	10,323,992	6,140,462	3,811,626	149,388	222,516	10,323,992
Due to customers	87,952,326	82,782,809	5,145,718	23,524	275	87,952,326
Other liabilities	12,889,550	12,440,191	433,022	-	16,337	12,889,550
Derivative liabilities	32,562	-	32,562	-	-	32,562
	111,198,430	101,363,462	9,422,928	172,912	239,128	111,198,430



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.3c Foreign exchange risk continued

BANK

31 December 2017

<i>In thousands of Nigerian Naira</i>	Carrying amount	Naira	USD	GBP	EUR	Total
Financial assets						
Cash and balances with Central Bank of Nigeria	3,072,985	3,072,985	-	-	-	3,072,985
Due from other banks	14,020,829	1,645,970	11,903,839	149,388	321,632	14,020,829
Loans and advances to customers	39,153,234	33,400,169	5,240,507	-	512,558	39,153,234
Financial assets held-for-trading	3,319,701	3,136,101	183,600	-	-	3,319,701
Investment securities	52,791,567	52,332,567	459,000	-	-	52,791,567
Pledged assets	6,823,144	6,823,144	-	-	-	6,823,144
Other assets	3,074,390	3,074,390	-	-	-	3,074,390
Derivative assets	32,562	-	32,562	-	-	32,562
	122,288,412	103,485,326	17,819,508	149,388	834,190	122,288,412
Financial liabilities						
Due to banks	11,639,548	7,456,018	3,811,626	149,388	222,516	11,639,548
Due to customers	87,490,984	82,321,467	5,145,718	23,524	275	87,490,984
Other liabilities	11,607,283	11,157,924	433,022	-	16,337	11,607,283
Derivative liabilities	32,562	-	32,562	-	-	32,562
	110,770,377	100,935,409	9,422,928	172,912	239,128	110,770,377

4.3d Foreign exchange risk sensitivity analysis

As shown in the table above, the Bank is primarily exposed to changes in NGN/USD exchange rates.

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

<i>In thousands of Nigerian Naira</i>	Impact on profit			
	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
NGN/USD exchange rate – increase 10%	286,049	896,812	288,742	896,812
NGN/USD exchange rate – decrease 10%	(286,049)	(896,812)	(288,742)	(896,812)



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.3c Foreign exchange risk continued

Fair value measurement of financial instruments

GROUP

a. Financial instruments not measured at fair value

		31 December 2018		31 December 2017	
<i>In thousands of Nigerian Naira</i>		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash and balances with Central Bank of Nigeria	i	4,653,015	4,653,015	3,072,985	3,072,985
Due from other banks	ii	17,337,847	17,337,847	14,953,328	14,953,328
Loans and advances to customers	iii	35,413,635	35,413,635	39,164,047	39,164,047
Other assets	iv	4,203,707	4,203,707	3,859,376	3,859,376
Financial liabilities					
Due to banks	v	8,003,945	8,003,945	10,323,992	10,323,992
Due to customers	vi	90,858,472	90,858,472	87,952,326	87,952,326
Other liabilities	vii	10,073,642	10,073,642	12,889,550	12,889,550

BANK

a. Financial instruments not measured at fair value

Financial assets					
Cash and balances with Central Bank of Nigeria	i	4,653,015	4,653,015	3,072,985	3,072,985
Due from other banks	ii	14,221,127	14,221,127	14,020,829	14,020,829
Loans and advances to customers	iii	35,342,825	35,342,825	39,153,234	39,153,234
Other assets	iv	4,574,807	4,574,807	3,074,390	3,074,390
Financial liabilities					
Due to banks	v	8,003,945	8,003,945	11,639,548	11,639,548
Due to customers	vi	90,977,369	90,977,369	87,490,984	87,490,984
Other liabilities	vii	8,841,694	8,841,694	11,607,283	11,607,283

- i Cash and balances with Central Bank of Nigeria (CBN) include cash and deposits with the CBN. The carrying amount of the balances with CBN is a reasonable approximation of the fair value, which is the amount receivable on demand.
- ii Due from other banks include balances with other banks within and outside Nigeria, and short-term placements. The carrying amount of the balance is a reasonable approximation of the fair value, which is the amount receivable on demand.
- iii Loans and advances to customers are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows, expected to be received. Expected cash flows are discounted using the effective interest rate to determine fair value as there is no active market.
- iv Carrying amounts of other assets are a reasonable expectation of their fair values which are payable on demand.
- v The estimated fair value of balances due to other banks is the amount repayable on demand as at 31 December 2018.
- vi The estimated fair value of deposits from customers is the amount repayable on demand as at 31 December 2018.
- vii Carrying amounts of other liabilities are a reasonable expectation of their fair values which are payable on demand.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.3c Foreign exchange risk continued

Fair value measurement of financial instruments continued

GROUP

Fair value hierarchy - financial instruments not measured at fair value

<i>In thousands of Nigerian Naira</i>	Level 1	Level 2	Level 3	Total fair value	Carrying amount
31 December 2018					
Financial assets					
Cash and balances with Central Bank of Nigeria	-	4,653,015	-	4,653,015	4,653,015
Due from other banks	-	-	17,337,847	17,337,847	17,337,847
Loans and advances to customers	-	-	35,413,635	35,413,635	35,413,635
Investment securities					
- Amortised cost	1,246,651	-	-	1,246,651	1,275,653
Other assets	-	-	4,203,707	4,203,707	4,203,707
Financial liabilities					
Due to banks	-	-	8,003,945	8,003,945	8,003,945
Due to customers	-	-	90,858,472	90,858,472	90,858,472
Other liabilities	7,423,961	-	2,649,681	10,073,642	10,073,642
BANK					
31 December 2018					
Financial assets					
Cash and balances with Central Bank of Nigeria	-	4,653,015	-	4,653,015	4,653,015
Due from other banks	-	-	14,221,127	14,221,127	14,221,127
Loans and advances to customers	-	-	35,342,825	35,342,825	35,342,825
Investment securities					
- Amortised cost	1,246,651	-	-	1,246,651	1,275,653
Other assets	-	-	4,574,807	4,574,807	4,574,807
Financial liabilities					
Due to banks	-	-	8,003,945	8,003,945	8,003,945
Due to customers	-	-	90,977,369	90,977,369	90,977,369
Other liabilities	7,423,961	-	1,417,732	8,841,694	8,841,694



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.3c Foreign exchange risk continued

Fair value measurement of financial instruments continued

GROUP

Fair value hierarchy - financial instruments not measured at fair value

<i>In thousands of Nigerian Naira</i>	Level 1	Level 2	Level 3	Total fair value	Carrying amount
31 December 2017					
Financial assets					
Cash and balances with Central Bank of Nigeria	-	3,072,985	-	3,072,985	3,072,985
Due from other banks	-	-	14,953,328	14,953,328	14,953,328
Loans and advances to customers	-	-	39,164,047	39,164,047	39,164,047
Other assets	-	-	3,859,376	3,859,376	3,859,376
Financial liabilities					
Due to banks	-	-	10,323,992	10,323,992	10,323,992
Due to customers	-	-	87,952,326	87,952,326	87,952,326
Other liabilities	-	-	12,889,550	12,889,550	12,889,550

BANK

31 December 2017

Financial assets					
Cash and balances with Central Bank of Nigeria	-	3,072,985	-	3,072,985	3,072,985
Due from other banks	-	-	14,020,829	14,020,829	14,020,829
Loans and advances to customers	-	-	39,153,234	39,153,234	39,153,234
Other assets	-	-	3,074,390	3,074,390	3,074,390
Financial liabilities					
Due to banks	-	-	11,639,548	11,639,548	11,639,548
Due to customers	-	-	87,490,984	87,490,984	87,490,984
Other liabilities	-	-	11,607,283	11,607,283	11,607,283



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.3c Foreign exchange risk continued

Fair value measurement of financial instruments continued

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). There were no movements within levels during the year.

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

Financial instruments in this category relates to unlisted instruments and since quoted market prices are not available, the fair values are estimated based on valuation techniques such as

- (i) market approach (EV/EBITDA and EV/Revenue) where the adjusted price/earnings multiple of comparable companies is utilised and;
- (ii) income approach (discounted cash flows).

Description of valuation methodology and inputs:

The steps involved in estimating the fair value of the Company's unquoted equity investments are as follows:

Step 1: The most appropriate valuation methodology was selected to value each of the unquoted equity investment.

Step 2: Comparative multiples were sourced from S & P Capital IQ based on available comparable companies in Sub-sahara Africa and Emerging Asia and an average multiple was computed.

Step 3: The enterprise value was derived by multiplying the average multiple to the relevant financial metric.

Step 4: Equity value of the firm was derived by deducting the value of the debt of the Company and adding the closing cash balance.

Step 5: A lack of illiquidity discount of 19.2% for equity stake below 24% and 15.7% for equity stake above 24% was applied to the equity value.

Step 6: The equity value was derived by multiplying the Company's equity value by FBN Funds equity stake.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.3c Foreign exchange risk continued

Fair value measurement of financial instruments continued

GROUP				
31 December 2018				
<i>In thousands of Nigerian Naira</i>	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at FVTPL:				
- Treasury bills	476,229	-	-	476,229
- Pledged treasury bills	-	-	-	-
- Federal Government of Nigeria bonds	324,815	-	-	324,815
- Corporate bonds	501,173	-	-	501,173
- Unlisted equities	-	303,961	-	303,961
- Listed equities	270,190	-	-	270,190
Investment securities at FVOCI				-
- Treasury bills	28,500,914	-	-	28,500,914
- Pledged treasury bills	21,099,602	-	-	21,099,602
- Federal Government of Nigeria bonds	2,239,107	-	-	2,239,107
- State bonds	5,941	-	-	5,941
- Corporate bonds	2,840,565	-	-	2,840,565
- Listed equities	3,148	-	-	3,148
- Unlisted equities	-	-	81,665	81,665
Derivative assets	-	219,954	-	219,954
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivative liability	-	219,954	-	219,954

Bank				
31 December 2018				
Financial assets				
Financial assets at FVTPL:				
- Treasury bills	476,229	-	-	476,229
- Pledged treasury bills	-	-	-	-
- Federal Government of Nigeria bonds	324,815	-	-	324,815
- Corporate bonds	501,173	-	-	501,173
Investment securities at FVOCI		-	-	-
- Treasury bills	28,448,127	-	-	28,448,127
- Pledged treasury bills	21,099,602	-	-	21,099,602
- Federal Government of Nigeria bonds	2,239,107	-	-	2,239,107
- State bonds	5,941	-	-	5,941
- Corporate bonds	2,840,565	-	-	2,840,565
- Listed equities	-	-	-	-
- Unlisted equities	-	-	58,865	58,865
Derivative assets	-	219,954	-	219,954
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivative liability	-	219,954	-	219,954



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.3c Foreign exchange risk continued

Fair value measurement of financial instruments continued

GROUP				
31 December 2017				
<i>In thousands of Nigerian Naira</i>	Level 1	Level 2	Level 3	Total
Financial assets				
Held-for-trading:				
- Treasury bills	900,896	-	-	900,896
- Federal Government of Nigeria bonds	940,862	1,477,943	-	2,418,805
- Unlisted equities	-	284,749	-	284,749
- Listed equities	748,116	-	-	748,116
Derivative assets measured at fair value through profit and loss:	-	32,562	-	32,562
Available-for-sale				
- Treasury bills	35,072,769	1,728,760	-	36,801,529
- Pledged treasury bills	5,869,015	954,129	-	6,823,144
- Federal Government of Nigeria bonds	7,035,687	-	-	7,035,687
- State bonds	211,800	24,078	-	235,878
- Corporate bonds	4,528,139	330,853	-	4,858,992
- Unlisted equities	-	-	89,423	89,423
- Listed equities	5,384	-	-	5,384
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivative liability	-	32,562	-	32,562
BANK				
31 December 2017				
Financial assets				
Held-for-trading:				
- Treasury bills	900,896	-	-	900,896
- Federal Government of Nigeria bonds	940,862	1,477,943	-	2,418,805
Derivative assets measured at fair value through profit and loss:	-	32,562	-	32,562
Available-for-sale				
- Treasury bills	35,053,979	1,728,760	-	36,782,739
- Pledged treasury bills	5,869,015	954,129	-	6,823,144
- Federal Government of Nigeria bonds	7,035,687	-	-	7,035,687
- State bonds	211,800	24,078	-	235,878
- Corporate bonds	4,427,813	330,853	-	4,758,666
- Unlisted equities	-	-	75,838	75,838
- Listed equities	-	-	-	-
Liabilities				
Financial liabilities at fair value through profit or loss				
- Derivative liability	-	32,562	-	32,562



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.3c Foreign exchange risk continued

Fair value measurement of financial instruments continued

(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 Bank is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily investments that are quoted on the Nigerian Stock Exchange (NSE) and Financial Market Dealers Quotation (FMDQ) Plc and on Bloomberg trading platforms which are classified as held-for-trading (HFT) or Fair value through OCI.

(b) Financial instruments in level 2

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

(c) Financial instruments in level 3

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

Valuation techniques include net present value and discounted cashflow models, comparison with similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rate, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.3c Foreign exchange risk continued

Fair value measurement of financial instruments continued

31 December 2018

<i>In thousands of Nigerian Naira</i>	Unlisted equities	Total
Opening balance	75,838	75,838
(Losses) recognised in the profit or loss	(16,973)	(16,973)
Acquisition	-	-
Closing balance	58,865	58,865
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(16,973)	(16,973)

31 December 2017

Opening balance	66,422	66,422
Gains/(losses) recognised in the profit or loss	9,416	9,416
Acquisition	-	-
Closing balance	75,838	75,838
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	9,416	9,416

The fair value of FBNQuest Merchant Bank's unquoted investment in FMDQ OTC was estimated using a market valuation approach. We applied a Price to Earnings multiple using comparable companies in SSA and Middle East.

We applied a Price to Earnings multiple using comparable companies in SSA and Middle East.

A discount for non-marketability of FMDQ OTC's shares of 14.9% was applied. The 14.9% non-marketability discount is based on a survey by PwC (used for FBN Funds' unquoted investments).

Unquoted equity investments held at fair value through OCI relates to ₦45million investment in Financial Markets Dealers Quotation (FMDQ) and ₦66,000 investment in Nigeria Inter-bank Settlement System. The markets where these securities could be traded are not readily ascertained hence the classification within level 3 of the fair value hierarchy.

The Bank has no current plans of disposing these securities.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.4 Exposure to interest rate risks – Non-trading portfolios

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

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

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

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

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

GROUP				
31 December 2018				
<i>In thousands of Nigerian Naira</i>	Carrying amount	Variable interest-bearing	Fixed interest-bearing	Non-interest bearing
Financial assets:				
Cash and balances with Central Bank of Nigeria	4,653,015	-	-	4,653,015
Due from other banks	17,337,847	-	12,017,642	5,320,205
Loans and advances to customers	35,413,635	28,668,449	5,482,221	1,262,965
Financial assets at FVTPL	1,876,368	-	1,302,217	574,151
Investment securities:				
- Fair value through OCI	33,668,763	-	33,583,949	84,814
- Available-for-sale	-	-	-	-
- Amortised cost	1,275,653	-	1,275,653	-
- Held-to-maturity	-	-	-	-
Pledged assets - Fair Value through OCI	21,099,602	-	21,099,602	-
Other assets	4,203,707	-	-	4,203,707
Deposit with Nigeria Stock exchange	1,150	-	1,150	-
Derivatives assets	219,954	-	-	219,954
	119,749,694	28,668,449	74,762,434	16,318,811
Financial liabilities:				
Due to banks	8,003,945	-	8,003,945	-
Due to customers	90,858,472	-	90,858,472	-
Other liabilities	10,073,642	-	7,423,961	2,649,681
Derivative liabilities	219,954	-	-	219,954
	109,156,013	-	106,286,378	2,869,635



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

4.4 Exposure to interest rate risks – Non-trading portfolios continued

COMPANY				
31 December 2018				
<i>In thousands of Nigerian Naira</i>	Carrying amount	Variable interest-bearing	Fixed interest-bearing	Non-interest bearing
Financial assets:				
Cash and balances with Central Bank of Nigeria	4,653,015	-	-	4,653,015
Due from other banks	14,221,127	-	9,995,878	4,225,249
Loans and advances to customers	35,342,825	28,597,639	5,482,221	1,262,965
Financial assets at FVTPL	1,302,217	-	1,302,217	-
Investment securities				
- Fair value through OCI	33,592,365	-	33,533,500	58,865
- Available-for-sale	-	-	-	-
- Amortised cost	1,275,653	-	1,275,653	-
- Held-to-maturity	-	-	-	-
Pledged assets - Fair Value through OCI	21,099,602	-	21,099,602	-
Other assets	4,574,807	-	-	4,574,807
Derivatives assets	219,954	-	-	219,954
	116,281,565	28,597,639	72,689,070	14,994,856
Financial liabilities:				
Due to banks	8,003,945	-	8,003,945	-
Deposit from customers	90,977,369	-	90,977,369	-
Other liabilities	8,841,694	-	7,423,961	1,417,733
Derivative liabilities	219,954	-	-	219,954
	108,042,962	-	106,405,275	1,637,687



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.4 Exposure to interest rate risks – Non-trading portfolios continued

GROUP

31 December 2017

<i>In thousands of Nigerian Naira</i>	Carrying amount	Variable interest- bearing	Fixed interest- bearing	Non-interest bearing
Financial assets:				
Cash and balances with Central Bank of Nigeria	3,072,985	-	-	3,072,985
Due from other banks	14,953,328	-	6,091,824	8,861,504
Loans and advances to customers	39,164,047	17,860,313	21,303,734	-
Financial assets held-for-trading	4,352,566	-	3,503,612	848,954
Investment securities:				
- Available-for-sale investments	49,026,893	-	48,850,728	176,165
- Held-to-maturity	3,902,759	-	3,902,759	-
Pledged assets	6,823,144	-	6,823,144	-
Other assets	3,859,376	-	-	3,859,376
Deposit with Nigeria Stock exchange	1,150	-	1,150	-
Derivatives assets	32,562	-	-	32,562
	125,188,810	17,860,313	90,476,951	16,851,546
Financial liabilities:				
Due to Banks	10,323,992	-	10,323,992	-
Deposit from customers	87,952,326	-	87,952,326	-
Other liabilities	12,889,550	-	-	12,889,550
Derivative liabilities	32,562	-	-	32,562
	111,198,430	-	98,276,318	12,922,112

BANK

31 December 2017

Financial assets:				
Cash and balances with Central Bank of Nigeria	3,072,985	-	-	3,072,985
Due from other banks	14,020,829	-	5,350,410	8,670,419
Loans and advances to customers	39,153,234	17,860,313	21,292,921	-
Financial assets at FVTPL	3,319,701	-	3,319,701	-
Investment securities:				
- Available-for-sale investments	48,888,808	-	48,812,970	75,838
- Held-to-maturity	3,902,759	-	3,902,759	-
Pledged assets	6,823,144	-	6,823,144	-
Other assets	3,074,390	-	-	3,074,390
Derivatives assets	32,562	-	-	32,562
	122,288,412	17,860,313	89,501,906	14,926,194
Financial liabilities:				
Due to Banks	11,639,548	-	11,639,548	-
Deposit from customers	87,490,984	-	87,490,984	-
Other liabilities	11,607,283	-	-	11,607,283
Derivative liabilities	32,562	-	-	32,562
	110,737,817	-	99,130,532	11,639,845



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.4 Exposure to interest rate risks – Non-trading portfolios continued

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

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

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

4.4b Bond Price Sensitivity

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

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

As at 31 December 2018, the Group had ₦1.32bn in its trading position (2017: ₦2.42bn). If the price of instruments designated as financial assets held-for-trading increased or decreased by 100bps with all variables held constant, the impact on potential profit or loss would be as shown in the table below:

12 months to 31 December 2018				
	Group		Bank	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	8,588	6,012	8,588	6,012
Decrease	(8,588)	(6,012)	(8,588)	(6,012)

12 months to 31 December 2017				
	Group		Bank	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	16,733	11,713	16,733	11,713
Decrease	(16,733)	(11,713)	(16,733)	(11,713)



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.4c Treasury bills discount rate sensitivity

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

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

As at 31 December 2018, if discount rates on treasury bills increased or reduced by 50 basis points with all other variables held constant, the potential profit or loss would be as shown below:

	12 months to 31 December 2018		12 months to 31 December 2017	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	2,381	1,667	8,200	5,740
Decrease	(2,381)	(1,667)	(8,200)	(5,740)

Financial Instruments held through other comprehensive income (OCI)

The Group carried out the following in determining the sensitivity of its financial instruments position to fluctuations in market yields of financial instruments fair valued through OCI:

- Daily bond prices and treasury bills discount rates within the period were obtained, to determine actual volatility levels recorded.
- ± 100 basis point and ± 50 basis point changes in market yields of bonds and treasury bills respectively were applied to the Group's holdings in bonds and treasury bills as at end of the period to determine the impact on the Group's Other Comprehensive Income (OCI) position.

GROUP		12 months to 31 December 2018		12 months to 31 December 2017	
		Pre-tax	Post-tax	Pre-tax	Post-tax
<i>Bonds held through OCI</i>					
Increase		53,156	37,209	(1,557,319)	(1,090,124)
Decrease		(45,762)	(37,209)	1,557,319	1,090,124
		12 months to 31 December 2018		12 months to 31 December 2018	
		Pre-tax	Post-tax	Pre-tax	Post-tax
<i>Treasury Bills held through OCI</i>					
Increase		144,842	101,390	528,317	369,822
Decrease		(140,167)	(98,117)	(528,317)	(369,822)



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.4c Treasury bills discount rate sensitivity continued

BANK				
	12 months to 31 December 2018		12 months to 31 December 2017	
	Pre-tax	Post-tax	Pre-tax	Post-tax
<i>Bonds held through OCI</i>				
Increase	53,156	37,209	(1,557,319)	(1,090,124)
Decrease	(45,762)	(32,033)	1,557,319	1,090,124
	12 months to 31 December 2018		12 months to 31 December 2017	
	Pre-tax	Post-tax	Pre-tax	Post-tax
<i>Treasury bills held through OCI</i>				
Increase	144,590	101,213	528,317	369,822
Decrease	(139,915)	(97,940)	(528,317)	(369,822)

4.4d Liquidity risk

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

4.4e Management of liquidity risk

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

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

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

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

	2018	2017
At end of period	59.74%	74.05%
Average for the period	53.66%	74.84%
Maximum for the period	69.55%	85.87%
Minimum for the period	36.74%	68.60%

The regulatory benchmark given by CBN for merchant Banks during the year was 20% and the Group was well above this threshold throughout the period ended 31 December 2018.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.4f Contractual maturity of financial assets and liabilities

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

GROUP	Carrying amount N'000	Gross nominal inflow/ (outflow) N'000	Up to 90 days N'000	90 days to 1 year N'000	1 year and 3 years N'000	3 years and 5 years N'000	Over 5 years N'000
31 December 2018							
Financial assets							
Cash and balances with Central Bank of Nigeria	4,653,015	4,653,015	4,653,015	-	-	-	-
Due from other banks	17,337,847	17,344,988	17,344,988	-	-	-	-
Loans and advances to customers	35,413,635	35,413,635	16,992,284	9,429,799	7,244,858	1,316,472	430,222
Financial assets at FVTPL	1,876,368	2,277,308	262,900	353,104	124,144	509,443	1,027,717
Investment securities							
- Fair value through OCI	33,668,763	37,626,457	1,726,003	1,977,549	1,650,009	4,353,458	27,919,438
- Available-for-sale	-	-	-	-	-	-	-
- Amortised cost	1,275,653	1,350,175	532,542	817,633	-	-	-
- Held-to-maturity	-	-	-	-	-	-	-
Pledged assets - FVOCI	21,099,602	26,777,421	2,901,572	4,074,216	1,805,304	3,461,734	14,534,595
Other assets	4,203,707	4,203,707	4,203,707	-	-	-	-
Derivative assets	219,954	219,954	6,870	213,084	-	-	-
	119,748,543	129,866,660	48,623,882	16,865,385	10,824,315	9,641,107	43,911,972
Financial liabilities							
Due to banks	8,003,945	8,744,164	4,621,068	4,123,096	-	-	-
Due to customers	90,858,472	90,780,252	79,041,078	11,817,394	-	-	-
Other liabilities	10,073,642	10,073,642	10,073,642	-	-	-	-
Derivative liabilities	219,954	219,954	6,870	213,084	-	-	-
	109,156,013	109,818,012	93,742,658	16,153,574	-	-	-
Liquidity gap	10,592,530	20,048,648	(45,118,776)	711,811	10,824,315	9,641,107	43,911,972



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

4.4f Contractual maturity of financial assets and liabilities continued

BANK	Carrying amount N'000	Gross nominal inflow/ (outflow) N'000	Up to 90 days N'000	90 days to 1 year N'000	1 year and 3 years N'000	3 years and 5 years N'000	Over 5 years N'000
31 December 2018							
Financial assets							
Cash and balances with Central Bank of Nigeria	4,653,015	4,653,015	4,653,015	-	-	-	-
Due from other banks	14,221,127	14,228,267	14,228,267	-	-	-	-
Loans and advances to customers	35,342,825	35,342,825	16,954,782	9,428,153	7,227,915	1,303,680	428,295
Financial assets at FVTPL	1,302,217	1,703,157	262,900	353,104	124,144	509,443	453,566
Investment securities							
- Fair value through OCI	33,592,365	37,572,860	1,726,003	1,977,549	1,650,009	4,353,458	27,865,841
- Available-for-sale	-	-	-	-	-	-	-
- Amortised cost	1,275,653	1,350,175	532,542	817,633	-	-	-
- Held-to-maturity	-	-	-	-	-	-	-
Pledged assets - FVOCI	21,099,602	26,777,421	2,901,572	4,074,216	1,805,304	3,461,734	14,534,595
Other assets	4,574,807	4,574,807	4,574,807	-	-	-	-
Derivative assets	219,954	219,954	6,870	213,084	-	-	-
	115,694,083	115,544,448	45,840,759	16,863,739	10,807,372	1,743,815	10,907,227
Financial liabilities							
Due to banks	8,003,945	8,744,164	4,621,068	4,123,096	-	-	-
Due to customers	90,977,369	90,899,149	78,158,825	12,818,544	-	-	-
Other liabilities	8,841,693	8,841,693	8,841,693	-	-	-	-
Derivative liabilities	219,954	219,954	6,870	213,084	-	-	-
	108,042,961	108,704,961	91,628,456	17,154,724	-	-	-
Liquidity gap	7,651,122	6,839,487	(45,787,697)	(290,985)	10,807,372	1,743,815	10,907,227



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.4f Contractual maturity of financial assets and liabilities continued

GROUP	Carrying amount N'000	Gross nominal inflow/ (outflow) N'000	Up to 90 days N'000	90 days to 1 year N'000	1 year and 3 years N'000	3 years and 5 years N'000	Over 5 years N'000
31 December 2017							
Financial assets							
Cash and balances with Central Bank of Nigeria	3,072,985	3,072,985	3,072,985	-	-	-	-
Due from other banks	14,953,328	14,953,328	14,953,328	-	-	-	-
Loans and advances to customers	39,164,047	40,287,287	22,398,509	11,240,448	4,982,875	157,593	1,507,862
Financial assets held-for-trading	4,352,566	6,253,075	1,137,096	894,989	74,341	3,201,994	944,655
Investment securities	52,929,652	62,026,250	6,985,037	37,338,380	1,171,622	12,084,408	4,446,803
Pledged assets	6,823,144	7,875,032	-	7,875,032	-	-	-
Other assets	3,859,376	3,859,376	3,859,376	-	-	-	-
Derivative assets	32,562	32,562	32,562	-	-	-	-
	125,187,660	138,359,895	52,438,892	57,348,849	6,228,838	15,443,995	6,899,320
Financial liabilities							
Due to banks	10,323,992	11,553,513	11,553,513	-	-	-	-
Due to customers	87,952,326	89,118,025	82,212,345	6,905,679	-	-	-
Other liabilities	12,889,550	12,889,550	12,889,550	-	-	-	-
Derivative liabilities	32,562	32,562	32,562	-	-	-	-
	111,198,430	113,593,650	106,687,970	6,905,679	-	-	-
Liquidity gap	13,989,230	24,766,245	(54,249,078)	50,443,169	6,228,838	15,443,995	6,899,320
BANK							
31 December 2017							
Financial assets							
Cash and balances with Central Bank of Nigeria	3,072,985	3,072,985	3,072,985	-	-	-	-
Due from other banks	14,020,829	14,053,157	14,053,157	-	-	-	-
Loans and advances to customers	39,153,234	40,276,463	22,387,685	11,240,448	4,982,875	157,593	1,507,862
Financial assets held-for-trading	3,319,701	5,220,210	104,231	894,989	74,341	3,201,995	944,655
Investment securities	52,791,567	61,931,445	6,890,232	37,338,380	1,171,622	12,084,408	4,446,803
Pledged assets	6,823,144	7,875,032	-	7,875,032	-	-	-
Other assets	3,074,390	3,074,390	3,074,390	-	-	-	-
Derivative financial assets	32,562	32,562	32,562	-	-	-	-
	122,288,412	135,536,244	49,615,241	57,348,849	6,228,838	15,443,996	6,899,320
Financial liabilities							
Due to banks	11,639,548	12,869,069	12,869,069	-	-	-	-
Due to customers	87,490,984	88,656,683	81,751,003	6,905,679	-	-	-
Other liabilities	11,607,283	11,607,283	11,607,283	-	-	-	-
Derivative financial liabilities	32,562	32,562	32,562	-	-	-	-
	110,770,377	113,165,597	106,259,917	6,905,679	-	-	-
Liquidity gap	11,518,034	22,370,647	(56,644,676)	50,443,170	6,228,838	15,443,996	6,899,320



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4.4g Repricing period of financial assets and liabilities

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

GROUP	Carrying amount N'000	Total N'000	Up to 90 days N'000	90 days to 1 year N'000	1 year and 3 years N'000	3 years and 5 years N'000	Over 5 years N'000
31 December 2018							
Financial assets							
Due from other banks	17,337,847	17,337,847	17,337,847	-	-	-	-
Loans and advances to customers	35,413,635	35,413,635	16,992,284	9,429,799	7,244,858	1,316,472	430,222
Financial assets at FVTPL	1,876,368	1,876,368	257,928	292,618	52	437,981	887,789
Investment securities							
- Fair value through OCI	33,668,763	33,668,763	1,500,903	1,377,154	-	3,533,285	27,257,421
- Available-for-sale	-	-	-	-	-	-	-
- Amortised cost	1,275,653	1,275,653	492,554	783,099	-	-	-
- Held-to-maturity	-	-	-	-	-	-	-
Pledged assets - FVOCI	21,099,602	21,099,602	2,590,197	3,482,939	-	2,066,180	12,960,286
Derivative assets	219,954	219,954	6,870	213,084	-	-	-
	110,891,822	110,891,822	39,178,583	15,578,693	7,244,910	7,353,918	41,535,718
Financial liabilities							
Due to banks	8,003,945	8,003,945	4,502,219	3,501,726	-	-	-
Deposit from customers	90,858,472	90,858,472	79,041,078	11,817,394	-	-	-
Other liabilities	10,073,642	10,073,642	10,073,642	-	-	-	-
Derivative liabilities	219,954	219,954	6,870	213,084	-	-	-
	109,156,013	109,156,013	93,623,809	15,532,204	-	-	-
Repricing gap	1,735,809	1,735,809	(54,445,226)	46,489	7,244,910	7,353,918	41,535,718

BANK							
31 December 2018							
Financial assets							
Due from other banks	14,221,127	14,093,534	14,093,534	-	-	-	-
Loans and advances to customers	35,342,825	35,342,825	16,954,782	9,428,153	7,227,915	1,303,680	428,295
Financial assets at FVTPL	1,302,217	1,302,217	257,928	292,618	52	437,981	313,638
Investment securities							
- Fair value through OCI	33,592,365	33,592,365	1,500,903	1,377,154	-	3,533,285	27,181,023
- Available-for-sale	-	-	-	-	-	-	-
- Amortised cost	1,275,653	1,275,653	492,554	783,099	-	-	-
- Held-to-maturity	-	-	-	-	-	-	-
Pledged assets - FVOCI	21,099,602	21,099,602	2,590,197	3,482,939	-	2,066,180	12,960,286
Derivative assets	219,954	219,954	6,870	213,084	-	-	-
	107,053,743	106,926,150	35,896,768	15,577,047	7,227,967	7,341,126	40,883,242
Financial liabilities							
Due to banks	8,003,945	8,003,945	4,502,219	3,501,726	-	-	-
Deposit from customers	90,977,369	90,977,369	78,158,825	12,818,544	-	-	-
Other liabilities	8,841,694	8,841,694	8,841,694	-	-	-	-
Derivative liabilities	219,954	219,954	6,870	213,084	-	-	-
	108,042,962	108,042,962	91,509,608	16,533,354	-	-	-
Repricing gap	(989,219)	(1,116,812)	(55,612,840)	(956,307)	7,227,967	7,341,126	40,883,242



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FOR THE YEAR ENDED 31 DECEMBER 2018

4.4g Repricing period of financial assets and liabilities

GROUP	Carrying amount N'000	Total N'000	Up to 90 days N'000	90 days to 1 year N'000	1 year and 3 years N'000	3 years and 5 years N'000	Over 5 years N'000
31 December 2017							
Financial assets							
Cash and balances with Central Bank of Nigeria	3,072,985	3,072,985	3,072,985	-	-	-	-
Due from other banks	14,953,328	6,747,230	6,747,230	-	-	-	-
Loans and advances to customers	39,164,047	39,164,047	27,543,009	6,307,130	4,874,449	161,526	277,933
Financial assets held-for-trading	4,352,566	4,352,566	1,134,218	799,487	59,086	1,863,237	496,538
Investment securities	52,929,652	52,929,652	9,175,149	32,416,483	974,408	8,155,925	2,207,687
Pledged assets	6,823,144	6,823,144	-	6,823,144	-	-	-
Other assets	3,859,376	3,859,376	3,859,376	-	-	-	-
Derivative financial assets	32,562	32,562	32,562	-	-	-	-
	125,187,660	116,981,562	51,564,528	46,346,243	5,907,943	10,180,687	2,982,157
Financial liabilities							
Due to Banks	10,323,992	10,323,992	10,323,992	-	-	-	-
Deposit from customers	87,952,326	87,952,326	82,245,089	5,707,237	-	-	-
Other liabilities	12,889,550	-	-	-	-	-	-
Derivative financial liabilities	32,562	32,562	32,562	-	-	-	-
	111,198,430	98,308,880	92,601,643	5,707,237	-	-	-
Repricing gap	13,989,230	18,672,682	(41,037,114)	40,639,006	5,907,943	10,180,687	2,982,157

BANK

31 December 2017

Financial assets

Cash and balances with Central Bank of Nigeria	3,072,985	3,072,985	3,072,985	-	-	-	-
Due from other banks	14,020,829	6,000,479	6,000,479	-	-	-	-
Loans and advances to customers	39,153,234	39,153,234	27,533,937	6,305,389	4,874,449	161,526	277,933
Financial assets held-for-trading	3,319,701	3,319,758	101,410	799,487	59,086	1,863,237	496,538
Investment securities	52,791,567	52,791,568	9,175,149	32,278,399	974,408	8,155,925	2,207,687
Pledged assets	6,823,144	6,823,144	-	6,823,144	-	-	-
Other assets	3,074,390	3,074,390	3,074,390	-	-	-	-
Derivative financial assets	32,562	32,562	32,562	-	-	-	-
	122,288,412	114,268,120	48,990,912	46,206,419	5,907,943	10,180,687	2,982,157
Financial liabilities							
Due to banks	11,639,548	8,643,720	8,643,720	-	-	-	-
Deposit from customers	87,490,984	87,490,984	81,783,747	5,707,237	-	-	-
Other liabilities	11,607,283	-	-	-	-	-	-
Derivative financial liabilities	32,562	32,562	32,562	-	-	-	-
	110,770,377	96,167,266	90,460,029	5,707,237	-	-	-
Repricing gap	11,518,035	18,100,854	(41,469,117)	40,499,182	5,907,943	10,180,687	2,982,157



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.0 Credit Risk

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

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

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

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

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

5.1a Management of credit risk

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

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

5.1b Credit Risk Measurement

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

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

5.1b Credit risk measurement continued

The relationship between the Group's category rating system and the Moody's rating system is shown below:

Moody's rating	Category	Description	Characteristics
AAA	A	Excellent-Very Low Credit Risk	<ul style="list-style-type: none"> · Highest investment quality · Lowest expectation of default risk · Exceptionally strong capacity for timely payment of financial commitments · Capacity is highly unlikely to be adversely affected by unforeseeable events · Top multi-nationals or corporations · Strong equity and assets · Good track record
AA+	B	Good Credit Risk Quality	<ul style="list-style-type: none"> · Very good investment quality · Very low expectation of default risk · Very strong capacity for timely payment of financial commitments · Capacity is not significantly vulnerable to unforeseeable events. · Typically large corporates in stable industries and with significant market share · Very strong balance sheets with high liquid assets
AA			
AA-			
A+	C	Above Average Credit Risk Quality	<ul style="list-style-type: none"> · Above Average quality · Low expectation of default risk. · Capacity for timely payment of financial commitments is considered adequate · Adverse changes in circumstances and in economic conditions is more likely to impair capacity for payment · Typically in stable industries · Strong debt repayment capacity and coverage · Good asset quality and liquidity position
A			
A-			
BBB+	D	Average Credit Risk Quality	<ul style="list-style-type: none"> · Very good management · Average credit 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 · Good management but depth may be an issue · Typically good companies in cyclical industries
BBB			
BBB-	E	Below Average Credit Risk	<ul style="list-style-type: none"> · Below average risk 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 · Very weak credit fundamentals which make full debt repayment in serious doubt · Bleak economic prospects · Lack of capacity to repay unsecured debt
BB+			
BB			
BB-			



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.1b Credit risk measurement continued

The Group's operational measurements for credit risk are in conformity with the impairment allowances required under the applicable reporting standard - IFRS 9, and are based on losses that are expected at the date of the statement of financial position, that is the expected credit losses (ECL).

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 probability of defaults cashflow projections and collaterals pledged by counterparties.

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

5.2 Risk limit control and mitigation policies

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

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

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

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

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

Approving Authority	Approval Limit
Board of Directors	No Limit but subject to regulatory limit
Board Credit Committee (BCC)	<ol style="list-style-type: none"> 1. To note all non cash-collateralised credit facilities up to ₦1.5billion approved by the Management Credit and Underwriting Committee (MCUC). 2. To approve all non cash-collateralised credit facilities of between ₦1.5billion and ₦6.5billion 3. To approve all non cash-collateralised credit facilities above ₦6.5billion. Such approvals are to be subsequently presented to the full Board for ratification.
Management Credit and Underwriting Committee (MCUC)	<ol style="list-style-type: none"> 1. To approve all non cash-collateralised credit facilities up to ₦1.5billion. 2. To approve all cash-collateralised limits.

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

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.3 Maximum exposure to credit risk

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

Classification	Maximum exposure			
	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Financial assets:				
Cash and balances with Central Bank of Nigeria	4,653,015	3,072,985	4,653,015	3,072,985
Due from other banks	17,337,847	14,953,328	14,221,127	14,020,829
Loans and advances to customers	35,413,635	39,164,047	35,342,825	39,153,234
Financial assets at FVTPL	1,876,368	4,352,566	1,302,217	3,319,701
Investment securities				
- Fair value through OCI	33,668,763	-	33,592,365	-
- Available-for-sale	-	49,026,893	-	48,888,808
- Amortised cost	1,275,653	-	1,275,653	-
- Held-to-maturity	-	3,902,759	-	3,902,759
Pledged assets - Fair value through OCI	21,099,602	6,823,144	21,099,602	6,823,144
Other assets	4,203,707	3,859,376	4,574,807	3,074,390
Derivative financial assets	219,954	32,562	219,954	32,562
	119,748,543	125,187,660	116,281,565	122,288,413
Loans exposure to total exposure	43.41%	42.79%	42.05%	43.16%
Debt securities exposure to total exposure	52.76%	54.78%	54.00%	54.35%
Other exposures to total exposure	8.93%	6.52%	9.35%	5.76%
Commitments and guarantees				
Performance bonds and guarantees	2,588,750	-	2,588,750	-
Letters of credits	8,172,760	-	8,172,760	-
Total commitments and guarantees	10,761,510	-	10,761,510	-

Balances included in other assets above are those subject to credit risks. Items not subject to credit risk have been excluded. The table above shows a worse-case scenario of credit risk exposures to the Group at 31 December 2018 and 31 December 2017 without taking into consideration any of the collateral held or other credit enhancements attached, if any. The exposures set out above are based on gross amounts as reported in the statement of financial position.

As shown above, 43.37% of the Group's total maximum exposures are derived from Due from other banks and customers (2017: 42.79%) while 52.79% of the Group's total maximum exposures represents exposures to investments in debt securities (2017: 54.78%). The Directors are confident in their ability to continue to control exposure to credit risk which can result from both its risk assets portfolio and debt securities.

5.4 Credit risk concentration

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

5.5 Geographical concentration of risks of financial assets with credit risk exposure

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

GROUP	31 December 2018		
	Within Nigeria	Outside Nigeria	Total
Cash and balances with Central Bank of Nigeria	4,653,015	-	4,653,015
Due from other banks	15,905,550	1,432,297	17,337,847
Loans and advances to customers	35,413,635	-	35,413,635
Financial assets at FVTPL	1,876,368	-	1,876,368
Investment securities:			
- Fair value through OCI	33,668,763	-	33,668,763
- Available-for-sale	-	-	-
- Amortised cost	1,275,653	-	1,275,653
- Held-to-maturity	-	-	-
Pledged assets - FVOCI	21,099,602	-	21,099,602
Other assets	4,203,707	-	4,203,707
Derivative assets	151,597	68,357	219,954
	118,247,889	1,500,654	119,748,543
Commitments and guarantees			
Performance bonds and guarantees	2,588,750	-	2,588,750
Letters of credits	8,172,760	-	8,172,760
Total commitments and guarantees	10,761,510	-	10,761,510

BANK			
Cash and balances with Central Bank of Nigeria	4,653,015	-	4,653,015
Due from other banks	12,808,577	1,412,550	14,221,127
Loans and advances to customers	35,342,825	-	35,342,825
Financial assets at FVTPL	1,302,217	-	1,302,217
Investment securities:			-
- Fair value through OCI	33,592,365	-	33,592,365
- Available-for-sale	-	-	-
- Amortised cost	1,275,653	-	1,275,653
- Held-to-maturity	-	-	-
Pledged assets - FVOCI	21,099,602	-	21,099,602
Other assets	4,574,807	-	4,574,807
Derivative assets	151,597	68,357	219,954
	114,800,658	1,480,907	116,281,565
Commitments and guarantees			
Performance bonds and guarantees	2,588,750	-	2,588,750
Letters of credits	8,172,760	-	8,172,760
Total commitments and guarantees	10,761,510	-	10,761,510



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.5 Geographical concentration of risks of financial assets with credit risk exposure continued

GROUP	31 December 2017		
	Within Nigeria	Outside Nigeria	Total
Cash and balances with Central Bank of Nigeria	3,072,985	-	3,072,985
Due from other banks	8,431,225	6,522,103	14,953,328
Loans and advances to customers	39,164,047	-	39,164,047
Financial assets held-for-trading	4,352,556	-	4,352,556
Investment securities:			
- Available-for-sale investments	49,026,893	-	49,026,893
- Held-to-maturity	3,902,759	-	3,902,759
Pledged assets	6,823,144	-	6,823,144
Other assets	3,859,376	-	3,859,376
	118,632,985	6,522,103	125,155,088

BANK			
Cash and balances with Central Bank of Nigeria	3,072,985	-	3,072,985
Due from other banks	7,498,726	6,522,103	14,020,829
Loans and advances to customers	39,153,234	-	39,153,234
Financial assets held-for-trading	3,319,701	-	3,319,701
Investment securities:			
- Available-for-sale investments	48,888,808	-	48,888,808
- Held-to-maturity	3,902,759	-	3,902,759
Pledged assets	6,823,144	-	6,823,144
Other assets	3,074,390	-	3,074,390
	115,733,747	6,522,103	122,255,850



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.6 Industry/sectoral exposure to credit risk

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

GROUP	Agriculture N'000	Construction and real estate N'000	Information and communication N'000	Financial institutions N'000	Governments N'000	Oil and Gas N'000	Transport and storage N'000	Manufacturing N'000	Others N'000	Total N'000
31 December 2018 Classification										
Cash and balances with Central Bank of Nigeria	-	-	-	-	4,653,015	-	-	-	-	4,653,015
Due from other banks	-	-	-	17,337,847	-	-	-	-	-	17,337,847
Loans and advances to customers	1,938,706	60,110	1,186,914	3,905,034	4,017,595	14,784,253	1,443,534	7,089,273	988,216	35,413,635
Financial assets at fair value through profit or loss	-	-	-	965,560	789,919	-	-	120,889	-	1,876,368
Investment securities	-	128	-	3,053,279	30,802,249	23	-	1,088,686	51	34,944,416
Pledged assets - Fair Value through OCI	-	-	-	-	21,099,602	-	-	-	-	21,099,602
Other assets	-	-	-	-	-	-	-	-	4,203,707	4,203,707
Commitments and guarantees										
- Performance bonds and guarantees	-	1,088,750	-	-	-	-	-	1,500,000	-	2,588,750
- Letters of credits	-	-	-	-	-	77,215	71,325	8,024,220	-	8,172,760
	-	1,088,750	-	-	-	77,215	71,325	9,524,220	-	10,761,510

BANK	Agriculture N'000	Construction and real estate N'000	Information and communication N'000	Financial institutions N'000	Governments N'000	Oil and Gas N'000	Transport and storage N'000	Manufacturing N'000	Others N'000	Total N'000
31 December 2018 Classification										
Cash and balances with Central Bank of Nigeria	-	-	-	-	4,653,015	-	-	-	-	4,653,015
Due from other banks	-	-	-	14,221,127	-	-	-	-	-	14,221,127
Loans and advances to customers	1,938,706	60,110	1,186,914	3,905,034	4,017,595	14,784,253	1,443,534	7,089,273	917,406	35,342,825
Financial assets at fair value through profit or loss	-	-	-	452,623	789,919	-	-	59,675	-	1,302,217
Investment securities	-	-	-	3,028,413	30,751,800	-	-	1,087,805	-	34,868,018
Pledged assets - Fair Value through OCI	-	-	-	-	21,099,602	-	-	-	-	21,099,602
Other assets	-	-	-	-	-	-	-	-	4,574,807	4,574,807
Commitments and guarantees										
- Performance bonds and guarantees	-	1,088,750	-	-	-	-	-	1,500,000	-	2,588,750
- Letters of credits	-	-	-	-	-	77,215	71,325	8,024,220	-	8,172,760
	-	1,088,750	-	-	-	77,215	71,325	9,524,220	-	10,761,510



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.6 Industry/sectoral exposure to credit risk continued

GROUP	Agriculture N'000	Construction and real estate N'000	Information and communication N'000	Financial institutions N'000	Governments N'000	Oil and Gas N'000	Transport and storage N'000	Manufacturing N'000	Others N'000	Total N'000
31 December 2017 Classification										
Cash and balances with Central Bank of Nigeria	-	-	-	-	3,072,985	-	-	-	-	3,072,985
Due from other banks	-	-	-	14,953,328	-	-	-	-	-	14,953,328
Loans and advances to customers	3,486,624	5,941,939	2,145,766	1,107,202	-	11,056,693	1,692,616	13,017,343	715,865	39,164,048
Financial assets held for trading	-	-	-	840,352	1,397,485	-	-	1,069,529	1,045,200	4,352,566
Investment securities	-	459,000	-	113,912	47,975,854	-	-	-	4,380,886	52,929,652
Pledged assets	-	-	-	-	6,823,144	-	-	-	-	6,823,144
Other assets	-	-	-	-	-	-	-	-	3,859,376	3,859,376
	3,486,624	6,400,939	2,145,766	17,014,794	59,269,468	11,056,693	1,692,616	14,086,872	10,001,327	125,155,099

BANK	Agriculture N'000	Construction and real estate N'000	Information and communication N'000	Financial institutions N'000	Governments N'000	Oil and Gas N'000	Transport and storage N'000	Manufacturing N'000	Others N'000	Total N'000
31 December 2017 Classification										
Cash and balances with Central Bank of Nigeria	-	-	-	-	3,072,985	-	-	-	-	3,072,985
Due from other banks	-	-	-	14,020,829	-	-	-	-	-	14,020,829
Loans and advances to customers	3,486,624	5,941,939	2,145,766	1,107,202	-	11,056,693	1,692,616	13,017,343	705,052	39,153,235
Financial assets held-for-trading	-	-	-	122,135	1,397,485	-	-	754,938	1,045,200	3,319,758
Investment securities	-	459,000	-	-	47,957,063	-	-	-	4,375,504	52,791,567
Pledged assets	-	-	-	-	6,823,144	-	-	-	-	6,823,144
Other assets	-	-	-	-	-	-	-	-	3,074,390	3,074,390
	3,486,624	6,400,939	2,145,766	15,250,166	59,250,677	11,056,693	1,692,616	13,772,281	9,200,146	122,255,908



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.6a Credit quality of financial assets using staging classification/internal rating

The credit quality of the financial assets of the Group have been assessed by reference to the staging policy adopted by the Group as follows:

GROUP	Agriculture N'000	Construction and real estate N'000	Information and communication N'000	Financial institutions N'000	Governments N'000	Oil and Gas N'000	Transport and storage N'000	Manufacturing N'000	Others N'000	Total N'000
31 December 2018 Classification										
Stages										
Stage 1	1,938,706	60,110	1,186,914	3,905,034	4,017,595	14,784,253	1,301,505	7,089,273	988,216	35,271,606
Stage 2	-	-	-	-	-	-	142,028	-	-	142,028
Stage 3	-	-	-	-	-	-	-	-	-	-
	1,938,706	60,110	1,186,914	3,905,034	4,017,595	14,784,253	1,443,533	7,089,273	988,216	35,413,634
BANK										
31 December 2018 Classification										
Stages										
Stage 1	1,938,706	60,110	1,186,914	3,905,034	4,017,595	14,784,253	1,301,505	7,089,273	917,406	35,200,796
Stage 2	-	-	-	-	-	-	142,028	-	-	142,028
Stage 3	-	-	-	-	-	-	-	-	-	-
	1,938,706	60,110	1,186,914	3,905,034	4,017,595	14,784,253	1,443,533	7,089,273	917,406	35,342,824
GROUP										
31 December 2017 Classification										
Grades										
A	3,486,624	5,139,394	2,145,766	17,014,662	8,239,823	11,056,693	1,692,616	13,772,281	10,455,360	73,003,219
B	-	-	-	-	-	-	-	-	-	-
C	-	1,261,545	-	-	-	-	-	-	-	1,261,545
	3,486,624	6,400,939	2,145,766	17,014,662	8,239,823	11,056,693	1,692,616	13,772,281	10,455,360	74,264,764
BANK										
31 December 2017 Classification										
Grades										
A	3,486,624	5,139,394	2,145,766	15,250,166	59,250,676	11,056,693	1,692,616	13,772,281	9,339,455	121,133,670
B	-	-	-	-	-	-	-	-	-	-
C	-	1,261,545	-	-	-	-	-	-	-	1,261,545
	3,486,624	6,400,939	2,145,766	15,250,166	59,250,676	11,056,693	1,692,616	13,772,281	9,339,455	122,395,215



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.7a IFRS 9: Expected credit losses

Expected credit losses are based on a range of possible outcomes and consider all available reasonable and supportable information including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of expected credit losses is based primarily on the product of the instrument's probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while Stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument.

An expected credit loss estimate is produced for each individual exposure. Relevant parameters are modelled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward looking information.

Expected credit losses are discounted to the reporting period date using the effective interest rates.

5.7b Measurement of expected credit losses

The measurement of expected credit losses is based primarily on the product of the instrument's probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while Stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument. An expected credit loss estimate is produced for each individual exposure. Relevant parameters are modelled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward looking information.

Expected credit losses are discounted to the reporting period date using the effective interest rate. The assessment of significant increase in credit risk requires significant judgement. The Bank's process to assess changes in credit risk is multifactor and has three main categories:

- **Stage 1** – Assets that are performing. If credit risk is low as of the reporting date or the credit risk has not increased significantly since initial recognition, The Bank recognise a loss allowance at an amount equal to 12-month expected credit losses. This amount of credit losses is intended to represent lifetime expected credit losses that will result if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring.
- **Stage 2** – Assets that have significant increases in credit risk. In instances where credit risk has increased significantly since initial recognition, the Bank measures a loss allowance at an amount equal to full lifetime expected credit losses. That is, the expected credit losses that result from all possible default events over the life of the financial instrument. For these debt instruments, interest income recognition will be based on the EIR multiplied by the gross carrying amount.
- **Stage 3** – Credit impaired. For debt instruments that have both a significant increase in credit risk plus observable evidence of impairment.

5.7c Assessment of significant increase in credit risk

The assessment of significant increase in credit risk requires significant judgement. The Bank's process to assess changes in credit risk is multifactor and has three main categories:

- quantitative element, a quantitative comparison of PD at the reporting date and PD at initial recognition;
- qualitative elements;
- 'backstop' indicators.

For individually significant exposures such as corporate and commercial risk assets, the assessment is driven by the internal credit rating of the exposure and a combination of forward-looking information that is specific to the individual borrower and forward-looking information on the macro economy, commercial sector (to the extent such information has not been already reflected in the rating process).

For other exposures, significant increases in credit risk is made on a collective basis that incorporates all relevant credit information, including forward-looking macroeconomic information. For this purpose, the Bank groups its exposures on the basis of shared credit risk characteristics.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.7b Measurement of expected credit losses continued

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations, if any).

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

5.7d Categorisation of loans and advances to customers

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

31 December 2018						
<i>In thousands of Nigerian Naira</i>	Ex-Staff N'000	Staff N'000	Corporates N'000	Bank N'000	Government N'000	Total N'000
12 months ECL	-	578,852	27,973,396	2,703,790	4,033,563	35,289,601
Lifetime ECL not credit impaired	-	-	151,177	-	-	151,177
Credit impaired loans	67,023	-	1,262,965	-	-	1,329,988
Gross	67,023	578,852	29,387,538	2,703,790	4,033,563	36,770,766
Less allowances for impairment						
Stage 1	-	3,654	67,666	1,517	15,968	88,805
Stage 2	-	-	9,149	-	-	9,149
Stage 3	(67,023)	-	1,262,965	-	-	1,329,988
Total allowance	(67,023)	3,654	1,339,780	1,517	15,968	1,427,942
Net loans and advances	-	575,198	28,047,758	2,702,273	4,017,595	35,342,824

31 December 2017						
Neither past due nor impaired	-	336,216	37,986,229	-	-	38,322,445
Past due but not impaired	-	-	-	-	-	-
Past due and impaired	-	-	1,262,965	-	-	1,262,965
Gross	-	336,216	39,249,194	-	-	39,585,410
Less allowances for impairment						
Specific impairment	-	-	(420,995)	-	-	(420,995)
Collective impairment	-	-	(11,182)	-	-	(11,182)
Total allowance	-	-	(432,177)	-	-	(432,177)
Net loans and advances	-	336,216	38,817,017	-	-	39,153,233



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.8 Credit quality

The Group manages the credit quality of loans and advances using the Moody's Analyst risk rating model for its assessment of obligor risk rating and Bank's internal rating grades as defined by its Risk Assets Acceptance Criteria (RAAC) policy. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates a focused management of the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. The attributable risk ratings are assessed and updated regularly.

i). Credit quality of loans and advances to customers classified by Internal Rating Grade

The credit quality of loans and advances that were in Stage 1 can be assessed by reference to the internal rating system adopted by the Bank as follows:

31 December 2018						
<i>In thousands of Nigerian Naira</i>	Ex-Staff N'000	Staff N'000	Corporates N'000	Bank N'000	Government N'000	Total N'000
Internal rating grades						
A	-	-	-	-	-	-
B	-	-	-	-	-	-
C	-	-	27,973,396	-	4,033,563	32,006,959
D	-	-	-	2,703,790	-	2,703,790
E	-	578,852	-	-	-	578,852
	-	578,852	27,973,396	2,703,790	4,033,563	35,289,601

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

5.8a Loans and advances to customers classified as Stage 2

The breakdown of the gross amount of individually impaired loans and advances classified as Stage 2, along with the fair value of related collateral held by the Bank as security, are as follows:

31 December 2018						
<i>In thousands of Nigerian Naira</i>	Ex-Staff N'000	Staff N'000	Corporates N'000	Bank N'000	Government N'000	Total N'000
Gross loans	-	-	151,177	-	-	151,177
Impairment	-	-	(9,149)	-	-	(9,149)
Net amount	-	-	142,028	-	-	142,028
FV of collateral	-	-	179,999	-	-	179,999
Amount of under collateralisation	-	-	-	-	-	-

31 December 2017						
Gross loans	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Net amount	-	-	-	-	-	-
FV of collateral	-	-	-	-	-	-
Amount of under collateralisation	-	-	-	-	-	-



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.8b Loans and advances to customers classified as Stage 3

The breakdown of the gross amount of individually impaired loans and advances classified as Stage 3, along with the fair value of related collateral held by the Bank as security, are as follows:

31 December 2018	Ex-Staff N'000	Staff N'000	Corporates N'000	Bank N'000	Government N'000	Total N'000
<i>In thousands of Nigerian Naira</i>						
Gross loans	67,023	-	1,262,965	-	-	1,329,988
Impairment	(67,023)	-	(1,262,965)	-	-	(1,329,988)
Net amount	-	-	-	-	-	-
FV of collateral	-	-	-	-	-	-
Amount of under collateralisation	-	-	-	-	-	-

31 December 2017						
Gross loans	-	-	1,274,779	-	-	1,274,779
Impairment	-	-	(420,995)	-	-	(420,995)
Net amount	-	-	853,784	-	-	853,784
FV of collateral	-	-	-	-	-	-
Amount of under collateralisation	-	-	(853,784)	-	-	(853,784)

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

Exposure at default (EAD) constitutes the total exposure amount that is subject to provisioning process and it includes EAD for on-balance sheet and off-balance sheet exposures according to IFRS 9. The latter exposure is weighted by CCF (the credit conversion factor). EAD is divided into current EAD and lifetime EAD.

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

As at 31 December 2018 if the probability of default increased or decreased by 10%, with all other variables (exposure at default and loss given default) held constant, the impact on impairment charge, which ultimately affects profit before tax and exposure at default, would have been as set out in the tables below:

	31 December 2018		31 December 2017	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Increase	(7,912)	(5,538)	(1,118)	(923)
Decrease	7,912	5,538	1,118	923

Credit collateral

The Bank ensures that every risk asset is reviewed and granted based on the strength of the borrowers' cash flow. However, the Bank also ensures its credit facilities are well secured as a second way out. The policies that guide collateral for facilities are embedded within the Bank's collateral policy. All collateral offered must have the following attributes:

- There must be good legal title
- The title must be easy to transfer
- It should be easy and relatively cheap to value
- The value should be appreciating or at least stable
- The security must be easy to sell



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.9 Sensitivity of exposure at default to changes in loan loss impairment continued

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 borrowers' cash flow. However, the Bank also ensures its credit facilities are well secured as a second way out. The policies that guide collateral for facilities are embedded within the Bank's collateral policy. All collateral offered must have the following attributes:

- There must be good legal title
- The title must be easy to transfer
- It should be easy and relatively cheap to value
- The value should be appreciating or at least stable
- The security must be easy to sell

In order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

Summary of collaterals held against loans and advances to customers

An estimate of the fair value of any collateral and other security enhancements held against loans and advances to customers is shown below:

GROUP		
31 December 2018		
<i>In thousands of Nigerian Naira</i>	Gross amount	Collateral
Stage 3	1,329,988	-
Stage 2	151,177	179,999
Stage 1	33,932,470	29,265,036
	35,413,635	29,445,035
Bank		
31 December 2018		
Stage 3	1,329,988	-
Stage 2	151,177	179,999
Stage 1	33,861,660	29,265,036
	35,342,825	29,445,035



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.9 Sensitivity of exposure at default to changes in loan loss impairment continued

Type of collateral	Stage 1	Stage 2	Stage 3
Cash/Treasury bills	1,079,300	-	-
Government guarantee	-	-	-
Bank guarantee	2,896,775	-	-
Mortgage property	3,170,805	-	-
Asset debentures	5,100,000	-	-
Asset financed	1,787,650	-	-
Corporate guarantee	2,828,187	-	-
Insurance and receivables	7,073,123	179,999	-
	23,935,840	179,999	-

GROUP

31 December 2017

In thousands of Nigerian Naira

	Gross amount	Collateral
Stage 3	1,262,964	1,262,964
Stage 2	-	-
Stage 1	38,333,259	23,463,309
	39,596,223	24,726,273

BANK

31 December 2017

Stage 3	1,262,964	1,262,964
Stage 2	-	-
Stage 1	38,322,447	23,463,309
	39,585,411	24,726,273

Type of collateral	Stage 1	Stage 2	Stage 3
Cash/Treasury bills	502,145	-	-
Government guarantee	-	-	1,262,964
Bank guarantee	600,000	-	-
Mortgage property	17,476,706	-	-
Asset debentures	-	-	-
Asset financed	1,312,647	-	-
Corporate guarantee	3,571,811	-	-
Insurance and receivables	-	-	-
	23,463,309	-	1,262,964



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.9 Sensitivity of exposure at default to changes in loan loss impairment continued

Investment securities

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

	Investment securities- (Fair value through OCI)	Investment securities - (Available-for-sale)	Investment securities -(Amortised cost)	Investment securities -(Amortised cost)	Investment securities - (Held-to-maturity)	Total
31 December 2018						
Federal government bonds	2,238,866	-	-	-	324,815	2,563,681
State government bonds	5,941	-	-	-	-	5,941
Corporate bonds	2,840,565	-	783,099	-	501,173	4,124,837
Treasury bills	28,498,576	-	-	-	476,229	28,974,805
Eurobond	-	-	-	-	-	-
Others	84,814	-	492,554	-	574,151	1,151,519
Pledged assets - Fair Value through OCI	21,099,602	-	-	-	-	21,099,602
	54,768,364	-	1,275,653	-	1,876,368	57,920,385
31 December 2017						
Federal government bonds	-	-	732,485	7,035,687	1,100,000	8,868,172
State government bonds	-	-	-	236,965	-	236,965
Corporate bonds	-	-	1,922,273	4,233,481	-	6,155,754
Treasury bills	3,800,467	-	900,897	44,078,192	2,015,732	50,795,288
Eurobond	-	-	-	470,658	-	470,658
	3,800,467.00	-	3,555,655	56,054,983	3,115,732	66,526,837

The Group investment in risk-free Government securities constitutes 54.04% of debt instruments portfolio (31 December 2017: 90%). Investment in corporate bond accounts for the outstanding 8.76% (31 December 2017: 10%).

5.10 Settlement risk

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

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.11 Capital management

The Bank's objectives in managing capital are (i) to comply with the capital requirements set by the Central Bank of Nigeria, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain an optimal capital structure suitable for the Group's business strategy.

The Bank is directly supervised by its regulator, the Central Bank of Nigeria (CBN), who sets and monitors capital requirements for the Group. In 2015, CBN revised the Capital Adequacy Ratio (CAR) reporting template and existing guidance notes on regulatory capital, credit risk, market risk and operational risk disclosure requirement for Basel II implementation in the Industry. The Apex Bank directed all Nigerian Banks and Banking groups to re-compute capital adequacy ratio in line with the revised guidance notes. To this end, the Bank's Capital Adequacy Ratio (CAR) under Basel II has been re-computed in accordance to the new guidelines. The CBN recently hinted that a revised the Capital Adequacy Ratio (CAR) reporting template would be released to accommodate day one adjustments from IFRS 9 impairment calculations.

The CBN specifies approaches for quantifying the risk weighted assets for credit, market and operational risk for the purpose of determining regulatory capital. In compliance with CBN, the Bank adopted the Standardised Approach (SA) in determining capital charge for credit risk and market risk while capital charge for operational risk was determined using the Basic Indicator Approach (BIA).

The Bank's policy is to maintain a strong capital base so as to maintain investor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the advantages and security afforded by a sound capital position. The Bank has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the year.

5.11a Capital adequacy ratio

The capital adequacy ratio, which is the quotient of the capital base of the Bank's risk weighted asset base, has been computed using the Basel II implementation guidelines provided by the Central Bank of Nigeria (CBN). In accordance with extant Central Bank of Nigeria regulations, a minimum ratio of 10% is to be maintained.

CAR is measured as:

$$\frac{\text{Total regulatory capital}}{(\text{Credit Risk Weighted Assets} + \text{Market Risk Weighted Assets} + \text{Operational Risk Weighted Assets})}$$

The Bank's regulatory capital is analysed into two tiers:

Tier 1 capital includes ordinary share capital, share premium, retained earnings and statutory reserves. Intangible assets and deferred tax asset were also deducted from Tier 1 capital for capital adequacy purposes.

Tier 2 capital comprises fair value reserves.

The Bank complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the period.

The Bank throughout the review period, operated above its targeted capitalisation range and well over the CBN mandated regulatory minimum of 10% for Merchant Banks. As at 31 December 2018, the Bank's capital adequacy ratio was 12.18% (31 December 2017: 13.47%).



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5.11a Capital adequacy ratio continued

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

Capital adequacy ratio	31 December 2018	31 December 2017
<i>In thousands of Nigerian Naira</i>		
Tier 1 capital		
Share capital	4,301,577	4,301,577
Share premium	3,904,731	3,904,731
Retained earnings	9,516,426	9,570,194
Statutory reserve	7,482,866	7,174,165
Tier 1 capital before regulatory deduction	25,205,600	24,950,667
Regulatory deductions		
Deferred tax asset	9,113,548	9,590,372
Other intangible assets	1,683,237	2,840,915
Investment in subsidiaries	1,381,773	1,737,106
Total regulatory deduction	(12,178,558)	(14,168,393)
Eligible tier 1 capital	13,027,042	10,782,274
Tier 2 capital		
Fair value reserves	(2,086,380)	(420,731)
Eligible tier 2 capital	(2,086,380)	(420,731)
Total eligible capital	10,940,662	10,361,544
Risk-weighted assets		
Credit risk	69,602,842	54,707,895
Operational risk	17,562,816	11,725,375
Market risk	2,648,328	10,496,029
Total risk-weighted assets	89,813,986	76,929,299
Capital adequacy ratio	12.18%	13.47%
Tier 1 capital ratio	14.50%	14.02%



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

6 Critical accounting estimates and judgements

The preparation of the Group's financial statements requires Management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, Management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial Management judgement and/or estimates are collated below.

These disclosures supplement the commentary on financial risk management (see Notes 4 and 5).

(a) Key sources of estimation uncertainty

(i) Measurement of the expected credit loss allowance

The measurement of the expected credit loss (ECL) allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Details of the inputs, assumptions and estimation methodologies used in measuring ECL are described in Note 3.26(ii), which also sets out the sensitivities of the ECL to changes in these elements.

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; Significant assumptions include the Probability of default (PD), Loss given default (LGD) and Discount rate;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing groups of financial assets for the purposes of measuring ECL.

Expected credit losses are based on a range of possible outcomes and consider all available reasonable and supportable information including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of expected credit losses is based primarily on the product of the instrument's probability of default (PD), loss given default (LGD) and exposure at default (EAD) discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while Stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument.

An expected credit loss estimate is produced for each individual exposure. Relevant parameters are modeled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward looking information.

Expected credit losses are discounted to the reporting period date using the effective interest rate.

(ii) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of techniques as described in accounting policy. Further disclosures on the Group's valuation methodology have been made on Note 4.3(d). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(iii) Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies. In determining the timing and level of future taxable profits together with future tax planning strategies, the Group assessed the probability of expected future taxable profits based on expected revenues for the next five years. Details of the Group's recognised and unrecognised deferred tax assets and liabilities are as disclosed in Note 30.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(iv) Valuation of derivative contracts

The fair value of the Group's derivatives is determined by using valuation techniques. Inputs to the valuation models are all based on market conditions existing at the end of each reporting period. The Group has used interest rate parity method discounted for passage of time in the valuation of its foreign exchange derivative contracts. These derivative contracts are not traded in active markets.

(b) Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include:

(i) Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see the Group's accounting policy on valuation of financial instruments in Note 3.26.

The table below shows the fair value of the Group's derivatives if there is 1% change in interest rates or a 1% change in foreign currency exchange rates.

<i>In thousands of Nigerian Naira</i>	Exchange rates	
	1% decrease	1% increase
Derivative assets	(175)	175
Derivative liabilities	175	(175)

(ii) Allowance for credit losses

In estimating credit losses, the Group considers the character and capacity of the obligor, the probability that an obligor or counterparty will default over a given period (probability of default -PD), the portion of the loan expected to be irrecoverable at the time of loan default (loss given default - LGD) and expected amount that is outstanding at the point of default.

(iii) Impairment testing for cash-generating units containing goodwill

On an annual basis, the Group carries out impairment assessments of its cash generating units containing goodwill. The recoverable amounts of the cash-generating units (CGU) are determined based on value-in-use calculations which require the use of estimates including discount rates and terminal growth rates. Management's estimates of the recoverable amounts of these CGU's is sensitive to these estimates. The key assumptions underlying the recoverable amounts as well as sensitivity analysis of these key assumptions are disclosed in Note 3.16.

(iv) Determination of exchange rate used for translation

The Group translates and records its foreign currency transactions and balances based on the exchange rate at which the future cash flows represented by the transactions or balances could have been settled, if those cash flows had occurred at the reporting date. The Central Bank official rate has been used for the translation of foreign currency balances as this remains the main source of foreign currencies for the Bank's transactions.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

7 Interest income

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>				
Loans and advances to customers at amortised cost	6,198,135	8,520,678	6,256,737	8,520,584
Due from other banks	1,733,183	1,151,715	1,465,528	1,110,223
Financial assets held-for-trading	-	1,187,357	-	1,187,357
Investment securities				
- Fair value through other comprehensive income	8,534,594	-	8,502,877	-
- Available-for-sale	-	8,138,598	-	8,134,335
- At amortised cost	164,245	-	164,245	-
- Held-to-maturity	-	41,832	-	41,832
	16,630,157	19,040,180	16,389,387	18,994,331

8 Interest expense

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>				
Due to banks	1,272,910	2,661,019	1,272,910	2,661,019
Due to customers	10,999,469	9,420,151	11,060,153	9,458,179
	12,272,379	12,081,170	12,333,063	12,119,198

9 Impairment charge

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>				
Impairment charge on financial assets				
Loans and advances to staff (Note 24)				
12-month ECL	(3,654)	-	(3,654)	-
Lifetime ECL not credit impaired	-	-	-	-
Lifetime ECL credit impaired	-	-	-	-
Loans and advances to customers (Note 24)				
12-month ECL	(33,372)	-	(33,372)	-
Lifetime ECL not credit impaired	(9,149)	-	(9,149)	-
Lifetime ECL credit impaired	(67,023)	-	(67,023)	-
Specific impairment/(writeback)	-	79,552	-	79,552
Collective impairment/(writeback)	-	8,482	-	8,482
	(113,198)	88,034	(113,198)	88,034
Other assets (Note 25)				
Amount written off during the year as uncollectible				
- Financial Advisory Fee	(3,000)	-	(3,000)	-
Net impairment charge on financial assets	(116,198)	88,034	(116,198)	88,034
Impairment charge on non-financial assets				
Impairment charge on Investment in subsidiaries	-	-	(355,333)	-
Impairment charge on other non-financial assets	-	(633,268)	-	(559,463)
Net impairment charge on non-financial assets	-	(633,268)	(355,333)	(559,463)
	(116,198)	(545,234)	(471,531)	(471,429)



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

10 Fees and commission income

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>				
Credit-related fees	555,002	306,686	555,002	306,685
Brokerage and structuring fees	2,678,030	3,622,360	2,654,392	3,529,925
Letters of credit commissions and fees	180,819	241,509	180,819	241,509
Other fees and commissions	351,808	279,777	80,689	68,311
Fund Management fees	2,954,831	1,151,467	-	-
	6,720,490	5,601,799	3,470,902	4,146,430

11 Net gains on foreign exchange

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>				
Gain on foreign currency translation	766,813	257,469	668,077	164,610
	766,813	257,469	668,077	164,610

11a Net gains on financial assets at FVTPL

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>				
Trading gain	778,077	980,325	757,130	964,154
Interest income	76,808	-	76,808	-
Unrealised gain/(loss)	315,884	(114,350)	325,270	(128,686)
	1,170,768	865,975	1,159,208	835,468

12 Other operating income

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>				
Sundry income	39,141	316,373	59,878	41,430
Dividend Income	51,196	27,787	655,327	-
	90,337	344,160	715,205	41,430



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

13 Other operating expenses

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Auditors' remuneration	78,683	79,153	60,000	60,000
Directors' emoluments (Note 42)	397,008	299,023	336,086	275,481
Administration and general expenses	457,068	308,258	121,546	279,731
Insurance	783,839	305,743	465,574	303,449
Rent and rates	418,621	124,920	194,154	124,920
Travelling	316,801	270,487	210,771	260,867
Donations	10,300	65,900	10,300	65,650
Corporate development	532,553	145,225	266,125	141,209
Other operating expenses	491,878	129,220	256,776	35,065
Periodicals and subscriptions	117,826	73,533	80,780	61,988
Consultancy	542,618	212,689	474,002	200,078
Loss on sale of property and equipment	6,015	35,254	6,015	35,254
Training	541,682	182,958	396,176	173,282
License fees	1,022	767,182	474	767,182
Communication and postage expenses	246,692	68,421	97,088	68,421
Bank charges	187,527	186,527	187,527	181,977
Repairs and maintenance	114,660	117,567	83,672	117,567
	5,244,794	3,372,060	3,247,066	3,152,120

14 Personnel expenses

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Wages and salaries	3,018,704	2,986,820	2,391,497	2,614,273
Pension costs:		-		
- Defined contribution plans to PFAs	185,677	161,803	181,543	149,162
	3,204,381	3,148,623	2,573,040	2,763,435

15 Taxation

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Corporate tax	651,240	2,249,412	212,100	1,579,252
	651,240	2,249,412	212,100	1,579,252
Deferred tax	(167,840)	(966,108)	-	(715,651)
Income tax (credit)/expense	483,400	1,283,304	212,100	863,601



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

	31 December 2018	%	31 December 2017	%	31 December 2018	%	31 December 2017	%
Reconciliation of effective interest rate								
Profit before income tax	2,801,080		6,166,919		2,270,112		4,948,065	
Income tax using the domestic corporation tax rate	840,324	30%	1,850,075	30%	681,034	30%	1,484,419	30%
Minimum tax	398,659	14%	560,101	11%	-	-	-	-
Dividend tax	212,100	8%	1,529,518	31%	212,100	9%	1,529,518	31%
Technology tax	13,971	0.5%	70,053	1%	-	-	49,734	1%
Income not subjected to tax	(3,126,055)	(112%)	(4,650,607)	(94%)	(2,811,967)	(124%)	(4,020,234)	(81%)
Expenses not deductible for tax purposes	2,144,402	77%	1,924,164	39%	2,130,933	94%	1,820,164	37%
Income tax expense	483,400	17.26%	1,283,304	18.55%	212,100	9.30%	863,601	17.45%

15b Current income tax liabilities

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
At start of period	2,249,412	363,559	1,579,252	363,559
Payments made during the period	(2,184,343)	(363,559)	(1,578,999)	(363,559)
Current period's provision	651,240	2,249,412	212,100	1,579,252
At end of period	716,309	2,249,412	212,353	1,579,252

Income tax expense is recognised based on Management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the Year to 31 December 2018 is 7%, compared to 5% for the Year ended 31 December 2017.

16 Earnings per share

(a) 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 period.

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Profit attributable to equity holders	2,317,680	4,883,615	2,058,012	4,084,464
Weighted average number of ordinary shares in issue (in '000s)	4,301,577	4,301,577	4,301,577	4,301,577
Weighted average number of ordinary shares in issue (in '000s)	4,301,577	4,301,577	4,301,577	4,301,577
Basic earnings per share (expressed in Kobo per share)	54	114	48	95

(b) Diluted

The Bank does not have potential ordinary shares with convertible options and therefore there is no dilutive impact on the profit attributable to the equity holders of the parent (31 December 2017: Nil).

17 Cash and balances with Central Bank of Nigeria

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Cash	2,249	1,908	2,249	1,908
Balances with central banks excluding mandatory reserve deposits	770,901	898,279	770,901	898,279
Included in cash and cash equivalents	773,150	900,187	773,150	900,187
Mandatory reserve deposits with Central Bank of Nigeria	3,879,865	2,172,798	3,879,865	2,172,798
	4,653,015	3,072,985	4,653,015	3,072,985



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

18 Due from other banks

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Current account balances with banks within Nigeria	3,991,835	1,207,811	2,908,081	1,027,230
Current account balances with banks outside Nigeria	1,432,297	6,998,287	1,412,550	6,993,120
Placements with financial institutions within Nigeria	11,913,715	6,747,230	9,900,496	6,000,479
	17,337,847	14,953,328	14,221,127	14,020,829
Collective impairment	-	-	-	-
	17,337,847	14,953,328	14,221,127	14,020,829
Current	17,337,847	14,953,328	14,221,127	14,020,829

19 Cash and cash equivalents

Cash and cash equivalents for purposes of the cash flow statements comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities less than three months. Excluded from loans and advances to banks are cash collateral balance.

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Cash and balances with Central Bank of Nigeria	773,150	900,187	773,150	900,187
Treasury bills with original maturities less than 3 months	15,137,700	5,642,110	15,137,700	5,642,110
Due from other banks with original maturities less than 3 months	17,337,846	13,955,938	14,221,127	13,023,439
	33,248,696	20,498,235	30,131,977	19,565,736

20 Financial assets At FVTPL (2017: Held-for-trading)

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Federal Government of Nigeria (FGN) bonds	324,815	2,418,805	324,815	2,418,805
Corporate bonds	501,173	-	501,173	-
Treasury bills	476,229	900,896	476,229	900,896
Unlisted equity investments	303,961	284,749	-	-
Listed equity investments	270,190	748,116	-	-
	1,876,368	4,352,566	1,302,217	3,319,701
Current	550,827	900,896	550,827	900,896
Non-current	1,325,541	3,451,670	751,390	2,418,805
	1,876,368	4,352,566	1,302,217	3,319,701



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

21 Investments securities

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Fair value through OCI				
<i>Debt securities</i>				
Treasury bills	28,498,576	-	28,448,127	-
Federal Government of Nigeria Bonds	2,238,867	-	2,238,867	-
State bonds	5,941	-	5,941	-
Corporate bonds	2,840,565	-	2,840,565	-
	33,583,949	-	33,533,500	-
Available-for-sale				
<i>Debt securities</i>				
Treasury bills	-	36,801,529	-	36,782,739
Federal Government of Nigeria Bonds	-	7,035,687	-	7,035,687
State bonds	-	235,878	-	235,878
Corporate bonds	-	4,858,992	-	4,758,666
	-	48,932,086	-	48,812,970
<i>Equity securities at FVOCI</i>				
Listed equity investments	3,148	-	-	-
Unlisted equity investments	81,666	-	58,865	-
	84,814	-	58,865	-
<i>Equity securities Available-for-sale</i>				
Listed equity investments	-	5,384	-	-
Unlisted equity investments	-	89,423	-	75,838
	-	94,807	-	75,838
Total investments securities	33,668,763	49,026,893	-	48,888,808

The Group has designated at FVOCI, investments in a small portfolio of quoted equity securities and investments in the following unquoted equity securities;

- Nigeria Inter-Bank Settlement System Plc
- FMDQ OTC Securities Exchange
- Central Securities Clearing System Plc

The Group chose this measurement basis because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

The fair value of these investments is ₦84.8mn as at 31 December 2018.

Current	28,504,517	42,656,135	28,454,068	42,656,135
Non-current	5,164,246	6,370,758	5,138,297	6,232,673
	33,668,763	49,026,893	33,592,365	48,888,808



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

22 Debt securities at amortised cost

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Commercial papers	492,554	-	492,554	-
Corporate Bonds	783,099	-	783,099	-
	1,275,653	-	1,275,653	-
Held-to-maturity				
Commercial papers	-	3,902,759	-	3,902,759
Corporate Bonds	-	-	-	-
	-	3,902,759	-	3,902,759
Total	1,275,653	3,902,759	1,275,653	3,902,759
Current	1,275,653	3,902,759	1,275,653	3,902,759

23 Pledged assets

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Fair value through OCI				
Treasury bills	16,153,676	6,823,144	16,153,676	6,823,144
Federal Government of Nigeria Bonds	4,945,926	-	4,945,926	-
	-	-	-	-
	21,099,602	6,823,144	21,099,602	6,823,144
Treasury bills are pledged to other financial institutions as collateral for inter-bank takings (OBB takings).				
Current	16,153,676	6,823,144	16,153,676	6,823,144
Non-current	4,945,926	-	4,945,926	-
	21,099,602	6,823,144	21,099,602	6,823,144



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

24 Loans and advances to customers

	GROUP	BANK
	31 December 2018	31 December 2018
<i>In thousands of Nigerian Naira</i>		
Loans and advances to customers	36,191,915	36,191,915
Staff loans	649,662	578,852
Gross loans	36,841,577	36,770,767
Loans and advances to customers	(85,151)	(85,151)
Staff loans	(3,654)	(3,654)
Impairment on 12-month ECL	(88,805)	(88,805)
Loans and advances to customers	(9,149)	(9,149)
Staff loans	-	-
Impairment on lifetime ECL not credit impaired	(9,149)	(9,149)
Loans and advances to customers	(1,329,988)	(1,329,988)
Staff loans	-	-
Impairment on lifetime ECL credit impaired	(1,329,988)	(1,329,988)
Loans and advances to customers	(1,424,288)	(1,424,288)
Staff loans	(3,654)	(3,654)
Total impairment	(1,427,942)	(1,427,942)
Loans and advances to customers	34,767,627	34,767,627
Staff loans	646,008	575,198
Net carrying amount	35,413,635	35,342,825
	Group	Bank
	31 December 2017	31 December 2017
Loans and advances to customers	39,249,194	39,249,194
Staff loans	347,028	336,216
Gross loans	39,596,222	39,585,410
Loans and advances to customers	(420,995)	(420,995)
Staff loans	-	-
Specific impairment	(420,995)	(420,995)
Loans and advances to customers	(11,182)	(11,182)
Staff loans	-	-
Collective impairment	(11,182)	(11,182)
Loans and advances to customers	(432,177)	(432,177)
Staff loans	-	-
Total impairment	(432,177)	(432,177)
Loans and advances to customers	38,817,017	38,817,017
Staff loans	347,028	336,216
Net carrying amount	39,164,045	39,153,233



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

24 Loans and advances to customers continued

Reconciliation of impairment allowance on loans and advances to customers:

GROUP	Specific allowance for impairment	Collective allowance for impairment	Total	Stage 1 impairment	Stage 2 impairment	Stage 3 impairment	Total impairment
December 2018							
Balance at 31 December 2017 per IAS 39	420,995	11,182	432,177	-	-	-	-
IFRS 9 Reclassifications	(420,995)	(11,182)	(432,177)	11,182	-	420,995	432,177
IFRS 9 Adjustments	-	-	-	40,597	-	841,970	882,567
Balance at 1 January 2018 per IFRS 9	-	-	-	51,779	-	1,262,965	1,314,744
Increase/(reversal) in impairment allowances	-	-	-	37,026	9,149	67,023	113,198
Balance at the end of the year	-	-	-	88,805	9,149	1,329,988	1,427,942

Bank							
December 2018							
Balance at 31 December 2017 per IAS 39	420,995	11,182	432,177	-	-	-	-
IFRS 9 Reclassifications	(420,995)	(11,182)	(432,177)	11,182	-	420,995	432,177
IFRS 9 Adjustments	-	-	-	40,597	-	841,970	882,567
Balance at 1 January 2018 per IFRS 9	-	-	-	51,779	-	1,262,965	1,314,744
Increase/(reversal) in impairment allowances	-	-	-	37,026	9,149	67,023	113,198
Balance at the end of the year	-	-	-	88,805	9,149	1,329,988	1,427,942

	GROUP 31-Dec-17			BANK 31-Dec-17		
	Specific impairment	Collective impairment	Total impairment	Specific impairment	Collective impairment	Total impairment
At 1 January	500,547	19,664	520,211	500,547	19,664	520,211
Increase in impairment allowance	-	-	-	-	-	-
Reversal of impairment	(79,552)	(8,482)	(88,034)	(79,552)	(8,482)	(88,034)
Balance at the end of the year	420,995	11,182	432,177	420,995	11,182	432,177

GROUP 2018	Total 31-Dec-18			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2018	51,779	-	1,262,965	1,314,744
Derecognised	11,634	-	-	11,634
Impairment recognised during the year	25,397	9,144	67,023	101,564
Transfer between stages	(5)	5	-	-
Balance at 31 December 2018	88,805	9,149	1,329,988	1,427,942



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

24 Loans and advances to customers continued

	Loans to customers 31-Dec-18			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2018	51,779	-	1,262,965	1,314,744
Derecognised	11,634	-	-	11,634
Impairment recognised during the year	21,742	9,144	-	30,887
Transfer between stages	(5)	5	-	-
Balance at 31 December 2018	85,151	9,149	1,262,965	1,357,265

	Staff loans 31-Dec-18			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2018	-	-	-	-
Derecognised	-	-	-	-
Impairment recognised during the year	3,654	-	67,023	70,677
Transfer between stages	-	-	-	-
Balance at 31 December 2018	3,654	-	67,023	70,677

	Total 31-Dec-17		
	Specific impairment	Collective impairment	Total impairment
At 1 January 2017	500,547	19,664	520,211
Increase in impairment allowance	-	-	-
Reversal of impairment	(79,552)	(8,482)	(88,034)
Balance at the end of the year	420,995	11,182	432,177

	Loans to customers 31-Dec-17		
	Specific impairment	Collective impairment	Total impairment
At 1 January 2017	500,547	19,664	520,211
Increase in impairment allowance	-	-	-
Reversal of impairment	(79,552)	(8,482)	(88,034)
Balance at the end of the year	420,995	11,182	432,177

	Loans to customers 31-Dec-17		
	Specific impairment	Collective impairment	Total impairment
At 1 January 2017	-	-	-
Increase in impairment allowance	-	-	-
Reversal of impairment	-	-	-
Balance at the end of the year	-	-	-



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

24 Loans and advances to customers continued

BANK 2018

	Total 31-Dec-17		
	Specific impairment	Collective impairment	Total impairment
At 1 January 2017	500,547	19,664	520,211
Increase in impairment allowance	-	-	-
Reversal of impairment	(79,552)	(8,482)	(88,034)
Balance at the end of the year	420,995	11,182	432,177

	Loans to customers 31-Dec-17		
	Specific impairment	Collective impairment	Total impairment
At 1 January 2017	500,547	19,664	520,211
Increase in impairment allowance	-	-	-
Reversal of impairment	(79,552)	(8,482)	(88,034)
Balance at the end of the year	420,995	11,182	432,177

	Loans to customers 31-Dec-17		
	Specific impairment	Collective impairment	Total impairment
At 1 January 2017	-	-	-
Increase in impairment allowance	-	-	-
Reversal of impairment	-	-	-
Balance at the end of the year	-	-	-



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

25 Other assets

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Financial assets:				
Fees receivable	4,400,156	3,113,345	4,216,322	2,348,122
AGSMEIS investment fund	449,215	244,991	449,215	244,991
Dividends receivable	-	-	655,327	-
Intercompany receivable	966,914	613,236	966,914	613,236
Other receivable	136,401	31,013	36,008	11,250
	5,952,686	4,002,585	6,323,786	3,217,599
Amount written-off during the year as uncollectible - Financial Advisory Fee	(1,748,979)	(139,309)	(1,748,979)	(139,309)
Less allowances for impairment-ex-staff receivable	-	(3,900)	-	(3,900)
	4,203,707	3,859,376	4,574,807	3,074,390
Non-financial assets:				
Withholding tax receivable	1,299,252	1,211,811	1,102,395	848,636
Prepayments	1,061,695	657,502	1,061,695	657,502
	6,564,654	5,728,689	6,738,897	4,580,528
Less allowances for impairment	(587,483)	(587,735)	(587,483)	(587,483)
	5,977,171	5,140,954	6,151,414	3,993,045
The allowance for impairment relates to fees receivable as at 31 December 2018.				
Current	5,482,998	3,684,155	5,657,241	3,477,067
Non-current	494,173	1,456,799	494,173	515,978
	5,977,171	5,140,954	6,151,414	3,993,045
Allowance for impairment on financial asset				
Balance at 1 January	143,209	3,900	143,209	3,900
Impact of IFRS 9 adoption	1,602,770	139,309	1,602,770	139,309
Adjusted opening balance	1,745,979	143,209	1,745,979	143,209
Additional provision	-	-	-	-
Balance at 31 December 2018	1,745,979	143,209	1,745,979	143,209
Allowance for impairment on non-financial asset				
Balance at 1 January	587,483	167,329	587,483	167,329
Impact of IFRS 9 adoption	-	-	-	-
Adjusted opening balance	587,483	167,329	587,483	167,329
Additional provision	-	-	-	-
Balance at 31 December 2018	-	420,154	-	420,154
	587,483	587,483	587,483	587,483



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

26 Investment in subsidiaries

	BANK 31 December 2018	BANK 31 December 2017
<i>In thousands of Nigerian Naira</i>		
Investment in FBNQuest Securities Limited		
investment in FBNQuest Assets Management Limited	1,448,100	1,448,100
	289,006	289,006
Less allowances for impairment	1,737,106	1,737,106
	(355,333)	-
	1,381,773	1,737,106
Allowance for impairment on investment in subsidiaries		
Balance at 1 January		
Additional provision	-	-
	(355,333)	-
	(355,333)	-

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

26.1 Group entities

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

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

	31 December 2017
FBNQuest Securities Limited	1,179,363
FBNQuest Asset Management Limited	289,006
	1,468,369

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

26.2 The summarised financial information of the subsidiaries is as follows:

i Condensed statement of comprehensive income

	FBNQAM	FBNQSEC
	31 December 2018	31 December 2018
<i>In thousands of Nigerian Naira</i>		
Operating income	3,363,208	531,701
Total operating expenses	(1,966,152)	(1,098,592)
Net impairment gain/(loss) on financial assets	-	-
Profit/(loss) before income tax	1,397,056	(566,891)
Income tax expense	(448,180)	177,625
Profit/(loss) for the period	948,876	(389,266)

ii Condensed statement of financial position as at 31 December 2017

	31 December 2018	31 December 2018
<i>In thousands of Nigerian Naira</i>		
Assets		
Cash and cash equivalents	2,386,839	1,731,032
Prepayments	-	-
Financial assets:		
Fair value through profit and loss	303,961	270,190
Fair value through other comprehensive income	-	76,398
Amortised cost	1,059,842	50,623
Loans and receivables	-	-
Property and equipment	60,498	15,717
Intangible assets	68,720	73,402
Deferred tax assets	-	306,356
Deposit with NSE	-	1,150
	3,879,860	2,524,868
Financed by:		
Accruals and other liabilities	1,911,235	534,612
Customer deposits	-	882,253
Tax payable	498,296	5,662
Deferred tax liabilities	96,873	-
Total equity	1,373,457	1,102,341
	3,879,860	2,524,868



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

26.2 The summarised financial information of the subsidiaries is as follows continued

iii Condensed cash flows

<i>In thousands of Nigerian Naira</i>	31 December 2018	31 December 2018
Net cash from operating activities	1,681,134	494,070
Net cash from financing activities	-	(4,556)
Net cash from investing activities	117,763	30,570
Increase/(decrease) in cash and cash equivalents	1,798,897	520,084
Withholding tax credit	(454,503)	-
Cash and cash equivalents at beginning of period	1,042,444	1,210,948
Cash and cash equivalents at end of period	2,386,838	1,731,032

27 Deposit with Nigerian Stock Exchange

<i>In thousands of Nigerian Naira</i>	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
FBNQuest Securities Limited	1,150	1,150	-	-
	1,150	1,150	-	-



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

28 Property and equipment (Group)

<i>In thousands of Nigerian Naira</i>	Freehold building	Land	Motor vehicle	Office improvement	Furniture fittings	Office equipment	Computer equipment	Total
2018								
Cost								
At 1 January	675,355	200,000	872,957	70,832	105,779	121,601	536,241	2,582,765
Addition during the period	-	-	319,918	24,837	9,298	24,518	96,533	475,104
Disposals during the period	-	-	(91,107)	-	(3,960)	(60,060)	(29,431)	(184,558)
At 31 December	675,355	200,000	1,101,768	95,669	111,117	86,059	603,343	2,873,311
Depreciation								
At 1 January	94,637	-	286,474	7,493	66,181	104,738	147,735	707,258
Charge for period	19,684	-	332,865	15,184	2,923	8,480	180,597	559,733
Disposals during the period	-	-	(60,263)	-	(3,853)	(59,602)	(29,413)	(153,131)
At 31 December	114,321	-	559,076	22,677	65,251	53,618	298,919	1,113,860
Net book value								
At 31 December, 2018	561,034	200,000	542,692	72,992	45,866	32,441	304,424	1,759,451
2017								
Cost								
At 1 January	675,355	200,000	367,610	-	72,723	111,118	125,590	1,552,396
Assets acquired on business combinations	-	-	29,263	-	-	303	1	29,567
Addition during the period	-	-	563,513	70,832	42,881	13,973	411,183	1,102,382
Disposals during the period	-	-	(87,428)	-	(9,825)	(3,793)	(532)	(101,578)
At 31 December	675,355	200,000	872,957	70,832	105,779	121,601	536,241	2,582,766
Depreciation								
At 1 January	76,106	-	138,985	-	62,044	104,227	114,842	496,205
Charge for period	18,531	-	195,227	7,493	9,853	4,303	33,122	268,530
Disposals during the period	-	-	(47,739)	-	(5,716)	(3,793)	(229)	(57,477)
At 31 December	94,637	-	286,474	7,493	66,181	104,739	147,735	707,259
Net book value								
At 31 December 2017	580,718	200,000	586,483	63,339	39,598	16,862	388,507	1,875,507

28 Property and equipment (Bank)

<i>In thousands of Nigerian Naira</i>	Freehold building	Land	Motor vehicle	Office improvement	Furniture fittings	Office equipment	Computer equipment	Total
2018								
Cost								
At 1 January	675,355	200,000	779,336	70,832	105,716	120,447	536,241	2,487,927
Addition during the period	-	-	292,360	24,837	9,298	24,213	96,533	447,241
Disposals during the period	-	-	(91,107)	-	(3,960)	(60,060)	(29,431)	(184,558)
At 31 December	675,355	200,000	980,589	95,669	111,055	84,600	603,343	2,750,610
Depreciation								
At 1 January	94,637	-	276,622	7,493	66,181	104,642	147,735	697,310
Charge for period	19,684	-	296,154	15,184	2,923	8,249	180,597	522,791
Disposals during the period	-	-	(59,861)	-	(3,853)	(59,602)	(29,413)	(152,728)
At 31 December	114,321	-	512,915	22,677	65,252	53,290	298,919	1,067,373
Net book value								
At 31 December, 2018	561,034	200,000	467,674	72,992	45,803	31,310	304,424	1,683,237
2017								
Cost								
At 1 January	675,355	200,000	367,610	-	72,723	111,118	125,590	1,552,396
Addition during the year	-	-	499,154	70,832	42,818	13,122	411,183	1,037,110
Disposals during the year	-	-	(87,428)	-	(9,825)	(3,793)	(532)	(101,578)
At 31 December 2017	675,355	200,000	779,336	70,832	105,716	120,447	536,241	2,487,927
Depreciation								
At 1 January	76,106	-	138,985	-	62,044	104,227	114,842	496,205
Charge for Year	18,531	-	185,375	7,493	9,853	4,207	33,122	258,581
Disposals during the year	-	-	(47,739)	-	(5,716)	(3,793)	(229)	(57,477)
At 31 December 2017	94,637	-	276,623	7,493	66,181	104,642	147,735	697,310
Net book value								
At 31 December 2017	580,718	200,000	502,714	63,339	39,535	15,805	388,507	1,790,618



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

29 Intangible assets

GROUP 2018	Computer Software	Work In Progress	Total
Cost			
At 1 January	3,439,425	395,002	3,834,427
Additions for the year	214,335	62,247	276,582
Disposals	(159,465)	-	(159,465)
Transfers	-	(316,480)	(316,480)
At 31 Dec 2018	3,494,295	140,769	3,635,064
Amortisation			
At 1 January	713,523	-	713,523
Charge for Year	1,179,999	-	1,179,999
Disposals during the year	(158,814)	-	(158,81)
At 31 Dec 2018	1,734,708	-	1,734,708
	1,759,587	140,769	1,900,356

GROUP 2017			
Cost			
At 1 January	200,977	958,084	1,159,061
Acquired on business combination	334,407		334,407
Additions for the year	2,028,297	312,662	2,340,959
Transfers	875,744	(875,744)	-
At 31 December 2017	3,439,425	395,002	3,834,427
Amortisation			
At 1 January	186,476	-	186,476
Charge for Year	527,047	-	527,047
At 31 December 2017	713,523	-	713,523
	2,725,902	395,002	3,120,904



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

29 Intangible assets continued

BANK 2018	Computer Software	Work In Progress	Total
Cost			
At 1 January	3,103,458	393,374	3,496,832
Additions for the year	157,370	62,247	219,617
Disposals	(159,465)	-	(159,465)
Transfers	-	(316,480)	(316,480)
At 31 December 2018	3,101,363	139,141	3,240,504
Amortisation			
At 1 January	655,908	-	655,908
Charge for Year	985,176	-	985,176
Disposals during the year	(158,815)	-	(158,815)
At 31 December 2018	1,482,269	-	1,482,269
	1,619,094	139,141	1,758,235

BANK 2017			
Cost			
At 1 January	200,977	958,084	1,159,061
Additions for the year	2,026,737	311,034	2,337,771
Transfers	875,744	(875,744)	-
At 31 December 2017	3,103,458	393,374	3,496,832
Amortisation			
At 1 January			
Charge for Year	186,476	-	186,476
At 31 December 2017	469,441	-	469,441
	655,917	-	655,917
	2,447,541	393,374	2,840,915



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

30 Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2017: 30%).

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

	GROUP		BANK	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Deferred tax liabilities				
Property, plant and equipments and intangible assets	-	558,647	-	476,825
Deferred tax assets				
Tax loss carry forward	(9,322,285)	(9,711,230)	(9,113,548)	(9,590,372)
Net	(9,322,285)	(9,152,583)	(9,113,548)	(9,113,547)
Deferred tax assets				
- Deferred tax asset to be recovered after more than 12 months	(9,322,285)	(9,711,230)	(9,113,548)	(9,590,372)
- Deferred tax asset to be recovered within 12 months	-	-	-	-
Deferred tax liabilities				
- Deferred tax liability to be recovered after more than 12 months	-	558,647	-	476,825
- Deferred tax liability to be recovered within 12 months	-	-	-	-

Movements in temporary differences during the period:

	1 January 2018	Recognised in profit and loss	Recognised in OCI	31 December 2018
Tax losses	8,992,593	169,702	-	9,162,295
Unabsorbed capital allowance	648,287	-	-	648,287
Unrealised exchange difference	(69,361)	-	-	(69,361)
Impairment charge	174,151	-	-	174,151
Property and equipment and intangible assets	(606,541)	-	-	(606,541)
Tax loss carry forward	13,454	-	-	13,454
	9,152,583	-	-	9,322,285

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. The Group has a deferred tax assets amounting to ₦12.48billion as at 31 December 2018 (31 December 2017: ₦9.15million) of ₦9.32 has been recognised. Based on Management assessment, the deferred tax asset is recoverable against future tax profits.

31 Due to banks

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>				
Due to banks comprise:				
Tenored interbank deposit	-	10,323,992	-	11,639,548
Open buy back - Treasury bills	8,003,945	-	8,003,945	-
	8,003,945	10,323,992	8,003,945	11,639,548
Current	8,003,945	10,323,992	8,003,945	11,639,548
Non-current	-	-	-	-
	8,003,945	10,323,992	8,003,945	11,639,548



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

32 Due to customers

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>				
Call deposits	3,404,894	4,973,741	3,523,792	4,512,399
Intermediation money	36,881,228	-	36,881,228	-
Fixed deposits	50,572,349	82,978,585	50,572,349	82,978,585
	90,858,472	87,952,326	90,977,369	87,490,984
Current	90,858,472	87,952,326	90,977,369	87,490,984
	90,858,472	87,952,326	90,977,369	87,490,984

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

33 Other liabilities

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>				
Financial liabilities:				
Customer deposits for letters of credit	469,929	1,028,884	469,930	1,028,884
Accounts payable	7,770,646	725,523	8,000,797	364,239
Dividend payable	-	8,700,000	-	8,700,000
Uncleared effects	2,000	13,670	2,000	13,670
Intercompany balances	558,572	-	-	-
	8,801,147	10,468,077	8,472,727	10,106,793
Non financial liabilities:				
Accrued liabilities	1,272,495	2,421,473	368,967	1,500,490
Provisions	-	-	-	-
	10,073,642	12,889,550	8,841,694	11,607,283
Current	10,073,642	12,889,550	8,841,694	11,607,283
Non-current	-	-	-	-
	10,073,642	12,889,550	8,841,694	11,607,283

34 Share capital

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>				
(i) Authorised				
4.5 billion ordinary shares of ₦1 each	4,500,000	4,500,000	4,500,000	4,500,000
(ii) Issued and fully paid				
4.301577 billion ordinary shares of ₦1 each	4,301,577	4,301,577	4,301,577	4,301,577



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

35 Share premium and reserves

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

Share premium: Premiums from the issue of shares are reported in share premium.

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

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

Credit risk reserve: Non-distributable regulatory reserve for the excess between the impairment reserve on loans and advances determined using the prudential guidelines issued by the Central Bank of Nigeria over the impairment reserves calculated under IFRS.

36 Dividends

An interim dividend of ₦707million (31 December 2017: ₦8.7billion) was approved by the Board of Directors on 10 December 2018 and paid during the year.

37 Fair value reserve (Available-for-sales Reserve:2017)

The fair value reserve shows the effects of the fair value measurement of financial instruments classified as FVOCI.

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

Below is the movement in available-for-sale reserves

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>				
FVTOCI				
At beginning of the period	(414,564)	-	(420,731)	-
Fair value movement during the period (unrealised net (loss)/gain)	(1,663,954)	-	(1,665,649)	-
At end of the period	(2,078,518)	-	(2,086,380)	-
Available-for-sale				
At beginning of the period	-	(2,416,834)	-	(2,416,834)
Fair value movement during the period (unrealised net (loss)/gain)	-	2,002,270	-	1,996,103
At end of the period	-	(414,564)	-	(420,731)



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

38 Reconciliation of profit before tax to cash generated from operations

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Profit before income tax	2,801,080	6,166,918	2,270,112	4,948,065
Adjustments for:				
- Depreciation (Note 28)	559,734	268,530	522,791	258,581
- Amortisation (Note 29)	1,179,999	527,047	985,176	469,441
- Loss on sale of property and equipment (Note 12)	6,015	35,254	6,015	35,254
- Impairment charge for credit losses (Note 9)	116,198	545,234	471,531	471,429
- Net gains from financial assets held-for-trading (Note 11a)	(1,170,768)	(865,975)	(1,159,208)	(835,468)
- Unrealised foreign exchange gain on revaluation (Note 11)	(766,813)	(257,469)	(668,077)	(164,610)
- Net interest income	(4,357,778)	(6,920,982)	(4,056,324)	(6,875,133)
	(1,632,334)	(501,443)	(1,627,984)	(1,692,441)
Changes in working capital:				
- Due from other banks	-			
- Restricted deposit	(1,707,067)	(2,736,450)	(1,707,067)	(2,736,450)
- Loans and advances to customers	3,810,410	3,113,634	3,810,410	3,113,634
- Financial assets held-for-trading	1,876,368	3,697,308	2,017,484	3,375,669
- Pledged assets	14,276,458	29,463,511	14,276,458	29,463,511
- Other assets	5,977,171	(672,820)	2,158,369	92,458
- Investments in subsidiaries	-	-	-	-
- Due to banks	(3,635,603)	(27,229,481)	(3,635,603)	(27,211,866)
- Due to customers	3,486,385	21,568,553	3,486,385	21,568,553
- Other liabilities	(2,553,191)	(972,064)	(2,765,589)	(403,137)
Cash generated from operations	19,898,595	25,730,749	16,012,862	25,569,933

39 Contingent liabilities and commitments

Litigation

The Bank is party to three (3) 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. Contingent liability that may arise from the cases is estimated at nil (31 December 2017: nil).

Contingent liabilities and commitments

In common with other banks, the Group conducts business involving transaction related bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. Contingent liabilities and Commitments comprise guarantees and letters of credit.

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Performance bonds and guarantees	2,588,750	-	2,588,750	-
Letters of credits	8,172,760	-	8,172,760	-
	10,761,510	-	10,761,510	-

Capital commitments

At the end of the year, the Bank had no capital commitments (31 December 2017: nil).



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

40 Related party transactions

The Bank is controlled by FBN Holdings Plc incorporated in Nigeria, which owns 99.9% of the ordinary shares.

A number of transactions were entered into with related parties in the normal course of business. These include loans and deposits.

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

40.1 Loans and advances to related parties

The Bank granted various credit facilities to its key management personnel during the year. The rates and terms agreed are comparable to other facilities being held in the Bank's portfolio. Details of these are described below:

<i>In thousands of Nigerian Naira</i>	Key management personnel	
	31 December 2018	31 December 2017
Loans and advances to customers		
Loans outstanding at 1 January	155,754	212,961
Loans issued during the period	20,322	36,062
Loan repayments during the period	(31,485)	(93,269)
	144,591	155,754
Loans and advances to banks	-	-
Balance	144,591	155,754
Interest income earned	13,845	7,993

The loans issued to key management personnel during the year of ₦20.32mn (2017: ₦36.06mn) are repayable monthly over a period of between two to twenty years and have interest rates of 8% (2017: 8%).

40.2 Deposits from related parties

Year ended 31 December 2018	Entities controlled by the parent (₦'000)	Key management personnel (₦'000)	Others (₦'000)
Deposit from customers			
Deposits at 1 January	6,032,127	3,068	-
Movement during the year	(5,921,612)	1,530	-
	110,516	4,598	-
Due to banks	14,379,518	-	-
Deposits at 31 December	14,490,034	4,598	-
Interest expenses on deposits	756,122	-	-
Year ended 31 December 2017			
Deposit from customers			
Deposits at 1 January	4,963,666	56,578	66,769
Movement during the year	(1,875,259)	(53,510)	(1,279)
	3,088,407	3,068	65,490
Due to banks	2,943,720	-	-
Deposits at 31 December	6,032,127	3,068	65,490
Interest expenses on deposits	31,809	116	2,222



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

40.3 Other transactions with related parties (entities controlled by the parent)

Year ended 31 December 2018	Nature of transaction	31 December 2018	31 December 2017
FBN Insurance Brokers	Insurance premium	-	41,758
FBNQuest Capital Group	Interest expense	109,348	8,295
FBNQuest Asset Management	Interest expense	1,234	985
FBNQuest Capital Group	Interest income	-	8,714
FBNQuest Capital Group	Fee and commission income	-	613,236
FBNQuest Capital Group	Fees and other receivables	1,016,259	613,236
FBNQuest Capital Group	Derivative liabilities	-	32,562
FBNQuest Capital Group	Placement	-	570,000
FBN Ltd	Loan and advance to banks	2,894,503	6,931,536
FBNHoldings	Interest expense	645,539	-
FBNQuest Asset Management	Other receivables	1,028,970	-
FBNQuest Securities	Other receivables	229,682	-

40.4 Key management compensation

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Salaries and other short-term employee benefits	535,400	445,866	535,400	445,866
	45,891	28,124	45,891	28,124
	581,291	473,990	581,291	473,990

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

41 Employees

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

	Number		Number	
	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Management	11	10	10	9
Non-management	193	193	164	164
	204	203	174	173

The average number of staff employed during the financial year was 174 out of which seventy-two (72) were female representing 41% of the total workforce. Of the Top Management staff, four (4) are women representing 40% of Top Management staff.

Compensation for the above staff excluding Executive Management:

	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<i>In thousands of Nigerian Naira</i>				
Wages and salaries	3,018,704	2,986,820	2,391,497	2,614,273
Other pension costs	185,677	161,803	181,543	149,162
	3,204,381	3,148,623	2,573,040	2,763,435

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

	GROUP		Number	
	GROUP		BANK	
	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
N350,001 - N600,000	-	-	-	-
N600,001 - N700,000	-	-	-	-
N700,001 - N1,150,000	-	-	-	-
N1,150,001 - N1,600,000	1	1	1	1
N1,600,001 - N2,100,000	1	1	1	1
N2,100,001 - N2,500,000	-	-	-	-
N2,500,001 - N3,500,000	25	25	21	19
N3,500,001 - N5,500,000	30	32	23	25
N5,500,001 - N10,500,000	58	57	48	51
N10,500,001 and above	89	87	80	76
	204	203	174	173

In accordance with the provisions of the Pensions Reform Act 2014, the Bank commenced a contributory pension scheme in January 2005. The contribution by the Bank is 10% of the employees' basic salary, housing and transport allowances. The contribution paid by the Bank during the period was N181.54million (31 December 2017: N149.16million).



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

42 Directors' emoluments

Remuneration paid to the Bank's Directors was:

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>				
Fees and sitting allowances	116,385	76,797	116,385	76,797
Executive compensation	264,239	204,667	203,317	181,125
Terminal benefits	-	-	-	-
Other Director expenses	16,384	17,559	16,384	17,559
	397,008	299,023	336,086	275,481
Fees and other emoluments disclosed above include amounts paid to:				
Chairman	22,868	18,517	22,868	18,517
Highest paid Director	74,250	67,500	74,250	67,500

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

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
₦5,000,001 and above	8	8	8	8
	8	8	8	8

In accordance with the provisions of the Pensions Reform Act 2014, the Bank commenced a contributory pension scheme in January 2005. The contribution by the Bank is 10% of the employees' basic salary, housing and transport allowances. The contribution paid by the Bank during the period was ₦181.54million (31 December 2017: ₦149.16million).

43 Compliance with regulatory bodies

During the period ended 31 December 2018, the Bank had two contraventions of regulatory provisions and had since paid the attending penalties thereon. Below is the analysis of the contravention.

Contraventions	Regulatory provisions	Penalties ₦'000
Error in submission of FINA returns	Section 64 (1) of BOFIA 1991 (as amended)	2,000
Late submission of PEP returns to CBN and NFIU	CBN circular ref no. BSD/DIR/GEN/CIR/03/027 dated 29 October 2009	2,000



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

44 Derivative financial instruments

	GROUP		BANK	
	31 December 2018 ₦'000	31 December 2017 ₦'000	31 December 2018 ₦'000	31 December 2017 ₦'000
<i>In thousands of Nigerian Naira</i>				
Derivative assets				
Instrument type: OTC FX futures	219,954	32,562	219,954	32,562
The movement in derivative asset is as follows:				
Balance, beginning of the period	(32,562)	-	32,562	-
Fair value of derivatives acquired in the year	219,954	-	219,954	-
Fair value of derivatives derecognised in the year	32,562	(32,562)	(32,562)	32,562
Balance, end of the period	219,954	(32,562)	219,954	32,562
Derivative liabilities				
Instrument type: OTC FX futures	(219,954)	(32,562)	(219,954)	(32,562)
The movement in derivatives liability is as follows:				
Balance, beginning of the period	(32,562)	-	(32,562)	-
Fair value of derivatives acquired in the year	(219,954)	-	(219,954)	-
Fair value of derivatives derecognised in the year	32,562	(32,562)	32,562	(32,562)
Balance, end of the period	(219,954)	(32,562)	(219,954)	(32,562)

Group 2018

	0 - 30 days	31 - 90 days	90 - 180 days	180 - 270 days	270 - 365 days	Total ₦'000
Maturity analysis						
Derivatives assets		6,870	-		213,085	219,955
Derivatives liabilities		(6,870)	-		(213,085)	(219,955)

Group 2017

Derivatives assets	2,591	8,991	17,982	2,997	32,562
Derivatives liabilities	(2,591)	(8,991)	(17,982)	(2,997)	(32,562)

Bank 2018

Maturity analysis					
Derivatives assets	6,870	-	-	213,085	219,955
Derivatives liabilities	(6,870)	-	-	(213,085)	(219,955)

Bank 2017

Derivatives assets	2,591	8,991	17,982	2,997	32,562
Derivatives liabilities	(2,591)	(8,991)	(17,982)	(2,997)	(32,562)



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

45 Impact of adoption of IFRS 9

The table below provides the reconciliations from IAS 39 to IFRS 9 for the Bank's Statement of Financial Position.

The combined application of the business model and SPPI tests on adoption of IFRS 9 resulted in the reclassification of the following financial assets.

Classification of all financial liabilities remain the same under IFRS 9.

GROUP	IFRS 9		IAS 39	
	1 January 2018		31 December 2017	
	Measurement category	Carrying amount	Previous measurement category	Carrying amount
Financial assets				
Cash and balances with Central Bank of Nigeria	Amortised cost	3,072,985	Amortised cost	3,072,985
Due from other banks	Amortised cost	14,953,328	Amortised cost	14,953,328
Loans and advances to customers	Amortised cost	38,281,479	Amortised cost	39,164,047
Financial assets held-for-trading	FVTPL	4,352,566	Held-for-trading	4,352,566
Investment securities:				
- Debt instruments	FVTOCI	52,834,845	Available-for-sale	52,834,845
- Equity instruments	FVTOCI	89,423	Available-for-sale	89,423
Pledged assets	FVTOCI	6,823,144	Available-for-sale	6,823,144
Other assets	Amortised cost	3,538,184	Amortised cost	5,140,954
Investment in subsidiaries	FVTPL	-	FVTPL	-
Deposit with Nigerian Stock Exchange	Amortised cost	1,150	Amortised cost	1,150
Derivative financial assets	Amortised cost	32,562	Amortised cost	32,562
BANK				
Financial assets				
Cash and balances with Central Bank of Nigeria	Amortised cost	3,072,985	Amortised cost	3,072,985
Due from other banks	Amortised cost	14,020,829	Amortised cost	14,020,829
Loans and advances to customers	Amortised cost	38,270,667	Amortised cost	39,153,234
Financial assets held-for-trading	FVTPL	3,319,701	Held-for-trading	3,319,701
Investment securities:				
- Debt instruments	FVTOCI	52,715,729	Available-for-sale	52,715,729
- Equity instruments	FVTOCI	75,838	Available-for-sale	75,838
Pledged assets	FVTOCI	6,823,144	Available-for-sale	6,823,144
Other assets	Amortised cost	3,213,699	Amortised cost	3,213,699
Derivative financial assets	Amortised cost	32,562	Amortised cost	32,562



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

45 Impact of adoption of IFRS 9 continued

Optional classification: In conjunction with the classification changes required by IFRS 9, the Bank has elected to irrevocably classify investment in equity securities as fair value through other comprehensive income on transition to IFRS 9.

Impairment: The adoption of IFRS 9 expected loss model affected the Group and Bank's fees receivables and loans and advances to customers. This resulted into a loss of ₦2.485billion which is adjusted against opening retained earnings and credit risk reserve.

In arriving at the loss allowance, the Bank adopted the general model which recognizes loss allowance depending on the stage in which the financial asset is.

Post IFRS 9 adjusted Statement of Financial Position

<i>In thousands of Nigerian Naira</i>	As at 31 December, 2017 (IAS 39)	Impact	As at 1 January, 2018 (IFRS 9)
The Group			
Assets			
Loans and advances to customers	39,164,047	(882,567)	38,281,479
Other assets	5,140,954	(1,602,770)	3,538,184
Equity			
Retained earnings	10,369,344	(675,649)	9,693,695
Credit risk reserve	1,809,688	(1,809,688)	-
The Bank			
Assets			
Loans and advances to customers	39,153,234	(882,567)	38,270,667
Other assets	3,993,045	(1,602,770)	2,390,275
Equity			
Retained earnings	9,570,194	(675,649)	8,894,545
Credit risk reserve	1,809,688	(1,809,688)	-



STATEMENT OF VALUE ADDED

FOR THE YEAR ENDED 31 DECEMBER 2018

GROUP	Dec 2018 N'000	%	Dec 2017 N'000	%
Gross earnings	25,378,565		26,109,581	
Interest expense	(12,272,379)		(12,081,170)	
	13,106,187		14,028,411	
Impairment loss on financial assets	(116,198)		(545,234)	
	12,989,989		13,483,178	
Bought in materials and services	(5,244,794)		(3,372,059)	
Value added	7,745,195	100	10,111,118	100
Distribution of value added				
To government:				
Taxes	483,401	6	1,283,304	13
To employees:				
Salaries and benefits	3,204,381	42	3,148,623	31
The future:				
For replacement of fixed assets/intangible assets (depreciation and amortisation)	1,739,733	22	795,577	8
To augment reserves	2,317,680	30	4,883,615	48
	7,745,195	100	10,111,119	100

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

BANK	Dec 2018 N'000	%	Dec 2017 N'000	%
Gross earnings	22,402,779		24,182,268	
Interest expense	(12,333,063)		(12,119,197)	
	10,069,716		12,063,071	
Impairment loss on financial assets	(471,531)		(471,429)	
	9,598,185		11,591,642	
Bought in materials and services	(3,247,066)		(3,152,120)	
Value added	6,351,119	100	8,439,522	100
Distribution of value added				
To government:				
Taxes	212,100	3	863,601	10
To employees:				
Salaries and benefits	2,573,040	40	2,763,435	33
The future:				
For replacement of fixed assets/intangible assets (depreciation and amortisation)	1,507,967	24	728,022	9
To augment reserves	2,058,012	33	4,084,464	48
	6,351,119	100	8,439,522	100

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



OTHER NATIONAL DISCLOSURES

FIVE-YEAR FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 2018

BANK	31 Dec 2018 N'000	31 Dec 2017 N'000	31 Dec 2016 N'000	31 Dec 2015 N'000	31 Dec 2014 N'000
Statement of financial position					
ASSETS					
Cash and balances with Central Bank of Nigeria	4,653,015	3,072,985	65,701	277,266	1,274
Loans and advances to banks	14,221,127	14,020,829	5,650,754	7,962,268	1,895,817
Loans and advances to customers	35,342,825	39,153,234	41,684,102	36,649,753	26,867,023
Financial assets held-for-trading	1,302,217	3,319,701	17,677,609	10,695,464	7,365,735
Investment securities:		-			
- Fair value through OCI	33,592,365	-	-	-	-
- Available-for-sale	-	48,888,808	20,836,198	41,042,494	50,640,807
- Amortised cost	1,275,653	-	-	458,250	-
- Loans and receivable/Held-to-maturity	-	3,902,759	-	-	-
Pledged assets	21,099,602	6,823,144	36,286,655	-	-
Derivative financial assets	219,954	32,562	-	-	-
Other assets	6,151,414	3,993,045	4,644,967	865,860	525,198
Investment in subsidiaries	1,381,773	1,737,106	-	-	-
Deposit with Nigerian Stock Exchange	-	-	-	-	-
Property and equipment	1,683,237	1,790,618	1,056,192	963,896	1,001,300
Intangible assets	1,758,235	2,840,915	972,585	19,879	27,144
Deferred tax assets	9,113,548	9,113,547	8,397,897	8,083,415	5,184,615
TOTAL ASSETS	131,794,966	138,689,253	137,272,660	107,018,545	93,508,913
LIABILITIES					
Due to banks	8,003,945	11,639,548	38,863,965	5,600,186	6,229,200
Due to customers	90,977,369	87,490,984	64,727,659	71,631,378	68,818,719
Current income tax liability	212,353	1,579,252	363,559	128,264	84,864
Other liabilities	8,841,694	11,607,283	4,358,420	900,970	208,565
Derivative financial instrument	219,954	32,562	-	367,041	1,002,431
Deferred tax liability	-	-	-	88,921	81,441
TOTAL LIABILITIES	108,255,316	112,349,629	108,313,603	76,425,220	91,801,303
NET ASSETS	23,539,650	26,339,624	28,959,057	17,083,693	13,793,691



FIVE-YEAR FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 2018

BANK	31 Dec 2018 ₦'000	31 Dec 2017 ₦'000	31 Dec 2016 ₦'000	31 Dec 2015 ₦'000	31 Dec 2014 ₦'000
CAPITAL AND RESERVES					
Share capital	4,301,577	4,301,577	4,301,577	4,301,577	4,000,000
Share premium	3,904,731	3,904,731	3,904,731	3,904,731	3,000,000
Retained earnings	9,516,426	9,570,194	14,013,717	9,235,023	7,169,775
Statutory reserve	7,482,866	7,174,165	6,561,495	5,826,521	3,856,868
Credit risk reserve	420,430	1,809,688	2,594,371	4,256,212	1,725,602
Fair value reserve	(2,086,380)	-	-	-	-
Available-for-sale (AFS) reserve	-	(420,731)	(2,416,834)	319,471	(3,874,860)
Derivative financial instrument	-	-	-	-	-
Deposit for shares	-	-	-	-	1,206,308
SHAREHOLDERS' FUNDS	23,539,650	26,339,624	28,959,057	17,083,693	13,793,691
Income statement					
Operating income	9,598,185	11,591,642	8,083,209	6,088,826	4,087,557
Operating expenses	(7,328,073)	(6,643,577)	(3,167,299)	(2,262,516)	(2,280,777)
Profit before tax	2,270,112	4,948,065	4,915,910	3,826,310	1,806,780
Tax	(212,100)	(863,601)	(16,083)	2,739,201	2,579,584
Profit after tax	2,058,012	4,084,464	4,899,827	6,565,511	4,386,364
Earnings per share - basic (kobo)	48	95	109	153	110



OTHER NATIONAL DISCLOSURES

STATEMENT OF PRUDENTIAL ADJUSTMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

	31 December 2018 N'000	31 December 2017 N'000
Prudential guidelines provision:		
Balance brought forward:		
- Specific provisions	2,194,185	2,299,291
- General provisions	778,373	815,290
	2,972,558	3,114,581
Charge for the year:		
- Specific provisions	876,246	(105,106)
- General provisions	71,137	(36,917)
	947,383	(142,023)
Balance carried forward:		
- Specific provisions	3,070,431	2,194,185
- General provisions	849,510	778,373
	3,919,941	2,972,558
IFRS impairment provisions:		
- Specific allowance for impairment	1,427,942	420,995
- Collective allowance for impairment	-	11,182
- Other assets: impairment	2,691,795	730,692
	4,119,737	1,162,869
Required credit risk reserve at end of the year	(199,796)	1,809,689
Balance at beginning of the year	1,809,689	2,594,371
Additional reversal to credit risk reserve	(1,389,259)	(784,682)
Balance at end of the period	420,430	1,809,689

Credit risk reserves*: Provisioning is made in accordance with the Prudential Guidelines for Deposit Money Banks in Nigeria issued by the Central Bank of Nigeria for each account that is deemed not performing (specific) in accordance with the following terms; (1) 90 days but less than 180 days (10%); (2) 180 days but less than 360 days (50%) and over 360 days (100%). In addition, a minimum of 2% general provision is made on all risk assets which are deemed performing and have not been specifically provided for. The excess of the impairment under the Prudential Guidelines over the impairment under IFRS has been designated to a non-distributable reserve in line with the regulatory requirements of the Central Bank of Nigeria.



ABBREVIATIONS

ALCO	Asset and Liability Committee
AML	Anti-Money Laundering
BAC	Board Audit Committee
BCC	Board Credit Committee
BCM	Business Continuity Management
BGHC	Board Governance/HR Committee
BRMC	Board Risk Management Committee
CBG	Corporate Banking Group
CIBN	Chartered Institute of Bankers
CBN	Central Bank of Nigeria
CEO	Chief Executive Officer
CD	Compact Disc
CFT	Countering the Financing of Terrorism
EAD	Exposure At Default
ECB	European Central Bank
ERM	Enterprise-wide Risk Management
FBNH	FBN Holdings Plc
FBNQ MB	FBNQuest Merchant Bank
FCY	Foreign Currency
FICT	Fixed Income, Currencies and Treasury
FMCG	Fast Moving Consumer Goods
FMDQ OTC	Financial Markets Dealers Quotes Over-The-Counter
FOMC	Federal Open Market Committee
FSS	Financial System Strategy
GBSI	Government Bond Secured Investment
HNWI	High Net Worth Individuals
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IT	Information Technology

ICT	Information and Communications Technology
ITSC	Information Technology Steering Committee
KERA	Kakawa Easy Retirement Account
KYC	Know Your Customer
LIBOR	London Inter-Bank Offered Rate
LGD	Loss Given Default
LMS	Liquidity Multiplier Service
MCIC	Management Credit and Investment Committee
MCUC	Management Credit and Underwriting Committee
MPC	Monetary Policy Committee
NAFEX	Nigerian Autonomous Foreign Exchange Rate Fixing
NCP	National Council on Privatisation
NDDC	Niger Delta Development Commission
NIBOR	Nigerian Inter-Bank Offered Rate
NITTY	Nigerian Inter-bank Treasury Bills' True Yields
PBT	Profit Before Tax
PD	Probability of Default
PDMM	Primary Dealer and Market Maker
PEP	Politically Exposed Persons
PNBI	Promissory Note Backed Investment
QPR	Quarterly Performance Review
RAAC	Risk Asset and Acceptance Criteria
RMC	Risk Management Committee
RM&C	Risk Management and Control
ROAE	Return on average equity
SEC	Securities and Exchange Commission
SME	Small and Medium Enterprise
TBBI	Treasury Bills Backed Investment
TBills	Treasury Bills
UHNWI	Ultra High Net Worth Individuals

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