Annual Report + Accounts 2012

Conquering New Frontiers

FSDH Merchant Bank Ltd

CONQUERING NEW FRONTIERS

"Change is the law of life... and those who look only to the past or the present are certain to miss the future".

John F. Kennedy

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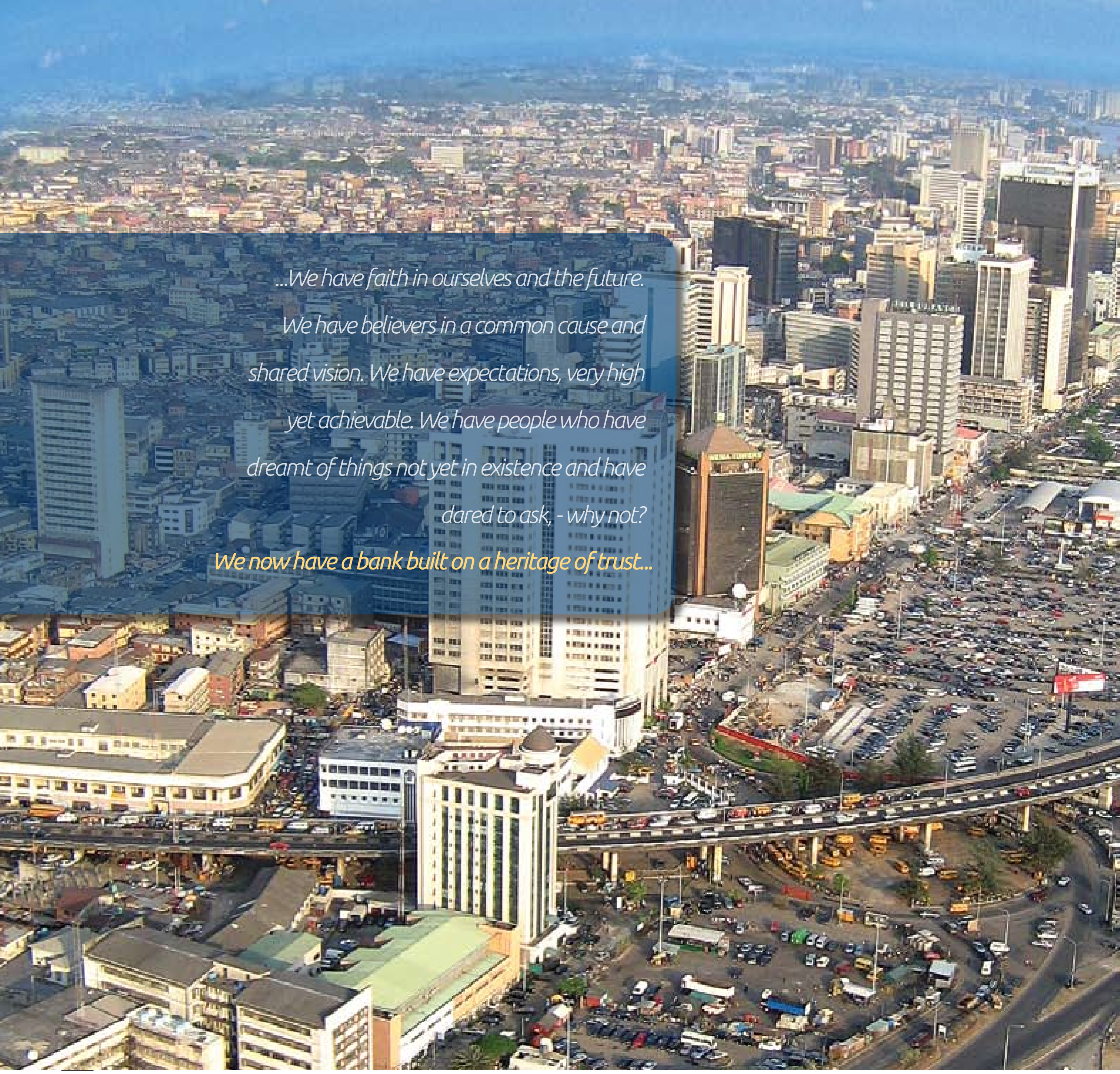

...We have faith in ourselves and the future. We have believers in a common cause and shared vision. We have expectations, very high yet achievable. We have people who have dreamt of things not yet in existence and have dared to ask, - why not?

We now have a bank built on a heritage of trust...

FSDH MERCHANT BANK LTD

CONQUERING NEW FRONTIERS

Today we stand on the edge of a new frontier, the frontier of opportunities and increased challenges, the frontier of possibilities and compelling doubts, the frontier of dreams and grave optimisms. Beyond that frontier are products not yet delivered, services not yet experienced, transactions not yet conceived, laurels not yet won and records not yet set. Therefore, we take a bold step in the quest to unravel the uncertainty that lies ahead and unlock the chest of hope and value with excitement and audacious determination.

We have faith in ourselves and the future. We have believers in a common cause and shared vision. We have expectations, very high yet achievable. We have people who have dreamt of things not yet in existence and have dared to ask, - why not? We now have a bank built on a heritage of trust.

Today we look into the horizon and see much more than a ray of light. We reflect and lay hold of strength. We seek and find loyal and trusting partners to nudge us on this ambitious course and so we resolve again to conquer uncharted fields of banking.

Shareholders, Locations + Addresses

- Mainstreet Bank Ltd
- AIICO Insurance Plc
- Diamond Pension Fund Custodian/Trustfund Plc
- Ecobank Nigeria Plc
- FSDH Staff Co-operative Society
- Intermarket Services Ltd
- International Finance Corporation (IFC)
- KMC Investments Ltd
- Enterprise Bank Ltd
- Stanbic IBTC Bank Plc
- UBA Asset Management Ltd
- Unico CPFA Ltd
- Unity Bank Plc
- Williams Street Trustees Ltd

Head Office
UAC House (5th - 8th Floors) 1/5 Odunlami Street,
PMB 12913, Lagos
01-2702880-2 (3 lines)
01-2702885-6 (Wealth Management Group)
01-2716280-3 (Treasury & International Banking Group only)
Fax: 01-2716274

Abuja Office
Orji Uzor Kalu Plaza,
Plot 979, 1st Avenue, Off Ahmadu Bello Way,
Cadastral Zone AO,
Central Business District, Abuja
09-6700532, 2731170

Port Harcourt Office
2nd Floor, Afribank Building
(Formerly Leadbank Building),
5 Trans Amadi Road, Port Harcourt
084-463308, 084-463174
084-463174, 084-463308
08024081331
Fax: 084-463174

WWW.FSDHGROUP.COM

Chairman:	Mr. Ibrahim Dikko	
Directors:	Mrs. Hamda Ambah	Executive Director
	Mrs. Muhibat Abbas	Representing UNICO CPFA Limited
	Mr. Daniel Agbor	Representing KMC Investments Limited
	Mrs. Myma Belo-Osagie	Representing KMC Investments Limited
	Mr. Junaid Dikko	Representing KMC Investments Limited
	Mr. Haruna Jalo-Waziri	Representing UBA Asset Management Limited (Resigned on 30 August, 2012)
	Mr. Sobandele Sobanjo	Representing AIICO Insurance Plc
	Mr. Bashir el-Rufai	Independent Director
	Mr. Vincent Omoike	Independent Director
	Mr. Rilwan Belo-Osagie	Managing Director / CEO

Company Secretary

Alsec Nominees Ltd
St. Nicholas House, (10th Floor)
Catholic Mission Street
Lagos

Solicitors:

Udo Udoma and Belo-Osagie
St. Nicholas House, (10th Floor)
Catholic Mission Street
Lagos

Auditors:

PricewaterhouseCoopers
252E, Muri Okunola Street
Victoria Island
Lagos
Partner: Anthony Oputa
ICAN Number: 11105
FRC Number: FRC/2013/ICAN/00000000980

Incorporation Number:

RC. 199528

The Board of Directors

1. *Ibrahim Dikko*
2. *Rilwan Belo-Osagie*
3. *Muhibat Abbas*
4. *Bashir el-Rufai*
5. *Dan Agbor*
6. *Haruna Jalo-Waziri*
7. *Hamda Ambah*
8. *Mr. Sobandele Sobanjo*
9. *Junaid Dikko*
10. *Myma Belo-Osagie*
11. *Vincent Omoike*


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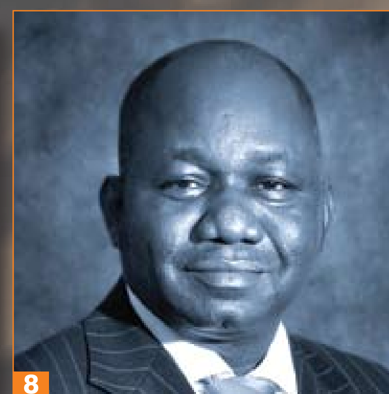
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Distinguished shareholders, ladies and gentlemen, on behalf of the Board of FSDH Merchant Bank, it is my pleasure to welcome you to the 1st Annual General Meeting of FSDH Merchant Bank Limited and to present to you the financial statement of the Group for the year ended 31 December 2012.

Even though the results we are considering today are for our operations in our final year as a discount house, they are being presented under our new legal entity as a Merchant Bank, which came into being on 31 December 2012 after the Corporate Affairs Commission approved the change of name following our application subsequent to the Central Bank's approval of our conversion on 22 November 2012. We commenced operations as a merchant bank on 15 January 2013.

Global Environment

The Global Economic environment has remained fragile and prone to further shocks. In the United States, even though the economy is still growing slower than predicted, is showing several positive trends: housing is recovering; shale gas and oil will reduce energy costs and boost competitiveness; job creation is improving (even though it has been sluggish lately on account of the unresolved fiscal cliff); rising labor costs in Asia and the advent of robotics and automation are underpinning a manufacturing resurgence. In the Eurozone, fundamental problems of low potential growth, on-going recession, loss of competitiveness, and large stock of private and public debt have not been resolved.

Operating Environment

The Nigerian economy, as indicated by Gross Domestic Product (GDP) data from the National Bureau of Statistics (NBS), grew by 6.58% in 2012, compared with 7.43% in 2011. This decline was as a result of numerous challenges. There was a decline in real growth rates of economic activity in both the oil and non-oil sectors. While the oil sector was negatively impacted by oil theft and vandalism of oil pipelines, the non-oil sector was affected by the incidence of flooding, security challenges as well as muted consumer demand for most part of 2012.

The equities market recorded the best performance since 2007. The Nigerian Stock Exchange All Share Index (NSE ASI) closed the year 2012 at 28,078.80 points up from 20,730.63 points as at 31 December 2011, representing an appreciation of 35.45%... as against a loss of 16.31% in 2011. Positive factors that influenced the growth include macro-economic stability especially foreign exchange and foreign portfolio manager's interest in Nigeria.

The equities market recorded the best performance since 2007. The Nigerian Stock Exchange All Share Index (NSE ASI) closed the year 2012 at 28,078.80 points up from 20,730.63 points as at 31 December 2011, representing an appreciation of 35.45% (a gain of 36.04% in US$ terms) as against a loss of 16.31% in 2011. Positive factors that influenced the growth include macro-economic stability especially foreign exchange and foreign portfolio manager's interest in Nigeria. The policy thrust of the CBN in 2012 remained restrictive with a view of maintaining single digit inflation rate and foreign exchange stability. The inflation rate (year-on-year) was 12% in December 2012 from 12.3% recorded in the month of November 2012. Recently release figures for March indicate a further drop to 8.6%. Projections are that 2013 average inflation figures will not exceed single digit of about 8.9%. According to the Central Bank of Nigeria (CBN), Nigeria's external reserves position as at 28 December 2012 stood at US$44.18billion, representing an increase of 34.29% compared with US$32.90billion as at 29 December 2011. This reserve position is projected to be sufficient to cover over 9 months of imports

QUERING
EW FRONTIERS

Ibrahim Y. Dikko

of goods and services, higher than the threshold of 3 months. The position which was US$48.76billion as at 15 April 2013 has continued to grow due to high oil prices, foreign capital inflows and fiscal discipline on the part of the government.

Operations

In compliance with the directive of the Financial Reporting Council of Nigeria (FRCN) requesting all financial institutions to report their financial statements using the International Financial Reporting Standard (IFRS) by 31 December 2012, I am glad to declare that we have fulfilled our obligation in line with the directive.

You will observe the increase in the pages of this financial statement which is largely due to the extensive disclosure requirements under the new standard. Also, the company has recently acquired an 'Anti-Money Laundering and Combating the Financing of Terrorism' (AML/CFT) software. This is to ensure that we are able to put in place automation processes that are legally required to prevent and report money laundering activities. The solution will also strengthen our 'Know Your Customer' (KYC) procedures, which enables us to understand our customer's financial dealings better and which in turn will help us manage their risk prudently.

Financial Performance

The group achieved a Profit before Tax (PBT) of N2.27billion for the financial year ended 31 December 2012. This represents a decline of 11.46% from the position of N2.56billion for the year ended 31 December 2011. Profit after Tax (PAT) attributable to the group was N3.186billion, which is 43.06% above the position of N2.23billion for the year ended 31 December 2011. This increase is accounted for by an income tax credit of N918m due to defferred tax assets resulting from our investment activities in fixed income securities. The decline in the profit levels for the year ended December 2012 is the direct result of the restrictive monetary policy thrust of the Central Bank in 2012. This caused yields on fixed income securities, our major investing activity, to remain high for most part of the year, putting pressure on fixed income securities trading. This effect was however moderated with the inclusion of the FGN Bond in the JP Morgan Emerging Market Government Index (GBI-EM) in Q4 of 2012 which influenced demand and lowering of yields recorded in Q4 2012. Were it not for this intervention, the situation could have been worse as it resulted in the slowing down of trading activities with corresponding pressure on profitability.

Earnings per share (EPS) were 118kobo, which is 35kobo more than the 83kobo that was earned in the financial year ended 31 December 2011.

In terms of contribution to the group profitability, all the subsidiaries posted higher figures when compared to their performance for financial year ended 31 December 2011. FSDH Asset Management Limited (FAML) and Pensions Alliance Limited (PAL) achieved PAT figures of N190.19million and N316.19million respectively, while FSDH Securities Limited (FSL) posted a PAT of N22.29million, an increase over its N20.50million of the previous year. When compared with the PAT for the year ended 31 December 2011, this translates to an increase of 108.19% and 30.36% for FAML and PAL respectively and an increase of 8.7% for FSL.

Dividend

The Board of Directors is proposing the sum of N698.7million as a dividend payment for the year ended 31 December 2012. This represents the same amount in absolute terms when compared with dividend payments for the previous two years (2010 and 2011). This amount translates to 25kobo per share. We hereby request for your approval. As I stated last year, we will continue to strike a good balance between our obligations of rewarding shareholders and the need to retain earnings to finance future reinvestments in to our operations. Our recent conversion to merchant banking drawing from our existing reserves without approaching shareholders for additional equity is a good testimony of how we have prudently managed our dividend payout ratio as an institution.

Outlook

The last financial year was extremely challenging for business. The carry-over of the tight monetary policy regime of 2011 into 2012 was characterized by high interest rates with corresponding pressure on fixed income securities trading and decline in profitability. The climax was witnessed in August after the Monetary Policy Committee's decision of 24 July 2012, to further review cash reserve ratio to 12% from 8% and foreign exchange open position limit to 1% from 3%. The net effect of all these challenges was our inability to diversify our income streams due to the restrictive nature of our operating license as a discount house. This is why we are very pleased with the decision of the Committee of Governors and the Board of the CBN to grant us a Merchant Banking license. We believe it will enable your company offer a broader range of services to our clients thereby deepening our customer relationships and expand our frontiers. Whilst we do not underestimate challenges that lie ahead, we are confident that with our corporate culture of customer orientation, high performance, collaboration and continuous learning, that we will surmount all obstacles to achieve our desired objectives.

At this juncture, I would like to thank all our stakeholders for their continuous support and patronage and assure you of our determination to continue to provide high quality service to all of you.

Finally, I would like to announce to all our stakeholders and particularly our distinguished shareholders that I will be resigning from your Board as both Chairman and Director, effective tomorrow. I had already given notice to the Board during the Board meeting held on 15 March 2013 that I will be stepping down in order to concentrate on my other endeavours.

In conclusion, I want to use this opportunity to thank you all for your support and cooperation during my tenor as your Chairman.

T.Y.D

Ibrahim Dikko

Chairman.

...we are very pleased with the decision of the Committee of Governors and the Board of the CBN to grant us a Merchant Banking license. We believe it will enable your company offer a broader range of services to our clients thereby deepening our customer relationships and expand our frontiers.

"a game changer..."

Right in the middle of the soccer game, he blows his whistle to signal a momentary stop of the game. All eyes look towards him in begging enquiry as no infringement has been committed as the game seems to be flowing in a progressive pattern. Eyes gaze at the clock in wonder if time was at it again, flying away without warning. No, not that. Eyes drift towards the sideline to see if there's about to be a substitution. No, not that. Oh, there must be a player flat on the ground that requires urgent and critical attention. So, all eyes scan the entire field of play. There's no one on the ground, the gestures of all seem to announce.

Now with heightened anxiety, everyone congregates around the referee. He dips his hand into his pocket and out comes the game changer. It isn't a card so it means no one is in contravention of the rules of engagement. Nerves calmed….albeit only for a little while. So, what exactly is the deal, everyone asks in mute but audible exclamation.

That's it... The referee was done. It took only a fleeting moment.

Mixed feelings, hushed tones, silent remarks. Questions. The whistle went off before too many questions could be asked for the game to resume.

Still grappling with the import of the new order, some players continue the play the same old way, some introduce new styles of play; unsure, some others try to do both. But only one seems glad, eyes clad in sun-like brightness, sauntering with grace as if to say "at last, here it is"*...Change. Opportunity. Time to be different. Time to take on new frontiers.*

...and a new identity.
FSDH Merchant Bank

In November of 2012 the Central Bank of Nigeria granted First Securities Discount House (FSDH), Merchant Banking status.

FSDH Merchant Bank Limited is built from a twenty-year heritage of integrity, professionalism and trust. The new FSDH Merchant Bank Limited is set to change the terrain with our unique products and services tailored to meet individual and business needs.

Welcome to a new dawn...with

FSDH Merchant Bank Limited.

FSDH Merchant Bank...
creating new opportunities

Q *What was the motivation for the conversion from a discount house to a merchant bank, judging by the fact that you were successful as a discount house?*

Prior to converting to a merchant bank, we had gradually expanded our scope of activities. This we were able to do as a result the reviews of the discount house guidelines in 2003 and 2008 and also through our subsidiaries. The subsidiaries enabled us to engage in asset management, pension fund administration and capital market activities. Thus, with FSDH already positioned as an investment bank, it was only natural that we take advantage of the ongoing reforms in the financial services industry to complete the process. More importantly is the evolution of discount houses in many parts of the world where they existed. As the financial markets in these countries developed, the role and relevance of discount houses changed, forcing discount houses to change their operating models. In most of these countries, discount houses evolved into investment/merchant banks. With this in mind, it was only natural that FSDH positioned itself to evolve in line with the changing financial landscape in Nigeria.

Q *How long did the process of converting to a merchant bank take?*

The process took close to two years. The formal process started early 2011 with the appointment of an international consulting firm, McKinsey & Co, to assist in a feasibility study and subsequently the development of a business plan. The major challenge however was that there were no specific guidelines for the conversion of a discount house to a merchant bank. The guidelines that existed were for the establishment of new merchant banks. The absence of specific guidelines for discount houses willing to convert to merchant banks brought about the need for an interactive process with the CBN. We must seize this opportunity to thank the CBN for the full co-operation given to us during this process.

Q *When did you open your doors as a Merchant Bank?*

We started operations as FSDH Merchant Bank Limited on the 15th of January, 2013.

Q *What are the new activities you can now perform as a Merchant Bank?*

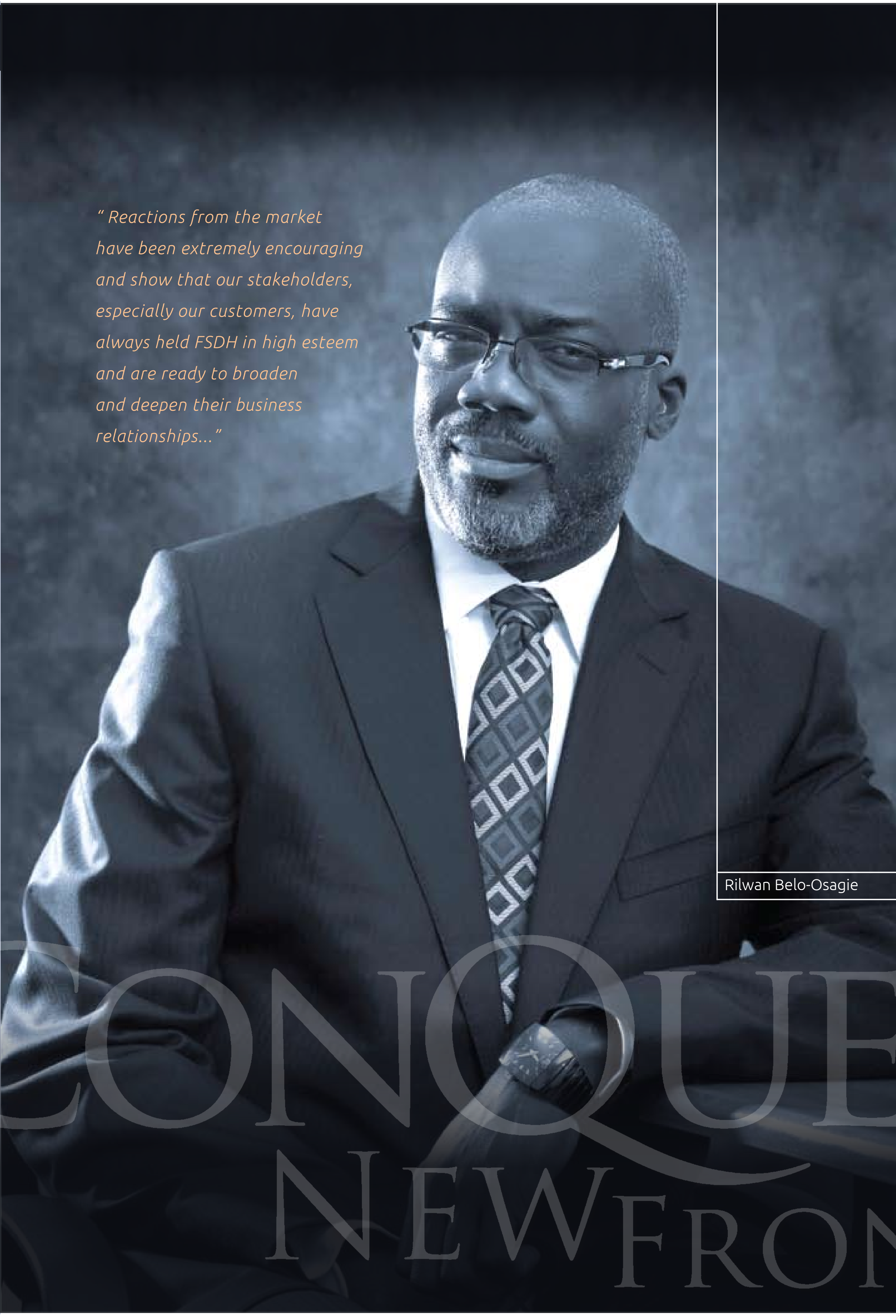
The new activities we can now perform include, trading in foreign currencies, trade finance activities such as opening letters of credit, bills for collection, etc. In addition, we can now provide term loans, overdraft facilities and also operate domiciliary accounts for our clients. One should bear in mind that the merchant bank guidelines allow us to perform all activities that we performed as a discount house especially securities trading for which the Debt Management Office of Nigeria and the Central Bank of Nigeria licensed us as Primary Dealer Market Maker in FGN Bonds and Treasury Bills respectively.

Q *Why did you keep the name FSDH?*

We are using the name to convey to customers that FSDH is not a new entity but an established organization with an impeccable track record. As the merchant banking licence offers us the opportunity to widen and deepen product offerings to customer, we are thus using the name to reiterate to our esteemed clients that the FSDH brand is still synonymous with quality, efficient customer service, professionalism and integrity.

Q *What sort of reactions have you received from the market and clients?*

Reactions from the market have been extremely encouraging. The feelers from the market show that our stakeholders, especially our customers, have always held FSDH in high esteem and are ready to broaden and deepen their business relationships with FSDH to include new businesses as a result of our merchant banking licence.



" Reactions from the market have been extremely encouraging and show that our stakeholders, especially our customers, have always held FSDH in high esteem and are ready to broaden and deepen their business relationships..."

Rilwan Belo-Osagie

Q+A

Q *What are your expectations from the new status of FSDH?*

Our expectation is to be able to meet all the financial services needs of our customers within the scope allowed in the merchant banking guidelines.

Q *The Nigerian financial market is very competitive. How does FSDH hope to compete in this market?*

FSDH is not new to competition. As a discount house we were competing with all the players in the financial services industry – banks, other discount houses, boutique investment houses, asset management companies, stock-broking companies, etc. As a merchant bank we will also face the same set of players. We have always leveraged on our unique culture to build capabilities that are very difficult for the competition to replicate.

Q *Is FSDH going to open more branches?*

The aim of having more branches is to be able to reach more customers that are located far from our places of operations. This can be achieved through other means. FSDH's strategy is to use a combination of technology and strategic alliances to reach customers in far away locations. Opening more branches is not ruled out but this will not be our preferred option.

Q *What will be the focus of FSDH Merchant Bank?*

The focus in the short to medium term is to deepen relationship with existing clients by extending service/ product offerings and to leverage on that to reach out to carefully identified prospects.

Q *Change comes with its challenges. How are the employees of FSDH working through the change?*

Definitely there are adjustments that are needed by members of staff in order to operate in the new environment. However, from the first day the idea of the conversion was discussed, members of staff received it favourably and worked very hard to actualize it. There was no question of people resisting the change, because everybody understood that the move was in the best interest of both the company and the employees. We also had an "Away Day" exercise for all employees and directors. The Away Day programme focussed on team building and change management. In addition, senior executives from other banks and the real sector were invited to share their experiences and also expectations from a merchant bank.

Q *Is the culture going to remain the same?*

Culture is not as static as many people think. The core of the FSDH culture will definitely remain the same but adjustments may take place in anticipation of and in response to the changing needs of the customers and the economic environment.

Q *Where would you like to see FSDH in the next 5 years?*

The vision is for FSDH to be the top investment bank in the country, contributing to the growth of the economy by creating a platform for borrowers and investors to tap into financial products and services that suit their profiles, appetites and needs.

Q *Any last thoughts?*

Once again, I thank all our stakeholders for supporting us during the long conversion process.

CONQUERING NEW FRONTIERS

The Executive Management

Rilwan Belo-Osagie **1.**

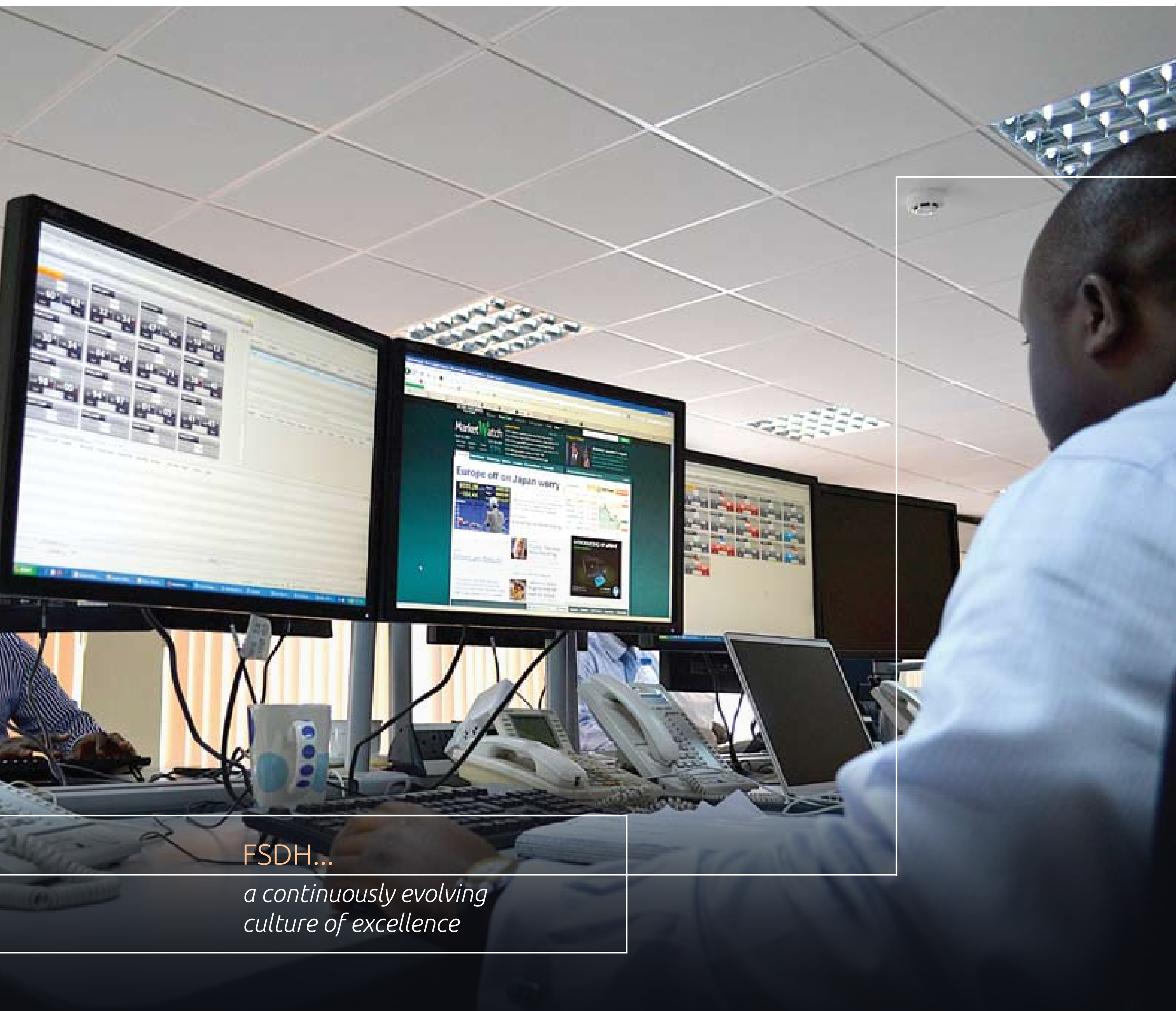
Hamda Ambah **2.**

Robert Ajiamah **3.**

Richard Osuagwu **4.**

Fola Wiltshire **5.**

Gibson Mba **6.**



FSDH...

a continuously evolving culture of excellence

From the inception of FSDH as the first discount house to be licensed in 1993, the Company has been a trailblazer in pioneering several products and services, including the popular OBB (open buy-back) product.

FSDH was also the first discount house to establish a stock broking subsidiary, an Asset Management Company and a Pension Fund Administration (PFA) Company.

In spite of these achievements, we have continued to seek ways to further reinforce our culture of excellence.

We further stretch our limits as we venture into merchant banking and again record another first as the first discount house in the Nigerian financial sector to be granted a Merchant Banking Licence by the Central Bank of Nigeria.

The FSDH Persons of the Year

At FSDH , our people continue to reflect our values of Intergrity, Professionalism, Continuous improvment and Customer orientation.

Congratulations to two of the very best of professionals.

Mr. Babajide Solanke
(Senior Staff Category).

Mr. Kayode Adenekan
(Junior Staff Category).

The FSDH Group Subsidiaries

FSDH Securities Limited

Gamaliel O. Onosode Jr.

MD/CEO,
FSDH Securities Ltd.

The economic environment in which the Nigerian Capital market operated in 2012 reflected regional and global concerns as well as those specific to our national environment. The fiscal drag in the United States of America and European sovereign debt crisis had major implications for Nigerian Market. Also relevant to the performance of our market was the global search for gains and safety in portfolio investment. This provided opportunities for investment by foreign fund managers in frontier and emerging markets where forecasts for economic growth were optimistic. Nigeria, as the second largest economy in sub-Saharan Africa, witnessed significant inflows from foreign portfolio investments in 2012 which competed with local investors for financial instruments issued by governments and corporations.

In the Nigerian equities market, the All Share Index (ASI) appreciated by 35.45% thus recording the second highest growth in Global Exchange Performance after the Nairobi ASI. All the major sectors except for Insurance and Oil & Gas recorded double digit growth. There were no Initial Public Offers, only two new listings on the Main Board of the Exchange while four companies were delisted for various reasons. Three banks were delisted and immediately relisted to comply with the holding company structure mandated by the Central Bank of Nigeria. The improved performance of the equities market was partly the result of strategic initiatives introduced by the new management at the Nigerian Stock Exchange in line with its five year five products development programme.

Some of the initiatives were:

- The introduction of strict compliance for the listed companies and also for Dealing Members which resulted in the delisting of certain companies which failed to comply with post-listing requirements and suspension of some Dealing Members for various infringements.
- Collaboration with Bloomberg and Reuters to publish live trading data which provided real time access to the market by foreign fund managers.
- The inauguration of the Board of Trustees of The Investors Protection Fund meant to protect investors from failed trades and stock related frauds.
- Introduction of Market Making and other complementary programmes such as Short-Selling and Securities Lending to provide liquidity in the market.

To complement the efforts the Exchange and the Federal Government, through the Federal Ministry of Finance, granted forbearance to some categories of Dealing Members who were heavily indebted to the banks on margin loans. This singular policy was meant to alleviate the debt burden of the affected companies and accelerate their re-capitalization which would enable them to participate actively in the market.

FSDH Securities Limited (FSDH Sec) has positioned itself to take advantage of the opportunities that will result from the above initiatives. FSDH Sec maintained a good relationship with Securities and Exchange Commission and the Nigerian Stock Exchange throughout the year. To ensure compliance with capital market regulations, a Compliance unit which deals with all relevant regulations affecting our operations was established. The company embarked on extensive training of the personnel and has been able to adapt these regulations into our corporate policies and processes.

We have retained experienced and professional staff in our Research and Strategy Unit who provide qualitative and independent research reports necessary to drive service delivery to our wide range of clients. In addition to electronic distribution of our research reports and publishing on our website, we also publish them on Bloomberg and Reuters portals.

Integrity and professionalism remains our cardinal principles; and continued to distinguish us from our peers and competitors. This has enabled us to retain the loyalty of our clients that include Nigerian institutional Investors, foreign portfolio investors, High Networth Individua ls and Nigerians in Diaspora. These categories of clients continued to rely on our reports and trust our opinions and enjoy world class execution of their trades.

FSDH Sec has continued to operate profitably and our shareholders funds at the end of December 2012 are in excess of N800million. This level of capitalization and working with our people has put us in a vantage position to play a leading role in the Nigeria Capital Market which we are poised to undertake.

We at FSDH Sec are optimistic of the potential of the Nigerian Capital Market to play a vital role in driving the economic development of the country through the mobilization of investible funds in the economy and attraction of both foreign portfolio investment and foreign direct investment. We are therefore confident that by aligning our strategy with the initiatives of the Nigerian Stock Exchange and Securities and Exchange Commission, we will continue to deliver superior service to our clients and improve returns to our shareholders in the coming years

Dave Uduanu
MD/CEO, PAL

Pensions Alliance Limited (PAL)

According to statistics from the National Pension Commission (PenCom), pension fund assets grew by 30% to N3.15 trillion at the end of December 2012 from N2.42 trillion recorded in the preceding year. The industry has grown at a Compounded Annual Growth Rate of 30% in the last 5 years with over 5 million Retirement Savings Account (RSA) holders. Growth is attributed to capital appreciation and increasing compliance by the public and private sectors. As a result of the increase in the regulatory minimum capital of Pension Fund Administrators from N150mn to N1 billion, the industry witnessed some mergers and acquisitions during the year which resulted in a drop in the total number of PFAs from 25 in 2010 to 18 in the year under review.

We are pleased to report that 2012 was a year of further progress. We continued to deliver an improved underlying operating performance in a demanding industry. In 2012, PAL crossed the N100 billion mark on total assets under management (AUM) with total AUM closing the year at N107 billion from N75 billion at the beginning of the year. The significant growth of 43% is mainly attributed to investment income and increased contributions. During the year under review, the Company embarked on a new branding campaign with a much more sustained focus on promoting "PAL Pensions" as the brand rather than Pensions Alliance. PAL's strategy also entailed branch expansion and staff recruitment which is expected to translate to a strong, sustainable and balanced growth for the company. The Company's Operating Income grew by 35% from N1.07 billion in December 2011 to N1.52 billion at the end of December 2012. Profit After Tax (PAT) grew by 40% from N242.56 million in 2011 to N339.57 million at the end of 2012. This reflects the Company's sustained performance and profitability over the years and commitment to deliver attractive returns to shareholders.

The performance of the financial markets in 2012 was very positive and rewarding to both domestic and international investors including pension funds. The stock market gained 35.45% with the NSE ASI closing at 28,078.80 and market capitalization at N8.97 trillion. Bond yields peaked at 16.5% on the debt market and money market yields hovered between 14%-16%. This was the driver of the 13.2% return on investment earned by the Company's PAL Value Fund in the year 2012.

Several events are expected to drive the industry in 2013. The industry awaits the opening of the transfer window by PenCom and the introduction of Multiple Funds in Pension Industry. PAL is strategically positioning itself to maximize these developments and transform it into growth opportunities for the company.
The strong performance in 2012 amongst other factors gives us greater confidence as we face 2013.

Mayowa Ogunwemimo

Head, FSDH Asset Management Ltd.

FSDH Asset Management Limited

Our achievements thus far, in the provision of world class fund management services, have been borne out of our vision to be the leader in our chosen market. As we continue on our journey, we will pursue our vision to conquer new horizons.

In the Financial year 2012, the Management and Staff of FSDH Asset Management Limited ("FSDH AM") displayed tremendous effort and commitment towards delivering value-adding financial services and products to our esteemed clients. Our distinguished all-round performance confirms us as a leading fund management company in Nigeria.

Our primary challenge in 2012 has been to restore investors' confidence in the financial markets, especially retail clients. In this regard, we commend the Securities and Exchange Commission (SEC) for embarking on a drive to encourage retail investors in the Nigerian Stock Market to channel their investments via Collective Investment Schemes (CIS). This approach recognizes the fact that during the general reversal of fortunes that took place in the capital markets from 2008 - 2011, retail investors were the worst affected of all investor classes.

In 2013, our activities will fall into two broad categories. One is the provision of bespoke portfolio management services to institutional clients. The other is to embark on strategic initiatives to educate the general public about mutual funds and the benefits of investing in mutual funds. The outcome of this will be a significant boost to the volume of assets managed by FSDH AM in the two mutual funds it currently manages as well as in others that may be introduced to the market. The mutual funds currently managed are the Coral Growth Fund and Coral Income Fund. Both funds have a memorandum listing on the daily official list of the Nigerian Stock Exchange, and are specifically tailored to meet low to medium risk investors.

The Trustee to the FSDH Coral Funds preserves the interest of unit holders by ensuring that the Manager's activities adhere to the provisions of the Trust Deed. In addition, the administration of the Funds are carried out in accordance with global best practices as their assets are segregated from that of the Fund Manager and held under full custody by an independent Custodian.

The client base of the FSDH Coral Funds includes retail and institutional investors in diverse industries such as Multinationals, Aviation, Telecommunication, Oil and Gas, Information technology, insurance and energy.

The Coral Growth Fund

The Coral Growth Fund ("CGF") is an open-ended unit trust scheme that invests a maximum of 65% of its assets in selected quoted equities and the balance of a minimum of 35% in investment grade Nigerian fixed income securities and money market instruments. The CGF was established in 2001 to preserve capital whilst achieving capital growth over the medium to long term.

In view of the CGF's high exposure to the capital market, we have benchmarked the performance of the CGF with the Nigerian Stock Exchange All Share Index (NSE ASI). From inception, February 2001 to December 31, 2012, investors in the CGF achieved an annual average growth of 20.05%. The NSE ASI achieved annual average growth of 16.00% for the same period. As is our usual practice, we inform our clients that past performance is not a guarantee of future performance.

The Coral Income Fund

While the CGF has a higher exposure to the capital market, the Coral Income Fund ("CIF") invests mostly in investment grade fixed income securities and money market instruments. The Fund was established in 2006 with the objective of meeting the needs of investors who had lower tolerance for risk and focus on preserving capital and realising a stable income flow.

FSDH *and* *Corporate Social Responsibility*

For two decades, FSDH has been maintaining a Corporate Social Responsibility (CSR) platform through which we reach out to our host communities and the larger society.

Over the years, our CSR initiatives have been driven by an understanding of our socio-economic environment and a strong knowledge of the resource gaps and pressing needs of communities and people around us. We are confident that our efforts in the community have a positive impact on all its members. This has informed our focus on key need areas including youth development and support for the less privileged and handicapped in our society.

The manner in which we embrace our CSR demonstrates our resolve to contribute to the growth and development of the nation beyond the provision of first -rate financial services. We will continue to maintain our traditional approach- supporting the needy as well as institutions that maintain and improve society. With the same resolve to conquer new frontiers in the financial landscape, which has culminated in our metamorphosis from a discount house to a merchant bank, we intend to direct our CSR activities to address some societal problems and seek ways to alleviate them.

The Accounts 2012

Index to the consolidated financial statements for the year ended 31 December 2012

The Directors present their annual report on the affairs of FSDH Merchant Bank Limited (formerly First Securities Discount House Limited) ("the Bank") and its subsidiary companies ("the Group"), together with the group financial statements and auditor's report for the year ended 31 December 2012.

(a) Legal form

The Bank was incorporated on 23 June 1992 as a private limited liability company under the Companies and Allied Matters Act. It started operations on 1 July 1992 and was granted license to carry on discount house business on 10 February 1993. It was granted an approval to convert to a merchant bank on 22 November 2012 and officially changed its name to FSDH Merchant Bank Limited from First Securities Discount House Limited on 31 December 2012. The Bank ceased to operate as a discount house and commenced banking and financial services on 15 January 2013.

(b) Principal activity

The Bank's principal activity during the year was the provision of discount house services to its customers. Such services principally involve trading in and holding of marketable securities such as treasury bills, government bonds, commercial bills and other eligible instruments.

The Bank holds a 99.7% interest in an asset management company - FSDH Asset Management Limited. FSDH Asset Management Limited holds a 99.9% interest in FSDH Securities Limited (FSL), a company involved in stock broking and issuing house operations.

In addition, the Bank has a 51% interest in Pensions Alliance Limited, which is involved in pension fund administration.

The Bank prepares consolidated financial statements and the financial results of all the subsidiary companies have been consolidated in these financial statements.

(c) Operating results:

The following is a summary of the Group and Bank's operating results:

	Group Dec 2012 N'000	Group Dec 2011 N'000	**Bank Dec 2012 N'000**	Bank Dec 2011 N'000
Profit before tax	**2,267,657**	2,561,033	**1,690,957**	2,251,688
Income tax credit / (expense)	**918,042**	(334,204)	**1,136,610**	(189,387)
Profit after tax	**3,185,699**	2,226,829	**2,827,567**	2,062,301
Other comprehensive income/(loss)	**2,297,983**	(2,425,425)	**2,038,051**	(2,421,767)
Total Comprehensive Income/(loss)	**5,483,682**	**(198,596)**	**4,865,618**	(359,466)
Profit after tax attributable to:				
Equity holders of the parent bank	**3,008,709**	2,112,962	**2,827,567**	2,062,301
Non controlling Interest	**176,990**	113,867	-	-
Profit attributable to equity-holders	**3,185,699**	2,226,829	**2,827,567**	2,062,301
Total comprehensive income attributable to:				
Equity holders of the parent bank	**5,306,692**	(312,463)	**4,865,618**	2,060,850
Non controlling Interest	**176,990**	113,867	-	-
Profit attributable to equity-holders	**5,483,682**	(198,596)	**4,865,618**	2,060,850

(d) Asset under management

These represent investments and funds being managed by subsidiary companies of the group

	Dec 2012 N'000	Dec 2011 N'000
FSDH Asset Management Limited	**11,089,834**	10,629,787
Pensions Alliance Limited	**107,478,099**	75,333,489

(e) Proposed dividend

The board of directors has proposed, for the approval of the shareholders, the payment of a dividend of N698.698 million representing 25k per share (December 2011: N698.698 million; representing 25k per share). The dividends are subject to deduction of withholding tax at 10%.

(f) Directors and their interests

The following directors of the Bank held office during the year:

Mr. Ibrahim Dikko	Chairman
Mr. Rilwan Belo-Osagie	Managing Director
Mrs. Hamda Ambah	Executive Director
Mrs. Muhibat Abbas	Representing UNICO CPFA Limited
Mr. Daniel Agbor	Representing KMC Investments Limited
Mrs. Myma Belo-Osagie	Representing KMC Investments Limited
Mr. Junaid Dikko	Representing KMC Investments Limited
Mr. Haruna Jalo-Waziri	Representing UBA Asset Management Limited *(Resigned on 30 August 2012)*
Mr. Sobandele Sobanjo	Representing AIICO Insurance Plc
Mr. Bashir el-Rufai	Independent Director
Mr. Vincent Omoike	Independent Director

All non-executive directors except the independent directors are representatives of companies which have interests in the share capital of the Bank.

The proportion of women on the board of directors of FSDH Merchant Bank Limited as at 31 December 2012 was 30% broken down as below:

	Female Directors	Total Directors	Percentage of female (%)
Executive directorship	1	2	50.00
Non-executive directorship	2	8	25.00
Total	**3**	**10**	**30.00**

(g) Directors' interests in contracts

In accordance with Section 277 of the Companies and Allied Matters Act of Nigeria, none of the directors has notified the Bank of any declarable interests in contracts with the Bank.

(h) Composition of top management

The Bank's top management is defined from the positions of Assistant General Manager (AGM) and above. As at 31 December 2012, the Bank had six staff members in this category.

The proportion of women in the Bank's top management positions as at 31 December 2012 was 33.33% broken down as below:

	Female	Total	Percentage of female (%)
Assistant General Manager - General Manager	1	4	25.00
Executive Director - Managing Director	1	2	50.00
Total female that held top management positions	**2**	**6**	**33.33**

(i) Shareholding analysis

The shareholding pattern of the Bank as at 31 December 2012 is as stated below:

Share range	No of shareholders	Percentage of shareholders (%)	No. of holdings	Percentage of holdings (%)
Nigerian shareholders				
50,000,000 - 100,000,000	4	28.57	229,478,730	8.21
101,000,000 - 200,000,000	4	28.57	582,710,082	20.85
201,000,000 - 500,000,000	3	21.43	841,114,074	30.10
501,000,000 - 1,000,000,000	1	7.14	878,990,844	31.45
	12	85.71	2,532,293,730	90.61
Foreign shareholders				
50,000,000 - 100,000,000	1	7.14	87,500,000	3.13
101,000,000 - 200,000,000	1	7.14	175,000,000	6.26
	14	**100.00**	**2,794,793,730**	**100.00**

The shareholding pattern of the Bank as at 31 December 2011 was as stated below:

Share range			No of shareholders	Percentage of shareholders (%)	No. of holdings	Percentage of holdings (%)
Nigerian shareholders						
50,000,000	-	100,000,000	4	28.57	229,478,730	8.21
101,000,000	-	200,000,000	4	28.57	582,710,082	20.85
201,000,000	-	500,000,000	3	21.43	841,114,074	30.10
501,000,000	-	1,000,000,000	1	7.14	878,990,844	31.45
			12	85.71	2,532,293,730	90.61
Foreign shareholders						
50,000,000	-	100,000,000	1	7.14	87,500,000	3.13
101,000,000	-	200,000,000	1	7.14	175,000,000	6.26
			14	**100.00**	**2,794,793,730**	**100.00**

(j) Substantial interest in shares

According to the register of members as at 31 December 2012, the following shareholders held more than 5% of the issued share capital of the Bank:

Shareholder	No. of shares held	Percentage of shareholding (%)
KMC Investments Limited	878,990,844	31.45
UBA Asset Management Limited	301,875,000	10.80
Ecobank Nigeria Plc	297,819,622	10.66
FSDH Staff Co-operative Society	241,419,452	8.64
Unity Bank Plc	197,123,862	7.05
International Finance Corporation (IFC)	175,000,000	6.26
Mainstreet Bank Limited	151,164,660	5.41
Total	2,243,393,440	80.27

According to the register of members as at 31 December 2011, the following shareholders held more than 5% of the issued share capital of the Bank:

Shareholder	No. of shares held	Percentage of shareholding (%)
KMC Investments Limited	878,990,844	31.45
UBA Asset Management Limited	301,875,000	10.80
Ecobank Nigeria Plc	297,819,622	10.66
FSDH Staff Co-operative Society	241,419,452	8.64
Unity Bank Plc	197,123,862	7.05
International Finance Corporation (IFC)	175,000,000	6.26
Mainstreet Bank Limited	151,164,660	5.41
	2,243,393,440	80.27

(k) Property, plant and equipment

Information relating to changes in the property and equipment of the Group is disclosed in Note 23 to the financial statements. In the directors' opinion, the market value of the Group's property, plant and equipment is not less than the value shown in the financial statement

(l) Post balance sheet events

There were no post balance sheet events which could have a material effect on the state of affairs of the Bank as at 31 December 2012 and the statement of comprehensive income for the year ended on that date that have not been adequately provided for.

(m) Human resources

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 the various factors affecting the performance of the Group. This is achieved through regular and informal meetings between management and staff.

The Group places a high premium on training and development of its manpower and sponsors employees for various training courses as appropriate.

Health, safety and welfare at work

The Group maintains business premises designed with a view to guaranteeing the safety and healthy operating conditions of its employees and customers alike. Employees are adequately insured against occupational hazards. In addition, medical facilities are provided to employees and their immediate families at the Group's expense.

Equal opportunity

The Group's policy is that the highest qualified and most experienced persons are recruited for appropriate job levels irrespective of an applicant's gender, state of origin, ethnicity, religion or physical condition. During the year, the proportion of women in the employment of the Bank was 27 out of a total staff strength of 93 which translates to 29.03% of the workforce.

Employment of disabled persons

The Group continues to maintain a policy of giving fair consideration to applications for employment made by disabled persons with due regard to their abilities and aptitude. The group's policy prohibits discrimination of disabled persons in the recruitment, training and career development of its employees. In event of members of staff becoming disabled, efforts will be made to ensure that, as far as possible, their employment with the group continues and appropriate training is arranged to ensure that they fit into the group's working environment. Currently, the Group has no person on its staff list with a physical disability.

(n) Donations

In order to identify with the aspirations of the community and the environment within which the Group operates, a total sum of N13,960,000 (31 December 2011: N6,100,000) was incurred in respect of donations. Details of the donations and charitable contributions include:

	N
Financial Reporting Council of Nigeria – Support towards IFRS Academy	8,500,000
Nigeria Society for the Blind	1,560,000
Children Development Centre	1,500,000
Dominican Sisters' College	1,000,000
Bethtorrey Home & School Zaria	1,000,000
Lancelot Media Networks (Sponsorship of "Adesuwa" Movie Premieres)	250,000
Other Donations below N100,000	150,000
	13,960,000

In compliance with Section 38(2) of the Companies and Allied Matters Act, the Group did not make any donation or gift to any political party, political association or for any political purpose during the year.

(o) Auditors

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

1-5 Odunlami Street,
UAC House, 6th floor
Lagos, Nigeria

15 March 2013

BY ORDER OF THE BOARD,

ALSEC BY ORDER OF THE BOARD
Company Secretaries

Alsec Nominees Limited
Company Secretary
FRC/2013/ICSAN/00000001651

Corporate governance in FSDH Merchant Bank Limited (FSDH) is based on the philosophy of building a structured organization, anchored on core values, with well defined systems and processes that are adaptive to changes in the environment and resilient enough to cope with succession at all levels. This philosophy has been the guidepost in navigating the organization through its various phases of growth. It has ensured stability for the company, even as the economy as a whole and the financial services industry, in particular, went through various cycles of boom and burst.

At FSDH, corporate governance is not just about adopting national and international codes of best practices - it is rooted in shared values and a culture that aims to bring out the best in our staff members. This culture is well articulated in a "**Culture Wheel"** and well known to all members of staff. The culture wheel defines who the FSDH person is in terms of personal attributes and relationship with stakeholders, especially the customer. It is anchored on five pillars – High Performance, Customer Orientation, Learning, Collaboration, and Image Building. The interplay of these five pillars defines who we are and our way of doing business. It is reinforced by the company's Code of Conduct, the policies and procedures in place in the company, the examples set at the top by the Board and senior management, and the reward system.

The FSDH Culture serves as a powerful tool in shaping the company's control and risk management environment and has continued to play an important role in improving the governance system in the organization. It is the glue that binds all the stakeholders together and has resulted in the alignment of the external and the internal environments towards a common objective – that of meeting and exceeding the needs of our customers. Our unique ownership structure has combined with a responsive board to produce a highly empowered management and staff, resulting in a governance structure that promotes accountability and transparency throughout the whole organization.

Over the years, we have taken deliberate steps towards improving the structures. We have four Board Committees including the three Board Committees stipulated in the Central Bank of Nigeria (CBN) Code of Corporate Governance. Directors and staff are regularly trained and we have continued to increase capacity in the key Departments involved in the governance process. The Company's Enterprise-wide Risk Management Framework (ERM) provides the platform for the management of risks in the organization. The ERM is regularly reviewed and updated in line with changing business and operational circumstances. In addition, the company has set up a whistle-blowing procedure and adopted a code of professional conduct for directors and members of staff. The whistle-blowing procedure provides a confidential channel for stakeholders to report wrong-doing, through hotlines and confidential email. Details are contained in the company's website: www.fsdhgroup.com.

OWNERSHIP

FSDH has continued to be the result of a successful partnership between local banks and non-bank financial institutions on the one hand and offshore financial institutions on the other hand. This ownership structure makes FSDH unique in the country's financial services industry. At present, the shareholding structure consists of 2 foreign financial institutions (9%), 5 local banks (29%) and 7 local non-bank financial institutions (62%). One of the two foreign shareholders is the International Finance Corporation (IFC), the private-sector arm of the World Bank.

THE BOARD

FSDH's Board is composed of experienced and knowledgeable professionals who have made their mark in key sectors of the economy. The Chairman heads the board. The position of the Chairman of the Board is separate from the position of the Chief Executive Officer and therefore both positions are not occupied by the same person. The board is composed of the Chairman, the Managing Director, an Executive Director, 2 independent non-executive directors (who do not represent the interest of any shareholder), and a maximum of 8 other non-executive directors representing the interests of various shareholders. At least once a year, an evaluation of the effectiveness of the board is performed by an External Consultant, in line with the requirements of the CBN's Code of Corporate Governance. PricewaterhouseCoopers served as our External Consultant for the performance appraisals of 2008 to 2010. However, following the appointment of the firm as our External Auditors, KPMG Professional Services, an international advisory/consulting firm, was appointed the External Consultant for the board performance appraisal from year 2011. The board has continued to receive good ratings on its effectiveness in the performance of its duties.

The Board has four standing committees – the Audit Committee, the Risk Management Committee, the Credit Committee and the Nomination and Remuneration Committee. Together with the four committees, the board provides effective oversight over the operations of the company. The duties of the board are:

- Determination of the company's strategic direction and business objectives necessary to ensure longterm growth and sustained creation of value for customers
- Ensuring the existence of plans and policies for the achievement of the company's strategic business objectives
- The establishment of effective risk management framework to identify, measure, and manage risks in the company

- The establishment of a good system of internal controls to ensure the integrity of financial reporting and compliance with laws and regulations
- Fostering a culture of responsibility, transparency, and accountability through good corporate governance and adherence to high ethical values
- Selection, compensation and monitoring of senior management staff and ensuring the existence of a good system of succession planning
- Approval of major capital expenditure, changes to the company's capital structure, annual budgets, changes to accounting policies and dividend policy

The Board Committees
The CBN's Code of Corporate Governance for banks and discount houses requires every bank or discount house to have at least three Standing Committees namely the Audit Committee, the Risk Management Committee, and the Credit Committee. Accordingly, FSDH has constituted the three Committees. In addition to the three Committees, FSDH has also constituted the Nomination and Remuneration Committee. The committees have the following terms of reference.

The Audit Committee
This is a statutory Committee and its duties are contained in section 359(6) of CAMA namely:

- Ascertaining whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices.
- Reviewing the scope and planning of the external audit
- Reviewing the findings of external auditors as contained in their management letter
- Reviewing the effectiveness of the company's system of internal controls.
- Making recommendations to the Board regarding the appointment, remuneration, and removal of external auditors
- Overseeing the activities of the Internal Auditor and authorizing him/her to carry out investigations into any activities of the company which may be of interest or concern to the Audit Committee.

The Audit Committee is made up of 4 members, one of which (the Chairman) is a representative of shareholders and is not a member of the Board. The Internal Audit Unit is independent of management and reports directly to the Audit Committee.

The Risk Management Committee
The Committee is made up of 4 members and its duties are:

- To approve and review the Enterprise Wide Risk Management Framework
- To determine the risk areas that will be subject to regular review and to specify the frequency of review.
- Establishment of policies on risk oversight and management of the company
- HR issues such as appointments/promotions of senior management staff, review of staff salaries, review of human resources policies and discipline
- Other assignments as may be given by the Board of Directors from time to time
  The Risk Management Department, who is independent of the operating departments, presents regularbreports to the Risk Management Committee.

The Credit Committee
The Credit Committee, which is made up of 5 members, has as its functions the following:

- Formulation of credit policies for the organization
- Review and approval of credit policies on a regular basis
- Approval of credit limits in accordance with the credit policies of the company
- Approval of credits that exceed the Management's credit limits

The Risk Management Department also presents regular reports to the Committee.

The Nomination and Remuneration Committee
The Nomination and Remuneration Committee was constituted on the 30th of June, 2011. The Committee is made up of three non-executive directors, one of whom is an independent director. The terms of reference are:

- Regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared with its present position and make recommendations to the Board on any changes the Committee may deem necessary.
- Give full consideration to succession planning for directors and top management in the course of its work, taking into account the challenges and opportunities facing the company, and what skills and expertise are needed on the Board in the future.

- Be responsible, subject to the Company's Memart, for identifying and nominating for approval of the Board, candidates to fill Board vacancies as and when they arise.
- Make recommendations to the Board on matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of the Company subject to the provisions of the law and their service contract.
- Make recommendations to the Chairman on the membership of other Board Committees, taking into consideration the skills, knowledge and experience required to function effectively in those Committees.
- Make recommendations to the Board for appointments and promotions of staff from the position of Assistant General Manager and above.
- Determine and agree with the Board the framework or broad policy for the remuneration of the Company's Executive Directors and Chairman. (To avoid conflict of interest, the remuneration for nonexecutive Directors shall be determined by the Chairman and the Executive Directors).
- Determine and agree with the Board the policy for the terms of employment of the Executive Directors.
- Reviewing and approving the remuneration structure for the Company.
- Review the ongoing appropriateness and relevance of the Company's Remuneration policies.
- Review annually the remuneration trends across the company and the industry in which the company operates with a view to ensuring that the Company remains competitive in order to retain and attract the right talents.
- Determine and agree policy for the reimbursement of the expenses of the Chairman and the Executive Directors.
- Ensure that the disclosures in the audited accounts regarding directors' remuneration are adequate and consistent with the requirements of the law.
- Review and approve the design and structure of all retirement benefit schemes.

The Head of the HR Department presents reports at every sitting of the committee.

Board and Board Committee Meetings

The record of attendance at meetings of Board and Board Committees is stated below:

BOARD MEETINGS									
S/N	Name	Directorship	07-Mar 12	26-Apr 12	21-Jun 12	26-Jul 12	19-Oct 12	13-Dec 12	TOTAL ATTENDANCE
1	Mr Ibrahim Dikko	Chairman	V	V	V	V	V	V	6
2	Mr Rilwan Belo-Osagie	Managing Director	V	V	V	V	V	V	6
3	Mrs Hamda Ambah	Executive Director	V	V	V	V	V	V	6
4	Mr Dan Agbor	Non-executive Director	V	V	V	V	V	V	6
5	Mrs Muhibat Abbas	Non-executive Director	V	V	V	V	V	V	6
6	Dr Myma Belo-Osagie	Non-executive Director	V	V	V	X	X	V	4
7	Mr Junaid Dikko	Non-executive Director	V	V	V	V	V	X	5
8	Mr Haruna Jalo-Waziri	Non-executive Director	V	V	V	V	N/A	N/A	4
9	Mr David Sobanjo	Non-executive Director	X	V	X	V	V	V	4
10	Mr Vincent Omoike	Independent Director	V	V	V	V	V	V	6
11	Mr Bashir el-Rufai	Independent Director	V	V	X	V	V	X	4

NOMINATION & REMUNERATION					
S/N	**Name**	**Directorship**	**19-Jun-12**	**11-Dec-12**	**TOTAL**
1	Mr Vincent Omoike	Chairman	V	V	2
2	Dr Myma Belo-Osagie	Non-executive Director	V	V	2
3	Mr Haruna Jalo-Waziri	Non-executive Director (resigned)	V	N/A	1
4	Mrs Muhibat Abbas	Non-executive Director	N/A	V	1

			AUDIT COMMITTEE				
S/N	**Name**	**Directorship**	**06-Mar-11**	**19-Jul-12**	**30-Oct-12**	**04-Dec-12**	**TOTAL**
1	Mr. Oladele Alabi	Chairman (shareholder)	V	V	V	V	4
2	Mr Dan Agbor	Non-executive Director	V	V	V	V	4
3	Mr. Junaid Dikko	Non-executive Director	V	X	V	X	2
4	Mr. Vincent Omoike	Non-executive Director	V	V	V	V	4
5	Mr Richard Osuagwu	In Attendance	V	V	V	V	4

			CREDIT COMMITTEE				
S/N	**Name**	**Directorship**	**25-Jan-12**	**29-Mar-12**	**26-Apr-12**	**24-Jul-12**	**TOTAL**
1	Mr Dan Agbor	Chairman	X	V	V	V	3
2	Mr Rilwan Belo-Osagie	Managing Director	V	V	V	V	4
3	Mr. Junaid Dikko	Non-executive Director	X	V	V	V	3
4	Mr. Vincent Omoike	Non-executive Director	V	X	V	V	3
5	Mrs Muhibat Abbas	Non-executive Director	V	V	V	V	4
6	Mr Robert Ajiamah	In Attendance	V	V	V	V	4

RISK MANAGEMENT COMMITTEE							
S/N	**Name**	**Directorship**	**25-Jan-12**	**25-Apr-12**	**25-Jul-12**	**17-Oct-12**	**TOTAL**
1	Mr Haruna Jalo-Waziri	Chairman	V	V	V	N/A	3
2	Mr Rilwan Belo-Osagie	Managing Director	V	V	V	V	4
3	Mr David Sobanjo	Non-executive Director	V	V	V	V	4
4	Mr Bashir el-Rufai	Independent Director	V	V	V	V	4

KEY

V - Present at Meeting
X - Absent at Meeting
NA – Resigned from the Board/Not yet appointed to Board

MANAGEMENT

The management is charged with the day-to-day running of the company. It is headed by the Managing Director, who is also the Chief Executive Officer (CEO). He is supported by an Executive Director and heads of departments. In addition, the company makes use of standing committees in the performance of certain key functions whose processes cut across different departments. The standing committees are as follows:

The Executive Committee

The committee is made up of the Managing Director, the Executive Director and all the Heads of Departments and the Branch Managers. This is the principal decision making organ of the company and the committee meets on a weekly basis.

The Senior Executive Committee

The Committee meets formally every six months to review performance appraisals and approve promotions. It also has exclusive approval powers for some types of expenditure. It is composed of the three most senior members of staff of the organization.

The ALCO Committee

The Committee, which meets weekly, is composed of all the heads of departments and key officers of the Business Units, Financial Control and Risk Management. The Committee makes decision on the structure and composition of the company's assets and liabilities and also sets the guidelines on interest rates.

The Credit/Watch-list Committee

The Committee meets monthly to consider and approve credits and also to review existing credits for performance and classification. The Managing Director, the Executive Director, the Head of Risk Management Department, the Head of Financial Control Department, the Head of the Internal Audit Unit, and the Heads of the Business Units together with other key staff in the Business Units are members.

The IT Steering Committee

The Committee meets to discuss and make recommendations on major IT implementations and strategies. It meets whenever there is a major IT implementation in the company. All the Heads of Departments are members.

KPMG

REPORT OF THE EXTERNAL CONSULTANTS ON THE APPRAISAL OF THE BOARD OF DIRECTORS

In compliance with the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks in Nigeria Post Consolidation ("the CBN Code"), FSDH Merchant Bank Limited ("FSDH" 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 2012. The CBN Code mandates an annual appraisal of the Board with specific focus on the Board's structure and composition, responsibilities, processes and relationships, individual director competencies and respective roles in the performance of the Board.

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

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

On the basis of our review, except as noted below, the Bank's corporate governance practices are 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 recommendations are in the following areas: Directors' training and continuous development and shareholders' communication.

Tomi Adepoju

Partner, KPMG Advisory Services
FRC/2013/ICAN/00000001185
15 March 2013

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

i) keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Group and comply with the requirements of the Companies and Allied Matters Act and the Banks and Other Financial Institutions Act ;

ii) establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and

iii) prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgments and estimates, that are consistently applied.

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

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

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

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

T.Y. Dikko

Ibrahim Y. Dikko
Chairman
FRC/2013/NBA/00000001718

Rilwan Belo-Osagie
Managing Director
FRC/2013/IODN/00000001713

Bamidele Ojo
Chief Financial Officer
FRC/2013/ICAN/00000000569

To the members of **FSDH MERCHANT BANK LIMITED**

In accordance with the provisions of Section 359 (6) of the Companies and Allied Matters Act 1990, the members of the Audit Committee of FSDH Merchant Bank Limited hereby report as follows:

- We have exercised our statutory functions under Section 359 (6) of the Companies and Allied Matters Act, 1990 and acknowledge the co-operation of management and staff in the conduct of these responsibilities.

- We are of the opinion that the accounting and reporting policies of the Company and Group are in accordance with legal requirements and agreed ethical practices and that the scope and planning of both the external and internal audits for the year ended 31 December 2012 were satisfactory and reinforce the Group's internal control systems.

- We have deliberated with the external auditors, who have confirmed that necessary cooperation was received from management in the course of their statutory audit and we are satisfied with management's responses thereon and with the effectiveness of the Company's system of accounting and internal control.

Dele Alabi
Chairman, Audit Committee

12 March 2013

Members of the Audit Committee are:

1. ***Dele Alabi - Chairman***
2. ***Vincent Omoike***
3. ***Junaid Dikko***
4. ***Dan Agbor***

To the Members **FSDH Merchant Bank Limited**

Report on the Financial Statements

We have audited the accompanying separate and consolidated financial statements of FSDH Merchant Bank Limited ("the bank") and its subsidiaries (together "the group"). These financial statements comprise the statement of financial position as at 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the bank and the group at 31 December 2012 and of the financial performance and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies and AlliedMatters Act, the Banks and Other Financial Institutions Act and the Financial Reporting Council Act.

Report on other legal requirements

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

i) we have obtained all the information and explanations which to the best our knowledge and belief were necessary for the purpose 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) related party transactions and balances are disclosed in Note 31 to the financial statements in accordance with the Central Bank of Nigeria Circular BSD/1/2004;

v) except for the contravention disclosed in Note 38 to the financial statements, the bank has complied with the requirements of the relevant circulars issued by the Central Bank of Nigeria.

PricewaterhouseCoopers

Chartered Accountants
Lagos, Nigeria
FRC/2013/ICAN/00000000980

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
A 310796

27 March, 2013

PricewaterhouseCoopers Chartered Accountants, 252E Muri Okunola Street, Victoria Island, Lagos, Nigeria

	Notes	31 December 2012 N'000	31 December 2011 N'000
Discount and similar income	5.	9,671,611	8,295,007
Discount and similar expense	6.	(8,248,695)	(5,630,065)
Net discount income		**1,422,916**	**2,664,942**
Reversal of impairment charge for credit losses	8.	-	18,531
Net discount income after impairment charge for credit losses		**1,422,916**	**2,683,473**
Fee and commission income	7.	1,768,728	1,465,102
Net gains on financial instruments held for trading	9.	616,392	349,716
Net gains on investment securities	10.	1,785,944	994,274
Other income	11.	53,810	52,282
Operating expenses	12.	(3,380,133)	(2,983,814)
Profit before tax		**2,267,657**	**2,561,033**
Income tax credit/(expense)	13.	918,042	(334,204)
Profit after tax		**3,185,699**	**2,226,829**
Other comprehensive income:			
Actuarial gains/(losses) in defined gratuity scheme (net of tax)	22.	62,069	(3,903)
Net gains/(losses) on available for sale financial assets:			
- Unrealised net gains/(losses) arising during the period		4,021,858	(1,433,570)
- Net reclassification adjustment for realised net gains		(1,785,944)	(987,952)
Other comprehensive income/(loss) for the year, net of tax		**2,297,983**	**(2,425,425)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,483,682**	**(198,596)**
Profit after tax attributable to:			
Equity holders of the parent entity		3,008,709	2,112,962
Non-controlling interest		176,990	113,867
		3,185,699	**2,226,829**
Total comprehensive income attributable to:			
Equity holders of the parent entity		5,306,692	(312,463)
Non-controlling interest		176,990	113,867
		5,483,682	**(198,596)**
Earnings per share per profit attributable to equity holders of parent bank			
Earnings per share - basic (kobo)	36.	118	83
Earnings per share - diluted (kobo)	36.	118	83

	Notes	31 December 2012 N'000	31 December 2011 N'000
Discount and similar income	5.	9,443,439	8,224,846
Discount and similar expense	6.	(8,317,703)	(5,674,252)
Net discount income		**1,125,736**	**2,550,594**
Reversal of Impairment charge for credit losses	8.		18,501
Net discount income after impairment charge for credit losses		**1,125,736**	**2,569,095**
Fee and commission income	7.	45,777	121,892
Net gains on financial instruments classified as held for trading	9.	582,189	359,489
Net gains on investment securities	10.	1,785,944	987,952
Other income	11.	52,288	15,181
Operating expenses	12.	(1,900,977)	(1,801,921)
Profit before tax		**1,690,957**	**2,251,688**
Income tax credit /(expense)	13.	1,136,610	(189,387)
Profit after tax		**2,827,567**	**2,062,301**
Other comprehensive income:			
Actuarial gains/(losses) in defined gratuity scheme (net of tax)	22.	58,194	(3,879)
Net gains/(losses) on available for sale financial assets:			
- Unrealised net gains/(losses) arising during the period		3,765,801	(1,429,936)
- Net reclassification adjustment for realised net gains		(1,785,944)	(987,952)
Other comprehensive income/(loss) for the year, net of tax		**2,038,051**	**(2,421,767)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**4,865,618**	**(359,466)**
Earnings per share per profit attributable to equity holders			
Earnings per share - basic (kobo)	36.	101	74
Earnings per share - diluted (kobo)	36.	101	74

	Note	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
ASSETS				
Cash and bank balances	14.	913,900	528,479	3,769,107
Placements	15.	16,415,697	694,386	172,739
Financial assets held for trading	16.	11,504,477	-	964,791
Loans and receivables to customers	17.	8,559,695	8,099,015	8,224,489
Investment securities	18.	30,280,755	35,143,058	29,327,953
Pledged assets	19.	22,819,716	28,965,871	4,436,478
Other assets	20.	1,348,251	1,246,241	950,636
Retirement benefit asset	22.	55,515	10,411	47,508
Deferred tax asset	23.	1,490,219	159,455	279,095
Intangible assets	24.	236,102	175,785	215,763
Property and equipment	25.	393,159	396,533	423,689
Total assets		**94,017,486**	**75,419,234**	**48,812,248**
LIABILITIES				
Due to banks	26.	40,504,336	35,628,397	4,651,436
Due to customers	27.	29,599,538	20,911,208	24,645,130
Current income tax liability	13.	887,142	701,215	651,668
Other liabilities	28.	260,030	257,313	277,964
Total liabilities		**71,251,046**	**57,498,133**	**30,226,198**
EQUITY				
Share capital	29.	2,794,794	2,794,794	2,794,794
Share premium	30.	1,539,587	1,539,587	1,539,587
Treasury share reserve	30.	(450,040)	(450,040)	(450,040)
Retained earnings	30.	14,624,282	12,693,806	11,571,157
Statutory reserve	30.	3,565,277	3,241,132	2,848,062
Available for sale reserve	30.	(328,391)	(2,564,305)	(142,783)
Credit risk reserve	31.	322,486	144,672	189,675
		22,067,995	17,399,646	18,350,452
Non-controlling interest in equity		698,445	521,455	235,598
Total equity		**22,766,440**	**17,921,101**	**18,586,050**
Total equity and liabilities		**94,017,486**	**75,419,234**	**48,812,248**

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

T.Y.D .... Ibrahim Y. Dikko - Chairman
FRC/2013/NBA/00000001718

.... Rilwan Belo-Osagie - Managing Director
FRC/2013/IODN/00000001713

.... Bamidele Ojo - Chief Financial Officer
FRC/2013/ICAN/00000000569

The statement of accounting policies and accompanying notes as set out from notes 1 to 40 were approved by the Board of Directors on 15 March 2013

	Note	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
ASSETS				
Cash and bank balances	14.	883,704	527,668	3,409,142
Financial assets held for trading	16.	11,324,890	-	964,791
Loans and receivables to customers	17.	23,891,367	8,080,045	8,242,349
Investment securities	18.	28,792,738	33,549,615	28,266,626
Pledged assets	19.	22,819,716	28,965,871	4,436,478
Other assets	20.	682,378	698,173	584,679
Investment in subsidiaries	21.	787,010	787,010	608,000
Retirement benefit asset	22.	50,892	5,441	37,672
Deferred tax asset	23.	1,461,299	140,022	118,137
Intangible assets	24.	232,213	175,785	215,763
Property and equipment	25.	225,151	216,719	324,915
Total assets		**91,151,358**	**73,146,349**	**47,208,552**
LIABILITIES				
Due to banks	26.	40,504,336	35,628,397	4,651,436
Due to customers	27.	30,538,831	21,560,033	25,672,472
Current income tax liability	13.	571,774	571,773	485,888
Other liabilities	28.	140,112	156,761	111,207
Total liabilities		**71,755,053**	**57,916,964**	**30,921,003**
EQUITY				
Share capital	29.	2,794,794	2,794,794	2,794,794
Share premium	30.	1,539,587	1,539,587	1,539,587
Retained earnings	30.	11,852,593	10,126,101	9,063,249
Statutory reserve	30.	3,467,659	3,184,902	2,819,958
Available for sale reserve	30.	(580,814)	(2,560,671)	(142,783)
Credit risk reserve	30.	322,486	144,672	212,744
Total equity		**19,396,305**	**15,229,385**	**16,287,549**
Total equity and liabilities		**91,151,358**	**73,146,349**	**47,208,552**

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

T.Y. D.. Ibrahim Y. Dikko - Chairman
FRC/2013/NBA/00000001718

.... Rilwan Belo-Osagie - Managing Director
FRC/2013/IODN/00000001713

.... Bamidele Ojo - Chief Financial Officer
FRC/2013/ICAN/00000000569

The statement of accounting policies and accompanying notes as set out from notes 1 to 40 were approved by the Board of Directors on 15 March 2013

	Notes	31 December 2012 N'000	31 December 2011 N'000
Cash flows from operating activities			
Cash generated from operations	32.	19,846,308	(1,690,640)
Interest received		9,365,598	8,287,127
interest paid		(8,262,671)	(5,568,314)
Income taxes paid	13.	(253,394)	(163,344)
Net cashflows from operating activities		20,695,840	864,829
Cash flows from investing activities			
Net changes in investment securities		1,775,436	(4,629,295)
Acquisition of property, plant and equipment	25.	(199,959)	(163,534)
Acquisition of intangible assets (including work in progress)	24.	(168,548)	(74,405)
Proceeds from sale of property, plant and equipment		19,256	11,807
Net cash used in investing activities		1,426,185	(4,855,427)
Cash flows from financing activities			
Dividend paid	37.	(698,698)	(698,698)
Rights issue proceeds from non-controlling interest		-	171,990
Net cash (used in)/generated from financing activities		(698,698)	(526,708)
Increase/(Decrease) in cash and cash equivalents		21,423,328	(4,517,307)
Cash and cash equivalents at end of year		23,226,996	1,803,668
Cash and cash equivalents at start of year		1,803,668	6,320,975
Increase/(Decrease) in cash and cash equivalents		21,423,328	(4,517,307)

	Notes	31 December 2012 N'000	31 December 2011 N'000
Cash flows from operating activities			
Cash generated from operations	32.	4,428,493	(2,086,414)
Interest received		9,165,366	8,180,469
interest paid		(8,262,418)	(5,567,922)
Income taxes paid	13.	(209,608)	(123,725)
Net cashflows from operating activities		5,121,833	402,408
Cash flows from investing activities			
Acquisition of additional interest in subsidiary	21.	-	(179,010)
Net changes in investment securities		1,525,195	(4,400,244)
Acquisition of property and equipment	25.	(124,553)	(25,506)
Acquisition of intangible assets (including work in progress)	24.	(167,598)	(74,405)
Proceeds from sale of property and equipment		15,276	6,049
Net cash used in investing activities		1,248,320	(4,673,116)
Cash flows from financing activities			
Dividend paid	37.	(698,698)	(698,698)
Net cash (used in)/generated from financing activities		(698,698)	(698,698)
Increase/(Decrease) in cash and cash equivalents		5,671,455	(4,969,406)
Cash and cash equivalents at end of year	33.	6,450,079	778,624
Cash and cash equivalents at start of year		778,624	5,748,030
Increase/(Decrease) in cash and cash equivalents		5,671,455	(4,969,406)

	Attributable to equity holders of the parent									
	Share capital	Share premium	Retained earnings	Statutory reserve	Treasury Share	Available for sale reserve	Credit risk reserve	Total	Non controlling interest	Total equity
Balance at 1 January 2011	2,794,794	1,539,587	11,571,157	2,848,062	(450,040)	(142,783)	189,675	18,350,452	235,598	18,586,050
Profit after tax for the year			2,112,962					2,112,962	113,867	2,226,829
Actuarial gains/(losses) in defined gratuity scheme			(3,903)					(3,903)		(3,903)
Unrealised net gains/(losses) arising during the period						(1,433,570)		(1,433,570)		(1,433,570)
Net reclassification adjustment for realised net losses			-			(987,952)		(987,952)		(987,952)
Total comprehensive income or loss	**-**	**-**	**2,109,059**	**-**	**-**	**(2,421,522)**	**-**	**(312,463)**	**113,867**	**(198,597)**
Payment for right issue								-	171,990	171,990
Dividend paid			(638,343)					(638,343)		(638,343)
Transfer to statutory reserves			(393,070)	393,070						-
Transfer to credit risk reserves			45,003	-			(45,003)	-	-	
At 31 December 2011	2,794,794	1,539,587	12,693,806	3,241,132	(450,040)	(2,564,305)	144,672	17,399,646	521,455	17,921,101
Profit after tax for the year			3,008,709					3,008,709	176,990	3,185,699
Actuarial gains/(losses) in defined gratuity scheme (net of tax) 62,069 62,069 62,069										
Unrealised net gains/(losses) arising during the period						4,021,858		4,021,858		4,021,858
Net reclassification adjustment for realised net losses						(1,785,944)		(1,785,944)		(1,785,944)
Total comprehensive income net of tax	-	-	3,070,778	-	-	2,235,914	-	5,306,692	176,990	5,483,682
Dividend paid			(638,343)					(638,343)		(638,343)
Transfer to statutory reserves			(324,145)	324,145				-		-
Transfer to credit risk reserves			(177,814)	-			177,814	-		-
At 31 December 2012	2,794,794	1,539,587	14,624,282	3,565,277	(450,040)	(328,391)	322,486	22,067,995	698,445	22,766,440

	Share capital	Share premium	Retained earnings	Statutory reserve	Available for sale reserve	Credit risk reserve	Total
Balance at 1 January 2011	**2,794,794**	**1,539,587**	**9,063,249**	**2,819,958**	**(142,783)**	**212,744**	**16,287,549**
Profit after tax for the year			2,062,301				2,062,301
Actuarial gains/(losses) in defined gratuity scheme			(3,879)				(3,879)
Unrealised net gains/(losses) arising during the period					(1,429,936)		(1,429,936)
Net reclassification adjustment for realised net losses		(987,952)	(987,952)				
Total comprehensive income or loss	-	-	2,058,422	-	(2,417,888)	-	(359,466)
Dividend paid			(698,698)				(698,698)
Transfer to statutory reserves			(364,944)	364,944			-
Transfer to credit risk reserves			68,072			(68,072)	-
At 31 December 2011	**2,794,794**	**1,539,587**	**10,126,101**	**3,184,902**	**(2,560,671)**	**144,672**	**15,229,385**
Profit after tax for the year			2,827,567				2,827,567
Actuarial gains/(losses) in defined gratuity scheme			58,194				58,194
Unrealised net gains/(losses) arising during the period					3,765,801		3,765,801
Net reclassification adjustment for realised net losses					(1,785,944)		(1,785,944)
Total comprehensive income	-	-	2,885,761	-	1,979,857	-	4,865,618
Dividend paid			(698,698)				(698,698)
Transfer to statutory reserves			(282,757)	282,757			-
Transfer to credit risk reserves			(177,814)			177,814	-
At 31 December 2012	**2,794,794**	**1,539,587**	**11,852,593**	**3,467,659**	**(580,814)**	**322,486**	**19,396,305**

1. General information

FSDH Merchant Bank Limited *(formerly First Securities Discount House Limited)* ("the Bank") was incorporated on 23 June 1992 as a private limited liability company under the Companies and Allied Matters Act 1990. It started operations on 1 July 1992 and was granted license to carry on discount house business on 10 February 1993. The principal activity of the Company and its subsidiaries (the Group) is the provision of discount house services, investing, stock broking and pension fund administration services to its customers. Discount house services principally involve trading in and holding of marketable securities such as treasury bills, government bonds, commercial bills and other eligible instruments.

a) In July 2011, the Company applied for a license to operate as a merchant bank pursuant to the banking reforms in Nigeria. Final approval for the conversion was granted on 22 November 2012 and on 15 January 2013; the company formally ceased to operate as a discount house and converted to a merchant bank. The Company's name was officially changed on 31 December 2012 from First Securities Discount House Limited to FSDH Merchant Bank Limited. Upon conversion, the operations of the company has expanded to include the following:

- Trade Services
- Foreign Currencies (Fx) Trading
- Term Loans

The Company holds a 99.7% interest in an asset management company - FSDH Asset Management Limited. FSDH Asset Management Limited holds a 99.9% interest in FSDH Securities Limited (FSL), a company involved in stock broking and issuing house operations. In addition, the Company has a 51% interest in Pensions Alliance Limited, which is involved in pension fund administration. The company controls the FSDH Staff Cooperative scheme; the scheme was set up by the Company to enable its staff partake in the benefits of share ownership. The scheme invests in shares of the Company and other entities.

The Company prepares consolidated financial statements and the financial results of all the subsidiaries have been consolidated in these financial statements. The consolidated financial statements for the year ended 31 December 2012 were approved for issue by the Board of Directors on 15 March, 2013.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

These financial statements are the stand alone and consolidated financial statements of FSDH Merchant Bank Limited ("the Bank'), and its subsidiaries (herein collectively referred to "the Group"). The financial statements for the year 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. Additional information required by national regulations is included where appropriate. These are the first financial statements of First Securities Discount House Limited and its subsidiaries prepared in accordance with IFRS and IFRS 1, First-time Adoption of IFRS (IFRS 1) has been applied. The financial statements have been prepared in accordance with the going concern principle under the historical cost convention as modified by the measurement of certain financial assets held at fair value. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Group's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) Standards, amendments and interpretations effective on or after 1 January 2012
The following standards, amendments and interpretations, which became effective in 2012 are relevant to the Group:

- Amendment to IAS 12: Income taxes - Deferred tax (effective for periods beginning on or after 1 January 2012) This amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value, namely the inclusion of a rebuttable presumption that investment property measured at fair value is recovered entirely by sale.

- Amendment to IFRS 7: Financial instruments: Disclosures - Transfers of financial assets (effective for periods beginning on or after 1 July 2011)

  This amendment expands the disclosure in respect of transfers of financial assets with the aim of improving users' understanding of the risk exposures relating to such transfers and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

- Amendment to IFRS 1: First time adoption - Fixed dates and hyperinflation (effective for periods beginning on or after 1 July 2011)

  The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRS for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation.

(b) Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2013 or later periods and are expected to be relevant to the Group: Management is in the process of assessing the impact of the guidance set out below on the Group and the timing of its adoption by the Group

- Amendment to IAS 19: Employee benefits (effective for periods beginning on or after 1 January 2013)

  This amendment eliminates the corridor approach and calculates funding costs on a net funding basis.

- IFRS 9: Financial instruments: Classification and measurement (effective for periods beginning on or after 1 January 2015) IFRS 9 addresses the recognition, de-recognition, classification and measurement of financial assets and financial liabilities. In respect of financial assets, IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The classification and measurement of financial liabilities have remained as per IAS 39 with the exception of financial liabilities designated at fair value through profit or loss where the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income.

- IFRS 10: Consolidated financial statements (effective for periods beginning on or after 1 January 2013) This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

- IFRS 11: Joint arrangements (effective for periods beginning on or after 1 January 2013) This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has right to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- IFRS 12: Disclosures of interests in other entities (effective for periods beginning on or after 1 January 2013) This standard includes the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities.

- IFRS 13: Fair value measurement (effective for periods beginning on or after 1 January 2013) This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRS.

The following guidance is not expected to have a material impact on the Group's financial statements:

- IAS 27 (revised 2011): Separate financial statements (effective for periods beginning on or after 1 January 2013)
- IAS 28 (revised 2011): Associates and joint ventures (effective for periods beginning on or after 1 January 2013)

(c) Early adoption of standards
The Group did not early adopt new or amended standards in 2012.

2.2 Consolidation

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

(a) Subsidiaries
The consolidated financial statements of the Group comprise the financial statements of the parent entity and all consolidated subsidiaries, including certain special purpose entities as of 31 December 2012.

Subsidiaries are companies in which the Group directly or indirectly holds the majority of the voting rights and where it determines their financial and business policies and is able to exercise control over them in order to benefit from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases or qualify to be accounted for as Held for sale under IFRS 5. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective acquisition date or up to the effective date on which control ceases, as appropriate. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective acquisition date or up to the effective date on which control ceases, as appropriate.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (transactions with owners). Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity.

Inter-company transactions, balances and unrealised gains on transactions between companies within the Group are eliminated on consolidation. Unrealised losses are also eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

Even if there is no shareholding relationship, Special Purpose Entities (SPEs) are consolidated in accordance with Standing Interpretations Committee (SIC) 12, Consolidation—Special Purpose Entities if the Group controls them from an economic perspective. When assessing whether the Group controls a SPE, in addition to the criteria in IAS 27 it evaluates a range of factors, including whether:

(a) the activities of the SPE are being conducted on the Group's behalf according to its specific business needs so that the Group obtains the benefits from the SPE's operations;
(b) the Group has the decision-making power to obtain the majority of the benefits of the activities of the SPE, or the Group has delegated these decision-making power by setting up an 'autopilot' mechanism, or
(c) the Group has the rights to obtain the majority of the benefits of the activities of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
(d) the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain the benefits from its activities.

Whenever there is a change in the substance of the relationship between the Group and the SPE, the Group performs a re-assessment of consolidation. Indicators for a re-assessment of consolidation are especially changes in ownership of the SPE, changes in contractual arrangements and changes in the financing structure.

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 a financial asset. In addition, any amount 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 and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(b) Transactions and non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated equity as non-controlling interest. Profits or losses attributable to non-controlling interests are reported in the consolidated comprehensive income as profit or loss attributable to non-controlling interests.

(c) Separate Financial Statements:

In line with Nigerian company regulations, the company prepares separate financials. In the separate financial statements, investments in subsidiaries are accounted for at cost.

2.3 Foreign currency translation

(a) 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 consolidated financial statements are presented in thousands (Naira), which is the Group's presentation and functional currency.

(b) Transactions and balances

Foreign currency transactions which are transactions denominated, or that requires settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or valuation where items are re-measured. Foreign exchange gain and losses resulting from the settlement of such transactions, and from the translation of year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences relating to amortised cost are recognised in income statement and other changes in the carrying amount are recognised in Other Comprehensive Income.

Translation differences on non-monetary financial assets and liabilities (such as equities) which are held at fair value through profit or loss are recognised in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets classified as available for sale, are included in Other Comprehensive income.

2.4 Sale and repurchase agreements

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

Securities purchased under agreements to resell (reverse repos) are recorded as collaterised lending and classified under loans and receivables. The securities pledged under such agreements are not included in the statement of financial position.

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

2.5 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the consolidated statement of financial position and measured in accordance with their assigned category.

2.5.1 Financial assets

The Group allocates financial assets to the following IAS 39 categories: (a) financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-forsale financial assets. Management determines the classification of its financial instruments at initial recognition.

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

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading, unless they are designated and effective as hedging instruments. Financial assets held for trading consist of debt instruments, including money-market paper and equity instruments. They are recognised in the consolidated statement of financial position as 'Financial assets held for trading'.

Financial instruments included in this category are initially measured at fair value; transaction costs are taken directly to profit or loss and subsequently measured at fair value with gains and losses arising from changes in fair value recognised in 'Net gains / (losses) from financial instruments classified as held for trading' in the Statement of Comprehensive Income. Interest income and dividend income on financial assets held for trading are included in 'Discount and similar income' and 'other income' respectively. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

The Group did not designate financial assets upon initial recognition as at fair value through profit or loss (fair value option).

(b) Loans and receivables

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

(1) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

(2) those that the Group upon initial recognition designates as available for sale; or

(3) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration."

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost. Loans and receivables are reported in the consolidated statement of financial position as loans and receivables. Interest on loans is included in the consolidated statement of comprehensive income and is reported under 'Discount and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the commercial bill and recognised in the consolidated statement of comprehensive income as 'impairment charge for credit losses'.

The Group's loans and receivables include the following, 'cash and bank balances', 'Placements with banks', 'Placements with other financial institutions', 'Loans and receivables to customers', 'Loans and receivable to staff which is included in "Other Assets" and 'Receivables balances included in "Other Assets"

(c) Held-to-maturity financial assets

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

(1) those that the Group upon initial recognition designates as at fair value through profit or loss;

(2) those that the Group designates as available-for-sale; and

(3) those that meet the definition of loans and receivables."

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

Interest on held-to-maturity investments is included in the consolidated statement of comprehensive income and reported as 'Discount and similar income'. In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the consolidated statement of comprehensive income as 'Net gains/(losses) on investment securities'. Held-to maturity investments are currently made up of Federal Government of Nigeria bonds.

(d) Available-for-sale financial assets

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

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

2.5.2 Financial liabilities

The Group's holding in financial liabilities represents mainly 'Call borrowings from banks''Due to banks', 'Due to customers' and certain balances 'Other liabilities'. These liabilities are recognised on date of transaction.

These are all classified as financial liabilities measure at amortised cost. These financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Any difference between the proceed net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

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

2.5.3 Determination of fair value

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

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

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

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, NIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the dates of the consolidated statement of financial position. However, for illiquid financial instruments, the fair values are further adjusted to compensate for the credit risks attached to the issuers.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Based on the established fair value model governance policies, and related controls and procedures applied, management believes that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the consolidated statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

2.5.4 De-recognition

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

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

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

2.5.5 Reclassification of financial assets

The Group may choose to reclassify a non-derivative financial asset held for trading out of the heldfor-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

2.5.6 Recognition

Financial assets are recognised on settlement dates. The varying class and nature of the financial assets determines the settlement which may be different from the trade date. Financial instruments such as debt and equity securities are recognised on settlement date other than the trade date while loans and receivables are recognised on trade date which represents its settlement date.

2.6 Offsetting financial instruments

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

2.7 Impairment of financial assets

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

"Objective evidence that a financial asset is impaired includes observable data that comes to our attention about the following loss events:
- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
(i) adverse changes in the payment status of borrowers in the group ; or
(ii) national or local economic conditions that correlate with defaults on the assets in the group

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors).

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

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

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

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and receivables to banks and customers are classified in "Impairment charge for credit losses" whilst impairment charges relating to investment securities (Held to maturity categories) are classified in 'Net gains/ (losses) on investing securities'.

b) Assets classified as available for sale

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

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated statement of comprehensive income. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of comprehensive income.

2.8 Discount income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

2.9 Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

2.10 Dividend income

Dividends are recognised in the consolidated statement of comprehensive income when the entity's right to receive payment is established.

2.11 Impairment of non-financial assets

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

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

2.12 Cash and cash equivalents

For the purposes of statement of cash flow, Cash and cash equivalents are balances that are held for the primary purpose of meeting short term cash commitments. Hence this includes cash in hand and cash equivalents that are readily convertible to known amount of cash, are subject to insignificant risk of changes in value and whose original maturity is three months or less. This includes cash-on-hand, deposit held at call with banks and other short-term highly liquid investments which originally matures in three months or less (Treasury bills with less than 3 months maturity).

2.13 Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. An asset is recognised when it is probable that economic benefits associated with the item flow to the Group and the cost of the item can be reliable measured.

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

The assets' carrying values and useful lives are reviewed, and written down if appropriate, at each date of the consolidated statement of financial position. Assets are impaired whenever events or changes in circumstances indicate that the carrying amount is less than the recoverable amount; see note 2.11 on impairment of non•]financial assets.

(ii) Subsequent costs

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

(iii) Depreciation

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

Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with IFRS 5. A non•]current asset or disposal group is not depreciated while it is classified as held for sale. The estimated useful lives for the current and comparative periods are as follows: Leasehold improvements over the shorter of the useful life of the item or lease term. Land is not depreciated.

-Leasehold improvements	- 25% or over the lease period
-Motor vehicles	- 25%
-Office Furniture and fittings	- 12.5% - 25%
-Office equipment	- 20% - 33.33%
-Work in progress	- 0%"

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

(iv) 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.

2.14 Intangible assets

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

The Group chooses to use the cost model for the measurement after initial recognition. Amortisation is calculated on a straight line basis over the useful lives as follows:
Computer Software: 3 – 5 years.

2.15 Income tax

(a) Current income tax

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

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

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

(b) Deferred income tax

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

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities, provisions for gratuity and carry-forwards. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis

2.16 Employee benefits

The Group operates two retirement benefit schemes in the form of pension costs and gratuity benefits. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(a) Pension costs
In line with the Pension Reform Act 2004, the Group operates a defined contribution scheme; employees are entitled to join the scheme on confirmation of their employment. The employee and the Group contributes 5% and 10% respectively of the employee's basic, transport and rent allowances respectively. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Gratuity benefits
The Group operates a non-contributory defined benefits scheme. The employees' entitlement to retirement benefits under the service gratuity scheme depends on the individual years of service, terminal salary and conditions of service. The liability recognised in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the financial reporting period less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using yields on Federal Government of Nigeria bonds of medium duration denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. Past-service costs are recognised immediately in profit or loss.

2.17 Provisions, contingent liabilities and assets

Provisions are liabilities that are uncertain in amount and timing. Provision are recognised when the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

A contingent liability is a possible obligation that arises from past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or the Group has a present obligation as a result of a past event. It is not recognised because it is not likely that an outflow of resources will be required to settle the obligation or the amount can not be reliably estimated. Contingent liabilities normally comprise of legal claims under arbitration or court process in respect of which a liability is not likely to occur.

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

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

2.18 Share capital

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

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Group's shareholders. Dividends for the year that are declared after the date of the consolidated statement of financial position are dealt with in the subsequent events note. Dividends proposed by the Directors' but not yet approved by members are disclosed in the financial statements in accordance with the requirements of the Company and Allied Matters Act.

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

(d) Statutory Reserve
Central Bank of Nigeria (CBN) regulation requires the Company to make an annual appropriation to a statutory reserve. As stipulated by Paragraph G(1) of the Revised Guidelines for Discount Houses, an appropriation of 15% of profit after tax is made if the statutory reserve is less than the paid-up share capital and 10% of profit after tax if the statutory reserve is greater than the paid up share capital. For purposes of this appropriation, 'Profit for the year' as reported in the statement of comprehensive income is used. This appropriation is reported in the statement of changes in equity.

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

Classification	Basis	Percentage provided
Substandard	Interest and/or principal overdue by 90 days but less than 180 days.	10%
Doubtful	Interest and/or principal overdue by more than 180 days but less than 365 days.	50%
Lost	Interest and/or principal overdue by more than 365 days.	100%

A more accelerated provision may be done using the subjective criteria. A 1% provision is taken on all risk assets not specifically provisioned.

The results of the application of Prudential Guidelines and the impairment determined for these assets under IAS 39 are compared. The IAS 39 determined impairment charge is always included in the income statement, see Note 2.7a. Where the Prudential Guidelines provision is greater, the difference is appropriated from Retained Earnings and included in a non-distributable reserve called "Credit Risk Reserve". Where the IAS 39 impairment is greater, no appropriation is made and the amount of the IAS 39 impairment is recognised in the Statement of Comprehensive Income.

All provisions determined under prudential guideline are compared with that of IFRS in line with the CBN circular reference **BSD/DIR/GEN/LAB/06/014** dated 19 March 2013.

2.19 Earnings per share

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

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

2.20 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where IAS 8 applies, comparative figures have been adjusted to conform to changes in presentation in the current year.

3. Enterprise Risk Management Review

Management knows that every financial, operational or strategic decision made may either adversely affect or strengthen our ability to meet the Group's organizational objectives. Management is also aware of the need to balance the contradictory pressures of greater entrepreneurialism and losses from downside risks. Thus, risk is seen as the level of exposure – opportunity, threat, and uncertaintythat must be identified, understood, measured and effectively managed, as the Group executes its strategies to achieve its business objectives and create value.

The risks associated with the Group's businesses include; financial risks (which consist of credit, market, and liquidity risk), human resources risk, macroeconomic risk, information systems/technology risk and regulatory compliance.

For the Group to achieve long term success, it must manage all sources of opportunities and threats effectively.

The risk management philosophy and culture are the set of shared beliefs, values, attitudes and practices that govern how management considers the risk inherent in the Group's business activities, from strategy development and implementation to day-to-day activities.

Management's risk philosophy is conservative. We believe that a sound risk management system is the foundation for building a vibrant and viable financial institution. Therefore, an enterprise-wide approach to risk management has been adopted, wherein key risks, financial and non- financial, from all areas of the business are managed within the context of the Group's risk appetite.

Consequent upon its risk management philosophy, the Group strives to embed the following guiding principles of its risk culture into its daily practices:

a. The Group insists on a robust risk management governance structure that enables it to manage all major aspects of its activities through an integrated planning and review process that includes strategic, financial, customer and risk planning.
b. Our Board and Senior Management insist on establishing and promoting a strong culture of adherence to limits in managing risk exposure.
c. Risk management in the Group is governed by formally documented and defined policies and procedures, which are clearly communicated to all.

d. The Group avoids products, businesses and markets that it does not fully understand or for which management cannot reasonably and objectively measure and manage their associated risks.
e. The Group strives to maintain a balance between risk/opportunity and revenue consideration with its risk appetite. Thus, risk-related issues are considered in all our business decisions.
f. The Group creates and evaluates business units and enterprise risk profiles to consider what is best for its individual business units and the Group as a whole.
g. The Group's risk officers are empowered to perform their duties professionally and independently within clearly defined authorities.
h. Staff are encouraged to disclose inherent risks and actual losses openly, fully, honestly and quickly.
i. The Group creates a process for institutionalising the lessons learned from risk events and will penalise negligent recurrence.
j. The Group has zero tolerance for breach of laws and regulations.
k. The Group has zero appetite for associating with disreputable individuals and organisations

The Group's risk appetite articulates the quantum of residual risk it is prepared to accept or tolerate in pursuit of its strategic business objectives.

The Risk Management department periodically recommends specific measures relating to these parameters to the Board for approval. The parameters listed below are guided by our risk appetite:

Financial
a. Financial and prudential ratios set at par with statutory requirements.
b. Capital-at-risk driven by the Group's shareholder value creation objectives.
c. Earnings variance per business division or subsidiary.
d. Capital adequacy set at par with regulatory limits.

Credit
a. Asset quality, measured by the ratio of non-performing loans to total loans.
b. Maximum credit exposure per industry, product, obligor.
c. Zero tolerance for undisciplined lending.

Reputational
a. Favourable reports from external auditors and rating agencies.
b. Zero tolerance for any utterance (by directors or employees) that may impact negatively on the Group's operations.
c. Zero appetite for association with disreputable individuals and organisations.
d. Zero appetite for unethical or illegal and/or unprofessional conduct by our directors, executive management and staff.

Ratings
The Group aims to achieve consistently good ratings issued by domestic or internationally recognised rating agencies.

The ratings must reflect sound financial asset quality, strong liquidity position, strong capital adequacy level, strategic positioning in the fundamentals, excellent economy and potential for superior earnings.

Customer Service
a. Acceptable customer attrition level as defined by the Board.
b. Minimum acceptable percentage of satisfied customers from feedback surveys.
c. Acceptable complaints volume.

Regulatory
a. Zero amount or number of sanctions by the CBN and other regulatory agencies.
b. Zero tolerance for infractions and non-compliance with laws.

Market Risk
a. Trading limit
b. Stop loss limits
c. Interest rate gap limits

Liquidity Risk

a. Liquidity ratio set at par with regulatory limits
b. Total deposits to total assets
c. Duration of liquid assets
d. Large fund provider to total deposits
e. Capital adequacy
f. Total loans to total deposits
g. Total earning assets to total assets
h. Aggregate large credit to shareholders funds

Senior management usually proposes a well articulated risk appetite position and recommends it to the Board for approval annually or as may be required. It also establishes a process for allocating the appetite among the business units and subsidiaries and reporting against these limits.

3.1 Credit Risk

Credit risk is the risk that an issuer of debt securities, or a borrower, may default on its obligations, or that the payment may not be made on a negotiable instrument. It arises principally from lending and treasury activities. Credit risk can also arise as a result of crystallization in any of our off balance sheet transactions. However, the group is currently not exposed to off balance sheet transactions. FSDH has dedicated standards, policies and procedures to control and monitor all such risks.

The Management Credit Committee is mandated to provide high level centralized management of credit risk for the Bank. Its responsibilities include the following:

- Monitoring to ensure compliance with the Group credit policies
- Establishing and maintaining the Group's credit exposure policy. (Credit Exposure Policy sets controls over the maximum level of the Group's exposure to customer and other credit concentrations in line with internationally accepted regulatory standards).
- Performing an independent review and objective assessment of credit risk
- Reviewing the efficiency and effectiveness of the credit approval processes
  o Reporting to the Board and Board Credit Committee on issues covering:
  o Risk concentrations and exposure to industry sectors on all credit related matters
  o Large non performing accounts and provisions on all credit related matters
- Acting as the primary interface for credit related issues on behalf of the Group with external parties, including regulatory authorities.

3.1.1 Principal Credit policies

The principal credit policies guiding the Group shields the Group against inherent and concentration risks through all credit levels of selection, underwriting, administration and control.

Some of the policies are:

- Credit will only be extended to suitable and well identified customers
- Exposures to any industry or customer will be determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines.
- Credit will not be extended to customers where the source of repayment is unknown or speculative and also where the destination of the funds is unknown. There must be a clear and verifiable purpose for the use of funds.
- Credit will not be given to a customer where the ability of the customer to meet obligations is based on the most optimistic forecast of events. Risk conditions will always have priority over business and profit consideration.
- The primary source of repayment for all credits must be from identifiable cash flows from the counterparty's normal business operations or other financial arrangements. The realization of security remains a fall back option.
- A pricing model that reflects variations in the risk profile of various credit facilities to ensure that higher risks are compensated with higher returns.
- All conflict of interest situations must be avoided.

3.1.2 Credit Risk Measurement

Loans & Receivables and Placements with banks and other financial institution

As a financial institution, we engage in the buying and selling of securities. We also grant margin facilities to our customers. Credit risk represents the loss that the Group would incur if a counterparty (such as a bank, corporate, individual or sovereign) or an issuer of securities (or other instruments the Group holds) fails to perform under its contractual obligations or upon deterioration in the credit quality of third parties whose securities or other instruments it holds.

Over the years, the Group has devoted resources and harnessed its credit data into developing models to improve the determination of economic and financial threats due to credit risk. As a result, some key factors are considered in credit risk measurement;

1) Adherence to the strict credit selection criteria which includes a defined target market, credit history, the capacity and the character of the customers.
2) The possibility of failure to pay over the period stipulated in the contract.
3) The size of the facility in case default occurs
4) Estimated rate of recovery which is a measure of the portion of debt that can be regained through freezing of assets and collateral should default transpire.

Methodology for Risk Rating

For loans & receivables and placement with banks, the Group utilized two credit rating models to assign ratings to a customer. The bank rating model tracks and ranks key ratios related to a bank while the corporate rating model tracks and ranks key ratios related to a corporate organisation. Each rating model takes a look at both the qualitative and quantitative conditions of the obligor. For the quantitative analysis, a three years history of financial position is required to adequately appraise the customer. Financial performance is benchmarked against industry averages. The qualitative section which covers basically corporate governance issues and market intelligence requires management's judgement and perception of the customer. Quantitative analysis accounts for 75% of the total score while qualitative analysis accounts for the 25%.

Ratings are assigned to individuals who seek margin facilities from the group. These ratings are assigned to customers depending on the ability to repay and the quality of the collateral pledged against the facility.

In summary, the key factors considered while doing an appraisal of the customer include:

- A measure of the financial and non financial risks of a borrower. In order to properly evaluate the non financial risks of the borrower, a thorough industry analysis is carried out by a dedicated team in Risk Management. This would be used as a benchmark for the obligor
- Obligor ratings that considers the financial condition, management and ownership structure, industry and other qualitative factors of the customer.
- Facility rating that recognises the risk mitigation and facility structuring as features of the credit facility. Considerations here include the nature and quality of collateral, the structure of the loan, the nature and purpose of the loan among others.

Ratings assigned to customer typically last for a period of one year. An exception to that is if the asset involved is a project finance. Project finance facilities are monitored subsequently after the initial rating for any signs of financial distress

All borrowers and facilities have their ratings reviewed on a regular basis. An exception to that are the ratings belonging to higher risk borrowers which are subjected to more frequent reviews.

In order to allow for a meaningful distribution of exposures across grades with no excessive concentrations on the Group's borrower rating and its facility rating scale, the Group maintains the under listed rating grade which is applicable to both new and existing customers

A rating grid which shows how the ratings are assigned to each customer is illustrated below

Group's Internal Rating	Group Score	Description of the Grade	Agusto Score / External Rating: Agusto Equivalent
AAA	90 - 100	Investment Grade	89 - 100 AAA
AA	80 – 89.9	Investment Grade	80 - 89 AA(+,-)
A(+,-)	70 – 79.9	Investment Grade	70 - 79 A(+,-)
BBB(+,-)	55 - 69.9	Investment Grade	60 - 69 BBB
BB(+,-)	50 - 54.9	Speculative Grade	50 - 59 BBB
B	40 - 49.9	Speculative Grade	40 - 49 B
C	< 40	Junk Grade	< 40 CCC
D		In Default	D

An Investment grade rating on an asset means that the asset is financially viable and not likely to default on its obligations. However, some assets may be more financially viable than others.

A Speculative grade rating on an asset means that the asset is vulnerable. Its capacity to meet obligations could be impaired by the slightest adverse business, financial or economic condition.

A Junk grade rating on an asset means that the asset is highly vulnerable. It largely depends on favourable conditions to meet its obligations. Also, start-ups who have no financial history but want to be extended credit are assigned a default rating of C.

An asset in default is an asset which has failed to meet one or more of its financial obligations when due.

Assets that fall within Investment grade represent the minimum risk acceptance level for the organisation. The standard set within the Group states that the commercial bill portfolio size not less than 75% of the entire portfolio should be rated BBB and above. However, for the interbank portfolio, portfolio size not less than 75% of the entire portfolio should be rated A and above.

3.1.3 Risk limit and control mitigation policies

The medium by which limits for banks and issuers are created is the credit appraisal (CA). A signed CA must evidence all types of credit lines existing. The Board of Directors of the Group set up a Board Credit Committee (BCC) whom they have given the authority to approve credit facilities on behalf of the Board. The Board also gave the authority to grant credit approval to designated officers of the Group.

All credits in the Group are rated using our internal rating model. As part of the credit appraisal process, such rating is compared and evaluated against published ratings of external rating agencies.

These ratings apart from assisting us in determining values of credit to be advanced to an obligor also guide management and the Board on authority limits for approving credits facilities.

This laid down authority governs credit extension. The limit set by the Board is as indicated below.
Aaa – Aa – Senior Management
A - Bbb – Senior Management + BCC
Bb - B – Senior Management + BCC+ Chairman, Board of Directors

In terms of volumes, the grid is as indicated below;
Up to 25% of our Single Obligor Limit - Senior Management
Up to 66% of our Single Obligor Limit - Management & BCC
Up to 100% of our Single Obligor Limit - Management, BCC, & Chairman, Board of Directors

It would be pertinent to note that both the ratings and volumes conditions have to be met for Senior Management to sign off on. An exception in either rating or volumes limits requires the approval of the BCC so long as it is within their approval limit.

A complete approval would consist of signatures of at least three members of the Board Credit Committee namely; the Managing Director, Chairman of BCC and any other member of the Board Credit Committee

It is pertinent to state that these limits are reviewed from time to time as the circumstances of the Group demand.

3.1.4 Collateral Policies

To minimise the risk of credit loss to the Group in the event of a decline in quality or delinquency, the Group ensures that credit exposures have appropriate collateral. Security documents are reviewed to ensure the continuous enforceability of contracts, collateral and guarantees. Also, all securities held against credit exposures are reviewed regularly to ensure there is no diminution in value and where this has occurred, that appropriate steps are taken to shore up such positions to acceptable levels.
This is done throughout the life of the credit exposure.
Collateral securities which are pledged to the Group must be in negotiable form and its types must include the following:

- Real estate, plant and equipment collateral (usually all asset or mortgage debenture or charge) which have to be registered and enforceable under Nigerian law
- Collateral consisting of inventory, account receivables, machinery equipments, patent trademarks, farm products, general intangibles, etc. These require a security agreement (usually a floating debenture) which has to be registered and, must be enforceable under Nigerian law.
- Stocks and shares of publicly quoted companies
- Domiciliation of payment contracts
- Letter of Lien

Currently, the various types of collateral held are against our Commercial Bills and Margin facilities. They consist of stocks and shares of publicly quoted and unquoted companies, real estate, letters of lien, domiciliary of payment contracts and charge on assets. During the year under review, there was a short fall in the value of shares pledged against a facility, additional security was requested and was brought in form of a piece of land.

For placements with financial institutions which consist of mainly banks, the amount of credit extended is based on the strength of the institution as shown by our internal rating model.

Concentration of risks of financial assets with credit risk exposure

The group monitors concentration of credit risk by geographical location and by industry sector. An analysis of concentrations of credit risk at 31 December 2012, 31 December 2011 and 1 January 2011 respectively for commercial bills, margin accounts, promissory notes and amounts due from banks is set out as below:

a) Geographical sectors

The Group considers the credit exposure to geographical sectors as immaterial as a large percentage of our credit facilities are domiciled in the south western region of the Nigeria for all periods.

b) Industrial classification

The following table breaks down the Group's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), categorised by industries as of 31 December 2012

Industry sectors

Group

	Cash and bank balances	Placements with banks	Placements with other institutions	Financial assets held for trading	Loans and receivables to customers	Investment securities	Pledged assets	Other assets	Total
At 31 December 2012 (N'000)									
Conglomerate	-	-	-	-	-	-	-	-	-
Government	783,274	-	-	11,469,657	-	21,694,805	22,819,716	271,324	57,038,776
Finance and Insurance	129,984	16,357,112	58,585	-	2,592,626	6,507,320	-	-	25,645,628
Manufacturing	-	-	-	-	255,802	877,483	-	-	1,133,285
Oil and Gas	-	-	-	-	3,572,104	-	-	-	3,572,104
Real estate and construction	-	-	-	-	1,065,560	55,000	-	-	1,120,560
Telecoms	-	-	-	-	1,062,693	-	-	-	1,062,693
Others	642	-	-	34,820	10,909	1,146,147	-	279,676	1,472,194
	913,900	16,357,112	58,585	11,504,477	8,559,695	30,280,755	22,819,716	551,000	91,045,240
At 31 December 2011 (N'000)									
Conglomerate	-	-	-	-	-	-	-	-	-
Government	404,399	-	-	-	-	29,473,635	28,965,871	362,878	59,206,783
Finance and Insurance	123,071	667,421	26,965	-	506,848	3,843,961	-	-	5,168,266
Food and Berverages	-	-	-	-	-	470,255	-	-	470,255
Manufacturing	-	-	-	-	956,023	427,448	-	-	1,383,471
Oil and Gas	-	-	-	-	5,147,358	-	-	-	5,147,358
Real estate and construction	-	-	-	-	-	55,000	-	-	55,000
Telecoms	-	-	-	-	1,378,327	-	-	-	1,378,327
Others	1,009	-	-	-	110,459	872,759	-	209,191	1,193,418
	528,479	667,421	26,965	-	8,099,015	35,143,058	28,965,871	572,069	74,002,877
At 1 January 2011 (N'000)									
Conglomerate	-	-	-	-	-	-	-	-	-
Government	754,959	-	-	964,791	-	26,470,696	4,436,478	352,137	32,979,061
Finance and Insurance	3,013,665	164,867	7,872	-	99,340	1,549,764	-	-	4,835,508
Food and Berverages	-	-	-	-	575,755	-	-	-	575,755
Manufacturing	-	-	-	-	2,869,869	363,554	-	-	3,233,423
Oil and Gas	-	-	-	-	2,939,725	-	-	-	2,939,725
Real estate and construction	-	-	-	-	250,000	55,000	-	-	305,000
Telecoms	-	-	-	-	1,414,501	-	-	-	1,414,501
Others	483	-	-	-	75,299	888,939	-	168,437	1,133,158
	3,769,107	164,867	7,872	964,791	8,224,489	29,327,953	4,436,478	520,574	47,416,131

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Industry sectors **Bank**	**Cash and bank balances**	**Financial assets held for training**	**Loans and receivables to customers**	**Investment securities**	**Pledged assets**	**Other assets**	**Total**
At 31 December 2012 (N'000							
Conglomerate	-	-	-	-	-	-	-
Government	783,274	11,324,890	-	21,434,998	22,819,716	327,339	56,690,217
Finance and Insurance	100,067	-	17,931,041	6,479,592	-	-	24,510,700
Manufacturing	-	-	822,386	877,483	-	-	1,699,869
Oil and Gas	-	-	3,005,519	-	-	-	3,005,519
Real estate and construction	-	-	1,065,560	-	-	-	1,065,560
Telecoms	-	-	1,062,694	-	-	-	1,062,694
Others	363	-	4,166	666	-	-	5,195
	883,704	11,324,890	23,891,367	28,792,738	22,819,716	327,339	88,039,754
At 31 December 2011 (N'000)							
Conglomerate	-	-	-	-	-	-	-
Government	404,399	-	-	28,839,487	28,965,871	355,186	58,564,943
Finance and Insurance	122,555	-	506,848	3,811,759	-	-	4,441,162
Food and Berverages	-	-	-	470,255	-	-	470,255
Manufacturing	-	-	987,482	427,448	-	-	1,414,930
Oil and Gas	-	-	5,147,358	-	-	-	5,147,358
Real estate and construction	-	-	-	-	-	-	-
Telecoms	-	-	1,378,327	-	-	-	1,378,327
Others	714	-	60,030	666	-	-	61,410
	527,668	-	8,080,045	33,549,615	28,965,871	355,186	71,478,385
At 1 January 2011 (N'000)							
Conglomerate	-	-	-	-	-	-	-
Government	754,959	964,791	-	26,382,642	4,436,478	338,932	32,877,802
Finance and Insurance	2,653,898	-	99,340	1,519,764	-	-	4,273,002
Food and Berverages	-	-	575,755	-	-	-	575,755
Manufacturing	-	-	2,901,358	363,554	-	-	3,264,912
Oil and Gas	-	-	2,939,725	-	-	-	2,939,725
Real estate and construction	-	-	250,000	-	-	-	250,000
Telecoms	-	-	1,414,502	-	-	-	1,414,502
Others	285	-	61,669	666	-	-	62,620
	3,409,142	964,791	8,242,349	28,266,626	4,436,478	338,932	45,658,318

Credit quality

The following table breaks down the Group's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), categorised by credit quality as:

Group

	Cash and bank balances	Placements with banks	Placements with other institutions	Financial assets held for trading	Loans and receivables to customers	Investment securities	Pledged assets	Other assets	Total
At 31 December 2012 (N'000)									
Neither past due nor impaired	913,900	16,357,112	58,585	11,504,477	8,559,695	30,280,755	22,819,716	551,000	91,045,240
Past due but not impaired	-	-	-	-	-	-	-	-	-
Impaired	-	-	-	-	566,584	-	-	-	566,584
Gross	913,900	16,357,112	58,585	11,504,477	9,126,279	30,280,755	22,819,716	551,000	91,611,824
Impairment allowance	-	-	-	-	(566,584)	-	-	-	(566,584)
Net	913,900	16,357,112	58,585	11,504,477	8,559,695	30,280,755	22,819,716	551,000	91,045,240
At 31 December 2011 (N'000)									
Neither past due nor impaired	528,479	667,421	26,965	-	8,099,015	35,143,058	28,965,871	572,069	74,002,877
Past due but not impaired	-	-	-	-	-	-	-	-	-
Impaired	-	-	-	-	598,043	-	-	-	598,043
Gross	528,479	667,421	26,965	-	8,697,058	35,143,058	28,965,871	572,069	74,600,920
Impairment allowance	-	-	-	-	(598,043)	-	-	-	(598,043)
Net	528,479	667,421	26,965	-	8,099,015	35,143,058	28,965,871	572,069	74,002,877
At 1 January 2011 (N'000)									
Neither past due nor impaired	3,769,107	164,867	7,872	964,791	6,943,323	29,327,953	4,436,478	520,574	46,134,965
Past due but not impaired	-	-	-	-	-	-	-	-	-
Impaired	-	-	-	-	1,940,400	-	-	-	1,940,400
Gross	3,769,107	164,867	7,872	964,791	8,883,723	29,327,953	4,436,478	520,574	48,075,365
Impairment allowance	-	-	-	-	(659,234)	-	-	-	(659,234)
Net	3,769,107	164,867	7,872	964,791	8,224,489	29,327,953	4,436,478	520,574	47,416,131

Bank - At 31 December 2012 (N'000)	Cash and bank balances	Financial assets held for training	Loans and receivables to customers	Investment securities	Pledged assets	Other assets	Total
Neither past due nor impaired	883,704	11,324,890	23,891,367	28,792,738	22,819,716	327,339	88,039,754
Past due but not impaired	-	-	-	-	-	-	-
Impaired	-	-	566,585	-	-	-	566,585
Gross	883,704	11,324,890	24,457,952	28,792,738	22,819,716	327,339	88,606,339
Impairment allowance	-	-	(566,585)	-	-	-	(566,585)
Net	883,704	11,324,890	23,891,367	28,792,738	22,819,716	327,339	88,039,754

At 31 December 2011 (N'000)	Cash and bank balances	Financial assets held for training	Loans and receivables to customers	Investment securities	Pledged assets	Other assets	Total
Neither past due nor impaired	527,668	-	8,080,045	33,549,615	28,965,871	355,186	71,478,385
Past due but not impaired	-	-	-	-	-	-	-
Impaired	-	-	566,585	-	-	-	566,585
Gross	527,668	-	8,646,630	33,549,615	28,965,871	355,186	72,044,970
Impairment allowance	-	-	(566,585)	-	-	-	(566,585)
Net	527,668	-	8,080,045	33,549,615	28,965,871	355,186	71,478,385
At 1 January 2011 (N'000)							
Neither past due nor impaired	3,409,142	964,791	6,961,392	28,266,626	4,436,478	338,932	44,377,361
Past due but not impaired	-	-	-	-	-	-	-
Impaired	-	-	1,908,703	-	-	-	1,908,703
Gross	3,409,142	964,791	8,870,095	28,266,626	4,436,478	338,932	46,286,064
Impairment allowance	-	-	(627,745)	-	-	-	(627,745)
Net	3,409,142	964,791	8,242,349	28,266,626	4,436,478	338,932	45,658,318

Financial assets neither past due nor impaired

The credit quality of the portfolio of financial assets that were neither past due nor impaired can be assessed by reference to the internal rating system or rating agency adopted by the Group.

Group
At 31 December 2012 (N'000)

	Cash and bank balances	Placements with banks	Placements with other institutions	Financial assets held for trading	Loans and receivables to customers	Investment securities	Pledged assets	Other assets	Total
At 31 December 2012 (N'000)									
AAA to AA-	99,893	-	-	-	6,573,385	2,046,605	-	271,324	8,991,207
A+ to A-	-	2,195,237	-	-	80,198	4,401,434	-	-	6,676,868
BBB+ to BB-	30,091	9,142,041	-	-	1,899,369	991,764	-	-	12,063,265
Below BB-	-	-	-	-	-	-	-	-	-
Unrated	783,916	5,019,834	58,585	11,504,477	6,743	22,840,952	22,819,716	279,676	63,313,899
	913,900	16,357,112	58,585	11,504,477	8,559,695	30,280,755	22,819,716	551,000	91,045,240
At 31 December 2011 (N'000)									
AAA to AA-	-	-	-	-	6,124,972	1,067,365	-	362,878	7,555,215
A+ to A-	-	-	-	-	859,076	3,875,262	-	-	4,734,338
BBB+ to BB-	516	789,976	-	-	1,096,205	525,255	-	-	2,411,952
Below BB-	-	-	-	-	-	-	-	-	-
Unrated	405,408	-	26,965	-	18,762	29,675,176	28,965,871	209,191	59,301,372
	405,924	789,976	26,965	-	8,099,015	35,143,058	28,965,871	572,069	74,002,877

At 1 January 2011 (N'000)

	Cash and bank balances	Placements with banks	Placements with other institutions	Financial assets held for trading	Loans and receivables to customers	Investment securities	Pledged assets	Other assets	Total
AAA to AA-	-	-	-	-	4,437,449	1,549,764	-	352,137	6,339,349
A+ to A-	-	-	-	-	618,978	1,118,562	-	-	1,737,540
BBB+ to BB-	3,013,665	164,867	7,872	-	1,865,625	-	-	-	5,052,029
Below BB-	-	-	-	-	-	-	-	-	-
Unrated	755,442	-	-	964,791	21,272	26,659,628	4,436,478	168,437	33,006,048
	3,769,107	164,867	7,872	964,791	6,943,323	29,327,953	4,436,478	520,574	46,134,965

Bank

At 31 December 2012 (N'000)

	Cash and bank balances	Financial assets held for training	Loans and receivables to customers	Investment securities	Pledged assets	Other assets	Total
AAA to AA-	69,976	-	6,572,458	2,016,605	-	247,576	8,906,615
A+ to A-	-	-	2,120,760	4,346,432	-	-	6,467,192
BBB+ to BB-	30,091	-	10,139,972	994,037	-	-	11,164,099
Below BB-	-	-	-	-	-	-	-
Unrated	783,637	11,324,890	5,058,178	21,435,664	22,819,716	79,763	61,501,848
	883,704	11,324,890	23,891,367	28,792,738	22,819,716	327,339	88,039,754

At 31 December 2011 (N'000)

	Cash and bank balances	Financial assets held for training	Loans and receivables to customers	Investment securities	Pledged assets	Other assets	Total
AAA to AA-	-	-	6,124,764	1,037,365	-	320,708	7,482,837
A+ to A-	-	-	859,076	3,873,059	-	-	4,732,135
BBB+ to BB-	122,555	-	1,096,205	470,255	-	-	1,689,015
Below BB-	-	-	-	-	-	-	-
Unrated	405,113	-	-	28,168,936	28,965,871	34,478	57,574,398
	527,668	-	8,080,045	33,549,614	28,965,871	355,186	71,478,385

At 1 January 2011 (N'000)

	Cash and bank balances	Financial assets held for training	Loans and receivables to customers	Investment securities	Pledged assets	Other assets	Total
AAA to AA-	-	-	4,437,449	1,519,764	-	307,546	6,264,758
A+ to A-	-	-	618,978	363,554	-	-	982,532
BBB+ to BB-	2,653,898	-	1,582,991	-	-	-	4,236,889
Below BB-	-	-	321,974	-	-	-	321,974
Unrated	755,244	964,791	-	26,383,308	4,436,478	31,386	32,571,207
	3,409,142	964,791	6,961,392	28,266,626	4,436,478	338,932	44,377,361

The credit risk associated with other financial assets that were past due but not impaired are considered to be low at 31 December 2012, 31 December 2011 and 1 January 2011.

Financial assets individually impaired

	GROUP	BANK
At 31 December 2012	**Loans and receivables to customers N'000**	**Loans and receivables to customers N'000**
Gross amount	566,584	566,585
Specific impairment	(566,584)	(566,585)
Net amount	-	-
Fair value of collateral	-	-
At 31 December 2011		
Gross amount	598,252	566,585
Specific impairment	(598,252)	(566,585)
Net amount	-	-
Fair value of collateral	-	-
At 1 January 2011		
Gross amount	1,940,400	1,908,703
Specific impairment	(659,442)	(627,745)
Net amount	1,280,958	1,280,958
Fair value of collateral	1,500,000	1,500,000

Realization of collateral

In 2010, a corporate guarantee for the sum of N1.5billion was held in respect of the impaired financial asset. The corporate guarantee amount covered the principal amount of the facility. That corporate guarantee was called upon in 2011. During the year under review, collateral in the form of quoted equity shares were sold. The amount recovered from the sale was N580.24 million. This was in respect of a commercial paper facility.

The fair value of the quoted equities pledged against loans and receivables to customers as at 31 December 2012 was N28.21million.

Liquidity Risk

Liquidity risk is one of the key risks we contend with at the Group. This is the risk that securities or assets held by the Group cannot be traded quickly enough to meet obligations as they become due. It occurs when the cushion provided by liquid assets is not sufficient to meet outstanding obligations. Liquidity risk does not occur in isolation; it is often triggered by consequences of other financial risks like credit risk and market risks such as interest rate risk, foreign exchange risk and security price risk.

For Discount Houses, the regulatory liquidity requirement is 60% while the regulatory minimum for banks is 30%. As at 31 December, 2012, the Group's liquidity ratio stood at 79.04%

The Group has in place a contingency funding line to the Tune of N5 billion

Funding approach

Our sources of liquidity are regularly reviewed by the Assets & Liability Committee (ALCO) and Treasury department in order to avoid undue reliance on large individual investors and ensure that a satisfactory overall funding mix is maintained at all times. The funding strategy is geared towards ensuring effective diversification in sources and tenor of funding.

The tables below represent the maturity profile of the carrying amounts of the liabilities within the group.

Group **At 31 December 2012 (N'000)**	**Up to 1 months**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**Total**
Due to banks	40,504,336	-	-	-	40,504,336
Due to customers	16,824,429	10,599,246	1,934,986	240,877	29,599,538
Other liabilities	-	251,526	-	-	251,526
Total financial liabilities (contractual maturity)	57,328,765	10,850,772	1,934,986	240,877	70,355,400
At 31 December 2011 (N'000)					
Due to banks	35,628,397	-	-	-	35,628,397
Due to customers	14,914,968	5,951,489	29,751	15,000	20,911,208
Other liabilities	166,921	-	-	-	166,921
Total financial liabilities (contractual maturity)	50,710,286	5,951,489	29,751	15,000	56,706,526
At 1 January 2011 (N'000)					
Due to banks	4,651,436	-	-	-	4,651,436
Due to customers	17,983,051	5,913,197	748,882	-	24,645,130
Other liabilities	196,821	-	-	-	196,821
Total financial liabilities (contractual maturity)	22,831,308	5,913,197	748,882	-	29,493,387
Bank **At 31 December 2012 (N'000)**					
Due to banks	40,504,336	-	-	-	40,504,336
Due to customers	17,763,722	10,599,246	1,934,986	240,877	30,538,831
Other liabilities	-	266,519	-	-	266,519
Total financial liabilities (contractual maturity)	58,268,058	10,865,765	1,934,986	240,877	71,309,686
At 31 December 2011 (N'000)					
Due to banks	35,628,397	-	-	-	35,628,397
Due to customers	15,563,793	5,951,489	29,751	15,000	21,560,033
Other liabilities	166,921	-	-	-	166,921
Total financial liabilities (contractual maturity)	51,359,111	5,951,489	29,751	15,000	57,355,351
At 1 January 2011 (N'000)					
Due to banks	4,651,436	-	-	-	4,651,436
Due to customers	19,010,393	5,913,197	748,882	-	25,672,472
Other liabilities	196,821	-	-	-	196,821
Total financial liabilities (contractual maturity)	23,858,650	5,913,197	748,882	-	30,520,729

Market Risk

The Group takes on exposure to market risks (market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices such as interest rates, foreign exchange rates, and price risk). Market risk arises from open positions in interest rates, currency and equity product, all of which are exposed to general and specific market movements and changes in the level and volatility of market rates or prices. The objective of market risk management is to manage and control market risk exposure within acceptable parameters while optimising the return on risk.

Management of market risk
The Risk Management unit is mandated to assess, monitor and manage market risk for the Group. The primary objective of the Risk Management unit is to establish a comprehensive and independent market risk control framework.

The Group's market risk objectives, policies and processes are aimed at instituting a model that objectively identifies, measures and manages market risk in the Group and ensure that:

• The individuals who take or manage risk clearly understand it
• The Group's risk exposure is within established limits
• Risk taking decisions are in line with business strategy and objectives set by the Board of Directors
• The expected payoffs compensate for the risks taken
• Sufficient capital, as a buffer, is available to take risk

Market risk measurement
The Group currently applies Non-Value at Risk measures in the measurement and management of market risks. The techniques currently used to measure and control market risk include:

Position Limit
The Board of Directors with the input of Risk Management unit sets limits on the aggregate trading portfolio for overnight positions. This limit, which is a product of our model tracking factor sensitivity, is reviewed frequently depending on market volatility

Trading Limit
Risk Management unit has put in place trading limit for all securities traders. Limits have been set based on experience and hierarchy, as it would be risky for traders to have equal ability to commit the Group. Limits are reviewed annually.

Mark-to-Market
The mark-to-market process is done by the Risk management unit, independent of the Treasury Unit. Daily market quotes are obtained transparently and the unrealized profit or losses are computed. The results are presented to management daily.

Stress tests
Stress testing provides an indication of the potential losses that could occur in extreme market conditions and is carried out to augment other risk measures that are used by the Group, such as market risk factor sensitivities. These stress scenarios are typically used to highlight exposures that may not be explicitly incorporated by specific sensitivity calculations (such as basis, price and correlation) that can be the source of large losses when abnormally large market movements occur. Stress testing also attempts to indicate the size of the loss provoked by any of a number of unlikely but possible shock events given current positions held.
The stress tests carried out include individual market risk factor testing and combinations of market factors on individual asset classes and across different asset classes. Stress tests include a combination of historical and hypothetical simulations.

Other market risk measures
Other market risk measures specific to individual business units include permissible instruments, concentration of exposures, gap limits, issuer limits, maximum tenor and stop loss triggers. In addition, only approved products that can be independently priced and properly processed are permitted to be traded.
Pricing models and risk metrics used in production systems, whether these systems are off-the-shelf or in-house developed, are independently validated by the Risk Management unit before their use and periodically thereafter to confirm the continued applicability of the models. In addition, the Risk Management unit assesses the daily liquid closing price inputs (used to value instruments) and performs a review of less liquid prices from a reasonableness perspective at least monthly. Where differences are significant, mark-to-market adjustments are made.

Annual net interest income at risk
A dynamic forward-looking annual net interest income forecast is used to quantify the Group's anticipated interest rate exposure. This approach involves the forecasting of both changing balance sheet structures and interest rate scenarios, to determine the effect these changes may have on future earnings. The analysis is completed under both normal market conditions as well as stressed market conditions.

Plans are however underway to introduce VAR measures.

Foreign Exchange Risk
The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Central Bank of Nigeria sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. In house, limits are slightly more stringent than that of the regulatory authorities.
The Group's exposure to foreign currency risk is not considered significant. Movement in the exchange rate between the US Dollar and the Nigerian Naira affects reported earnings through revaluation gains/losses, and balance sheet size through increase or decrease in the re-valued amounts of assets and liabilities denominated in US Dollars.

The table below shows the impact on the Group's profit and equity if the exchange rate between the US Dollar and Nigerian Naira had decreased by 10%, with all other variables held constant.

	31 December 2012	31 December 2011	1 January 2011
Effect of 10% movement on profit before tax and balance sheet size (N'000)	(45,669)	(30,481)	(48,691)

Interest rate risk
The Group is exposed to cash flow interest rate risk, which is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rate risk. The Group takes on exposure to the effect of fluctuations in the prevailing levels of market interest on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movement arise.

The table below summarises the Group's interest rate gap position:
Group

31 December 2012 (N'000)	Carrying amount	Variable interest	Fixed interest	Non interest-bearing
Assets				
Cash and bank balances	913,900	-	913,258	642
Placements with banks	16,357,112	-	16,357,112	-
Placements with other institutions	58,585	-	58,585	-
Financial assets held for trading	11,504,477	-	11,469,657	34,820
Loans and receivables to customers	8,559,695	8,552,952	-	6,743
Investment securities	30,280,755	-	29,134,608	1,146,147
Pledged assets	22,819,716	-	22,819,716	-
Other assets	551,000	-	271,324	279,676
	91,045,240	8,552,952	81,024,260	1,468,028
Liabilities				
Due to banks	40,504,336	-	40,504,336	-
Due to customers	29,599,538	-	29,599,538	-
Other liabilities	252,951	-	-	252,951
	70,356,825	-	70,103,874	252,951

31 December 2011 (N'000)	**Carrying amount**	**Variable interest**	**Fixed interest**	**Non interest-bearing**
Assets				
Cash and bank balances	528,479	-	527,470	1,009
Placements with banks	667,421	-	667,421	-
Placements with other institutions	26,965	-	26,965	-
Financial assets held for trading	-	-	-	-
Loans and receivables to customers	8,099,015	8,080,045	-	18,970
Investment securities	35,143,058	-	34,270,299	872,759
Pledged assets	28,965,871	-	28,965,871	-
Other assets	572,069	-	362,878	209,191
	74,002,877	8,080,045	64,820,904	1,101,929
Liabilities				
Due to banks	35,628,397	-	35,628,397	-
Due to customers	20,911,208	-	20,911,208	-
Other liabilities	226,224	-	-	226,224
	56,765,829	-	56,539,605	226,224
At 1 January 2011 (N'000)				
Assets				
Cash and bank balances	3,769,107	-	3,768,624	483
Placements with banks	164,867	-	164,867	-
Placements with other institutions	7,872	-	7,872	-
Financial assets held for trading	964,791	-	964,791	-
Loans and receivables to customers	8,224,489	8,171,520	-	52,969
Investment securities	29,327,953	-	28,439,014	888,939
Pledged assets	4,436,478	-	4,436,478	-
Other assets	520,574	-	352,137	168,437
	47,416,131	8,171,520	38,133,783	1,110,828
Liabilities				
Due to banks	4,651,436	-	4,651,436	-
Due to customers	24,645,130	-	24,645,130	-
Other liabilities	256,926	-	-	256,926
	29,553,492	-	29,296,566	256,926
Bank				
31 December 2012 (N'000)				
Assets				
Cash and bank balances	883,704	-	883,341	363
Financial assets held for trading	11,324,890	-	11,324,890	-
Loans and receivables to customers	23,891,367	8,552,025	15,339,342	-
Investment securities	28,792,738	-	28,792,072	666
Pledged assets	22,819,716	-	22,819,716	-
Other assets	327,339	-	247,576	79,763
	88,039,754	8,552,025	79,406,937	80,792
Liabilities				
Due to banks	40,504,336	-	40,504,336	-
Due to customers	30,538,831	-	30,538,831	-
Other liabilities	133,033	-	-	133,033
	71,176,200	-	71,043,167	133,033

31 December 2011 (N'000)	Carrying amount	Variable interest	Fixed interest	Non interest-bearing
Assets				
Cash and bank balances	527,668	-	526,954	714
Financial assets held for trading	-	-	-	-
Loans and receivables to customers	8,080,045	8,080,045	-	-
Investment securities	33,549,615	-	33,548,949	666
Pledged assets	28,965,871	-	28,965,871	-
Other assets	355,186	-	320,708	34,478
	71,478,385	8,080,045	63,362,482	35,858
Liabilities				
Due to banks	35,628,397	-	35,628,397	-
Due to customers	21,560,033	-	21,560,033	-
Other liabilities	127,282	-	-	127,282
	57,315,712	-	57,188,430	127,282
At 1 January 2011 (N'000)				
Assets				
Cash and bank balances	3,409,142	-	3,408,857	285
Financial assets held for trading	964,791	-	964,791	-
Loans and receivables to customers	8,242,349	-	8,242,349	-
Investment securities	28,266,626	-	28,265,960	666
Pledged assets	4,436,478	-	4,436,478	-
Other assets	338,932	-	307,546	31,386
	45,658,318	-	45,625,981	32,337
Liabilities				
Due to banks	4,651,436	-	4,651,436	-
Due to customers	25,672,472	-	25,672,472	-
Other liabilities	99,572	-	-	99,572
	30,423,480	-	30,323,908	99,572

The table below shows the impact on the Group's profit before tax if interest rates on financial instruments held at amortised cost or at fair value had increased by 100 basis points, with all other variables held constant.

	31 December 2012	31 December 2011	1 January 2011
Effect of 100 basis points movement on profit before tax (N'000)	(712,396)	(578,130)	(476,714)

Price Risk

The Group is exposed to equity price risk by holding investments quoted on the Nigerian Stock Exchange (NSE) and other non-quoted investments. Equity securities quoted on the NSE are exposed to movement based on the general movement of the all share index and movement in prices of specific securities held by the Group. The Group's exposure to equity price risk is considered to be insignificant.

The Group does not deal in commodities and is therefore not exposed to any commodity price risk.

Fair value of financial assets and liabilities
Financial instruments not measured at fair value

Group	At 31 December 2012		At 31 December 2011	
	Carrying value N'000	Fair value N'000	Carrying value N'000	Fair value N'000
Financial assets				
Cash and bank balances	913,900	913,900	528,479	528,479
Placements with banks	16,357,112	16,357,112	667,421	667,421
Placements with other institutions	58,585	58,585	26,965	26,965
Loans and advances	9,126,280	8,559,695	8,697,059	8,099,015
Investment securities	13,120,825	12,787,624	15,050,474	13,598,292
Other assets	551,000	551,000	572,069	572,069
	40,127,702	39,227,915	25,542,466	23,492,240
Financial liabilities				
Due to banks	40,504,336	40,504,336	35,628,397	35,628,397
Due to customers	29,599,538	29,599,538	20,911,208	20,911,208
Other liabilities	252,951	252,951	226,224	226,224
	70,356,825	70,356,825	56,765,829	56,765,829

	At 1 January 2011	
	Carrying value N'000	Fair value N'000
Financial assets		
Cash and bank balances	3,769,107	3,769,107
Placements with banks	164,867	164,867
Placements with other institutions	7,872	7,872
Loans and advances	8,883,723	8,224,489
Investment securities	9,902,246	9,233,238
Other assets	520,574	520,574
	23,248,389	21,920,147
Financial liabilities		
Due to banks	4,651,436	4,651,436
Due to customers	24,645,130	24,645,130
Other liabilities	256,926	256,926
	29,553,492	29,553,492

Bank	At 31 December 2012		At 31 December 2011	
	Carrying value N'000	Fair value N'000	Carrying value N'000	Fair value N'000
Financial assets				
Cash and bank balances	883,704	883,704	527,668	527,668
Loans and advances	24,457,952	23,891,367	8,646,630	8,080,045
Investment securities	13,120,825	12,787,624	15,050,474	13,598,292
Other assets	327,339	327,339	355,186	355,186
	38,789,820	37,890,034	24,579,958	22,561,191
Financial liabilities				
Due to banks	40,504,336	40,504,336	35,628,397	35,628,397
Due to customers	30,538,831	30,538,831	21,560,033	21,560,033
Other liabilities	133,033	133,033	127,282	127,282
	71,176,200	71,176,200	57,315,712	57,315,712

	At 1 January 2011 Carrying value N'000	Fair value N'000
Financial assets		
Cash and bank balances	3,769,107	3,769,107
Loans and advances	8,870,094	8,242,349
Investment securities	9,902,246	9,233,238
Other assets	338,932	338,932
	22,880,379	21,583,626
Financial liabilities		
Due to banks	4,651,436	4,651,436
Due to customers	25,672,472	25,672,472
Other liabilities	99,572	99,572
	30,423,480	30,423,480

b) Financial instruments measured at fair value
IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable input reflects market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs, for the asset or liability, that are not based on observable market data

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

Group **At 31 December 2012 (N'000)** **Financial assets**	Level 1	Level 2	Level 3	Total
Held for Trading				
-Treasury bills	19,466,710	-	-	19,466,710
-Bonds	-	-	-	-
-Quoted equity	34,820	-	-	34,820
-Unquoted Equity	-	-	-	-
	19,501,530	-	-	19,501,530
Available for sale				
-Treasury bills	15,067,505	-	-	15,067,505
-Bonds	8,329,138	7,357,074	-	15,686,212
-Quoted equity	1,010,190	-	-	1,010,190
-Unquoted Equity	-	135,957	-	135,957
	24,406,833	7,493,031	-	31,899,864

At 31 December 2011 (N'000)	Level 1	Level 2	Level 3	Total
Financial assets				
Held for Trading				
-Treasury bills	-	-	-	-
-Bonds	-	-	-	-
-Quoted equity	-	-	-	-
-Unquoted Equity	-	-	-	-
	-	-	-	-
Available for sale				
-Treasury bills	28,405,632	-	-	28,405,632
-Bonds	14,312,182	5,467,882	-	19,780,064
-Quoted equity	736,445	-	-	736,445
-Unquoted Equity	-	136,314	-	136,314
	43,454,259	5,604,196	-	49,058,455

At 1 January 2011 (N'000)	Level 1	Level 2	Level 3	Total
Financial assets				
Held for Trading				
-Treasury bills	714,552	-	-	714,552
-Bonds	485,427	-	-	485,427
-Quoted equity	-	-	-	-
-Unquoted Equity	-	-	-	-
	1,199,979	-	-	1,199,979
Available for sale				
-Treasury bills	6,108,927	-	-	6,108,927
-Bonds	13,960,805	2,668,326	-	16,629,131
-Quoted equity	746,871	-	-	746,871
-Unquoted Equity	-	142,068	-	142,068
	20,816,603	2,810,393	-	23,626,997

Bank

At 31 December 2012 (N'000)	Level 1	Level 2	Level 3	Total
Financial assets				
Held for Trading				
-Treasury bills	19,321,943	-	-	19,321,943
-Bonds	-	-	-	-
-Quoted equity	-	-	-	-
-Unquoted Equity	-	-	-	-
	19,321,943	-	-	19,321,943
Available for sale				
-Treasury bills	14,822,663	-	-	14,822,663
-Bonds	8,314,173	7,357,074	-	15,671,247
-Quoted equity	-	-	-	-
-Unquoted Equity	-	666	-	666
	23,136,836	7,357,740	-	30,494,576

At 31 December 2011 (N'000) Financial assets	Level 1	Level 2	Level 3	Total
Held for Trading				
-Treasury bills	-	-	-	-
-Bonds	-	-	-	-
-Quoted equity	-	-	-	-
-Unquoted Equity	-	-	-	-
	-	-	-	-
Available for sale				
-Treasury bills	27,829,136	-	-	27,829,136
-Bonds	14,254,531	5,380,679	-	19,635,210
-Quoted equity	-	-	-	-
-Unquoted Equity	-	666	-	666
	42,083,667	5,381,345	-	47,465,012

At 1 January 2011 (N'000) Financial assets	Level 1	Level 2	Level 3	Total
Held for Trading				
-Treasury bills	714,552	-	-	714,552
-Bonds	485,427	-	-	485,427
-Quoted equity	-	-	-	-
-Unquoted Equity	-	-	-	-
	1,199,979	-	-	1,199,979
Available for sale				
-Treasury bills	6,060,814	-	-	6,060,814
-Bonds	13,920,864	2,583,326	-	16,504,190
-Quoted equity	-	-	-	-
-Unquoted Equity	-	666	-	666
	19,981,678	2,583,992	-	22,565,670

Capital Management

The Group's objectives in managing Capital are:

• To comply with the regulatory requirements of the Central Bank of Nigeria

• To ensure that the Group continues as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders by ensuring that capital deployed meets our RAAC (risk assessment and acceptance criteria)

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Central Bank of Nigeria (CBN), for supervisory purposes.

Capital adequacy is measured and reported daily to the Central Bank of Nigeria. In addition monthly reports are made. Reporting is made on-line and directly via the e-fass system. This system ensures that there is no manual intervention in the reports uploaded.

As per regulatory requirement, the CBN requires each discount house to:

(a) Hold the minimum level of the regulatory capital of N2 billion and
(b) Maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum of 10%.
(c) Maintain a 60/40 ratio of government securities to commercial papers for every liability raised.

As at 31 December 2012, the Discount House had a capital of N20.1 billion, well in excess of the regulatory minimum. Also, liquidity ratio stood at 79.04% and our capital adequacy ratio stood at 40.12%
The risk weighted assets are measured using the Central Bank of Nigeria's interpretation and ranking of the risk assets.

The ratios below summarises the composition of regulatory capital and the ratios of the Group for the period ended 31 December 2012. Over this review period, the Group complied with all the externally imposed capital requirements to which it was and is subject.

	31 December 2012 N'000	**31 December 2011** N'000
Tier 1 capital		
Share capital	2,794,794	2,794,794
Share premium	1,539,587	1,539,587
Treasury Shares	-	-
Statutory reserves	3,467,659	3,184,902
Retained earnings	11,852,592	10,126,100
Credit Risk reserves	322,486	144,672
Total qualifying Tier 1 capital	19,977,118	17,790,055
Tier 2 capital		
Available for sale reserves	(580,814)	(2,560,671)
Total regulatory capital	19,396,304	15,229,384
Risk-weighted assets:		
On-balance sheet	48,348,502	28,522,659
Total risk-weighted assets	48,348,502	28,522,659
Risk weighted Capital Adequacy Ratio	40.12%	53.39%

As, a Merchant Bank, the Central Bank of Nigeria's regulatory requirements are as follows
(a) Hold the minimum level of the regulatory capital of N15 billion and
(b) Maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum of 10%.
(c) Maintain a liquidity ratio minimum of 30%.

Currently the Bank's capital and regulatory ratios are in excess of the CBN regulatory minimum.

4. Critical accounting estimates and judgements

The Group's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and management's judgements for certain items are especially critical for the Group's results and financial situation due to their materiality.

Fair value of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market prices requires the use of valuation techniques. 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.

Fair valuation techniques and assumptions

Cash and balances with central bank

The fair value of cash and balances with the Central bank is their carrying amounts.

Bonds, Treasury Bills, Loans and Receivables, and Equity Investments

Treasury bills are short term debt instruments issued by the Central Bank of Nigeria, while bonds are debt instruments or contracts issued for an agreed period of time and can be issued by corporations and government. The investor lends an amount of money to the issuer and earns interest on the investment until the maturity of the bond when the principal will be repaid.

The fair value of actively traded bonds or bills, through profit and loss, is determined with reference to quoted prices (unadjusted) in the two-way quote market for Nigerian bonds.

For a treasury bill to be actively traded, it has to meet a minimum amount of N50 billion in issue size. Within the Group, we have a policy that states that we can only purchase treasury bills that qualify for active-trading, therefore a fair value is readily available.

Bonds whose fair value cannot be obtained from quoted sources are estimated using valuation models. In coming up with a price, a multiple linear regression model is derived by plotting the current yields on the Federal Government of Nigeria bonds against their respective tenors to maturity.

After estimating the yields of the unquoted/illiquid bonds, a risk premium is added to the yield estimate. The yield estimate is then used to arrive at a fair value price

The risk premiums derived are as per ratings and are derived in-house. This risk premium represents the amount of return we expect in order to be exposed to the risk related with the issuer of the instrument.

The fair value of quoted equity securities are determined by reference to quoted prices (unadjusted) from the Nigerian Stock Exchange.

However, fair value of unquoted equity investments have been derived from the last OTC (over the counter) transaction.

Loans and receivables which comprise of Commercial Bills and Margin accounts are carried at amortized cost net of provision for impairment. The estimated fair value of loans and receivables represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine the fair value.

Impairment losses on loans and advances

The Group reviews its commercial bills portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recognized, the group makes judgement as to whether there is any observable data indicating that there is a measureable decrease in the estimated future cash flows from any loan in our portfolio. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment to those in the portfolio when scheduling their cash flow. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The specific component of total allowance for impairment applies to credits evaluated individually for impairment and is based upon management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, management makes judgement about a customer's financial situation and the net realizable value of any underlying collateral.

Statement of Prudential Adjustments

In accordance with the Prudential Guidelines for Deposit Money Banks in Nigeria issued by the Central Bank of Nigeria (CBN), the bank transferred the sum of N322,485,803 from its retained earnings to a non-distributable regulatory reserve called Credit Risk Reserve for the year ended 31 December 2012. This amount represents the difference between the provisions for credit and other known losses as determined under the prudential guideline issued by the CBN, and the impairment reserve as determined in line with IAS 39 as at the year then ended.

A reconciliation of this amount as well as for the comparative periods are as follows:

	BANK 31 December 2012 N'000	BANK 31 December 2011 N'000	BANK 1 January 2011 N'000
Prudential guidelines provision:			
- Specific provisions	566,585	566,585	740,435
- General provisions	322,486	144,672	100,054
	889,071	711,257	840,489
IFRS impairment allowance:			
-financial assets classified as loans and receivables	566,585	566,585	627,745
	566,585	566,585	627,745
Credit risk reserve	**322,486**	**144,672**	**212,744**

5. Discount and similar income

GROUP

	31 December 2012 N'000	31 December 2011 N'000
Bonds	4,445,030	2,916,066
Treasury bills	2,473,359	1,794,564
Commercial bills	2,408,765	3,405,147
Placements and investment income	296,596	125,483
Others	47,861	53,747
	9,671,611	8,295,007

BANK

Bonds	4,427,501	2,916,066
Treasury bills	2,389,960	1,758,194
Commercial bills	2,407,608	3,405,147
Placements and investment income	175,480	104,612
Others	42,890	40,827
	9,443,439	8,224,846

6. Discount and similar expense

GROUP

Liabilities under repurchase agreement	6,864,806	5,022,403
Interbank borrowings	1,383,889	607,662
	8,248,695	5,630,065

BANK

Liabilities under repurchase agreement	6,934,067	5,066,590
Interbank borrowings	1,383,636	607,662
	8,317,703	5,674,252

7. Net fee and commission income

GROUP

Fiduciary fees	1,649,372	1,236,806
Brokerage commissions	103,356	54,554
Fee Income	16,000	173,742
	1,768,728	1,465,102

The Group provides corporate administration, investment management and advisory services to third parties, which involves the Group making allocation, purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

BANK

Brokerage and Commission fees	22,109	60,458
Financial advisory fees	7,668	61,434
Fee Income	16,000	-
	45,777	121,892

8. Impairment charge for credit losses

	31 December 2012 N'000	31 December 2011 N'000
GROUP		
Reversal of impairment (Note 17(ii))	-	18,531
	-	18,531
BANK		
Reversal of impairment (Note 17(ii))	-	18,501
	-	18,501

9. Net gains on financial instruments held for trading

	31 December 2012 N'000	31 December 2011 N'000
GROUP		
Equity securities	30,260	(9,773)
Federal Government of Nigeria Bonds	149,746	359,489
Nigerian Treasury Bills	436,386	-
	616,392	349,716
BANK		
Federal Government of Nigeria Bonds	145,803	359,489
Nigerian Treasury Bills	436,386	-
	582,189	359,489

10. Net gains on investment securities

	31 December 2012 N'000	31 December 2011 N'000
GROUP		
Bonds	1,651,224	962,198
Treasury bills	134,720	32,076
	1,785,944	994,274
BANK		
Bonds	1,651,224	955,876
Treasury bills	134,720	32,076
	1,785,944	987,952

11. Other income

	31 December 2012 N'000	31 December 2011 N'000
GROUP		
Profit on disposal of property & equipment	9,105	2,097
Dividend income on available for sale financial assets	43,960	41,327
Dividend income held for trading financial assets	1,804	885
Other sundry income	(1,059)	7,973
	53,810	52,282
BANK		
Technical Service Fees	42,851	16,780
Profit on disposal of property & equipment	12,468	(2,478)
Dividend income on available for sale financial assets	6	3
Other sundry income	(3,037)	876
	52,288	15,181

12. Operating expenses

GROUP	31 December 2012 N'000	31 December 2011 N'000
Staff related expenses (Note (i) below)	1,946,677	1,679,353
Depreciation	186,062	180,982
Amortisation	115,350	114,383
Auditors' remuneration	31,636	26,525
Directors' emoluments (Note (ii) below)	186,916	141,799
Administrative and other operating expenses	913,492	840,772
	3,380,133	2,983,814

(i) Staff related costs, excluding executive directors, during the year amounted to:

Wages, salaries and related costs	1,821,644	1,592,297
Pension costs	81,467	55,535
Gratuity costs	43,566	31,521
	1,946,677	1,679,353

The average number of persons employed by the group during the year was as follows -

Executive	2	2
management staff	38	38
Non management staff	164	167
	204	207

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

Below N3,000,000	91	113
N3,000,001 - N5,000,000	40	36
N5,000,001 - N7,000,000	27	15
Above N7,000,000	46	43
	204	207

(ii) Directors' remuneration paid in respect of the group:

Fees and sitting allowances	100,830	72,875
Executive compensation	86,086	68,924
	186,916	141,799

The directors' remuneration shown above (excluding pension and other benefits) includes:

Chairman	10,500	7,550
Highest paid director	47,001	37,641

BANK

Staff related expenses (Note (i) below)	923,704	835,784
Depreciation	112,319	125,174
Amortisation	112,164	114,383
Auditors' remuneration	18,375	16,000
Directors' emoluments (Note (ii) below)	181,536	140,074
Administrative and other operating expenses	552,879	570,506
	1,900,977	1,801,921

(i) Staff related costs, excluding executive directors, during the year amounted to:

Wages, salaries & related costs	836,112	763,108
Pension costs	49,908	45,987
Gratuity costs	37,684	26,689
	923,704	835,784

The average number of persons employed by the bank during the year was as follows -	31 December 2012 N'000	31 December 2011 N'000
Executive	2	2
Management staff	16	17
Non management staff	75	71
	93	90

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

Below N3,000,000	24	23
N3,000,001 - N5,000,000	22	23
N5,000,001 - N7,000,000	11	7
Above N7,000,000	36	37
	93	90

(ii) Directors' remuneration paid in respect of the bank:

Fees and sitting allowances	95,450	71,150
Executive compensation	86,086	68,924
	181,536	140,074

The directors' remuneration shown above (excluding pension and other benefits) includes:

Chairman	10,500	7,550
Highest paid director	47,001	37,641

13. Income tax

GROUP

a) Income Tax Charge

Company income tax	425,217	202,376
Education tax	14,104	10,515
Total current tax charge	439,321	212,891
Deferred tax		
Origination and reversal of temporary differences	898	119,640
Amount of unused tax losses	(1,331,659)	-
Total deferred tax (credit)/charge	(1,330,761)	119,640
Income tax (credit)/expense	(891,440)	332,531
Analysis of income tax (credit)/expense		
Tax on profit for the year	(918,042)	334,204
Tax effect on other comprehensive income	26,602	(1,673)
Income tax (credit)/expense	(891,440)	332,531

Further information about deferred income tax is presented in Note 23. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

(i) Tax effect on other comprehensive income	Gross N'000	Tax N'000	Net of Tax N'000
Actuarial gain on retirement benefit (Note 22)	88,670	(26,602)	62,069
Net unrealised loss on available for sale financial assets	2,235,914	-	2,235,914
Other comprehensive income - December 2012	2,324,584	(26,602)	2,297,983
Actuarial gain on retirement benefit	(5,576)	1,673	(3,903)
Net unrealised loss on available for sale financial assets	(2,421,522)	-	(2,421,522)
Other comprehensive income - December 2011	(2,427,098)	1,673	(2,425,425)

	31 December 2012 N'000	31 December 2011 N'000
Profit before income tax	2,267,657	2,561,033
Income tax using the domestic corporation tax rate	680,297	768,310
Effect of:		
Non-deductible expenses	93,279	124,863
Education tax levy	14,104	10,515
Dividend tax	209,610	209,609
Tax exempt income	(1,982,001)	(874,099)
Adjustments to deferred tax	93,271	93,333
Total income tax expense in income statement	(891,440)	332,531

The current tax charge has been computed at the applicable rate of 30% (31 December 2011: 30%) plus education tax of 2% (31 December 2011: 2%) on the profit for the year after adjusting for certain items of expenditure and income which are not deductible or chargeable for tax purposes. Non-deductable expenses include items such as depreciation on property and equipment, donations to non-qualifying entities e.t.c. which are not allowed as a deduction by the tax authorities. Tax exempt income include income such as dividend income, interest income on Federal Government, State Governments, municipal and corporate bonds and the Nigerian Treasury Bills which are not taxable.

(b) The movement in the current income tax liability is as follows:	31 December 2012 N'000	31 December 2011 N'000
At start of the period	701,215	651,668
Tax paid	(253,394)	(163,344)
Income tax charge	439,321	212,891
At end of the period	887,142	701,215
Current	887,142	701,215
Non-Current	-	-
	887,142	701,215

BANK

Company income tax	209,609	209,610
Education tax	-	-
Total current tax	209,609	209,610
Deferred tax		
Origination and reversal of temporary differences	10,382	6,108
Amount of unused tax losses	(1,331,659)	(27,993)
Total deferred tax credit	(1,321,277)	(21,885)
Income tax (credit)/expense	(1,111,668)	187,725

The current tax charge has been computed using the dividend tax rule at the applicable rate of 30% of proposed dividend payout plus education levy of 2% on tax assessable profit. Further information about deferred income tax is presented in Note 23.

Analysis of income tax (credit)/expense		
Tax on profit for the year	(1,136,610)	189,387
Tax effect on other comprehensive income (Note (i))	24,941	(1,663)
Income tax (credit)/expense	(1,111,668)	187,725

(i) Tax effect on other comprehensive income

	Gross N'000	Tax N'000	Net of Tax N'000
Actuarial gain on retirement benefit (Note 22)	83,135	(24,941)	58,194
Net unrealised loss on available for sale financial assets	1,979,857	-	1,979,857
Other comprehensive income - December 2012	2,062,992	(24,941)	2,038,051
Actuarial gain on retirement benefit	(5,542)	1,663	(3,879)
Net unrealised loss on available for sale financial assets	(2,417,888)	-	(2,417,888)
Other comprehensive income - December 2011	(2,423,430)	1,663	(2,421,767)

The tax on the bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	31 December 2012 N'000	31 December 2011 N'000
Profit before income tax	1,690,957	2,251,688
Income tax using the domestic corporation tax rate of 30%	507,287	675,506
Effect of:		
Non-deductible expenses	71,206	108,119
Dividend tax	209,609	209,610
Tax exempt income	(1,962,224)	(870,579)
Adjustments to deferred tax	62,454	65,069
Total income tax (credit)/expense in income statement	(1,111,668)	187,725

The movement in the current income tax liability is as follows:		
At start of the period	571,773	485,888
Tax paid	(209,608)	(123,725)
Income tax charge	209,609	209,610
At end of the period	571,774	571,773
Current	571,774	571,773
Non-Current	-	-
	571,774	571,773

14. Cash and bank balances

GROUP	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Cash in hand	642	1,009	483
Balances held with other banks:			
- Net operating balance with Central Bank of Nigeria	783,274	404,399	754,959
- Current account with banks in Nigeria	129,984	123,071	3,013,665
	913,900	528,479	3,769,107
BANK			
Cash in hand	363	714	285
Balances held with other banks:			
- Net operating balance with Central Bank of Nigeria	783,274	404,399	754,959
- Current account with banks in Nigeria	100,067	122,555	2,653,898
	883,704	527,668	3,409,142

15. Placements

GROUP	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Placements with banks and discount houses in Nigeria	16,357,112	667,421	164,867
Placements with other financial institutions	58,585	26,965	7,872
	16,415,697	694,386	172,739
Current	16,357,112	667,421	164,867
Non-Current	58,585	26,965	7,872
	16,415,697	694,386	172,739

Placement with other financial institutions represents Pensions Alliance Limited's statutory reserve account with UBA Pension Fund Custodian in compliance with the Pensions Reform Act of 2004. This was not included in cash and cash equivalents for the purpose of the statement of cashflow.

16. Financial instruments held for trading

GROUP	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Quoted equity securities	34,820	-	-
Treasury Bills	11,469,657	-	479,364
Bonds	-	-	485,427
	11,504,477	-	964,791
Current	11,469,657	-	964,791
Non-current	34,820	-	-
	11,504,477	-	964,791

BANK	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Nigerian Treasury Bills for trading at fair value	11,324,890	-	479,364
Federal Government of Nigeria bonds at fair value	-	-	485,427
	11,324,890	-	964,791
Current	11,324,890	-	964,791
Non-current	-	-	-
	11,324,890	-	964,791

17. Loans and receivables to customers

GROUP	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Classified as loans and receivables			
Commercial bills at amortised cost	9,119,537	8,646,630	8,830,754
Margin facilities at amortised cost (Note 17(i))	6,743	50,429	52,969
Allowance for impairment (Note 17(ii))	(566,585)	(598,044)	(659,234)
	8,559,695	8,099,015	8,224,489
Current	8,559,695	8,099,015	8,224,489
Non-Current	-	-	-
	8,559,695	8,099,015	8,224,489

(i) Margin facilities are shares-backed. Share-backed facilities represent the value of credit facilities availed to customers which are backed by shares of companies listed on the Nigerian Stock Exchange. The fair value of the quoted equity securities pledged as collateral as at 31 December 2012 was N28.21million (2011: N54.79million).

(ii) The reconciliation of the allowance account for losses on commercial bills assets classified as loans and receivables:

	Commercial bills N'000	Margin accounts N'000	Total N'000
Balance at 1 January 2012	566,585	31,459	598,044
Amounts written off during the year	-	(31,459)	(31,459)
At 31 December 2012	566,585	-	566,585
Balance at 1 January 2011	627,746	31,489	659,235
Reversal of impairment	(18,501)	(30)	(18,531)
Provisions written off during the year (Note 8)	(42,660)	-	(42,660)
At 31 December 2011	566,585	31,459	598,044

BANK

Classified as loans and receivables			
Commercial bills	9,118,610	8,646,630	8,870,094
Promissory notes	15,339,342	-	-
Allowance for impairment (Note (i))	(566,585)	(566,585)	(627,745)
	23,891,367	8,080,045	8,242,349
Current	23,891,367	8,080,045	8,242,349
Non-Current	-	-	-
	23,891,367	8,080,045	8,242,349

(i) The reconciliation of the allowance account for losses on debt securities classified as loans and receivables:

Commercial bills	**N'000**
Balance at 1 January 2012	566,585
Write-backs during the year	-
Provisions written off during the year	-
At 31 December 2012	566,585
Balance at 1 January 2011	627,746
Write-backs during the year	(18,501)
Provisions written off during the year	(42,660)
At 31 December 2011	566,585

18. Investment securities

GROUP	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Analysis of investment securities			
Debt securities (Note (i))	29,134,608	34,270,299	28,439,014
Equity securities (Note (ii))	1,146,147	872,759	888,939
	30,280,755	35,143,058	29,327,953
Current			
Non-current	1,146,147	872,759	888,939
	1,146,147	872,759	888,939

		31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
(i)	**Debt securities**			
	Classified as available for sale			
	Nigerian Treasury Bills	244,842	5,700,133	1,907,637
	Federal Government of Nigeria bonds	8,329,138	8,051,810	13,960,805
	State Government and Corporate bonds	7,439,803	5,467,882	2,668,326
		16,013,783	19,219,825	18,536,768
	Classified as held to maturity			
	Federal Government of Nigeria bonds at amortised cost	13,120,825	15,050,474	9,902,246
		13,120,825	15,050,474	9,902,246
	Total debt securtiies	29,134,608	34,270,299	28,439,014
(ii)	**Equity securities**			
	Classified as available for sale			
	Quoted equity securities	1,010,190	736,445	746,871
	Unquoted equity securities	135,957	136,314	142,068
		1,146,147	872,759	888,939

		31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
	BANK			
	Analysis of investment securities			
	Debt securities (Note (i))	28,792,072	33,548,949	28,265,960
	Equity securities (Note (ii))	666	666	666
		28,792,738	33,549,615	28,266,626
	Current	6,285,305	7,315,321	4,527,026
	Non-current	22,507,433	26,234,294	23,739,599
		28,792,738	33,549,615	28,266,625
(i)	**Debt securities**			
	Classified as available for sale			
	Nigerian Treasury Bills	-	5,123,637	1,859,524
	Federal Government of Nigeria bonds	8,314,173	7,994,159	13,920,864
	State Government and Corporate bonds	7,357,074	5,380,679	2,583,326
		15,671,247	18,498,475	18,363,714
	Classified as held to maturity			
	Federal Government of Nigeria bonds at amortised cost	13,120,825	15,050,474	9,902,246
		13,120,825	15,050,474	9,902,246
		28,792,072	33,548,949	28,265,960
(ii)	**Equity securities**			
	Classified as available for sale			
	Unquoted equity securities	666	666	666
		666	666	666

19. Pledged assets

GROUP

	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Nigerian Treasury Bills held for trading	7,997,053	-	235,188
Nigerian Treasury Bills classified available for sale	14,822,663	22,705,499	4,201,290
Federal Government of Nigeria bonds classified as available for sale	-	6,260,372	-
	22,819,716	28,965,871	4,436,478
Current	22,819,716	22,705,499	4,436,478
Non-current	-	6,260,372	-
	22,819,716	28,965,871	4,436,478

BANK

	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Nigerian Treasury Bills held for trading	7,997,053	-	235,188
Nigerian Treasury Bills held as available for sale	14,822,663	22,705,499	4,201,290
Federal Government of Nigeria bonds as available for sale	-	6,260,372	-
	22,819,716	28,965,871	4,436,478
Current	22,819,716	22,705,499	4,436,478
Non-current	-	6,260,372	-
	22,819,716	28,965,871	4,436,478

Debt securities are pledged as collateral to secure liabilities under repurchase agreements with various banks. The disclosure above includes any transferred assets associated with liabilities under repurchase agreements as disclosed in Note 26. All the liabilities under repurchase agreements for which assets have been pledged as collateral mature under 1 month.

20. Other assets

GROUP

	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Financial assets			
Staff advances	271,324	362,878	352,137
Other receivables	279,676	209,191	168,437
	551,000	572,069	520,574
Less specific allowances for impairment	-	-	-
	551,000	572,069	520,574
Non financial assets			
Prepayments	413,574	414,910	279,861
Withholding tax receivable	379,973	257,594	148,533
Others	3,704	1,668	1,668
	797,251	674,172	430,062
	1,348,251	1,246,241	950,636
Current	908,717	757,821	479,758
Non-current	439,534	488,420	470,878
	1,348,251	1,246,241	950,636

BANK

	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Financial assets			
Staff advances	247,576	320,708	307,546
Other receivables	79,763	34,478	31,386
	327,339	355,186	338,932
Less: specific allowances for impairment	-	-	-
	327,339	355,186	338,932

	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Non financial assets			
Prepayments	335,089	315,937	234,666
Withholding tax receivable	17,540	27,050	11,081
Others	2,410	-	-
	355,039	342,987	245,747
	682,378	698,173	584,679
Current	265,449	238,069	145,074
Non-current	416,929	460,104	439,605
	682,378	698,173	584,679

21. Investment in subsidiaries

BANK			
FSDH Asset Management Limited	200,000	200,000	200,000
Pensions Alliance Limited	587,010	587,010	408,000
	787,010	787,010	608,000

In 2011, the bank increased its investments in Pensions Alliance Limited (PAL) by N179.01million via a rights issue. The increased investment did not dilute the bank's equity controlling stake of 51% held in PAL prior the rights issue. The required regulatory approvals were obtained.
FSDH Asset Management Limited in which the bank holds 99.7% interests, holds a 99.9% interest in FSDH Securities Limited, a company involved in stockbroking and issuing house activities.

22. Retirement benefit asset/(obligations)

GROUP

Defined contribution scheme
The group and its employees make a joint contribution of 15% basic salary, housing and transport allowance to each employee's retirement savings account maintained with their nominated pension fund administrators.

Defined benefit scheme

(a) Staff gratuity plan
The group operates a defined benefit staff gratuity plan where qualifying employees receive a lump sum payment based on the terminal emolument of basic salary, transport and housing allowance on date of disengagement on a graduated scale based on the number of years served after an initial qualifying period of ten years.

Consolidated statement of financial position asset/(liability) for:	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Staff gratuity plan	55,515	10,411	47,508

Income statement charge for:	31 December 2012 N'000	31 December 2011 N'000
Staff gratuity plan	43,566	31,521
Actuarial gain/(loss) recognised in Other Comprehensive Income	88,670	(5,576)
Tax effect	(26,601)	1,673
Actuarial gain/(loss) recognised in Other Comprehensive Income net of taxes	62,069	(3,903)

The amounts recognised in the balance sheet are determined as follows:	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Present value of funded obligations	(471,184)	(451,920)	(368,492)
Fair value of plan assets	526,699	462,331	416,000
Surplus/(Deficit) of funded plans	55,515	10,411	47,508
Unrecognised past service cost	-	-	-
Asset/(Liability) in the balance sheet	55,515	10,411	47,508

The movement in the defined benefit obligation over the year is as follows:	31 December 2012 N'000	31 December 2011 N'000
At beginning of the year	451,920	368,492
Current service cost	39,948	36,521
Interest cost	59,024	41,000
Actuarial (gains)/losses	(79,708)	8,955
Benefits paid	-	(3,048)
At end of the year	471,184	451,920
The movement in the fair value of plan assets of the year is as follows:		
At the beginning of the period	462,331	416,000
Expected return on plan assets	55,406	46,000
Actuarial gains/(losses)	8,962	3,379
Benefits paid	-	(3,048)
At the end of the period	526,699	462,331
The amounts recognised in the income statement are as follows:		
Current service cost	39,948	36,521
Interest cost	59,024	41,000
Expected return on plan assets	(55,406)	(46,000)
Total, included in staff costs	43,566	31,521

The key economic assumptions used in the actuarial valuation were as follows:

	31 December 2012	31 December 2011	1 January 2011
Discount rate	12.21%	12.00%	12.00%
Inflation rate	10.00%	10.00%	10.00%
Salary increase rate	10.00%	10.00%	10.00%

Assumptions regarding mortality before retirement are set based on actuarial advise in accordance with published statistics and experience.

Plan assets comprised as follows:	31 December 2012 N'000	31 December 2012 %	31 December 2011 N'000	31 December 2011 %
Bank placements	148,122	28.21	101,068	21.99
Debt instruments	378,577	71.79	361,263	78.01
	526,699	100.00	462,331	100.00

BANK

<u>Defined contribution scheme</u>

The bank and its employees make a joint contribution of 15% of basic salary, housing and transport allowance to each employee's retirement savings account maintained with their nominated pension fund administrators.

Defined benefit scheme

(a) Staff Gratuity Plan

The bank operates a defined benefit staff gratuity plan where qualifying employees receive a lump sum payment based on the terminal emolument of basic salary, transport and housing allowance on date of disengagement on a graduated scale based on the number of years served after an initial qualifying period of ten years.

Statement of financial position asset/(liability) for:	**31 December 2012 N'000**	**31 December 2011 N'000**	**1 January 2011 N'000**
Staff gratuity plan	50,892	5,441	37,672

Income statement charge for:	**31 December 2012 N'000**	**31 December 2011 N'000**
Staff gratuity plan	37,684	26,689
Actuarial gain/(loss) recognised in Othe Comprehensive Income	83,135	(5,542)
Tax effect	(24,941)	1,663
Actuarial gain/(loss) recognised in Other Comprehensive Income net of taxes	58,194	(3,879)

The amounts recognised in the balance sheet are determined as follows:

Present value of funded obligations	(421,537)	(408,766)	(335,027)
Fair value of plan assets	472,429	414,207	372,699
Asset/(Liability) in the balance sheet	50,892	5,441	37,672

The movement in the defined benefit obligation over the year is as follows:	**31 December 2012 N'000**	**31 December 2011 N'000**
At beginning of the period	408,766	335,027
Current service cost	33,927	30,816
Interest cost	53,388	37,085
Actuarial gains/(losses)	(74,544)	8,886
Benefits paid	-	(3,048)
At end of the period	421,537	408,766

	31 December 2012 N'000	**31 December 2011 N'000**
The movement in the fair value of plan assets of the year is as follows:		
At the beginning of the period	414,207	372,699
Expected return on plan assets	49,631	41,212
Actuarial gains/(losses)	8,591	3,344
Benefits paid	-	(3,048)
At the end of the period	472,429	414,207

The amounts recognised in the income statement are as follows:		
Current service cost	33,927	30,816
Interest cost	53,388	37,085
Expected return on plan assets	(49,631)	(41,212)
Total, included in staff costs	37,684	26,689

The principal actuarial assumptions are the same as for group.

23. Deferred tax

GROUP

Deferred income taxes are calculated on all temporary differences under the liability method using a statutory tax rate of 30% (2011: 30 %).

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

	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Deferred tax liabilities			
Accelerated tax depreciation	-	(10,600)	(69,165)
	-	(10,600)	(69,165)
Deferred tax assets			
Accelerated tax depreciation	3,958	-	-
Allowances for loan losses	-	-	86,794
Tax loss carry forward	1,359,652	27,992	-
Gratuity post retirement benefit	108,975	135,576	110,548
Others	17,634	6,487	150,918
	1,490,219	170,055	348,260
Net deferred tax asset	1,490,219	159,455	279,095

Movements in temporary differences during the year:	1 January 2012 N'000	Recognised in P&L N'000	Recognised OCI N'000	31 Dec 2012 N'000
Accelerated tax depreciation	(10,600)	14,558	-	3,958
Tax loss carry forward	27,992	1,331,659	-	1,359,651
Gratuity post retirement benefit	135,576	-	(26,601)	108,975
Others	6,487	11,147	-	17,634
	159,455	1,357,365	(26,601)	1,490,219

Movements in temporary differences during the year:	1 January 2011 N'000	Recognised in P&L N'000	Recognised OCI N'000	31 Dec 2011 N'000
Accelerated tax depreciation	(69,165)	58,565	-	(10,600)
Allowances for loan impairment	86,794	(86,794)	-	-
Tax loss carry forward	-	27,992	-	27,992
Gratuity post retirement benefit	110,548	23,355	1,673	135,576
Others	150,918	(144,431)	-	6,487
	279,095	(121,313)	1,673	159,455

BANK

	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Deferred tax liabilities			
Accelerated tax depreciation	-	(10,600)	(69,165)
	-	(10,600)	(69,165)
Deferred tax assets			
Accelerated tax depreciation	3,958	-	-
Allowances for loan impairment	-	-	86,794
Tax loss carry forward	1,359,652	27,992	-
Gratuity post retirement benefit	97,689	122,630	100,508
	1,461,299	150,622	187,302
Net deferred tax asset	1,461,299	140,022	118,137

Movements in temporary differences during the year:	1 January 2012 N'000	Recognised in P&L N'000	Recognised OCI N'000	31 Dec 2012 N'000
Fixed assets and intangible assets	(10,600)	14,559	-	3,958
Tax loss carry forward	27,992	1,331,659	-	1,359,652
Gratuity post retirement benefit	122,630	-	(24,941)	97,689
	140,022	1,346,218	(24,941)	1,461,299

Movements in temporary differences during the year:	1 January 2011 N'000	Recognised in P&L N'000	Recognised OCI N'000	31 Dec 2011 N'000
Accelerated tax depreciation	(69,165)	58,565	-	(10,600)
Allowances for loan impairment	86,794	(86,794)	-	-
Tax loss carry forward	-	27,992	-	27,992
Gratuity post retirement benefit	100,508	20,459	1,663	122,630
	118,137	20,222	1,663	140,022

24. Intangible asset

	GROUP 31 December 2012 N'000	BANK 31 December 2012 N'000
Cost		
At 1 January 2012	400,118	400,118
Additions	950	-
Reclassifications	83,942	-
Work in progress	167,598	167,598
At 31 December 2012	652,608	567,716
Accumulated amortisation		
At 1 January 2012	(224,333)	(224,333)
Charge for the year	(115,351)	(112,164)
Reclassifications	(76,822)	994
Write offs	-	-
Disposals	-	-
At 31 December 2012	(416,506)	(335,503)
Net book amount at 1 January 2012	175,785	175,785
Net book amount at 31 December 2012	236,102	232,213

The sum of N167,598,000 in work-in-progress relates to capital expenditure incurred on a new banking software by the bank as part of its transformation project to a merchant bank for which it was granted an approval by the Central Bank of Nigeria on 22 November 2012.

	GROUP 31 December 2011 N'000	BANK 31 December 2011
Cost		
At 1 January 2011	332,722	332,722
Additions	74,405	74,405
Reclassifications	-	-
Write-off during the year	(7,009)	(7,009)
Work in progress	-	-
Disposals	-	-
At 31 December 2011	400,118	400,118
Accumulated amortisation		
At 1 January 2011	(116,959)	(116,959)
Charge for the year	(114,383)	(114,383)
Reclassifications	-	-
Write offs	7,009	7,009
Disposals	-	-
At 31 December 2011	(224,333)	(224,333)
Net book amount at 1 January 2011	215,763	215,763
Net book amount at 31 December 2011	175,785	175,785

25. Property and equipment

GROUP	Leasehold improvement N'000	Office equipment N'000	Furniture, fittings & equipment N'000	Motor vehicles N'000	Work in progress N'000	Total N'000
Cost						
At 1 January 2012	147,419	404,344	126,239	359,209	-	1,037,211
Additions	239	28,198	10,108	161,414	-	199,959
Reclassifications	-	(83,942)	-	-	-	(83,942)
Disposals	(24,010)	(5,230)	(708)	(96,043)		(125,991)
At 31 December 2012	123,648	343,370	135,639	424,580	-	1,027,237
Accumulated depreciation						
At 1 January 2012	(69,932)	(309,353)	(77,911)	(183,483)	-	(640,679)
Charge for the year	(25,025)	(47,810)	(18,729)	(94,497)	-	(186,061)
Reclassifications	-	76,822	-	-	-	76,822
Disposals	21,744	3,381	708	90,007	-	115,840
At 31 December 2012	(73,213)	(276,960)	(95,932)	(187,973)	-	(634,078)
Net book amount at 31 December 2012	**50,435**	**66,410**	**39,707**	**236,607**	**-**	**393,159**
Cost						
At 1 January 2011	117,477	380,677	133,196	347,218	5,990	984,558
Additions	33,761	43,222	5,121	81,430	-	163,534
Reclassifications	-	-	-	5,990	(5,990)	-
Disposals	(3,819)	(19,555)	(12,078)	(75,429)	-	(110,881)
At 31 December 2011	147,419	404,344	126,239	359,209	-	1,037,211
Accumulated depreciation						
At 1 January 2011	(53,202)	(271,113)	(64,883)	(171,671)	-	(560,869)
Charge for the year	(20,549)	(57,794)	(18,809)	(83,830)	-	(180,982)
Disposals	3,819	19,554	5,781	72,018	-	101,172
At 31 December 2011	(69,932)	(309,353)	(77,911)	(183,483)	-	(640,679)
Net book amount at 1 January 2011	64,275	109,564	68,313	175,547	5,990	423,689
Net book amount at 31 December 2011	**77,487**	**94,991**	**48,328**	**175,726**	**-**	**396,532**

BANK	Leasehold improvement N'000	Office equipment N'000	Furniture, fittings & equipment N'000	Motor vehicles N'000	Work in progress N'000	Total N'000
Cost						
At 1 January 2012	83,832	188,140	95,814	210,466	-	578,252
Additions	-	10,061	834	113,658	-	124,553
Disposals	-	-	-	(87,123)	-	(87,123)
At 31 December 2012	83,832	198,201	96,648	237,001	-	615,682
Accumulated depreciation						
At 1 January 2012	(44,538)	(141,800)	(55,681)	(119,514)	-	(361,533)
Charge for the year	(15,157)	(28,550)	(13,740)	(54,872)	-	(112,319)
Reclassifications	-	(994)	-	-	-	(994)
Disposals	-	-	-	84,315	-	84,315
At 31 December 2012	(59,695)	(171,344)	(69,421)	(90,071)	-	(390,531)
Net book amount at 31 December 2012	24,137	26,857	27,227	146,930	-	225,151
Cost						
At 1 January 2011	87,651	200,257	107,560	214,828	5,990	616,286
Additions	-	4,520	145	20,841	-	25,506
Reclassifications	-	-	-	5,990	(5,990)	-
Disposals	(3,819)	(16,637)	(11,891)	(31,193)	-	(63,540)
At 31 December 2011	83,832	188,140	95,814	210,466	-	578,252
Accumulated depreciation						
At 1 January 2011	(31,087)	(117,676)	(46,402)	(96,206)	-	(291,371)
Charge for the year	(17,270)	(40,760)	(15,060)	(52,084)	-	(125,174)
Disposals	3,819	16,636	5,781	28,776	55,012	
At 31 December 2011	(44,538)	(141,800)	(55,681)	(119,514)	-	(361,533)
Net book amount at 1 January 2011	56,564	82,581	61,158	118,622	5,990	324,915
Net book amount at 31 December 2011	39,294	46,340	40,133	90,952	-	216,719

26. Due to banks

GROUP	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Call borrowings	17,371,115	-	-
Liabilities under repurchase agreements	23,133,221	35,628,397	4,651,436
	40,504,336	35,628,397	4,651,436
Current	40,504,336	35,628,397	4,651,436
Non-current	-	-	-
	40,504,336	35,628,397	4,651,436
BANK			
Call borrowings	17,371,115	-	-
Liabilities under repurchase agreements	23,133,221	35,628,397	4,651,436
	40,504,336	35,628,397	4,651,436
Current	40,504,336	35,628,397	4,651,436
Non-current	-	-	-
	40,504,336	35,628,397	4,651,436

The bank engaged in repurchase agreement transactions with various banks during the year. The financial assets are transferred in exchange for cash and a concurrent obligation to re-acquire the financial asset at a future date for a pre-determined consideration. The transferred asset have not been de-recognised in the books and form part of the financial assets in the statement of financial position disclosed as pledged assets (Note 20).

27. Due to customers

GROUP	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Liabilities under repurchase agreements	29,475,259	20,569,605	24,409,451
Other customer balances	124,279	341,603	235,679
	29,599,538	20,911,208	24,645,130
Current	29,599,538	20,911,208	24,645,130
Non-current	-	-	-
	29,599,538	20,911,208	24,645,130
BANK			
Liabilities under repurchase agreements	30,520,785	21,383,187	25,596,786
Other customer balances	18,046	176,846	75,686
	30,538,831	21,560,033	25,672,472
Current	30,538,831	21,560,033	25,672,472
Non-current	-	-	-
	30,538,831	21,560,033	25,672,472

The bank engages in collaterised borrowing agreements (liabilities under repurchase) with non-bank clients. The terms and conditions relating to the assets pledged against the liabilities typically retains the rights and benefits on the assets with the bank. The pledged assets have not been de-recognised in the books and form part of the bank's financial assets in the statement of financial position.

28. Other liabilities

GROUP **Financial liabilities:**	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
Accounts payable	252,951	226,224	256,926
	252,951	226,224	256,926
Non financial liabilities			
Accrued expenses and discount payable	-	1,608	9,403
Other payables	7,079	29,481	11,635
	7,079	31,089	21,038
	260,030	257,313	277,964
Current	260,030	257,313	277,964
Non-current	-	-	-
	260,030	257,313	277,964
BANK			
Financial liabilities:			
Accounts payable	133,033	127,282	99,572
	133,033	127,282	99,572
Non financial liabilities			
Other payables	7,079	29,479	11,635
	7,079	29,479	11,635
	140,112	156,761	111,207
Current	140,112	156,761	111,207
Non-current	-	-	-
	140,112	156,761	111,207

29. Share capital

	31 December 2012 N'000	31 December 2011 N'000	1 January 2011 N'000
GROUP and BANK			
Authorised			
3,100,000,000 Ordinary shares of N1 each	3,100,000	3,100,000	3,100,000
Issued and fully paid			
2,794,793,730 Ordinary shares of N1 each	2,794,794	2,794,794	2,794,794

30. Share premium and reserves

GROUP and BANK

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 noted below.

Statutory reserve: In accordance with the Discount House guidelines, 10% of profit after taxation has been transferred to statutory reserve. In addition, Pension Alliance Limited, a subsidiary company in the group, has transferred 12.5% of its profit after taxation to statutory reserve account which is required to be done on an annual basis under existing legislation.

Available for sale reserve: The revaluation reserve shows the effects from the fair value measurement of financial instruments of the available for sale category (AFS). Any gains or losses on this class of financial instruments are not recognised in the consolidated income statement until the asset has been sold or impaired.

Treasury share reserve: This represent 241.42million units (31 December 2011: 241.42million) of the bank's shares held by FSDH Staff Co-operative Society. The Co-operative Society holds 8.64% of the issued share capital of the bank and are held by the trustees to the scheme. The statement of affairs of the scheme have been consolidated into this financial statements.

31. Credit risk reserve

Under Nigeria GAAP, loan loss 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 not performing 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 1% general provision is made on all risk assets and which are deemed performing and have not been specifically provided for. The excess of the impairment under N-GAAP over the impairment under IFRS has been transferred to a non-distributable regulatory reserve in line with the requirements of the Central Bank of Nigeria.

Movement in credit risk reserve	GROUP		BANK	
	31 December 2012 N'000	31 December 2011 N'000	31 December 2012 N'000	31 December 2011 N'000
Balance as at 1st January	144,672	189,675	144,672	212,744
Charge/(wite-back) to retained earnings	177,814	(45,003)	177,814	(68,072)
Balance as at 31st December	322,486	144,672	322,486	144,672

32. Reconciliation of profit before tax to cash generated from operations

GROUP	31 December 2012 N'000	31 December 2011 N'000
Profit before income tax	2,267,657	2,561,033
Adjustments for:		
– Depreciation (note 25)	186,061	180,982
– Amortisation (note 24)	115,351	114,383
– (Profit) on disposal of property and equipment (note 11)	(9,105)	(2,097)
– Benefit plan charge (note 22)	43,566	31,521
– Net interest income	(1,328,264)	(2,656,071)
– Dividends on treasury shares	60,355	60,355
Changes in working capital:		
– Placement with other financial institutions	(31,620)	(19,093)
– Loans and receivables	(94,705)	133,333
– Financial assets held for trading	(920,654)	(4,387,254)
– Pledged assets	6,146,155	(24,529,393)
– Other assets	(100,191)	(294,397)
– Due to banks	4,875,939	30,976,961
– Due to customers	8,633,045	(3,840,252)
– Other liabilities	2,717	(20,651)
Cash generated from operations	19,846,308	(1,690,640)

BANK	31 December 2012 N'000	31 December 2011 N'000
Profit before income tax	1,690,957	2,251,688
Adjustments for:		
– Depreciation (note 25)	112,319	125,174
– Amortisation (note 24)	112,164	114,383
– (Profit)/loss on disposal of property, plant and equipment (note 21)	(12,468)	2,478
– Benefit plan charge (note 22)	37,684	26,689
– Net interest income	(1,125,736)	(2,550,594)
Changes in working capital:		
– Loans and receivables	(15,445,347)	170,163
– Financial assets held for trading	(885,834)	(4,387,254)
– Pledged assets	6,146,155	(24,529,393)
– Other assets	15,795	(113,494)
– Due to banks	4,875,939	30,976,961
– Due to customers	8,923,513	(4,218,769)
– Other liabilities	(16,649)	45,554
Cash generated from operations	4,428,493	(2,086,414)

33. Cash and cash equivalents

For the purposes of statement of cash flow, cash and cash equivalents are balances that are held for the primary purpose of meeting short term cash commitments. This includes cash-on-hand, deposit held at call with banks and other short-term highly liquid investments which originally matures in three months or less (Treasury bills with less than 3 months maturity).

GROUP	31 December 2012 N'000	31 December 2011 N'000
Cash and bank balances (Note 14)	913,900	528,479
Placements with banks and discount houses in Nigeria (Note 15)	16,357,112	667,421
Treasury bills classified as held for trading maturing in less than 3 months	5,711,142	-
Treasury bills classified as available for sale maturing in less than 3 months	244,842	607,768
	23,226,996	1,803,668

BANK		
Cash and bank balances (Note 14)	883,704	527,668
Treasury bills classified as held for trading maturing in less than 3 months	5,566,375	-
Treasury bills classified as available for sale maturing in less than 3 months	-	250,956
	6,450,079	778,624

34. Contingent liabilities and commitments

(a) Legal proceedings

The Group has litigation and claims which arose in the normal course of business and they are being contested by the Group. The directors, having sought professional legal counsel, are of the opinion that no loss will eventuate, hence no provision has been made for them in these financial statements, nor contingent liabilities.
There were no contingent liabilities not disclosed in these financial statements.

(b) Capital commitments

As at balance sheet date, the group had commitments amounting to N7.875million (2011: Nil) in respect of new software implementation being undertaken.

	31 December 2012 N'000	31 December 2011 N'000
Outstanding capital expenditure commitments on intangible assets not provided	7,875	-
	7,875	-

The sum of N167.60million in work-in-progress under Note 24 on Intangible assets relates to paid capital expenditure in respect of new banking software acquired by the parent company as part of its transformation project to a merchant bank. The N7.87million disclosed represents unpaid commitments as at 31 December 2012.

35. Related party transactions

The parent company of the Group is FSDH Merchant Bank Limited (formerly First Securities Discount House Limited).

A number of transactions are entered into with related parties in the normal course of business. These include advisory, investments and securities' transactions. In line with IAS 24, the Group categorised its shareholders, directors, members of its executive management committee and their related entities or persons of influence with which the Group had transactions for disclosure purposes.

(i) Key management personnel and their related entities

(a) Compensation	31 December 2012 N'000	31 December 2011 N'000
Wages and salaries	326,842	271,895
Pension costs	21,647	18,412
	348,489	290,307

Key management staff has been defined as members of the management executive committee of the group.

(b) Loans and advances	**31 December 2012 N'000**	**31 December 2011 N'000**
Loans outstanding	196,362	216,084

The loans issued to key management personnel as disclosed above represent staff loans and payable between tenors ranging from 1 to 15 years depending on the loan type. The significant loan type is the mortgage loans advanced to qualifying staff in employ of the Group over 5 years. The mortgage loans are collateralised by the underlying property. There were no loan loss provision related to the amounts outstanding.

(c) Deposits	**31 December 2012 N'000**	**31 December 2011 N'000**
Due to customers	680,813	74,768

(ii) Directors and their related entities

(a) Deposits	**31 December 2012 N'000**	**31 December 2011 N'000**
Due to customers	101,536	252,004

(b) Transactions

The aggregate value of transactions of services rendered to directors and their related entities over which they have control or significant influence were as follows:

	Transaction Value	**Transaction Value**
	31 December 2012 N'000	**31 December 2011 N'000**
Income earned*	132	285
Expense paid**	17,861	9,257

*Income earned relates to stockbroking commission earned by FSDH Securities Limited.

*The bank contracts the legal services of the law firm of Udo Udoma & Belo-Osagie, a law partnership firm related to Mr. Dan Agbor and Mrs Myma Belo-Osagie (non-executive directors) on a retainership basis. The retainership also covers the secretarial services provided by Alsec Nominees Limited to the bank. The retainership fees is included in the expense paid disclosed.

**The bank used Swift Networks as one of its Internet Service Providers (ISP), a company in which Mr. Dan Agbor is a director. The related connectivity costs is included in the expense paid disclosed above.

(iii) Shareholders and related entities

(a) Deposits	**31 December 2012 N'000**	**31 December 2011 N'000**
Due to banks	8,012,022	-
Due to customers	8,671,652	2,300,073
(b) Cash and bank balances		
Bank balances	13,730	21,162

Subsidiaries

(a) Deposits		
Due to customers	829,819	433,094
Discount expense	69,266	62,713

This represents liabilities under repurchase agreement investments balances of the subsidiaries with FSDH Merchant Bank Limited. The discount expense and balances as disclosed above have been eliminated in the consolidated group figures.

(b) Loans and receivables	**31 December 2012 N'000**	**31 December 2011 N'000**
Discounted promissory notes	15,339,342	-
Discount income	681,244	27,616

This represents promissory notes of various banks discounted from FSDH Asset Management Limited and FSDH Securities Limited by FSDH Merchant Bank Limited. At the group level, the balance is reported under Placement with banks in the statement of financial position after consolidation eliminations. The income earned is included in discount income in the statement of comprehensive income.

(b) Transactions		**31 December 2012 N'000**	**31 December 2011 N'000**
FSDH Asset Management Limited	Technical management**	27,239	16,780
FSDH Securities Limited	Technical management**	15,612	3,497

**The bank has a technical service agreement with FSDH Asset Management Limited and FSDH securities Limited. The agreement provides for the provision of technical management assistance to both companies for a fee of 7.5% of total earnings (31 December 2011: 10% of profit before tax).

36. Earnings per share

(i) Basic

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

	GROUP		**BANK**	
	31 December 2012 N'000	**31 December 2011 N'000**	**31 December 2012 N'000**	**31 December 2011 N'000**
Profit attributable to equity holders of the parent bank	3,008,709	2,112,962	2,827,567	2,062,301
Weighted average number of ordinary shares	2,794,794	2,794,794	2,794,794	2,794,794
Treasury shares	(241,419)	(241,419)	-	-
Weighted average number of ordinary shares excluding treasury shares	2,553,375	2,553,375	2,794,794	2,794,794
Basic earnings per share (expressed in kobo per share)	118	83	101	74

(ii) 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 (31 December 2011: Nil).

Diluted earnings per share (expressed in kobo)	118	83	101	74

37. Dividends	**31 December 2012 N'000**	**31 December 2011 N'000**
Proposed dividend at 25kobo (2011: 25kobo) per share	698,698	698,698

Dividends are not accounted for until they have been ratified at the Annual General Meeting (AGM). At the next AGM, a dividend in respect of the financial year ended 31 December 2012 of 25kobo per share (2011: 25kobo) amounting to a total of N698.698million (2011: N698.698million) will be proposed (payable less of 10% withholding tax). These financial statements do not reflect this resolution which will be accounted as an appropriation of retained earnings in the year ending 31 December 2013.

38. Compliance with banking regulations

The bank was penalised by the Central Bank of Nigeria (CBN) during the year for the following infraction:
- Infraction of Section 60 (1) of BOFIA 1991 as amended to date - contravention of single obligor limit (fine: N2miilion).

In line with the Central Bank of Nigeria circular reference FPR/DIR/CIR/GEN/01/020, the Bank did not have any customer complaint during the year.

39. Events after statement of financial position date

FSDH Merchant Bank Limited officially commenced operations as a merchant bank on 15 January 2013. There are no other events which may impact the financial statements.

40 Transition to IFRS

Explanation of transition to IFRS

As stated in note 2.1, these are the Group and Bank's first financial statements prepared in accordance with IFRS. The Group has applied IFRS 1 in preparing these financial statements and the accounting policies set out in note 2 have been applied in preparing the financial statements for the period ended 31 December 2011 and in the preparation of an opening IFRS balance sheet at 1 January 2011 (the date of theGroup's transition to IFRS).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with Statements of Accounting Standards issued by the Financial Reporting Council (formerly Nigerian Accounting Standards Board) ("Nigerian GAAP"). An explanation of how the transition from Nigerian GAAP to IFRS has affected the company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The most significant IFRS impact for the Group and Bank resulted from the implementation of IAS 39 Financial Instruments: Recognition and Measurement, which requires financial assets to be measured at fair value or at amortised cost (using the effective interest method) if certain criteria are met. In addition IAS 39 requires the impairment of financial assets only in cases where there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset (referred to as an "incurred loss" model).

In preparing these financial statements in accordance with IFRS 1, the Group and Bank has applied the mandatory exceptions from full retrospective application of IFRS. The optional exemptions from full retrospective application selected by the company are summarised below.

Exceptions from full retrospective application - followed by the Group and Bank

The Group and Bank applied the following mandatory exceptions from retrospective application:

Derecognition of financial assets and liabilities exception
Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS.

Non-controlling interests exception
From 1 January 2011 total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if it results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners) from 1 January 2011. The guidance contained in IFRS on accounting for the loss of control of a subsidiary is applied prospectively from 1 January 2011.

Estimates exception
Estimates under IFRS at 1 January 2011 are consistent with estimates made for the same date under Nigerian GAAP, unless there is evidence that those estimates were in error.

The company applied the following optional exemptions from retrospective application:

Business combinations
The Group has elected to apply the exemption for previous business combinations. As a result of this election the previous Nigerian GAAP numbers were carried forward. No additional assets were recognised.

Investment in subsidiaries, joint ventures and associates

The Group has elected to apply the exemption to carry investment balances at the carrying value under previous GAAP (NGAAP) at transition date.

Reconciliation of equity for the period - GROUP	**31 Dec 2011**	**1 Jan 2011**
	N'000	**N'000**
Nigerian GAAP closing	18,750,060	16,912,040
Adjustments		
Fair value adjustments on AFS portfolio (Note (aii))	(2,564,305)	(142,783)
Effective interest rate on amortised financial instruments (Note (c))	(128,678)	(167,942)
Loan loss impairment adjustment (Note (e))	144,882	189,884
Employee benefits - staff loans (Note (f))	12,962	5,910
Employee retirement benefits adjustment (Note (f))	-	63,913
Deferred tax adjustments (Note (i))	(30,456)	167,326
Consolidation of FSDH Staff Co-operative	1,665,221	1,772,144
Treasury Shares	(450,040)	(450,040)
	(1,350,414)	1,438,412
IFRS equity closing	17,399,646	18,350,452

Reconciliation of equity for the period - BANK	**31 Dec 2011**	**1 Jan 2011**
	N'000	**N'000**
Nigerian GAAP closing	17,804,501	16,165,071
Adjustments		
Fair value adjustments on AFS portfolio (Note (aii))	(2,560,670)	(142,783)
Effective interest rate on amortised financial instruments (Note (c))	(128,678)	(167,942)
Loan loss impairment adjustment (Note (d))	144,672	212,744
Employee benefits - staff loans (Note (e))	12,962	5,910
Employee retirement benefits adjustment (Note (f))	-	57,260
Deferred tax adjustments (Note (i))	(43,402)	157,286
	(2,575,116)	122,476
IFRS equity closing	15,229,385	16,287,547

Notes to the reconciliation of equity and profit

Under Nigerian GAAP investment securities are categorised into short term or long term investments. Short term investments are carried at the lower of cost and market value. Long term investments are carried at cost less impairment. Under IFRS all financial instruments are classified into specific categories. The need to classify financial instruments into specific categories arises from the mixed measurement model in IAS 39, under which some financial instruments are carried at amortised cost whilst others are carried at fair value. Consequently, a particular financial instrument's classification that is carried out at initial recognition drives the subsequent accounting treatment.

(a1) Assets under repurchase agreements are reported separately on the balance sheet under Nigerian GAAP. Under IFRS, the assets under repurchase agreements has been reclassified to Loans and receivables, Assets held for trading, Investment securities and Pledged assets. The group reclassified open buy back treasury bills and bonds to pledged assets because under IFRS these assets should not be recognised as part of other assets but should be a separate class of assets.

(a2)IFRS requires financial assets classified as Available-for-sale to be measured at fair value. For financial assets classified as Available-for-sale, gains and losses are recognised in other comprehensive income. In applying IFRS the following were effected:

GROUP	**31 Dec 2011**	**1 Jan 2011**
	N'000	**N'000**
Increase / (decrease) in fair values of instruments	(2,564,305)	(142,783)
(Increase) / decrease in other comprehensive income (revaluation reserve)	2,564,305	142,783
(Increase) / decrease in retained earnings	-	-
(Increase) / decrease in profit or loss	-	-

BANK

	31 Dec 2011	**1 Jan 2011**
	N'000	**N'000**
Increase / (decrease) in fair values of instruments	(2,560,670)	(142,783)
(Increase) / decrease in other comprehensive income (revaluation reserve)	2,560,671	142,783
(Increase) / decrease in retained earnings	-	-
(Increase) / decrease in profit or loss	-	-

(b) Under N-GAAP, the foreign exchange gain on conversion of a dollar denominated long term investment by the Bank in a Eurobond was recognised in a revaluation reserve. Under IFRS, foreign exchange gains and losses on monetary financial assets are recognised in income statement. This resulted in a reclassification of N94.94million from the revaluation reserve to retained earnings as at 1 January 2011 for both bank and group.

(c)IFRS requires financial assets carried at amortised cost to be measured using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Under N-GAAP discounts and premiums on the acquisition or issuance of an instrument is deferred as unearned and recognised on a straight line amortisation method over the life of the instrument or on disposal. The effect of applying the effective interest method resulted in a change in the carrying value of held-to maturity investments by N128.68million as of 31 December 2011 (1 January 2011: N167.94million). Only FSDH Merchant Bank Limited, the parent company had held to maturity investments as at the relevant dates.

(d) Under Nigerian GAAP, discount payable was recognised as a separate liability, resulting in the gross disclosure of the underlying liabilities. The effect of stating the liabilities under repurchase at the amortised cost resulted in a reclassification of accrued discount from Other liabilities to Liabilities under repurchase agreements. In addition, unearned discount was recognised as a separate asset, resulting in the gross disclosure of the underlying liability. The effect of stating at amortised cost resulted in a reclassification from Other assets to liabilities under repurchase agreements. Under IFRS, the liabilities under repurchase agreements were reclassified between banks and other customers and stated at amortised cost.

(e) Under Nigerian GAAP loans and receivables are measured at cost net of impairment losses. A specific provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. This provision is made for each account that is not performing in accordance with the prudential guidelines as issued by the Central Bank of Nigeria. As at 1 January 2011 a general reserve of at least 1% was made for all performing accounts to recognise losses in respect of risks inherent in the credit portfolio. Under IFRS an impairment loss can only be recognised if there is objective evidence that a loss has occurred after the initial recognition but before the statement of financial position date. The 1% general provision of N139.91million under N-GAAP as at 31 December 2011 was de-recognised in the accounts (1 January 2011: N72.75million and N95.82million the Group and Bank respectively))

The impairments recognised under Nigerian GAAP for Other assets was written back due to the absence of the IFRS requirement of objective evidence indicating that a loss has occurred. The effect of the above was to reduce Impairment charges for credit losses and increase Other assets of the company and group by N4.76million as at 31 December 2011 (1 Janaury 2011: N4.23million). This is accounted for as per regulatory requirement in a non-distributable credit risk reserve in the statement of financial position.

Under Nigerian GAAP interest is suspended on impaired loans. Under IFRS interest is not suspended. This resulted in an amount of N164.58million for the period ended 31 December 2011 recognised as interest income. Suspended interest as at 1 Janaury 2011 : N402million.

The specific impairments recognised under the Nigerian GAAP for risk assets was written back to retained earnings while an impairment assessment was carried out under IFRS to determine the impairment charge for credit losses. The effect of this was a NIL adjustment to retained earnings as at 31 December 2011 (1 January 2011: N338.43million).

<u>Adjusted impairments under N-GAAP</u>

	31 Dec 2011 N'000	1 Jan 2011 N'000
1% general provisions on risk assets under Prudential Guidelines	139,910	72,754
Interest in suspense	566,585	402,005
1% general provisions on other assets	4,762	4,230
Specific provisions under Prudential Guidelines	-	338,431
Total impairments under N-GAAP adjusted against retained earnings	711,257	817,420
IFRS impairment on objective evidence indicating loss after recognition	(566,585)	(627,745)
Impact on retained earnings	144,672	189,675
Transfer to credit risk reserve	(144,672)	(189,675)
Net impact on retained earning	-	-

<u>Adjusted impairments under N-GAAP</u>	31 Dec 2011 N'000	1 Jan 2011 N'000
1% general provisions on risk assets under Prudential Guidelines	139,910	95,823
Interest in suspense	566,585	402,005
1% general provisions on other assets	4,762	4,230
Specific provisions under Prudential Guidelines	-	338,431
Total impairments under N-GAAP adjusted against retained earnings	711,257	840,489
IFRS impairment on objective evidence indicating loss after recognition	(566,585)	(627,745)
Impact on retained earnings	144,672	212,744
Transfer to credit risk reserve	(144,672)	(212,744)
Net impact on retained earning	-	-

(f) The bank provides low interest rate loans to employees. These loans are recorded based on the contractual terms under Nigerian GAAP. Under IFRS these loans need to be fair valued on initial recognition. Any difference between the fair value and the contractual value is included in other assets as a prepaid expense and amortised over the expected repayment period of the loan.

(g) The bank operates a defined benefit plan. Under Nigerian GAAP an actuarial valuation is performed on an annual basis using the projected unit credit method, which is in accordance with the requirements of IAS19. Under IFRS, actuarial gains and losses are recognised in other comprehensive income. Under Nigerian GAAP, the difference in opening and closing actuarial obligation was charged as gratuity expense for the year while difference in opening and closing plan assets was recognised in income. Under IFRS, a defined approach to income and expense recognition is provided. The effect of adjusting for this on the Plan Assets at 31 December 2011 for the bank was Nil (1 Janaury 2011: N57.26million) while at group was Nil (1 Janaury 2011: N63.91million).

(h) Under Nigerian GAAP, gains and losses on investments were included in the discount and similar income and the amortisation of premiums paid on bonds purchases were recognised in the discount and similar expense. As part of the transition to IFRS the following items have been reclassified: Amortisation of bond premium of N544.9million from discount and similar expense to discount and similar income; Net gains/(losses) from financial instruments classified as held for trading of N359.49m and Net gains/(losses) from investment securities of N987.95million from discount and similar income. This adjustment affects the bank and group (after consolidation adjustments).

(i) The adjustments to effect the transition to IFRS increased/(decreased) the deferred tax liability/(asset) as follows based on a tax rate of 30 per cent at 31 December 2011 (1 January 2011: 30%):

GROUP

	31 Dec 2011 N'000	1 Jan 2011 N'000
Impairment of loans and advances and other assets	(30,456)	56,778
Retirement benefit obligation	-	110,548
(Decrease)/increase at end of of the period	(30,456)	167,326

BANK

	31 Dec 2011 N'000	1 Jan 2011 N'000
Impairment of loans and advances and other assets	(43,402)	56,778
Retirement benefit obligation	-	100,508
(Decrease)/increase at end of of the period	(43,402)	157,286

(j) In compliance with SIC 12 and IAS 27, the group consolidated the accounts of FSDH Staff Co-operative Society, a staff trust scheme. Under NGAAP, this was not consolidated thus resulting in consolidation adjustment under IFRS to reserves of N1.66billion as at 31 December 2011 (1 Janaury 2011:N1.77billion)

The consolidation of the FSDH Staff Co-operative created adjustments for scheme's equity interest in the shares of the bank, the parent company. This resulted in creation of a Treasury share reserve in the group accounts on consolidation of N450.04million at 31 December 2011 (1 Janaury 2011: N450.04million) which was adjusted against the group equity investments as a consolidation adjustment.

Reconciliation of statement of financial position - Group

	Note	31 December 2011 N-GAAP	31 December 2011 Adjustments	31 December 2011 IFRS	1 January 2011 N-GAAP	1 January 2011 Adjustments	1 January 2011 IFRS
ASSETS							
Cash and bank balances		1,018,893	(490,414)	528,479	3,769,107	-	3,769,107
Treasury bills		1,312,222	(1,312,222)	-	1,796,845	(1,796,845)	-
Placements with banks		-	694,386	694,386	-	172,739	172,739
Financial assets held for trading	(a1)	-	-	-	-	964,791	964,791
Loans and receivables to customers	(a1), (d)	-	8,099,015	8,099,015	-	8,224,489	8,224,489
Investment securities	(a1), (a2),(b), (c)	19,349,835	15,793,223	35,143,058	11,734,874	17,593,079	29,327,953
Margin accounts		18,762	(18,762)	-	21,272	(21,272)	-
Pledged assets	(a1)	-	28,965,871	28,965,871	-	4,436,478	4,436,478
Assets under repurchase agreement	(a1)	53,451,326	(53,451,326)	-	28,865,889	(28,865,889)	-
Other assets	(c), (e), (f)	1,228,516	17,725	1,246,241	940,497	10,139	950,636
Deferred tax asset	(f)	189,911	(30,456)	159,455	150,918	128,177	279,095
Retirement benefit asset	(g)	10,411	-	10,411	-	47,508	47,508
Intangible assets		175,785	-	175,785	215,763	-	215,763
Property, plant and equipment		396,533	-	396,533	423,689	-	423,689
Total assets		**77,152,194**	**(1,732,960)**	**75,419,234**	**47,918,854**	**893,394**	**48,812,248**
LIABILITIES							
Due to banks	(d)	-	35,628,397	35,628,397	-	4,651,436	4,651,436
Due to customers	(d)	-	20,911,208	20,911,208	-	24,645,130	24,645,130
Liabilities under repurchase agreement	(d)	56,384,732	(56,384,732)	-	29,460,565	(29,460,565)	-
Current income tax liability		760,518	(59,303)	701,215	711,773	(60,105)	651,668
Other liabilities	(d)	735,429	(478,116)	257,313	543,324	(265,360)	277,964
Deferred tax liability	(h)	-	-	-	39,149	(39,149)	-
Retirement benefit obligation	(g)	-	-	-	16,405	(16,405)	-
Total liabilities		**57,880,679**	**(382,546)**	**57,498,133**	**30,771,216**	**(545,018)**	**30,226,198**
EQUITY							
Share capital		2,794,794	-	2,794,794	2,794,794	-	2,794,794
Share premium		1,539,587	-	1,539,587	1,539,587	-	1,539,587
Treasury share reserve		-	(450,040)	(450,040)	-	(450,040)	(450,040)
Retained earnings	(b), (c), (e), (f)	11,174,441	1,519,365	12,693,806	9,634,658	1,936,499	11,571,157
Statutory reserve		3,241,132	-	3,241,132	2,848,062	-	2,848,062
Revaluation reserve	(b)	106	(106)	-	94,939	(94,939)	-
Available for sale reserve	(a), (b)	-	(2,564,305)	(2,564,305)	-	(142,783)	(142,783)
Credit risk reserve	(e)	-	144,672	144,672	-	189,675	189,675
Total equity		**18,750,060**	**(1,350,414)**	**17,399,646**	**16,912,040**	**1,438,412**	**18,350,452**
Non controlling interest		521,455	-	521,455	235,598	-	235,598
Total equity and liabilities		**77,152,194**	**(1,732,960)**	**75,419,234**	**47,918,854**	**893,394**	**48,812,248**

		GROUP			BANK		
Reconciliation of profit for the period		31 December 2011			31 December 2011		
	Note	**N-GAAP**	**Adjustments**	**IFRS**	**N-GAAP**	**Adjustments**	**IFRS**
Discount and similar income	(d), (e), (g)	9,967,390	(1,672,383)	8,295,007	9,967,390	(1,742,544)	8,224,846
Discount and similar expense	(g)	(6,175,005)	544,940	(5,630,065)	(6,219,192)	544,940	(5,674,252)
Net interest income		**3,792,385**		**2,664,941**	**3,748,198**		**2,550,594**
Impairment charge for credit losses	(d)	228,112	(209,581)	18,531	251,151	(232,650)	18,501
Net interest income after impairment charge for credit losses		**4,020,497**		**2,683,472**	**3,999,349**		**2,569,095**
Net fee and commission income		-	1,465,102	1,465,102	-	121,892	121,892
Net gains on financial instruments classified as held for trading	(g)	-	349,716	349,716	-	359,489	359,489
Net gains on investment securities	(g)	-	994,274	994,274	-	987,952	987,952
Other operating income	(b), (f)	1,665,091	(1,612,809)	52,282	252,130	(236,949)	15,181
Other operating expenses	(e), (f)	(2,775,826)	(207,988)	(2,983,814)	(1,806,863)	4,942	(1,801,921)
Profit before tax		**2,909,762**		**2,561,032**	**2,444,616**		**2,251,688**
Income tax expense	(h)	(164,344)	(169,860)	(334,204)	(11,655)	(177,732)	(189,387)
PROFIT FOR THE YEAR		**2,745,418**		**2,226,828**	**2,432,961**		**2,062,300**
Other comprehensive income:							
Actuarial loss on defined gratuity scheme	(f)	-	(3,903)	(3,903)	-	(3,879)	(3,879)
Net gains/(losses) on available for sale financial assets	(a)	-	-	-	-	-	-
- Unrealised net gains/(losses) arising during the period		-	(1,433,570)	(1,433,570)	-	(1,429,936)	(1,429,936)
- Net reclassification adjustment for realised net losses		-	(987,952)	(987,952)	-	(987,952)	(987,952)
Other comprehensive income for the year, net of tax		-		**(2,425,425)**	-		**(2,421,767)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,745,418**	(2,944,016)	**(198,598)**	**2,432,961**	(2,792,428)	**(359,467)**

Reconciliation of statement of financial position - Bank

		31 December 2011			1 January 2011		
	Note	**N-GAAP**	**Adjustments**	**IFRS**	**N-GAAP**	**Adjustments**	**IFRS**
ASSETS							
Cash and bank balances		527,668	-	527,668	3,409,142	-	3,409,142
Treasury Bills	(a3)	1,312,222	(1,312,222)	-	1,796,845	(1,796,845)	-
Financial assets held for trading	(a1)	-	-	-	-	964,791	964,791
Loans and receivables	(a1), (d)	-	8,080,045	8,080,045	-	8,242,349	8,242,349
Investment securities	(a1), (a2),(b),(c)	18,381,425	15,168,190	33,549,615	10,658,272	17,608,354	28,266,626
Pledged asset	(a1)	-	28,965,871	28,965,871	-	4,436,478	4,436,478
Assets under repurchase agreement	(a1)	53,451,326	(53,451,326)	-	29,557,334	(29,557,334)	-
Investment in subsidiary	(a2)	787,010	-	787,010	608,000	-	608,000
Other assets	(c), (e), (f)	680,447	17,726	698,173	574,539	10,140	584,679
Retirement benefit asset	(f)	5,441	-	5,441	-	37,672	37,672
Deferred tax asset	(h)	183,424	(43,402)	140,022	-	118,137	118,137
Intangible asset		175,785	-	175,785	215,763	-	215,763
Property, plant and equipment		216,719	-	216,719	324,915	-	324,915
Total assets		**75,721,467**	**(2,575,118)**	**73,146,349**	**47,144,810**	**63,741**	**47,208,552**
LIABILITIES							
Due to banks	(d)	35,600,000	28,397	35,628,397	4,650,000	1,436	4,651,436
Due to customers	(d)	21,215,268	344,765	21,560,033	25,508,236	164,236	25,672,472
Current income tax liabilities		625,524	(53,751)	571,773	545,993	(60,105)	485,888
Other liabilities	(d)	476,174	(319,413)	156,761	216,773	(105,566)	111,207
Deferred tax	(h)	-	-	-	39,149	(39,149)	-
Retirement benefit obligation	(g)	-	-	-	19,588	(19,588)	-
Total liabilities		**57,916,966**	**(2)**	**57,916,964**	**30,979,739**	**(58,736)**	**30,921,003**
EQUITY							
Share capital		2,794,794	-	2,794,794	2,794,794	-	2,794,794
Share premium		1,539,587	-	1,539,587	1,539,587	-	1,539,587
Retained earnings	(b), (c), (e), (f)	10,285,112	(159,011)	10,126,101	8,915,793	147,456	9,063,249
Statutory reserve		3,184,902	-	3,184,902	2,819,958	-	2,819,958
Available for sale reserve	(a), (b)	106	(2,560,777)	(2,560,671)	94,939	(237,722)	(142,783)
Credit risk reserve	(e)	-	144,672	144,672	-	212,744	212,7-44
Total equity		**17,804,501**	**(2,575,116)**	**15,229,385**	**16,165,071**	**122,478**	**16,287,549**
Total equity and liabilities		**75,721,467**	**(2,575,118)**	**73,146,349**	**47,144,810**	**63,742**	**47,208,552**

GROUP	Group Dec 2012 ₦'000	%	Group Dec 2011 ₦'000	%
Gross earnings	**13,896,485**		11,156,381	
Discount and securities trading expenses	**(8,248,695)**		(5,630,065)	
	5,647,790		5,526,315	
Write back on impairment allowance on risk assets	**-**		18,531	
Bought-in materials and services- local	**(945,128)**		**(867,297)**	
Value added	**4,702,662**	100	4,677,549	100
Distribution of value added				
To employees and directors:				
Salaries and benefits	**2,133,593**	45	1,821,152	39
To government:				
Government as taxes	**(918,042)**	(20)	334,204	7
The future:				
For replacement of fixed assets (depreciation)	**186,062**	4	180,982	4
For replacement of intangible assets (amortisation)	**115,350**	2	114,383	2
Transferred to non-controlling Interest	**176,990**	4	113,867	2
To pay declared dividend	**698,698**	15	698,698	15
To augment reserves	**2,310,011**	49	1,414,264	30
	4,702,662	100	4,677,550	100

These statements shows the distribution of the wealth created by the Group during the periods.

BANK	Bank Dec 2012 ₦'000	%	Bank Dec 2011 ₦'000	%
Gross earnings	**11,909,637**		9,709,360	
Securities trading expenses	**(8,317,703)**		(5,674,252)	
	3,591,934		4,035,108	
Write back on allowance on assets value	**-**		18,501	
Bought-in materials and services- local	**(571,254)**		(586,506)	
Value added	**3,020,681**	100	3,467,103	100
Distribution of value added				
To employees and directors:				
Salaries and benefits	**1,105,240**	37	975,858	28
To government:				
Tax	**(1,136,610)**	(38)	189,387	5
The future:				
For replacement of fixed assets (depreciation)	**112,319**	4	125,174	4
For replacement of intangible assets (amortisation)	**112,164**	4	114,383	3
To pay declared dividend	**698,698**	23	698,698	20
To augment reserves	**2,128,869**	70	1,363,603	39
	3,020,680	100	3,467,104	100

These statements shows the distribution of the wealth created by the Bank during the periods.

GROUP	<——IFRS Statements——>			<—N-GAAP Statements—>	
	Dec 2012	**Dec 2011**	Dec 2010	Dec 2009	Jun 2009
	₦'000	**₦'000**	₦'000	₦'000	₦'000
Gross earnings	**13,896,485**	**11,156,381**	8,019,999	7,543,490	32,242,419
Securities trading expenses	**(8,248,695)**	**(5,630,065)**	(2,497,159)	(3,482,493)	(24,422,938)
Operating income	**5,647,790**	**4,981,376**	5,522,840	4,060,997	7,819,481
Profit before tax	**2,267,657**	**2,561,033**	3,458,013	3,014,945	4,321,626
Tax	**918,042**	**(334,204)**	(351,354)	(366,883)	(469,972)
Profit after tax	**3,185,699**	**2,226,829**	3,106,659	2,648,062	3,851,654
Minority interest	**(176,990)**	**(113,867)**	(56,663)	(21,304)	(13,598)
Profit attributable to equity holders	**3,008,708**	**2,112,962**	3,050,026	2,626,758	3,838,056
Earnings per share (kobo)	**118**	**83**	109	94	137

	<———IFRS Statements———		>	<—N-GAAP Statements—>	
	Dec 2012	**Dec 2011**	**Dec 2010**	Dec 2009	Jun 2009
	₦'000	**₦'000**	**₦'000**	₦'000	₦'000
ASSETS					
Cash and bank balances	**913,900**	**528,479**	**3,769,107**	462,823	652,808
Placement with banks	**16,415,697**	**694,386**	**172,739**	-	-
Treasury bills	**-**	**-**	**-**	17,193,081	5,346,309
Financial assets held for trading	**11,504,477**	**-**	**964,791**	-	-
Loans and receivables	**8,559,695**	**8,099,015**	**8,224,489**	-	-
Assets on repurchase agreements	**-**	**-**	**-**	31,916,736	69,007,425
Investment securities	**30,280,755**	**35,143,058**	**29,327,953**	23,560,739	11,767,755
Pledged assets	**22,819,716**	**28,965,871**	**4,436,478**	-	-
Margin accounts	**-**	**-**	**-**	31,018	130,936
Other assets	**1,348,251**	**1,246,241**	**950,636**	1,101,195	767,656
Retirement benefit scheme asset	**55,515**	**10,411**	**47,508**	1	-
Deferred tax assets	**1,490,219**	**159,455**	**279,095**	199,458	226,340
Intangible assets	**236,102**	**175,785**	**215,763**	-	-
Property and equipment	**393,159**	**396,533**	**423,689**	562,735	304,862
	94,017,486	**75,419,234**	**48,812,248**	75,027,786	88,204,091
LIABILITIES					
Due to banks	**40,504,336**	**35,628,397**	**4,651,436**	26,600,000	1,500,000
Due to customers	**29,599,538**	**20,911,208**	**24,645,130**	-	-
Liabilities on repurchase agreements	**-**	**-**	**-**	32,155,600	71,751,890
Current income tax liability	**887,142**	**701,215**	**651,668**	836,669	573,656
Other liabilities	**260,030**	**257,313**	**277,964**	870,732	1,330,484
	71,251,046	**57,498,133**	**30,226,198**	60,463,001	75,156,030
NET ASSETS	**22,766,440**	**17,921,101**	**18,586,050**	14,564,785	13,048,061
SHAREHOLDERS' FUNDS:					
Share capital	**2,794,794**	**2,794,794**	**2,794,794**	2,794,794	2,794,794
Share premium	**1,539,587**	**1,539,587**	**1,539,587**	1,539,587	1,539,587
Treasury share reserve	**(450,040)**	**(450,040)**	**(450,040)**	-	-
Deposit for shares	**-**	**-**	**-**	-	-
Retained earnings	**14,624,282**	**12,693,806**	**11,571,157**	7,593,436	6,335,540
Statutory reserve	**3,565,277**	**3,241,132**	**2,848,062**	2,398,216	2,007,532
Available for sale reserve	**(328,391)**	**(2,564,305)**	**(142,783)**	-	-
Credit risk reserve	**322,486**	**144,672**	**189,675**	-	-
Revaluation reserve	**-**	**-**	**-**	102,062	255,222
	22,067,995	**17,399,646**	**18,350,452**	14,428,095	12,932,675
Non-controlling interest	**698,445**	**521,455**	**235,598**	136,690	115,386
SHAREHOLDERS' FUNDS	**22,766,440**	**17,921,101**	**18,586,050**	14,564,785	13,048,061

COMPANY	<—IFRS Statements—>		<——N-GAAP Statements——>		
	Dec 2012	**Dec 2011**	Dec 2010	Dec 2009	Jun 2009
	₦'000	₦'000	₦'000	₦'000	₦'000
Gross earnings	**11,909,637**	**9,709,360**	6,836,899	7,102,458	31,413,393
Securities trading expenses	**(8,317,703)**	**(5,674,252)**	(2,549,308)	(3,539,293)	(24,556,004)
Operating income	**3,591,934**	**4,035,108**	4,287,591	3,563,165	6,857,389
Profit before tax	**1,690,957**	**2,251,688**	3,158,789	2,913,165	4,604,240
Tax	**1,136,610**	**(189,387)**	(256,119)	(344,429)	(447,384)
Profit after tax	**2,827,567**	**2,062,301**	2,902,670	2,568,736	4,156,856
Earnings per share (Kobo)	**101**	**74**	104	92	

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	<———IFRS Statements———		>	<—N-GAAP Statements——>	
	Dec 2012	**Dec 2011**	**Dec 2010**	Dec 2009	Jun 2009
	₦'000	**₦'000**	**₦'000**	₦'000	₦'000
ASSETS					
Cash and bank balances	**883,704**	**527,668**	**3,409,142**	393,829	397,003
Treasury bills	**-**	**-**	**-**	17,193,081	5,346,309
Financial assets held for trading	**11,324,890**	**-**	**964,791**	-	-
Loans and receivables	**23,891,367**	**8,080,045**	**8,242,349**	-	-
Assets on repurchase agreements	**-**	**-**	**-**	32,812,458	69,619,147
Investment securities	**28,792,738**	**33,549,615**	**28,266,626**	22,569,730	10,683,128
Pledged assets	**22,819,716**	**28,965,871**	**4,436,478**	-	-
Other assets	**682,378**	**698,173**	**584,679**	590,682	447,255
Investment in subsidiary companies	**787,010**	**787,010**	**608,000**	564,000	564,000
Retirement benefit scheme asset	**50,892**	**5,441**	**37,672**	-	-
Deferred tax assets	**1,461,299**	**140,022**	**118,137**	48,540	75,259
Intangible assets	**232,213**	**175,785**	**215,763**	-	-
Property and equipment	**225,151**	**216,719**	**324,915**	472,206	223,115
	91,151,358	**73,146,349**	**47,208,552**	74,644,526	87,355,216
LIABILITIES					
Due to banks	**40,504,336**	**35,628,397**	**4,651,436**	26,600,000	1,500,000
Due to customers	**30,538,831**	**21,560,033**	**25,672,472**	-	-
Liabilities on repurchase agreements	**-**	**-**	**-**	33,057,548	72,369,424
Current income tax liability	**571,774**	**571,773**	**485,888**	754,341	511,386
Other liabilities	**140,112**	**156,761**	**111,207**	506,217	838,686
	71,755,053	**57,916,964**	**30,921,003**	60,918,107	75,219,496
NET ASSETS	**19,396,305**	**15,229,385**	**16,287,549**	13,726,419	12,135,720
SHAREHOLDERS' FUNDS:					
Share capital	**2,794,794**	**2,794,794**	**2,794,794**	2,794,794	2,794,794
Share premium	**1,539,587**	**1,539,587**	**1,539,587**	1,539,587	1,539,587
Retained earnings	**11,852,593**	**10,126,101**	**9,063,249**	7,007,481	5,802,113
Statutory reserve	**3,467,659**	**3,184,902**	**2,819,958**	2,384,558	1,999,226
Available for sale reserve	**(580,814)**	**(2,560,671)**	**(142,783)**	-	-
Credit risk reserve	**322,486**	**144,672**	**212,744**	-	-
	19,396,305	**15,229,385**	**16,287,549**	13,726,419	12,135,720

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