FSDH MERCHANT BANK LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

FSDH MERCHANT BANK LIMITED

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for the year ended 31 December 2013

The Chairman's Statement

Distinguished Shareholders, it is with great pleasure that I welcome you all to the 2nd Annual General Meeting of our Company, FSDH Merchant Bank Limited and that I present to you the financial statements of the Group for the year ended December 31 2013.

The results we are presenting today represent the statement of affairs for our first year of operations as a Merchant Bank having started fully fledged merchant banking operations on January 15, 2013.

Global Economic Environment

The Global economy grew at a rate of 2.9% in 2013 down from 3.2 percent recorded the previous year. The continued slow pace of global economic growth is due to the lethargic economic activity in the Eurozone which witnessed 0.3% growth in 2013. However, by the end of the year the world economy had started to improve.

The Eurozone is not out of trouble, but the acute phase of its difficulties may be a thing of the past. According to the International Monetary Fund (IMF), global economic recovery is projected at 3.6% for 2014. This is on account of the fact that the global economy has begun to strengthen, though, growth across the world is still uneven. It is strongest in the United States of America (USA), the world's largest economy, where the IMF is projecting a 2.8% growth this year. Germany, the largest economy in the Euro zone, is projected to grow at 1.7%. Also, for the first time in two years, economies in the southern sphere of the Eurozone such as Italy, Spain, Portugal and Greece are projected to have positive, though slow, growth.

Emerging and frontier market countries will continue to have strong growth, 4.9%, up slightly from 2013. The forecast for China, the world's second largest economy, is 7.5%, while India and sub-Saharan Africa are expected to return a growth rate of around 5.4% each.

All these mean well for 2014 and we are likely to witness a better and more balanced growth than any year since 2007.

Operating Environment

The Nigerian economy is estimated to have grown by 6.54% in 2013. The projected 7.5% growth for 2014 will now have to be revised downwards in view of the recent rebasing of the GDP output. The National Bureau of Statistics (NBS) on 6 April 2014 released the revised Gross National Domestic Product (GDP) for Nigeria. Nigeria's GDP has not been rebased since 1990 contrary to global best practice of rebasing every five years. This implies that the country had to rely on out-dated figures for the past 19 years. The year 2010 was adopted as the base year for the revision and more recent economic activities have been captured in sectors such as telecommunications and entertainment.

As a result of the rebasing, the size of the economy has grown by 89% to N80.3Trillion ($509.9billion) from N42.49Trillion ($269.54billion), making it the largest economy in Africa. It is interesting to note that even though the rebasing results are an improvement in several key credit ratios, including debt to GDP which has declined from 19% to 11% for 2012 and interest payment to GDP, the government does not intend to change its debt policy to enable it to borrow more**.**

The equity market recorded an impressive performance in 2013, as the Nigerian Stock Exchange All Share Index (NSE ASI) appreciated by 47.19% to close at 41,329.19 points. The performance of the equity market was influenced by the activities of foreign portfolio investors, as a result of the high liquidity level in the global financial market that was brought about by the accommodative monetary policies in the major advanced economies, particularly the asset purchase programme of the United

States Federal Reserve Bank. Other factors that contributed to the performance of the equity market were improved investor confidence, macroeconomic stability, a stable exchange rate, impressive company earnings and attractive asset valuations.

However, the optimism with which the market closed for 2013 has now given way to uncertainty as the market has lost 6.25% in value as at the end of Q1, 2014. The decline in the All Share Index was driven mainly by the further tapering of the Quantitative Easing in the USA and the tight monetary policy stance of the Central Bank of Nigeria, as well as the concerns surrounding the stability of the exchange rate.

The policy thrust of the Central Bank of Nigeria in 2013 remained restrictive in line with its desire to maintain price stability. The challenge of maintaining single digit inflation and foreign exchange stability were key determinants of its policy drive all year round. The inflation rate (year-on-year) was 8% at the end of the year, down from the 9% in January 2013. Recently released figures at the end of March 2014 indicate a further drop in inflation to 7.8%.

According to the Central Bank of Nigeria (CBN), Nigeria's external reserves as at December 31, 2013 stood at US$42.85billion, representing a decrease of US$0.98billion or 2.23% compared with US$43.83billion at the end of December 2012. The decrease in the reserve levels resulted largely from a slowdown in portfolio and Foreign Direct Investment flows in Q4, 2013 resulting in increased funding of the foreign exchange market by the CBN to stabilize the currency.

Operations

During the year under review, we re-evaluated our IT strategy to ensure that it is in line with the strategy for merchant banking operations. Though a decision was taken in 2012 to replace our banking application, the actual implementation of the new banking application software (flexcube) which replaced our old system (iDeal Suites) began in 2013. We are confident that the new software will enable us to deliver enhanced response times and the highest standard of service delivery to our customers.

We have also implemented the trade software called I-Trade to automate the international trade and payment processing system. It also facilitates on-line interface with the Central Bank of Nigeria's international trade portal.

In view of our transition to a merchant bank, our Board recognised the need to undertake a review of the existing Enterprise Risk Management (ERM) framework to assist in identifying and managing new and emerging risks inherent in the Merchant Banking Industry. KPMG Professional Services was enlisted to work with Management to review the existing ERM framework and policies covering all risks inherent in the business. Our Board also approved a revised risk appetite framework to set appropriate boundaries on the Bank's risk taking activities in line with our strategy and organisational objectives.

The Central Bank during the year introduced the Scripless Securities Settlement System (S4). The S4 is based on a computer network where trading and ownership of government securities are recorded and settled on an electronic platform. It replaces the T24 for settlement of securities. All auctions for Federal Government Securities, (Bonds and Treasury Bills), are now conducted on this platform while the cash settlement is still being done on the Real Time Gross Settlement (RTGS) platform. This new settlement system went live on December 16 2013. We expect this to lead to a more efficient and secured securities settlement system.

In line with the CBN Code of Corporate Governance, a board evaluation exercise had been completed for FSDH for the seventh consecutive year. The exercise was conducted by KPMG Professional Services. The report recorded a further improvement on our board performance and also identified areas of possible improvement. As usual, we will review recommendations with a view to further improve on the performance of the board.

Financial Performance

The Group achieved a Profit before Tax (PBT) of N2.066 billion for the financial year ended December 31 2013. This represents a decline of 8.9% from the position of N2.27 billion for the year ended December 31 2012. Profit after tax attributable to the group was N2.62 billion which is 17.9% below the N3.19 billion for the previous year. Earnings per share (EPS) for the group were 93 kobo, which is 25 kobo less than the 118 kobo that was earned in the previous financial year. This decline in profitability was as a result of three major factors, namely start up challenges, increase in operational expenses and a tough operating environment in the form of tight monetary policy stance of the Central Bank of Nigeria.

Though technically, the Bank started operations as a merchant bank on January 15 2013, for most part of the first and second quarters of the year we operated more as a discount house as opposed to a merchant bank. As a discount house almost all activities revolve around securities trading whereas as a merchant bank the scope of activities is much broader to include the following:

- Provide finance and credit facilities to non retail customers
- Deal in foreign exchange and provide foreign exchange services
- Act as issuing house/underwriter
- Provide treasury management services including the provision of money market fixed income and foreign exchange investments on behalf of clients and
- Provide financial advisory services.

Once we got the merchant banking licence, we had to subsequently apply to the CBN for a foreign exchange dealership licence. Approval for this was received in April and we then started dealing in foreign exchange in May 2014. Furthermore, we experienced delays in opening foreign correspondent banking accounts due to the enhanced due diligence that is carried out by foreign banks before commencing business relationships with banks in frontier markets.

Similarly, the commencement of the provision of credit facilities to our customers equally took a while as we had to dimension the market to identify clients that meet our Risk Assets Acceptance Criteria (RAAC) prior to marketing. In all of this, whether for international trade finance or credit facilities we were yet to build a critical mass of customers that will utilize both our credit and foreign exchange services which are critical to generating sustainable income for any bank.

Furthermore, being our maiden year of operations as a merchant bank, operating expenses understandably went up by 33% (21% for the Group) from N1.91 billion to N2.54 billion. This was on account of staff related costs and other administrative expenses. As part of our drive to operationalise our conversion from discount house operations to being a fully fledged bank, there was the need to bring in new skills and experience, especially in areas where as a discount house we were not appropriately skilled. Our staff strength has thus increased by 21.5%. Departments where such reinforcement took place were; Treasury, Trade Finance and International Operations, Correspondent Banking, Compliance, Corporate and Investment Banking, and Human Resources and Administration. This exercise led to an increase in staff related costs by 35% from N923.7 million to N1.25 billion. There was also an inflation-based salary review in order to attract and retain the skills needed for our new venture. In addition, administrative and other operating expenses such as corporate advertisements, IT strategy review and the acquisition of new banking application software also impacted on operating expenses. Corporate advertising expenses went up from N26.97 million for 2012 to N134.11 million in 2013. This was due to the need to create awareness to the general public of the transformation of FSDH from a discount house to a merchant bank. IT expenses also grew from

N100 million to over N174.75 million in 2013. This was as a result of various initiatives to drive the operations of the bank through information technology.

Similarly, the tough operating environment in the form of the restrictive monetary policy stance of the Central Bank of Nigeria in the year under review also played a part in the decline of profitability. The decision by the CBN to increase Cash Reserve Ratio on public sector deposits in July 2013 led to the effects of a spike in interest rates along with the corresponding pressure on fixed income securities trading. The net effect was a reduction in profit margins and a downturn in trading activities in the bond market for the second half of the year, making the operating environment extremely challenging. This position was further made worse with the exiting from the bond market by foreign investors on the backdrop of improving economic conditions in their home countries and the reductions in government asset purchase (tapering) in the U.S.

During the period under review, all our subsidiaries posted profits. For FSDH Asset Management (FSDH-AM), it contributed a Profit after Tax of N237.6 million, while Pensions Alliance Limited (PAL) and FSDH Securities (FSDH-SEC), added N517.99 million and N72.6 million respectively to the Profit After Tax of the group. When compared with the PAT for the year ended December 31 2012, this translates to an increase of 24% and 43% for FSDH-AM and PAL respectively and an increase of 226% for FSDH-SEC.

It is important to note that for most part of 2013 we had incurred costs for which there were no immediate financial benefits but where we expect medium to long term benefits. However, we believe we have turned the corner in terms of firmly establishing the FSDH brand in the market place. Consequently, this year we are beginning to see the benefits of our prior year investments in restructuring, new recruitment, marketing efforts and diversification. We are therefore confident that the profitability for 2014 will be much better than that of 2013.

Dividend

The Board of Directors is recommending the sum of N978.18 million as dividend payment for the year ended December 31 2013. This represents an increase of N279.48 million in absolute figures when compared to the N698.7 million that was paid in 2012. The amount translates to 35k per share which is also 10k more than the 25kobo paid at the end of the 2012 financial year.

It is pertinent to state that it is in line with our dividend policy which seeks to strike a balance between rewarding shareholders and retaining earnings in order to finance future growth of the bank. Our recommendations have taken this in to consideration and we therefore ask for your approval to pay this dividend.

Outlook

Our first year of operations as a merchant bank was both challenging and exciting for many reasons. Firstly, start up challenges and high transition cost as evidenced by the increased operating expenses and secondly the tight monetary policy regime of the past year was a challenge for fixed income securities trading as was the impact of tapering in the U.S. These challenges were a drag on our profitability.

At the same time, the past year was also exciting because it opened a wider array of business opportunities that our new licence afforded us. We were able to support our customers in the area of import trade finance, enter into new correspondent banking relationships, trade foreign exchange and through lending activities, support our growing indigenous upstream oil and gas clientele. Our ultimate goal is to create a niche market for ourselves in carefully selected industries where we believe we can add value and have a competitive edge.

During the year, though we had the opportunity to rapidly grow our risk assets, we exercised great caution so as not to rush into creating risk assets that can be a source of anguish in the future. Our strategy, where risk assets are concerned, is to stay conservative, in order to ensure that we build a portfolio of risk assets that would stand the test of time.

It is pertinent to emphasise at this juncture that as we seek to forge ahead and redefine the future of our business and break into new frontiers, we will stay true to our time tested conservative risk management culture. Be rest assured that your bank will only take on risks that it understands and can quantify. This is to ensure that we do not just survive but thrive as we continue to navigate this exciting merchant banking space. We will also continue to seek to create enduring value for our stakeholders.

In conclusion, I would like to thank all our stakeholders for their continued support and patronage and assure you of our determination to continuously forge ahead and expand our business offerings to serve you all better.

Thank you.

Osaro Isokpan
Chairman

DIRECTORS REPORT

The Directors present their annual report on the affairs of FSDH Merchant Bank 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 2013.

(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 merchant banking services to its customers. Such services principally involve transactional services, provision and structuring of finance, money market activities and 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, 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 2013 ₦’000	Group Dec 2012 ₦’000	**Bank Dec 2013 ₦’000**	Bank Dec 2012 ₦’000
Profit before tax	**2,065,562**	2,267,657	**967,693**	1,690,957
Income tax credit	**551,179**	918,042	**959,602**	1,136,609
Profit after tax	**2,616,741**	3,185,699	**1,927,295**	2,827,566
Other comprehensive (loss)/income for the year, net of tax	**(971,117)**	2,297,983	**(1,390,595)**	2,038,051
Total Comprehensive Income for the year	**1,645,624**	5,483,682	**536,700**	**4,865,617**
Profit after tax attributable to:				
Equity holders of the parent entity	**2,378,719**	3,008,709	**1,927,295**	2,827,566
Non controlling Interest	**238,022**	176,990	-	-
Profit attributable to equity-holders	**2,616,741**	3,185,699	**1,927,295**	2,827,566
Total comprehensive income attributable to:				
Equity holders of the parent entity	**1,407,602**	5,306,692	**536,700**	4,865,617
Non controlling Interest	**238,022**	176,990	-	-
	1,645,624	5,483,682	**537,700**	4,865,617

(d) Asset under management

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

	Dec 2013	Dec 2012
	N'000	N'000
FSDH Asset Management Limited	**41,670,040**	11,089,834
Pensions Alliance Limited	**142,847,047**	107,478,099

(e) Proposed dividend

The Board of Directors has proposed, for the approval of the shareholders, the payment of a dividend of ₦978.178 million representing 35k per share (December 2012: ₦698.698 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. Osaro Isokpan	Chairman *(appointed on 25 April 2013)*
Mr. Ibrahim Dikko	Chairman *(resigned 26 April 2013)*
Mr. Rilwan Belo-Osagie	Managing Director
Mrs. Hamda Ambah	Executive Director
Ms. Olufunsho Olusanya	Executive Director *(appointed 7 January 2013)*
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 *(resigned 25 April 2013)*
Mr. Olufemi Agbaje	Representing KMC Investments Limited *(appointed 25 April 2013)*
Alhaji Bello Garba	Representing KMC Investments Limited *(appointed 25 April 2013)*
Mr. Sobandele Sobanjo	Representing AIICO Insurance Plc
Mr. Vincent Omoike	Independent Director
Mr. Bashir el-Rufai	Independent Director *(resigned 11 April 2013)*

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 2013 was 36.36% (December 2012: 30%) broken down as below:

December 2013	**Female Directors**	**Total Directors**	**Percentage of female (%)**
Executive directorship	2	3	66.67
Non-executive directorship	2	8	25.00
Total	**4**	**11**	**36.36**

December 2012

	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 2013, the Bank had ten staff members in this category.

The proportion of women in the Bank's top management positions as at 31 December 2013 was 40% (December 2012: 33.33%) broken down as below:

December 2013	**Female**	**Total**	**Percentage of female (%)**
Assistant General Manager - General Manager	2	7	28.57
Executive Director - Managing Director	2	3	66.67
Total female that held top management positions	**4**	**10**	**40.00**

December 2012	**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 2013 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	21.44	841,114,074	30.10
501,000,000 - 1,000,000,000	1	7.14	878,990,844	31.45
	12	85.72	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**	**2,794,793,730**	**100.00**

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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	21.44	841,114,074	30.10
501,000,000 - 1,000,000,000	1	7.14	878,990,844	31.45
	12	85.72	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 2013, the following shareholders held more than 5% of the issued share capital of the Bank:

Shareholder	No. of shares held	Percentage of shareholding (%)
KMC Investment 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 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 Investment 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 26 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) Customer Complaints

It is the policy of Group to respond to customer complaints, disputes and issues swiftly and to take each complaint seriously. In line with the Central Bank of Nigeria circular reference FPR/DIR/CIR/GEN/01/020, the Bank did not receive any customer complaint during the year.

(m) 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 2013 and the statement of comprehensive income for the year ended on that date that have not been adequately provided for.

(n) 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 36 out of a total staff strength of 113 translating to 31.86% (December 2013: 27 out 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.

(o) Donations

In order to identify with the aspirations of the community and the environment within which the Group operates, a total sum of ₦15,920,808 (31 December 2012: ₦13,960,000) was incurred in respect of donations. Details of the donations and charitable contributions include:

	₦
Chartered Institute of Bankers	10,000,000
Nigeria Society for the Blind	1,600,000
Children Development Centre	1,500,000
Dominican Sisters' College	1,000,000
Bethtorrey Home & School Zaria	1,000,000
2013 National Seminar on Banking and Allied Matters for Judges	535,708
St. Saviour's School	100,000
Women in Business	120,000
St. Mary Convent School	65,100
	15,920,808

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.

(p) 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

25 March 2014

BY ORDER OF THE BOARD,

ALSEC NOMINEES LIMITED
Company Secretaries

Alsec Nominees Limited
Company Secretary
FRC/2013/ICSAN/0000001651

CORPORATE GOVERNANCE REPORT

Corporate governance in 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 bank, 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 bank's Code of Conduct, the policies and procedures in place in the bank, 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 bank'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 CBN's 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 Bank'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 bank 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 bank's website: www.fsdhgroup.com.

Recently, the bank has adopted a framework for the management of environmental and social risks as stipulated in the sustainable banking guidelines of the CBN. The aim is to ensure that FSDH carries on its banking activities in a manner that will ensure the protection of our environment, enhance social harmony and ensure sustainable development. Our sustainable banking policies and practices are based on the principles of meeting the needs of today without compromising the needs of future generations.

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, who is also an independent director, the Managing Director, two Executive Directors, 1 other independent non-executive directors (who does not represent the interest of any shareholder), and 7 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. KPMG Professional Services serves as our External Consultant for the conduct of Board performance appraisals. 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 bank. The duties of the board are:

- Determination of the bank's strategic direction and business objectives necessary to ensure long-term growth and sustained creation of value for customers
- Ensuring the existence of plans and policies for the achievement of the bank's strategic business objectives
- The establishment of effective risk management framework to identify, measure, and manage risks in the bank
- 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 bank'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 bank 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 bank'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 bank 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
- Management of operational risk
- Management of market risk
- Management of liquidity risk
- Management of interest rate risk
- Management of reputational risk
- Management of compliance risk
- Management of other risks that the bank is exposed to

The Risk Management Department, which is independent of the operating departments, presents regular reports to the Risk Management Committee.

The Credit Committee

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

- Strategy and Policy Formulation
- Credit Approval
- Credit Performance Monitoring
- Credit Risk Compliance

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 bank, and what skills and expertise are needed on the Board in the future.
- Be responsible, subject to the Bank'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 Bank 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 Bank's Executive Directors and Chairman. (To avoid conflict of interest, the remuneration for non-executive 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 Bank.
- Review the ongoing appropriateness and relevance of the Bank's Remuneration policies.
- Review annually the remuneration trends across the bank and the industry in which the bank operates with a view to ensuring that the Bank 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	22-Jan-13	15-Mar-13	25-Apr-13	25-Jul-13	24-Oct-13	12-Dec-13	TOTAL ATTENDANCE
1	Mr Ibrahim Dikko	Chairman	V	V	V	N/A	N/A	N/A	3
2	Mr Osaro Isokpan	Chairman	N/A	N/A	N/A	V	V	V	3
3	Mr Rilwan Belo-Osagie	Managing Director	V	V	V	V	V	V	6
4	Mrs Hamda Ambah	Executive Director	V	V	V	V	V	V	6
5	Ms Funsho Olusanya	Executive Director	V	V	V	V	V	V	6
6	Mr Dan Agbor	Non-executive Director	V	V	V	V	V	V	6
7	Mrs Muhibat Abbas	Non-executive Director	V	V	V	V	V	V	6
8	Dr Myma Belo-Osagie	Non-executive Director	X	V	V	V	V	X	4
9	Mr Junaid Dikko	Non-executive Director	V	V	V	N/A	N/A	N/A	3
10	Mr Sobandele Sobanjo	Non-executive Director	V	V	V	V	V	V	6
11	Mr Femi Agbaje	Non-executive Director	N/A	N/A	N/A	V	V	V	3
12	Mr Bello Garba	Non-executive Director	N/A	N/A	N/A	V	V	X	2
13	Mr Vincent Omoike	Independent Director	V	V	V	V	V	V	6
14	Mr Bashir el-Rufai	Independent Director	V	V	V	N/A	N/A	N/A	3

			NOMINATION & REMUNERATION		
S/N	Name	Directorship	12-Mar-13	25-Apr-13	TOTAL
1	Mr Vincent Omoike	Chairman	V	V	2
2	Dr Myma Belo-Osagie	Non-executive Director	V	V	2
3	Mrs Muhibat Abbas	Non-executive Director	V	V	2

			AUDIT COMMITTEE				
S/N	Name	Directorship	12-Mar-13	18-Jul-13	04-Oct-13	26-Nov-13	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	X	N/A	V	X	1
4	Mr Vincent Omoike	Non-executive Director	V	V	V	V	4
5	Mr Femi Agbaje	Non-executive Director	N/A	N/A	V	V	2
6	Mr Richard Osuagwu	In Attendance	V	V	V	V	4

FSDH MERCHANT BANK LIMITED

			CREDIT COMMITTEE					
S/N	Name	Directorship	22-Jan-13	23-Apr-13	24-Jul-13	22-Oct-13	28-Nov-13	TOTAL
1	Mr Dan Agbor	Chairman	V	V	V	V	V	5
2	Mr Rilwan Belo-Osagie	Managing Director	V	V	V	V	V	5
3	Mrs Hamda Ambah	Executive Director	N/A	N/A	N/A	V	V	2
4	Mr Junaid Dikko	Non-executive Director	V	X	N/A	N/A	N/A	1
5	Mrs Muhibat Abbas	Non-executive Director	V	V	V	X	V	4
6	Mr Vincent Omoike	Non-executive Director	V	V	V	V	V	5
7	Mr Bello Garba	Non-executive Director	N/A	N/A	N/A	V	V	2
8	Mr Robert Ajiamah	In Attendance	V	V	V	V	V	5

			RISK MANAGEMENT COMMITTEE					
S/N	Name	Directorship	21-Jan-13	24-Apr-13	06-Aug-13	11-Oct-13	28-Nov-13	TOTAL
1	Mr Sobandele Sobanjo	Chairman	V	V	V	V	V	5
2	Mr Rilwan Belo-Osagie	Managing Director	V	V	V	V	V	5
2	Ms. Funsho Olusanya	Executive Director	N/A	N/A	V	V	V	3
3	Mr Femi Agbaje	Non-executive Director	N/A	N/A	V	V	V	3
4	Mr Bashir el-Rufai	Independent Director	V	X	N/A	N/A	N/A	1
5	Mrs. Hamda Ambah	In Attendance	V	V	N/A	N/A	N/A	2
6	Mr. Robert Ajiamah	In Attendance	V	V	V	V	V	5

KEY
V - Present at Meeting
X - Absent at Meeting
N/A - Retired from the Board/Not yet appointed to Board/Committee

MANAGEMENT

The management is charged with the day-to-day running of the bank. It is headed by the Managing Director, who is also the Chief Executive Officer (CEO). He is supported by two Executive Directors and heads of departments. In addition, the bank 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 bank 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, Fincon and Risk Management. The Committee makes decision on the structure and composition of the bank'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 bank. All the Heads of Departments are members.

KPMG

REPORT OF THE INDEPENDENT CONSULTANT 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 2013. 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. The key areas for improvement identified include Board appointment process, Director evaluation process and the Director remuneration.

Tomi Adepoju

Partner, KPMG Advisory Services

FRC/2013/1CAN/00000001185

25 March 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

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.

Osaro Isokpan	**Rilwan Belo-Osagie**	**Bamidele Ojo**
Chairman	**Managing Director**	**Chief Financial Officer**
FRC/2013/NBA/00000005406	**FRC/2013/IODN/00000001713**	**FRC/2012/ICAN/00000000569**

REPORT OF THE AUDIT COMMITTEE

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 Bank 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 2013 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 Bank's system of accounting and internal control.

Dele Alabi
Chairman, Audit Committee

17 March 2014

Members of the Audit Committee are:

1.	**Dele Alabi**	-	**Chairman**
2.	**Dan Agbor**		
3.	**Vincent Omoike**		
4.	**Olufemi Agbaje**		

pwc

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF 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 2013 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 2013 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 Allied Matters Act, the Banks and Other Financial Institutions Act and the Financial Reporting Council of Nigeria Act.

pwc

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 of our knowledge and belief were necessary for the purposes of our audit;

ii) the bank has kept proper books of account, so far as appears from our examination of those books and returns adequate for our audit have been received from branches not visited by us ;

iii) the bank's statement of financial position and statement of comprehensive income are in agreement with the books of account;

iv) the information required by Central Bank of Nigeria Circular BSD/1/2004 on insider related credits is disclosed in Note 39 to the financial statements;

v) to the best of our information, the bank has complied with the requirements of the relevant circulars issued by the Central Bank of Nigeria.

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
ACCURACY & INTEGRITY
A 610155

Anthony Oputa

PricewaterhouseCoopers
Chartered Accountants
Engagement partner: Anthony Oputa
FRC/2013/ICAN/00000000/980
Lagos, Nigeria

27 March 2014

FSDH MERCHANT BANK LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	GROUP 31 December 2013 N '000	GROUP 31 December 2012 N '000	BANK 31 December 2013 N '000	BANK 31 December 2012 N '000
Interest and similar income	5.	9,187,751	9,671,611	9,134,472	9,443,439
Interest and similar expense	6.	(6,977,491)	(8,248,695)	(7,227,355)	(8,317,703)
Net interest income		**2,210,260**	**1,422,916**	**1,907,117**	**1,125,736**
Impairment charge for credit losses	8.	(35,727)	-	(35,727)	-
Net interest income after impairment charge for credit losses		**2,174,533**	**1,422,916**	**1,871,390**	**1,125,736**
Fee and commission income	7.	2,518,789	1,768,728	212,638	45,777
Net gains on financial instruments held for trading	9.	711,675	616,392	625,043	582,189
Net gains on financial instruments classified as available for sale	10.	686,193	1,785,944	686,193	1,785,944
Other income	11.	57,570	59,027	108,604	57,505
Operating expenses	12.	(4,083,198)	(3,385,350)	(2,536,175)	(1,906,194)
Profit before tax		**2,065,562**	**2,267,657**	**967,693**	**1,690,957**
Income tax credit	13.	551,179	918,042	959,602	1,136,609
Profit after tax		**2,616,741**	**3,185,699**	**1,927,295**	**2,827,566**
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
(Losses)/actuarial gains in defined gratuity scheme (net of tax)	23.	(15,917)	62,069	(26,788)	58,194
Items that may be subsequently reclassified to profit or loss					
- (Losses)/unrealised net gains arising during the period		(269,007)	4,021,858	(677,614)	3,765,801
- Net reclassification adjustments for realised gains		(686,193)	(1,785,944)	(686,193)	(1,785,944)
Other comprehensive (loss)/income for the year, net of tax		**(971,117)**	**2,297,983**	**(1,390,595)**	**2,038,051**
Total comprehensive income for the year		**1,645,624**	**5,483,682**	**536,700**	**4,865,617**
Profit after tax attributable to:					
Equity holders of the parent entity		2,378,719	3,008,709	1,927,295	2,827,566
Non-controlling interest		238,022	176,990	-	-
		2,616,741	**3,185,699**	**1,927,295**	**2,827,566**
Total comprehensive income attributable to:					
Equity holders of the parent entity		1,407,602	5,306,692	536,700	4,865,617
Non-controlling interest		238,022	176,990	-	-
		1,645,624	**5,483,682**	**536,700**	**4,865,617**
Earnings per share per profit attributable to equity holders of parent bank					
Earnings per share - basic (kobo)	40.	93	118	69	101
Earnings per share - diluted (kobo)	40.	93	118	69	101

FSDH MERCHANT BANK LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	GROUP 31 December 2013 N '000	GROUP 31 December 2012 N '000	BANK 31 December 2013 N '000	BANK 31 December 2012 N '000
ASSETS					
Cash and bank balances	14.	7,804,718	913,900	7,487,144	883,704
Loans to banks	15.	424,203	16,415,697	-	-
Financial instruments held for trading	16.	1,324,275	11,504,477	1,212,037	11,324,890
Loans and advances to customers	17.	19,337,994	8,831,019	19,120,214	24,138,943
Derivative financial instruments	18.	65,723	-	65,723	-
Investment securities	19.	37,734,343	30,280,755	34,780,706	28,792,738
Pledged assets	20.	11,288,320	22,819,716	11,288,320	22,819,716
Other assets	21.	1,551,185	1,076,928	625,060	434,802
Investment in subsidiaries	22.	-	-	787,010	787,010
Retirement benefit asset	23.	-	55,515	-	50,892
Deferred tax asset	24.	2,700,716	1,490,218	2,725,834	1,461,299
Intangible assets	25.	218,294	236,102	201,695	232,213
Property and equipment	26.	556,701	393,159	316,805	225,151
Total assets		**83,006,472**	**94,017,486**	**78,610,548**	**91,151,358**
LIABILITIES					
Due to banks	27.	5,286,462	40,504,336	5,286,462	40,504,336
Due to customers	28.	46,825,935	29,599,538	47,704,717	30,538,831
Derivative financial instruments	18.	62,156	-	62,156	-
Retirement benefit obligation	23.	3,383	-	17,332	-
Current income tax liability	13.	1,075,099	887,142	543,274	571,774
Other liabilities	29.	490,646	260,030	219,580	140,112
Debt securities issued	30.	5,542,720	-	5,542,720	-
Total liabilities		**59,286,401**	71,251,046	**59,376,241**	**71,755,053**
EQUITY					
Share capital	31.	2,794,794	2,794,794	2,794,794	2,794,794
Share premium	32.	1,539,587	1,539,587	1,539,587	1,539,587
Treasury share reserve	32.	(450,040)	(450,040)	-	-
Retained earnings	32.	16,141,531	14,624,282	12,912,075	11,852,593
Statutory reserve	32.	3,932,752	3,565,277	3,770,251	3,467,659
Available for sale reserve	32.	(1,283,591)	(328,391)	(1,944,621)	(580,814)
Credit risk reserve	33.	162,221	322,486	162,221	322,486
		22,837,254	22,067,995	19,234,307	19,396,305
Non-controlling interest in equity		882,817	698,445	-	-
Total equity		**23,720,071**	**22,766,440**	**19,234,307**	**19,396,305**
Total equity and liabilities		**83,006,472**	**94,017,486**	**78,610,548**	**91,151,358**

The accompanying notes as set out from notes 1 to 43 were approved by the Board of Directors on 25th March 2014

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

.... **Osaro Isokpan - Chairman**
FRC/2013/NBA/00000005406

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

.... **Bamidele Ojo - Chief Financial Officer**
FRC/2012/ICAN/00000000569

FSDH MERCHANT BANK LIMITED

CONSOLIDATED STATEMENT OF CASHFLOWS

	Notes	31 December 2013 N '000	31 December 2012 N '000	31 December 2013 N '000	31 December 2012 N '000
Cash flows from operating activities					
Cash generated from operations	34.	(11,070,009)	19,785,952	3,726,530	4,428,492
Interest received		9,636,651	9,365,598	9,155,873	9,165,366
interest paid		(7,056,798)	(8,262,671)	(6,898,724)	(8,262,418)
Income taxes paid	13.	(464,540)	(253,394)	(321,953)	(209,608)
Net cashflows from operating activities		(8,954,696)	20,635,485	5,661,726	5,121,832
Cash flows from investing activities					
Net changes in investment securities		(6,910,846)	1,775,436	(5,808,461)	1,525,195
Acquisition of property, plant and equipment	26.	(376,486)	(199,959)	(214,926)	(124,553)
Acquisition of intangible assets (including work in progress)	25.	(74,357)	(168,548)	(58,642)	(167,598)
Proceeds from sale of property, plant and equipment		4,703	19,256	3,513	15,276
Dividends received from subsidiaries		-	-	50,490	-
Net cash used in investing activities		(7,356,986)	1,426,185	(6,028,026)	1,248,320
Cash flows from financing activities					
Dividends paid to owners		(638,343)	(638,343)	(698,698)	(698,698)
Dividends paid to non-controlling interests		(53,900)	-	-	-
Proceeds from long term borrowing	30.	5,530,000	-	5,530,000	-
Debt issue costs		(138,935)	-	(138,935)	-
Equity acquisition by Non-Controlling Interest		250	-	-	-
Net cash generated from/(used in) financing activities		4,699,072	(638,343)	4,692,367	(698,698)
(Decrease)/Increase in cash and cash equivalents		(11,612,610)	21,423,327	4,326,067	5,671,454
Cash and cash equivalents at end of year	35.	11,614,386	23,226,996	10,776,146	6,450,079
Cash and cash equivalents at start of year		23,226,996	1,803,669	6,450,079	778,624
(Decrease)/Increase in cash and cash equivalents		(11,612,610)	21,423,327	4,326,067	5,671,455

FSDH MERCHANT BANK LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

GROUP

	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
At 1 January 2013	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
Profit after tax for the year	-	-	2,378,719	-	-	-	-	2,378,719	238,022	2,616,741
Actuarial losses on defined gratuity scheme (net of tax)	-	-	(15,917)	-	-	-	-	(15,917)	-	(15,917)
Unrealised net losses arising during the period	-	-	-	-	-	(269,007)	-	(269,007)	-	(269,007)
Net reclassification adjustments for realised gains	-	-	-	-	-	(686,193)	-	(686,193)	-	(686,193)
	2,794,794	1,539,587	16,987,084	3,565,277	(450,040)	(1,283,591)	322,486	23,475,597	936,467	24,412,064
Dividend paid	-	-	(638,343)	-	-	-	-	(638,343)	(53,900)	(692,243)
Transfer to statutory reserves	-	-	(367,475)	367,475	-	-	-	-	-	-
Transfer from credit risk reserves	-	-	160,265	-	-	-	(160,265)	-	-	-
Non controlling interests acquired during the year	-	-	-	-	-	-	-	-	250	250
At 31 December 2013	2,794,794	1,539,587	16,141,531	3,932,752	(450,040)	(1,283,591)	162,221	22,837,254	882,817	23,720,071

BANK

	Share capital	Share premium	Retained earnings	Statutory reserve	Treasury Share	Available for sale reserve	Credit risk reserve	Total	Non-controlling interest	Total equity
At 1 January 2013	2,794,794	1,539,587	11,852,593	3,467,659	-	(580,814)	322,486	19,396,305	-	19,396,305
										-
Profit after tax for the year	-	-	1,927,295	-	-	-	-	1,927,295	-	1,927,295
Actuarial losses on defined gratuity scheme (net of tax)	-	-	(26,788)	-	-	-	-	(26,788)	-	(26,788)
Unrealised net losses arising during the period	-	-	-	-	-	(677,614)	-	(677,614)	-	(677,614)
Net reclassification adjustment for realised net gains	-	-	-	-	-	(686,193)	-	(686,193)	-	(686,193)
	2,794,794	1,539,587	13,753,100	3,467,659	-	(1,944,621)	322,486	19,933,005	-	19,933,005
Issue of new shares										
Dividends paid	-	-	(698,698)	-	-	-	-	(698,698)	-	(698,698)
Transfer to statutory reserves	-	-	(302,592)	302,592	-	-	-	-	-	-
Transfer from credit risk reserves	-	-	160,265	-	-	-	(160,265)	-	-	-
At 31 December 2013	2,794,794	1,539,587	12,912,075	3,770,251	-	(1,944,621)	162,221	19,234,307	-	19,234,307

GROUP	Share capital	Share premium	Retained earnings	Statutory reserve	Treasury Share	Available for sale reserve	Credit risk reserve	Total	Non-controlling interest	Total equity
At 1 January 2012	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 losses in defined gratuity scheme (net of tax)	-	-	62,069	-	-	-	-	62,069	-	62,069
Unrealised net losses arising during the period	-	-	-	-	-	4,021,858	-	4,021,858	-	4,021,858
Net reclassification adjustment for realised gains	-	-	-	-	-	(1,785,944)	-	(1,785,944)	-	(1,785,944)
	2,794,794	1,539,587	15,764,584	3,241,132	(450,040)	(328,391)	144,672	22,706,338	698,445	23,404,783
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

BANK

	Share capital	Share premium	Retained earnings	Statutory reserve	Treasury Share	Available for sale reserve	Credit risk reserve	Total	Non-controlling interest	Total equity
At 1 January 2012	2,794,794	1,539,587	10,126,101	3,184,902	-	(2,560,671)	144,672	15,229,385	-	15,229,385
Profit after tax for the year	-	-	2,827,567	-	-	-	-	2,827,567	-	2,827,567
Actuarial losses in defined gratuity scheme	-	-	58,194	-	-	-	-	58,194	-	58,194
Unrealised net losses arising during the period	-	-	-	-	-	3,765,801	-	3,765,801	-	3,765,801
Net reclassification adjustment for realised gains	-	-	-	-	-	(1,785,944)	-	(1,785,944)	-	(1,785,944)
	2,794,794	1,539,587	13,011,862	3,184,902	-	(580,814)	144,672	20,095,003	-	20,095,003
Dividends paid	-	-	(698,698)	-	-	-	-	(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	-	19,396,305

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. General information

FSDH Merchant Bank 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 Bank ceased to operate as a discount house and commenced banking and financial services on 15 January 2013.

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 controls the FSDH Staff Cooperative scheme; the scheme was set up by the Bank to enable its staff partake in the benefits of share ownership and FSDH Funding SPV Plc; a special-purpose entity incorporated in Nigeria set up to issue bonds to the public in order to provide funding to the bank.

The Bank prepares consolidated financial statements and the financial results of all subsidiaries and the scheme have been consolidated in these financial statements. The consolidated financial statements for the year ended 31 December 2013 were approved for issue by the Board of Directors on 25 March, 2014.

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 2013 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. 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 Group presents its consolidated statement of financial position in order of liquidity and analysis regarding recovery or settlement within 12 months after reporting date (current) and more than 12 months (non-current) is presented in the respective related notes in the financial statements.

(a) Standards, amendments and interpretations effective on or after 1 January 2013

Below are the IFRS and International Financial Reporting Interpretation Committee (IFRIC) interpretations that have been adopted for the financial year beginning on or after 1 January 2013 that would be expected to have an impact on 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 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 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.

. **Amendments to IAS 1:** Presentation of Financial Statements, on presentation of items of OCI

The IASB has issued an amendment to IAS 1, 'Presentation of financial statements'. The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

b) New and amended standards effective from 1 January 2013 which do not impact on the Group

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

• **IAS 27** (revised 2011): The standard has been recently amended following the issuance of IFRS 10. This standard retains the current guidance on 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)

. **Amendments to IFRS 7** – Offsetting financial assets and financial liabilities disclosures –

Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of 'offsetting' and the related arrangements for financial instruments under similar situations. The amendments are effective for annual periods beginning on or after 1 January 2013 and 31 December 2013 within those annual periods and are applied retrospectively. The Group does not have offsetting arrangements in place as at 31 December 2013. The application of the amendments had no material impact on the disclosures or the amount recognised in the consolidated financial statements.

Others are as stated in the table below:

IFRS	Effective Date	Subject of amendment
Amendments to IFRS 1, 'First time adoption of IFRS'	1/1/2013	The amendment clarifies that an entity may apply IFRS 1 more than once under certain circumstances and that an entity can choose to adopt IAS 23, 'Borrowing costs', either from its date of transition or from an earlier date. Lastly the amendments clarifies that a first-time adopter should provide the supporting notes for all statements presented.
Amendment to IAS 16, 'Property, plant and equipment'	1/1/2013	The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.
Amendment to IAS 34, 'Interim financial reporting'	1/1/2013	The amendment brings IAS 34 into line with the requirements of IFRS 8, 'Operating segments'. A measure of total assets and liabilities is required for an operating segment in interim financial statements if such information is regularly provided to the CODM and there has been a material change in those measures since the last annual financial statements.
IFRS 11 Joint Arrangements	1/1/2013	IFRS 11 overhauls the accounting for joint ventures and replaces IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities - Non Monetary Contributions by Venturers. It uses the principles of control in IFRS 10 in defining joint control. Under IFRS 11, there are only two types of joint arrangements (i) Joint operations (ii) Joint ventures. The new standard does not allow proportional consolidation of joint ventures and the equity method must be applied.

(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 2014 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

• **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.

. IAS 36: ' Impairment of assets' (effective for periods beginning on or after 1 January 2014)

IAS 36 Impairments of assets has been recently amended to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. The Group is yet to assess the full effect of IAS 36 and intends to adopt IAS 36 no later than the accounting period beginning on or after 1 January 2014.

. IFRS 10 - ' Consolidated Financial Statements- amendments' (effective for periods beginning on or after 1 January 2014)

Amendments to IFRS 10,'Consolidated financial statements', implies that many funds and similar entities will be exempt from consolidating most of their subsidiaries, instead, they will be measure at fair value through profit or loss. The amendments also give an exception to entities that meet an ' investment entity' definition and which display some particular characteristics. The Group is yet to assess the full effect of the amendments to IFRS 10 and intends to adopt the amendments to IFRS 10 no later than the accounting period ending on or after 1 January 2014.

IFRIC 21 - ' Levies (effective 1 January 2014)

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group will not be material.

IFRS 12 - ' Amendments to Disclosure of Interests in Other Entities' (effective for periods beginning on or after 1 January 2014)

Some changes were made to IFRS 12 to introduce disclosures which an entity that meets the definition of an investment entity and also display some particular characteristics needs to make. The Group is yet to assess the full effect of the amendments to IFRS12 and intends to adopt the amendments to IFRS 12 no later than the accounting period beginning on or after 1 January 2014.

(c) Early adoption of standards

The Group did not early adopt new or amended standards in 2013.

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 2013.

Subsidiaries are companies in which the Group controls. In line with IFRS 10, the bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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. If the bank loses control of a subsidiary, the bank accounts for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the bank had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the bank shall reclassify gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the bank shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

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, investment entities are consolidated in accordance with IFRS 10, Consolidated Financial Statements, as long as the principle of control can be established.

As a result of IFRS 12, the group has expanded disclosures about its interest in subsidiaries and special-purpose entities (see Note 36).

(b) Structured entities (also called Special Purpose Entities):

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity such as when any voting right relates to administrative tasks only and the relevant activities are directed by means of contractual agreements.

The bank assesses structured entities that it is involved in for control and if it is exposed or has right to variable returns from its involvement with the entity and has ability to affect these returns through its power over the entity.

(c) 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.

(d) Separate Financial Statements:

In line with Nigerian company regulations, the Bank 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.

Category (as defined by IAS 39)		Classes as determined by the Group		Subclasses
Financial assets	Financial assets at fair value through profit or loss	Financial instruments held for trading	Debt Securities	Treasury Bills
				Federal Government of Nigeria Bonds
			Derivative financial instruments	Foreign exchange forward contracts
			Equity Securities	Equity Securities
	Loans and receivables	Cash and bank balances		Cash
				Operating balances with Central Bank of Nigeria
				Balances with banks in Nigeria
				Balances with banks outside Nigeria
		Loans and advances to Banks		Placements with banks and discount houses
				Placements with other financial institutions
		Loans and advances to customers		Term loans, overdrafts and commercial bills
				Margin facilities
				Promissory notes
	Available for sale	Debt securities		Treasury Bills
				Federal Government of Nigeria Bonds
				State Government Bonds
				Corporate Bonds
		Equity securities		Quoted equity securities
				Quoted mutual funds
				Unquoted equity securities
	Held to maturity	Debt securities		Federal Government of Nigeria Bonds
Financial liabilities	Financial liabilities at fair value through profit and loss	Derivative financial instrument liabilities		Foreign exchange forward contracts
	Financial liabilities at amortised cost	Due to banks		Call borrowings
				Secured borrowings and liabilities under repurchase agreement
		Due to Customers		Liabilities under repurchase agreement
				Demand deposits
				Term deposits
				Customer accounts for foreign trade
		Other liabilities		Account Payable
				Sundry accounts

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-for-sale 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 ’Interest 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 ‘Interest 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 'Interest 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.

Financial Instruments – Classification

As stated above, the Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial asset were acquired. Management determines the classification of its financial assets at initial recognition. The Group uses settlement dates accounting for regular way contracts when recording financial assets transactions.

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 bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (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 held-for-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 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in fair values are recognised immediately in the income statement. The group's derivative transactions consist of foreign exchange forward transactions as at balance sheet date.

2.9 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities 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 there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.10 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.
All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.11 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest and similar income' and 'interest 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.

2.12 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.

2.13 Dividend income

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

2.14 Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Additionally, assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which 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.

2.15 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).

2.16 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.

2.17 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.

2.18 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

2.19 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.

2.20 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.

2.21 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 Bank or any member of the Group purchases the Bank'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

Nigerian Banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by S.16 (1) of the Banks and Other Financial Institutions Act of 1991 (Amended), an appropriation of 30% of profit after tax is made if the statutory reserve is less than paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid up share capital.

(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.

2.22 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.

2.23 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.

3.0 Enterprise Risk Management Review

Management is fully aware 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 with losses from downside risks. Thus, risk is seen as the level of exposure – opportunity, threat, and uncertainty that 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 resource 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 risks 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 insists on and promote 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 the 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 penalises 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

Our risk management objectives are as follows:

a. To identify our material risks and ensure that our business plans are consistent with our risk appetite.

b. To ensure that our business growth plans are properly supported by an effective and efficient risk management function.

c. To manage our risk profile, ensuring that specific financial deliverables remain possible under a range of possible business conditions.

d. To optimise our risk and return trade-off by ensuring that our business units act as primary risk managers while establishing strong and independent review and challenge structures.

e. To protect our Bank against unexpected losses and reduce the volatility of our earnings.

f. To maximise risk-adjusted opportunities, earnings potential and ultimately our stakeholder value.

g. To help Management improve the control and coordination of risk-taking across the Bank.

h. To build a risk-smart workforce and environment that allows for innovation and responsible risk-taking by our staff while ensuring cost-effective and legitimate precautions are taken to protect the shareholders' interest.

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 Financial Instruments
The groups financial instruments are categorised as follows:

Group

31 December 2013	Financial Assets				Financial Liabilities	
In thousands of Nigerian Naira	At fair value through profit or loss	Available for sale	Loans and receivables	Held to maturity	At fair value through profit or loss	At amortised cost
Financial assets:						
Cash and bank balances						
Cash	-	-	652	-	-	-
Balances with other banks					-	-
- Operating balance with Central Bank of Nigeria	-	-	5,436,261	-	-	-
- Balances with banks in Nigeria	-	-	466,802	-	-	-
- Balances with banks outside Nigeria	-	-	1,270,730	-	-	-
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	630,273	-	-	-
Loans to banks						
- Placements with banks and discount houses	-	-	321,197	-	-	-
- Placements with other financial institutions	-	-	103,006	-	-	-
Financial instruments held for trading						
- Quoted equity securities	108,477	-	-	-	-	-
- Nigerian Treasury Bills	1,212,037	-	-	-	-	-
- Federal Government of Nigeria Bonds	3,761	-	-	-	-	-
Loans and advances						
- Loans and advances (net of impairment)	-	-	18,336,017	-	-	-
- Commercial bills	-	-	801,916	-	-	-
- Promissory notes	-	-	-	-	-	-
- Margin facilities	-	-	200,061	-	-	-
Derivative financial instruments						
- Foreign exchange forward contract	65,723	-	-	-	-	-
Investment securities						
- Equity securities	-	1,769,391	-	-	-	-
- Federal Government of Nigeria bonds	-	8,566,335	-	7,272,773	-	-
- Nigerian Treasury Bills	-	9,431,789	-	-	-	-
- State Government and Corporate bonds	-	10,694,055	-	-	-	-
Pledged assets						
- Nigerian Treasury Bills	2,210,015	2,583,000	-	-	-	-
- Federal Government of Nigeria bonds	-	2,247,666	-	-	-	-
- State Government and Corporate bonds	-	4,247,639	-	-	-	-
Other assets						
- Receivables	-	-	342,784	-	-	-
Financial liabilities:						
Due to banks						
- Call borrowings	-	-	-	-	-	1,606,363
- Secured borrowings	-	-	-	-	-	3,680,099
Due to customers						
- Liabilities under repurchase agreements	-	-	-	-	-	10,358,560
- Demand	-	-	-	-	-	3,443,802
- Term	-	-	-	-	-	32,737,785
- Other customer balances	-	-	-	-	-	285,788
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	62,156	-
Other liabilities						
- Customers' deposit for foreign trade	-	-	-	-	-	7,407
- Accounts payable	-	-	-	-	-	10,355
- Sundry accounts	-	-	-	-	-	65,097
	3,600,013	**39,539,875**	**27,909,699**	**7,272,773**	**62,156**	**52,195,256**

FSDH MERCHANT BANK LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2013

Group

31 December 2012	Financial Assets				Financial Liabilities	
In thousands of Nigerian Naira	At fair value through profit or loss	Available for sale	Loans and receivables	Held to maturity	At fair value through profit or loss	At amortised cost
Financial assets:						
Cash and bank balances						
Cash	-	-	642	-	-	-
Balances with other banks						
- Operating balance with Central Bank of Nigeria	-	-	783,274	-	-	-
- Balances with banks in Nigeria	-	-	129,984	-	-	-
- Balances with banks outside Nigeria	-	-	-	-	-	-
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	-	-	-	-
Loans to banks						
- Placements with banks and discount houses	-	-	16,357,112	-	-	-
- Placements with other financial institutions	-	-	58,585	-	-	-
Financial instruments held for trading						
- Quoted equity securities	34,820	-	-	-	-	-
- Nigerian Treasury Bills	11,469,657	-	-	-	-	-
- Federal Government of Nigeria Bonds	-	-	-	-	-	-
Loans and advances						
- Loans and advances (net of impairment)	-	-	271,324	-	-	-
- Commercial bills (net of impairment)	-	-	8,552,952	-	-	-
- Promissory notes	-	-	-	-	-	-
- Margin facilities	-	-	6,743	-	-	-
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	-	-
Investment securities						
- Equity securities	-	1,146,147	-	-	-	-
- Federal Government of Nigeria bonds	-	8,329,138	-	13,120,825	-	-
- Nigerian Treasury Bills	-	244,842	-	-	-	-
- State Government and Corporate bonds	-	7,439,803	-	-	-	-
Pledged assets						
- Nigerian Treasury Bills	7,997,053	14,822,663	-	-	-	-
- Federal Government of Nigeria bonds	-	-	-	-	-	-
- State Government and Corporate bonds	-	-	-	-	-	-
Other assets						
- Receivables	-	-	279,676	-	-	-
Financial liabilities:						
Due to banks						
- Call borrowings	-	-	-	-	-	17,371,115
- Secured borrowings	-	-	-	-	-	23,133,221
Due to customers						
- Liabilities under repurchase agreements	-	-	-	-	-	29,475,259
- Demand	-	-	-	-	-	-
- Term	-	-	-	-	-	-
- Other customer balances	-	-	-	-	-	124,279
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	-	-
Other liabilities						
- Customers’ deposit for foreign trade	-	-	-	-	-	-
- Accounts payable	-	-	-	-	-	252,951
- Sundry accounts	-	-	-	-	-	-
	19,501,530	**31,982,593**	**26,440,292**	**13,120,825**	**-**	**70,356,825**

Bank

31 December 2013	Financial Assets				Financial Liabilities	
In thousands of Nigerian Naira	At fair value through profit or loss	Available for sale	Loans and receivables	Held to maturity	At fair value through profit or loss	At amortised cost
Financial assets:						
Cash and bank balances						
Cash	-	-	473	-	-	-
Balances with other banks						
- Operating balance with Central Bank of Nigeria	-	-	5,436,261	-	-	-
- Balances with banks in Nigeria	-	-	149,407	-	-	-
- Balances with banks outside Nigeria	-	-	1,270,730	-	-	-
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	630,273	-	-	-
Loans to banks						
- Placements with banks and discount houses	-	-	-	-	-	-
- Placements with other financial institutions	-	-	-	-	-	-
Financial instruments held for trading						
- Quoted equity securities	-	-	-	-	-	-
- Nigerian Treasury Bills	1,212,037	-	-	-	-	-
- Federal Government of Nigeria Bonds	-	-	-	-	-	-
Loans and advances						
- Loans and advances (net of impairment)	-	-	18,318,298	-	-	-
- Commercial bills	-	-	801,916	-	-	-
- Promissory notes	-	-	-	-	-	-
- Margin facilities	-	-	-	-	-	-
Derivative financial instruments						
- Foreign exchange forward contract	65,723	-	-	-	-	-
Investment securities						
- Equity securities	-	666	-	-	-	-
- Federal Government of Nigeria bonds	-	8,566,335	-	7,272,773	-	-
- Nigerian Treasury Bills	-	8,366,067	-	-	-	-
- State Government and Corporate bonds	-	10,574,865	-	-	-	-
Pledged assets						
- Nigerian Treasury Bills	2,210,015	2,583,000	-	-	-	-
- Federal Government of Nigeria bonds	-	2,247,666	-	-	-	-
- State Government and Corporate bonds	-	4,247,639	-	-	-	-
Other assets						
- Receivables	-	-	73,414	-	-	-
Financial liabilities:						
Due to banks						
- Call borrowings	-	-	-	-	-	1,606,363
- Secured borrowings	-	-	-	-	-	3,680,099
Due to customers						
- Liabilities under repurchase agreements	-	-	-	-	-	10,358,560
- Demand	-	-	-	-	-	3,158,014
- Term	-	-	-	-	-	34,188,143
- Other customer balances	-	-	-	-	-	-
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	62,156	-
Other liabilities						
- Customers' deposit for foreign trade	-	-	-	-	-	7,407
- Accounts payable	-	-	-	-	-	7,696
- Sundry accounts	-	-	-	-	-	56,044
	3,487,775	**36,586,238**	**26,680,772**	**7,272,773**	**62,156**	**53,062,326**

Bank

31 December 2012	Financial Assets				Financial Liabilities	
In thousands of Nigerian Naira	At fair value through profit or loss	Available for sale	Loans and receivables	Held to maturity	At fair value through profit or loss	At amortised cost
Financial assets:						
Cash and bank balances						
Cash	-	-	363	-	-	-
Balances with other banks						
- Operating balance with Central Bank of Nigeria	-	-	783,274	-	-	-
- Balances with banks in Nigeria	-	-	100,067	-	-	-
- Balances with banks outside Nigeria	-	-	-	-	-	-
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	-	-	-	-
Loans to banks						
- Placements with banks and discount houses	-	-	-	-	-	-
- Placements with other financial institutions	-	-	-	-	-	-
Financial instruments held for trading						
- Quoted equity securities	-	-	-	-	-	-
- Nigerian Treasury Bills	11,324,890	-	-	-	-	-
- Federal Government of Nigeria Bonds	-	-	-	-	-	-
Loans and advances						
- Loans and advances (net of impairment)	-	-	247,576	-	-	-
- Commercial bills (net of impairment)	-	-	8,552,000	-	-	-
- Promissory notes	-	-	15,339,342	-	-	-
- Margin facilities	-	-	-	-	-	-
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	-	-
Investment securities						
- Equity securities	-	666	-	-	-	-
- Federal Government of Nigeria bonds	-	8,314,173	-	13,120,825	-	-
- Nigerian Treasury Bills	-	-	-	-	-	-
- State Government and Corporate bonds	-	7,357,074	-	-	-	-
Pledged assets						
- Nigerian Treasury Bills	7,997,053	14,822,663	-	-	-	-
- Federal Government of Nigeria bonds	-	-	-	-	-	-
- State Government and Corporate bonds	-	-	-	-	-	-
Other assets						
- Receivables	-	-	79,763	-	-	-
Financial liabilities:						
Due to banks						
- Call borrowings	-	-	-	-	-	17,371,115
- Secured borrowings	-	-	-	-	-	23,133,221
Due to customers						
- Liabilities under repurchase agreements	-	-	-	-	-	30,520,785
- Demand	-	-	-	-	-	-
- Term	-	-	-	-	-	-
- Other customer balances	-	-	-	-	-	18,046
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	-	-
	-	-	-	-	-	-
Other liabilities						
- Customers' deposit for foreign trade	-	-	-	-	-	-
- Accounts payable	-	-	-	-	-	133,033
- Sundry accounts	-	-	-	-	-	-
	19,321,943	**30,494,576**	**25,102,385**	**13,120,825**	**-**	**71,176,200**

3.1.1 Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor risk, country and sector risk).

3.1.2 Settlement Risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. "Settlement risk" is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.
For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approval from Group Risk

The purpose of the FSDH Merchant Bank's Enterprise Risk Management (ERM) Framework and Credit Manual, as reviewed regularly, is to establish and define the overall principles under which FSDH Merchant Bank is prepared to assume credit risk. The standard sets out the overall framework for the consistent and unified governance, identification, measurement, management and reporting of credit risk in FSDH.

These policies provide a comprehensive framework within which all credit risk emanating from the operations of FSDH are legally executed, properly monitored and controlled to minimise the risk of financial loss; and assure consistency of approach in the treatment of regulatory compliance requirements.

The Management Credit Committee is mandated to provide high level centralized management of credit risk for the Bank. The purpose of the Management Credit Committee is to assist the Board Credit Committee in fulfilling its oversight responsibility in exercising diligence, due care and skill to oversee, direct and review the management of credit risk within the portfolio of the Bank. Specifically, the roles and responsibilities of the Committee include the following:

- Credit strategy and policy formulation
- Credit approval
- Credit monitoring
- Credit risk compliance

3.1.3 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.

3.1.4 Credit Risk Measurement

Loans & Receivables and Placements with banks and other financial institutions

As a result of the conversion of FSDH from a Discount House to a Merchant Bank, FSDH has expanded its operational scope and enhanced its suite of financial advisory services to its clientele. The product offerings for the Bank are: buying and selling of securities, term loans, invoice discounting, overdraft, commercial facilities, asset backed notes, LPO/Contract financing, trade finance, foreign exchange, bonds and guarantees, loan syndications, project finance, structured finance, corporate finance and financial advisory services (debt & equity).

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 strict credit selection criteria which includes a defined target market, credit history, capacity and 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 utilises 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 year history of financial position is required to adequately appraise the customer. Financial performance is benchmarked against industry averages. The qualitative section which covers 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.

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

- A measure of the financial and non financial risks of the 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 is used as a benchmark for the obligor
- Obligor rating considers the financial condition, management and ownership structure, industry and other qualitative factors of the customer.
- Facility rating 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, and the nature and purpose of the loan, among others.

Ratings are assigned to customer for a period of one year. The exception to the foregoing is if the facility is project finance. Project finance facilities are monitored after the initial rating for any sign(s) of distress.

All ratings are reviewed annually. More frequent reviews are occasioned by unexpected developments such as policy and market changes. Changes to the obligor's status and/or capability will also trigger a review. The group generally avoids high risk obligors that will warrant frequent reviews and management.

The Group maintains the under listed rating grade which is applicable to both new and existing customers. A self explanatory rating grid showing how ratings are assigned is illustrated below:

SCORE	RATING	EXPLANATION
70 and above	Aaa	The financial condition and ability to meet obligations is excellent
65 to 69	Aa	The financial condition and capacity to meet financial obligations are considered very good
60 to 64	A	Good financial condition and capacity to meet obligations
55 to 59	Bbb	Financial condition and ability to meet obligations are considered satisfactory but needs a fair amount of external financial support in the form of refinancing; ability to obtain same is assured.
50 to 54	Bb	The financial condition is satisfactory but the company is highly dependent on external financing. Collateral or a reliable corporate guarantee may be required.
45 to 49	B	Weak financial Condition. Highly dependent on external financial support, but its business strategies are progressive. Credit to these issuers should be on a transaction basis with adequate security and repayment structure tied to source of repayment.

3.1.5 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 authorisation limits for approving credit facilities.

This laid down authority governs credit extension. The limits set by the Board are as indicated below:

Shareholder's Funds (SHF)		N19.4bn	
Regulatory Limit (50% of SHF)		N9.7bn	
Approving Authorities		Approved Volume	Ratings
* Senior Management Credit Committee + Board Credit Committee (BCC)	Up to 100% of regulatory limit	Up to N9.7bn	Aa - Aaa
Senior Management Credit Committee + Board Credit Committee (BCC)	Up to 62% of regulatory limit	Up to N6bn	BBB - A
Senior Management Credit Committee + BCC + Board	Up to 21% of regulatory limit	Up to N2bn	BB+ - B-
Senior Management Credit Committee + BCC + Board	Up to 12.5% of regulatory limit	Up to 1.2bn	C

***** The Senior Management Credit Committee shall comprise the officers specified below, signing jointly:
- Chief Risk & Compliance Officer
- Executive Director Corporate and Investment Banking Group
- Managing Director/CEO

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

3.1.6 Collateral Policies

To minimise the risk of loss by 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 their continuous enforceability. Also, securities held against exposures are reviewed regularly to ensure realisability and value. Where diminution in value has occurred, appropriate steps are taken to shore up such positions.
This is done throughout the life of the credit exposure.

Collateral securities pledged to the Group must be in negotiable form and its types 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, floating debenture, etc, which have to be registered and, must be enforceable in Nigeria and under Nigerian law.
- Stocks and shares of publicly quoted companies
- Domiciliation of payment on 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 companies, real estate, letters of lien, domiciliation of payment contracts and charge on assets.
FSDH shall track, value and give or receive collateral during the eligible or applicable life of every credit transaction.
General tasks on a day to day basis shall include:
- Managing Collateral Movement – record details of collateral, monitor customer exposure and collateral received or posted.
- Mark to Market situation or position where applicable and call for margins as may be required.
- Deal with disagreements and disputes over exposure calculations and collateral valuations.
- Provide custody, clearing and settlement (depending on how the legal relationship is structured)
- Manage collateral inflows and outflows
- Do regular valuations (quarterly at the minimum) of all securities. Depending on security type (equity or fixed income), valuation can be done on an end of day (EOD) basis
- Deal with requests for collateral substitution where required

To ensure ease of realisation of collateral in the event of non-performance, all credit documentation requirements shall be met before a credit facility is availed and where there are waivers, relationship officers and Risk Management Unit must ensure that such waivers are resolved within the approved period.
As a matter of good business practice, adequate security ought to be taken from a customer, whose financial standing and track record do not justify lending on a clean basis.

Clean lending situations may arise where it makes economic sense to do so – based on clients perceived credit risk.

Therefore, depending on counterparty obligor/facility rating, collateral security may be waived as a pre-condition for granting the facility. Consequently, obligors with ratings below investment grade must, as a necessity, provide acceptable security before approval can be granted. Obligors with Investment Grade credit ratings may be allowed clean facility, depending on their financial standing. Accordingly, such decisions shall be taken by Management and/or the Board Credit Committee where necessary.
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.

3.1.7 Maximum exposure to credit risk before collateral held or other credit enhancements

The table below shows the maximum exposure of financial assets to credit risk as of the balance sheet date;

Maximum Exposure to Credit Risk
Group

	2013 N'000	2012 ₦'000
Cash and bank balances		
Balances with other banks		
- Operating balance with Central Bank of Nigeria	5,436,261	783,274
- Balances with banks in Nigeria	466,802	129,984
- Balances with banks outside Nigeria	1,270,730	-
- Mandatory reserve deposit with Central Bank of Nigeria	630,273	-
Loans to banks		
- Placements with banks and discount houses	321,197	16,357,112
- Placements with other financial institutions	103,006	58,585
Financial instruments held for trading		
- Nigerian Treasury Bills	1,212,037	11,469,657
- Federal Government of Nigeria Bonds	3,761	-
Loans and advances to customers		
- Loans and advances (net of impairment)	18,336,017	271,324
- Commercial bills (net of impairment)	801,916	8,552,952
- Promissory notes	-	-
- Margin facilities	200,061	6,743
Derivative financial instruments		
- Foreign exchange forward contract	65,723	-
Investment securities		
- Federal Government of Nigeria bonds	15,839,108	21,449,963
- Nigerian Treasury Bills	9,431,789	244,842
- State Government and Corporate bonds	10,694,055	7,439,803
Pledged assets		
- Nigerian Treasury Bills	4,793,015	22,819,716
- Federal Government of Nigeria bonds	2,247,666	-
- State Government and Corporate bonds	4,247,639	-
Other assets		
- Receivables	342,784	279,676
	76,443,840	89,863,631
Credit related commitments		
- Letters of Credit	5,562,569	-
- Loan commitments	22,263,893	-
	27,826,462	-

Bank

	2013 N'000	2012 ₦'000
Cash and bank balances		
Balances with other banks		
- Operating balance with Central Bank of Nigeria	5,436,261	783,274
- Balances with banks in Nigeria	149,407	100,067
- Balances with banks outside Nigeria	1,270,730	-
- Mandatory reserve deposit with Central Bank of Nigeria	630,273	-
Loans to banks		
- Placements with banks and discount houses	-	-
- Placements with other financial institutions	-	-
Financial instruments held for trading		
- Nigerian Treasury Bills	1,212,037	11,324,890
- Federal Government of Nigeria Bonds	-	-
Loans and advances to customers		
- Loans and advances (net of impairment)	18,318,298	247,576
- Commercial bills (net of impairment)	801,916	8,552,025
- Promissory notes	-	15,339,342
- Margin facilities	-	-
Derivative financial instruments		
- Foreign exchange forward contract	65,723	-
Investment securities		
- Federal Government of Nigeria bonds	15,839,108	21,434,998
- Nigerian Treasury Bills	8,366,067	-
- State Government and Corporate bonds	10,574,865	7,357,074
Pledged assets		
- Nigerian Treasury Bills	4,793,015	22,819,716
- Federal Government of Nigeria bonds	2,247,666	-
- State Government and Corporate bonds	4,247,639	-
Other assets		
- Receivables	73,414	79,763
	74,026,419	88,038,725
Credit related commitments		
- Letters of Credit	5,562,569	-
- Loan commitments	22,263,893	-
	27,826,462	-

3.1.8 Concentrations of Credit Risk

The group monitors concentration of credit risk geographical location and by industry sector. An analysis of concentrations of credit risk at 31 December 2013 and 31 December 2012 is set out 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 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 2013

Group
31 December 2013

In thousands of Nigerian Naira	Conglomerate	Government	Finance and Insurance	Manufacturing	Oil and Gas	Real Estate and Construction	Telecoms	Others	Total
Financial assets:									
Cash and bank balances									
Balances with other banks									
- Operating balance with Central Bank of Nigeria	-	-	5,436,261	-	-	-	-	-	**5,436,261**
- Balances with banks in Nigeria	-	-	466,802	-	-	-	-	-	**466,802**
- Balances with banks outside Nigeria	-	-	1,270,730	-	-	-	-	-	**1,270,730**
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	630,273	-	-	-	-	-	**630,273**
									-
Loans to banks									**-**
- Placements with banks and discount houses	-	-	321,197	-	-	-	-	-	**321,197**
- Placements with other financial institutions	-	-	103,006	-	-	-	-	-	**103,006**
									-
Financial instruments held for trading									**-**
- Nigerian Treasury Bills	-	1,212,037	-	-	-	-	-	-	**1,212,037**
- Federal Government of Nigeria Bonds	-	3,761	-	-	-	-	-	-	**3,761**
Loans and advances									
- Loans and advances (net of impairment)	-	-	924,593	71,539	3,963,984	4,634,348	4,106,775	4,634,778	**18,336,017**
- Commercial bills	-	-	801,916	-					**801,916**
- Promissory notes	-	-	-	-	-	-	-	-	**-**
- Margin facilities	-	-	-	-	-	-	-	200,061	**200,061**
Derivative financial instruments									
- Foreign exchange forward contract	-	-	65,723	-	-	-	-	-	**65,723**
Investment securities									
- Federal Government of Nigeria bonds	-	15,839,108	-	-	-	-	-	-	**15,839,108**
- Nigerian Treasury Bills	-	9,431,789	-	-	-	-	-	-	**9,431,789**
- State Government and Corporate bonds	101,926	2,806,186	5,407,142	321,892	-	-	-	2,056,909	**10,694,055**
Pledged assets									
- Nigerian Treasury Bills	-	4,793,015	-	-	-	-	-	-	**4,793,015**
- Federal Government of Nigeria bonds	-	2,247,666	-	-	-	-	-	-	**2,247,666**
- State Government and Corporate bonds	-	4,247,639	-	-	-	-	-	-	**4,247,639**
Other assets									
- Receivables	-	-	342,784	-	-	-	-	-	**342,784**
Total	**101,926**	**40,581,201**	**15,770,427**	**393,431**	**3,963,984**	**4,634,348**	**4,106,775**	**6,891,748**	**76,443,840**

Credit related commitments									
- Letters of Credit	-	-	-	-	5,557,193	-	-	5,376	5,562,569
- Loan commitments	-	-	946,287	550,000	12,303,166	500,000	7,506,713	457,727	22,263,893
Total	**-**	**-**	**946,287**	**550,000**	**17,860,359**	**500,000**	**7,506,713**	**463,103**	**27,826,462**

31 December 2012

In thousands of Nigerian Naira	Conglomerate	Government	Finance and Insurance	Manufacturing	Oil and Gas	Real Estate and Construction	Telecoms	Others	Total
Financial assets:									
Cash and bank balances									
Balances with other banks									
- Operating balance with Central Bank of Nigeria	-	-	783,274	-	-	-	-	-	**783,274**
- Balances with banks in Nigeria	-	-	129,984	-	-	-	-	-	**129,984**
- Balances with banks outside Nigeria	-	-	-	-	-	-	-	-	**-**
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	-	-	-	-	-	-	**-**
Loans to banks									
- Placements with banks and discount houses	-	-	16,357,112	-	-	-	-	-	**16,357,112**
- Placements with other financial institutions	-	-	58,585	-	-	-	-	-	**58,585**
Financial instruments held for trading									
- Nigerian Treasury Bills	-	11,469,657	-	-	-	-	-	-	**11,469,657**
- Federal Government of Nigeria Bonds	-	-	-	-	-	-	-	-	**-**
Loans and advances									
- Loans and advances (net of impairment)	-	-	271,324	-	-	-	-	-	**271,324**
- Commercial bills (net of impairment)	-	-	2,592,626	255,802	3,572,104	1,065,560	1,062,693	4,167	**8,552,952**
- Promissory notes	-	-	-	-	-	-	-	-	**-**
- Margin facilities (net of impairment)	-	-	-	-	-	-	-	6,743	**6,743**
Derivative financial instruments									
- Foreign exchange forward contract	-	-	-	-	-	-	-	-	**-**
Investment securities									
- Federal Government of Nigeria bonds	-	21,449,963	-	-	-	-	-	-	**21,449,963**
- Nigerian Treasury Bills	-	244,842	-	-	-	-	-	-	**244,842**
- State Government and Corporate bonds		-	6,507,320	877,483		55,000	-	-	**7,439,803**
Pledged assets									
- Nigerian Treasury Bills	-	22,819,716	-	-	-	-	-	-	**22,819,716**
- Federal Government of Nigeria bonds	-	-	-	-	-	-	-	-	**-**
- State Government and Corporate bonds	-	-	-	-	-	-	-	-	**-**
Other assets									
- Receivables	-	-	279,676	-	-	-	-	-	**279,676**
Total	**-**	**55,984,178**	**26,979,901**	**1,133,285**	**3,572,104**	**1,120,560**	**1,062,693**	**10,910**	**89,863,631**

Credit related commitments									
- Letters of Credit	-	-	-	-	-	-	-	-	-
- Loan commitments	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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At 31 December 2013

Bank
31 December 2013

In thousands of Nigerian Naira	Conglomerate	Government	Finance and Insurance	Manufacturing	Oil and Gas	Real Estate and Construction	Telecoms	Others	Total
Financial assets:									
Cash and bank balances									
Balances with other banks									
- Operating balance with Central Bank of Nigeria	-	-	5,436,261	-	-	-	-	-	**5,436,261**
- Balances with banks in Nigeria	-	-	149,407	-	-	-	-	-	**149,407**
- Balances with banks outside Nigeria	-	-	1,270,730	-	-	-	-	-	**1,270,730**
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	630,273	-	-	-	-	-	**630,273**
Loans to banks									
- Placements with banks and discount houses	-	-	-	-	-	-	-	-	**-**
- Placements with other financial institutions	-	-	-	-	-	-	-	-	**-**
Financial instruments held for trading									
- Nigerian Treasury Bills	-	1,212,037	-	-	-	-	-	-	**1,212,037**
- Federal Government of Nigeria Bonds	-	-	-	-	-	-	-	-	**-**
Loans and advances									
- Loans and advances (net of impairment)	-	-	924,593	71,539	3,963,984	4,634,348	4,106,775	4,617,060	**18,318,298**
- Commercial bills	-	-	801,916	-					**801,916**
- Promissory notes	-	-	-	-	-	-	-	-	**-**
- Margin facilities	-	-	-	-	-	-	-	-	**-**
Derivative financial instruments									
- Foreign exchange forward contract	-	-	65,723	-	-	-	-	-	**65,723**
Investment securities									
- Federal Government of Nigeria bonds	-	15,839,108	-	-	-	-	-	-	**15,839,108**
- Nigerian Treasury Bills	-	8,366,067	-	-	-	-	-	-	**8,366,067**
- State Government and Corporate bonds	314,662	3,576,362	5,803,841	880,000	-	-	-	-	**10,574,865**
Pledged assets									
- Nigerian Treasury Bills	-	4,793,015	-	-	-	-	-	-	**4,793,015**
- Federal Government of Nigeria bonds	-	2,247,666	-	-	-	-	-	-	**2,247,666**
- State Government and Corporate bonds	-	4,247,639	-	-	-	-	-	-	**4,247,639**
Other assets									
- Receivables	-	-	73,414	-	-	-	-	-	**73,414**
Total	**314,662**	**40,281,894**	**15,156,158**	**951,539**	**3,963,984**	**4,634,348**	**4,106,775**	**4,617,059**	**74,026,419**

Credit related commitments									
- Letters of Credit	-	-	-	-	5,557,193	-	-	5,376	**5,562,569**
- Loan commitments	-	-	946,287	550,000	12,303,166	500,000	7,506,713	457,726	**22,263,893**
Total	**-**	**-**	**946,287**	**550,000**	**17,860,360**	**500,000**	**7,506,713**	**463,102**	**27,826,462**

31 December 2012

In thousands of Nigerian Naira	Conglomerate	Government	Finance and Insurance	Manufacturing	Oil and Gas	Real Estate and Construction	Telecoms	Others	Total
Financial assets:									
Cash and bank balances									
Balances with other banks									
- Operating balance with Central Bank of Nigeria	-	-	783,274	-	-	-	-	-	**783,274**
- Balances with banks in Nigeria	-	-	100,067	-	-	-	-	-	**100,067**
- Balances with banks outside Nigeria	-	-	-	-	-	-	-	-	**-**
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	-	-	-	-	-	-	**-**
Loans to banks									
- Placements with banks and discount houses	-	-	-	-	-	-	-	-	**-**
- Placements with other financial institutions	-	-	-	-	-	-	-	-	**-**
Financial instruments held for trading									
- Nigerian Treasury Bills	-	11,324,890	-	-	-	-	-	-	**11,324,890**
- Federal Government of Nigeria Bonds	-	-	-	-	-	-	-	-	**-**
Loans and advances									
- Loans and advances (net of impairment)	-	-	247,576	-	-	-	-	-	**247,576**
- Commercial bills (net of impairment)	-	-	2,591,699	822,386	3,005,519	1,065,560	1,062,694	4,167	**8,552,025**
- Promissory notes	-	-	15,339,342	-	-	-	-	-	**15,339,342**
- Margin facilities (net of impairment)	-	-	-	-	-	-	-	-	**-**
Derivative financial instruments									
- Foreign exchange forward contract	-	-	-	-	-	-	-	-	**-**
Investment securities									
- Federal Government of Nigeria bonds	-	21,434,998	-	-	-	-	-	-	**21,434,998**
- Nigerian Treasury Bills	-	-	-	-	-	-	-	-	**-**
- State Government and Corporate bonds	-	-	6,478,925	877,483				-	**7,356,408**
Pledged assets									
- Nigerian Treasury Bills	-	22,819,716	-	-	-	-	-	-	**22,819,716**
- Federal Government of Nigeria bonds	-	-	-	-	-	-	-	-	**-**
- State Government and Corporate bonds	-	-	-	-	-	-	-	-	**-**
Other assets									
- Receivables	-	-	79,763	-	-	-	-	-	**79,763**
Total	**-**	**55,579,604**	**25,620,646**	**1,699,869**	**3,005,519**	**1,065,560**	**1,062,694**	**4,167**	**88,038,059**

Credit related commitments									
- Letters of Credit	-	-	-	-	-	-	-	-	**-**
- Loan commitments	-	-	-	-	-	-	-	-	**-**
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

3.1.9 Credit Quality

The following table breaks down the group's credit exposure and their carrying amounts (without taking into account any collateral held or other credit support) categorised b credit quality:-

Impaired loans and advances and investment debt securities

Group

31 December 2013

In thousands of Nigerian Naira	Neither past due nor impaired	Past due but not impaired	Impaired	Gross	Impairment allowance	Net
Financial assets:						
Cash and bank balances						
Cash	652	-	-	652	-	652
Balances with other banks						
- Operating balance with Central Bank of Nigeria	5,436,261	-	-	5,436,261	-	5,436,261
- Balances with banks in Nigeria	466,802	-	-	466,802	-	466,802
- Balances with banks outside Nigeria	1,270,730	-	-	1,270,730	-	1,270,730
- Mandatory reserve deposit with Central Bank of Nigeria	630,273	-	-	630,273	-	630,273
Loans to banks						
- Placements with banks and discount houses	321,197	-	-	321,197	-	321,197
- Placements with other financial institutions	103,006	-	-	103,006	-	103,006
Financial instruments held for trading						
- Quoted equity securities	108,477	-	-	108,477	-	108,477
- Nigerian Treasury Bills	1,212,037	-	-	1,212,037	-	1,212,037
- Federal Government of Nigeria Bonds	3,761	-	-	3,761	-	3,761
Loans and advances						
- Loans and advances	18,371,744	-	-	18,371,744	(35,727)	18,336,017
- Commercial bills	801,916	-	-	801,916	-	801,916
- Promissory notes	-	-	-	-	-	-
- Margin facilities	200,061	-	-	200,061	-	200,061
Derivative financial instruments						
- Foreign exchange forward contract	65,723	-	-	65,723	-	65,723
Investment securities						
- Equity securities	1,769,391	-	-	1,769,391	-	1,769,391
- Federal Government of Nigeria bonds	15,839,108	-	-	15,839,108	-	15,839,108
- Nigerian Treasury Bills	9,431,789	-	-	9,431,789	-	9,431,789
- State Government and Corporate bonds	10,694,055	-	-	10,694,055	-	10,694,055
Pledged assets						
- Nigerian Treasury Bills	4,793,015	-	-	4,793,015	-	4,793,015
- Federal Government of Nigeria bonds	2,247,666	-	-	2,247,666	-	2,247,666
- State Government and Corporate bonds	4,247,639	-	-	4,247,639	-	4,247,639
Other assets						
- Receivables	342,784	-	-	342,784	-	342,784
Total	**78,358,087**	**-**	**-**	**78,358,087**	**(35,727)**	**78,322,360**

31 December 2012

In thousands of Nigerian Naira	Neither past due nor impaired	Past due but not impaired	Impaired	Gross	Impairment allowance	Net
Financial assets:						
Cash and bank balances						
Cash	642	-	-	642	-	642
Balances with other banks						
- Operating balance with Central Bank of Nigeria	783,274	-	-	783,274	-	783,274
- Balances with banks in Nigeria	129,984	-	-	129,984	-	129,984
- Balances with banks outside Nigeria	-	-	-	-	-	-
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	-	-	-	-
Loans to banks						
- Placements with banks and discount houses	16,357,112	-	-	16,357,112	-	16,357,112
- Placements with other financial institutions	58,585	-	-	58,585	-	58,585
Financial instruments held for trading						
- Quoted equity securities	34,820	-	-	34,820	-	34,820
- Nigerian Treasury Bills	11,469,657	-	-	11,469,657	-	11,469,657
- Federal Government of Nigeria Bonds	-	-	-	-	-	-
Loans and advances						
- Loans and advances	271,324	-	-	271,324	-	271,324
- Commercial bills	8,552,952	-	566,585	9,119,537	(566,585)	8,552,952
- Promissory notes	-	-	-	-	-	-
- Margin facilities	6,743	-	-	6,743	-	6,743
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	-	-
Investment securities						
- Equity securities	1,146,147	-	-	1,146,147	-	1,146,147
- Federal Government of Nigeria bonds	21,449,963	-	-	21,449,963	-	21,449,963
- Nigerian Treasury Bills	244,842	-	-	244,842	-	244,842
- State Government and Corporate bonds	7,439,803	-	-	7,439,803	-	7,439,803
Pledged assets						
- Nigerian Treasury Bills	22,819,716	-	-	22,819,716	-	22,819,716
- Federal Government of Nigeria bonds	-	-	-	-	-	-
- State Government and Corporate bonds	-					
Other assets						
- Receivables	279,676	-	-	279,676	-	279,676
Total	**91,045,240**	**-**	**566,585**	**91,611,825**	**(566,585)**	**91,045,240**

Bank

31 December 2013

In thousands of Nigerian Naira	Neither past due nor impaired	Past due but not impaired	Impaired	Gross	Impairment allowance	Net
Financial assets:						
Cash and bank balances						
Cash	473	-	-	473	-	473
Balances with other banks						
- Operating balance with Central Bank of Nigeria	5,436,261	-	-	5,436,261	-	5,436,261
- Balances with banks in Nigeria	149,407	-	-	149,407	-	149,407
- Balances with banks outside Nigeria	1,270,730	-	-	1,270,730	-	1,270,730
- Mandatory reserve deposit with Central Bank of Nigeria	630,273	-	-	630,273	-	630,273
Loans to banks						
- Placements with banks and discount houses	-	-	-	-	-	-
- Placements with other financial institutions	-	-	-	-	-	-
Financial instruments held for trading						
- Quoted equity securities	-	-	-	-	-	-
- Nigerian Treasury Bills	1,212,037	-	-	1,212,037	-	1,212,037
- Federal Government of Nigeria Bonds	-	-	-	-	-	-
Loans and advances						
- Loans and advances	18,354,025	-	-	18,354,025	(35,727)	18,318,298
- Commercial bills	801,916	-	-	801,916	-	801,916
- Promissory notes	-	-	-	-	-	-
- Margin facilities	-	-	-	-	-	-
Derivative financial instruments						
- Foreign exchange forward contract	65,723	-	-	65,723	-	65,723
Investment securities						
- Equity securities	666	-	-	666	-	666
- Federal Government of Nigeria bonds	15,839,108	-	-	15,839,108	-	15,839,108
- Nigerian Treasury Bills	8,366,067	-	-	8,366,067	-	8,366,067
- State Government and Corporate bonds	10,574,865	-	-	10,574,865	-	10,574,865
Pledged assets	-					
- Nigerian Treasury Bills	4,793,015	-	-	4,793,015	-	4,793,015
- Federal Government of Nigeria bonds	2,247,666	-	-	2,247,666	-	2,247,666
- State Government and Corporate bonds	4,247,639	-	-	4,247,639	-	4,247,639
Other assets						
- Receivables	73,414	-	-	73,414	-	73,414
Total	**74,063,285**	**-**	**-**	**74,063,285**	**(35,727)**	**74,027,558**

31 December 2012

In thousands of Nigerian Naira	Neither past due nor impaired	Past due but not impaired	Impaired	Gross	Impairment allowance	Net
Financial assets:						
Cash and bank balances						
Cash	363	-	-	363	-	363
Balances with other banks						
- Operating balance with Central Bank of Nigeria	783,274	-	-	783,274	-	783,274
- Balances with banks in Nigeria	100,067	-	-	100,067	-	100,067
- Balances with banks outside Nigeria	-	-	-	-	-	-
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	-	-	-	-
Loans to banks						
- Placements with banks and discount houses	-	-	-	-	-	-
- Placements with other financial institutions	-	-	-	-	-	-
Financial instruments held for trading						
- Quoted equity securities	-	-	-	-	-	-
- Nigerian Treasury Bills	11,324,890	-	-	11,324,890	-	11,324,890
- Federal Government of Nigeria Bonds	-	-	-	-	-	-
Loans and advances						
- Loans and advances	247,576	-	-	247,576	-	247,576
- Commercial bills	8,552,025	-	566,585	9,118,610	(566,585)	8,552,025
- Promissory notes	15,339,342	-	-	15,339,342	-	15,339,342
- Margin facilities	-	-	-	-	-	-
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	-	-
Investment securities						
- Equity securities	666	-	-	666	-	666
- Federal Government of Nigeria bonds	21,434,998	-	-	21,434,998	-	21,434,998
- Nigerian Treasury Bills	-	-	-	-	-	-
- State Government and Corporate bonds	7,356,408	-	-	7,356,408	-	7,356,408
Pledged assets						
- Nigerian Treasury Bills	22,819,716	-	-	22,819,716	-	22,819,716
- Federal Government of Nigeria bonds	-	-	-	-	-	-
- State Government and Corporate bonds	-					
Other assets						
- Receivables	79,763	-	-	79,763	-	79,763
Total	**88,039,088**	**-**	**566,585**	**88,605,673**	**(566,585)**	**88,039,088**

3.1.10 Collaterals

The group holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets

In thousands of naira (N'000)	Percentage of exposure that is subject to collateral requirements 31 December 2013	31 December 2012	Principal type of collateral held
Cash and bank balances	0%	0%	None
Financial assets held for trading	0%	0%	None
Loans and receivables to customers	100%	100%	Cash, debenture, asset backed, lien, negative pledge
Investment securities	0%	0%	None
Pledged assets	0%	0%	None
Other assets			

3.1.11 RATINGS
The credit quality of the portfolio of financial assets that are past due nor impaired can be assessed by reference to the internal rating system or rating agency adopted by th group

Group
31 December 2013

In thousands of Nigerian Naira	AAA to AA-	A+ TO A-	BBB+ to BB-	Below BB-	Unrated	**Total**
Financial assets:						
Cash and bank balances						
Cash	-	-	-	-	652	**652**
Balances with other banks						
- Operating balance with Central Bank of Nigeria	-	-	-	-	5,436,261	**5,436,261**
- Balances with banks in Nigeria	-	-	466,802	-	-	**466,802**
- Balances with banks outside Nigeria	-	-	-	-	1,270,730	**1,270,730**
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	-	-	630,273	**630,273**
Loans to banks						
- Placements with banks and discount houses	321,209	-	-	-	-	**321,209**
- Placements with other financial institutions	-	-	-	-	103,006	**103,006**
Financial instruments held for trading						
- Nigerian Treasury Bills	-	-	-	-	1,212,037	**1,212,037**
- Federal Government of Nigeria Bonds	-	-	-	-	3,761	**3,761**
Loans and advances						
- Loans and advances (net of impairment)	3,229,243	3,542,287	11,398,153		166,334	**18,336,017**
- Commercial bills (net of impairment)	-	801,916	-	-	-	**801,916**
- Promissory notes	-	-	-	-	-	**-**
- Margin facilities	-	200,061	-	-	-	**200,061**
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	65,723	**65,723**
Investment securities						
- Federal Government of Nigeria bonds	-	-	-	-	15,839,108	**15,839,108**
- Nigerian Treasury Bills	-	-	-	-	9,431,789	**9,431,789**
- State Government and Corporate bonds	2,539,523	3,793,614	1,089,480	340,642	2,930,796	**10,694,055**
Pledged assets						
- Nigerian Treasury Bills	-	-	-	-	4,793,015	**4,793,015**
- Federal Government of Nigeria bonds	-	-	-	-	2,247,666	**2,247,666**
- State Government and Corporate bonds	-	1,355,114	-	-	2,892,525	**4,247,639**
Other assets						
- Receivables	-	-	-	-	342,784	**342,784**
Total	**6,089,975**	**9,692,992**	**12,954,435**	**340,642**	**47,366,460**	**76,444,504**

Group
31 December 2012

In thousands of Nigerian Naira	AAA to AA-	A+ TO A-	BBB+ to BB-	Below BB-	Unrated	**Total**
Financial assets:						
Cash and bank balances						
Cash	-	-	-	-	642	**642**
Balances with other banks						
- Operating balance with Central Bank of Nigeria	-	-	-	-	783,274	**783,274**
- Balances with banks in Nigeria	-	-	129,984	-	-	**129,984**
- Balances with banks outside Nigeria	-	-	-	-	-	**-**
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	-	-	-	**-**
Loans to banks						
- Placements with banks and discount houses	2,195,237	9,083,456		5,078,419	-	**16,357,112**
- Placements with other financial institutions	-	58,585	-	-	-	**58,585**
Financial instruments held for trading						
- Nigerian Treasury Bills	-	-	-	-	11,469,657	**11,469,657**
- Federal Government of Nigeria Bonds	-	-	-	-	-	**-**
Loans and advances						
- Loans and advances	-	-	-	-	271,324	**271,324**
- Commercial bills	6,573,385	80,198	1,899,369		-	**8,552,952**
- Promissory notes	-	-	-	-	-	**-**
- Margin facilities	-	-	-	-	6,743	**6,743**
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	-	**-**
Investment securities						
- Federal Government of Nigeria bonds	-	-	-	-	21,449,963	**21,449,963**
- Nigerian Treasury Bills	-	-	-	-	244,842	**244,842**
- State Government and Corporate bonds	2,046,605	4,401,434	991,764		-	**7,439,803**
Pledged assets						
- Nigerian Treasury Bills	-	-	-	-	22,819,716	**22,819,716**
- Federal Government of Nigeria bonds	-	-	-	-	-	**-**
- State Government and Corporate bonds	-	-	-	**-**	**-**	**-**
Other assets						
- Receivables	-	-	-	-	279,676	**279,676**
Total	**10,815,227**	**13,623,673**	**3,021,117**	**5,078,419**	**57,325,837**	**89,864,273**

Bank
31 December 2013

In thousands of Nigerian Naira	AAA to AA-	A+ TO A-	BBB+ to BB-	Below BB-	Unrated	**Total**
Financial assets:						
Cash and bank balances						
Cash	-	-	-	-	473	**473**
Balances with other banks						
- Operating balance with Central Bank of Nigeria	-	-	-	-	5,436,261	**5,436,261**
- Balances with banks in Nigeria	149,407	-	-	-	-	**149,407**
- Balances with banks outside Nigeria	-	-	-	-	1,270,730	**1,270,730**
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	-	-	630,273	**630,273**
Loans to banks						
- Placements with banks and discount houses	-	-	-	-	-	**-**
- Placements with other financial institutions	-	-	-	-	-	**-**
Financial instruments held for trading						
- Nigerian Treasury Bills	-	-	-	-	1,212,037	**1,212,037**
- Federal Government of Nigeria Bonds	-	-	-	-	-	**-**
Loans and advances						
- Loans and advances	3,229,243	3,778,075	11,346,707			**18,354,025**
- Commercial bills	-	801,916	-	-	-	**801,916**
- Promissory notes	-	-	-	-	-	**-**
- Margin facilities	-	-	-	-	-	**-**
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	65,723	**65,723**
Investment securities						
- Federal Government of Nigeria bonds	-	-	-	-	15,839,108	**15,839,108**
- Nigerian Treasury Bills	-	-	-	-	8,366,067	**8,366,067**
- State Government and Corporate bonds	2,455,358	3,826,329	1,054,455	340,642	2,898,081	**10,574,865**
Pledged assets	-					
- Nigerian Treasury Bills	-	-	-	-	4,793,015	**4,793,015**
- Federal Government of Nigeria bonds	-	-	-	-	2,247,666	**2,247,666**
- State Government and Corporate bonds	-	1,355,114	-	-	2,892,525	**4,247,639**
Other assets						
- Receivables	-	-	-	-	73,414	**73,414**
Total	**5,834,008**	**9,761,434**	**12,401,162**	**340,642**	**45,725,373**	**74,062,619**

Bank
31 December 2012

In thousands of Nigerian Naira	AAA to AA-	A+ TO A-	BBB+ to BB-	Below BB-	Unrated	**Total**
Financial assets:						
Cash and bank balances						
Cash	-	-	-	-	363	**363**
Balances with other banks						
- Operating balance with Central Bank of Nigeria	-	-	-	-	783,274	**783,274**
- Balances with banks in Nigeria	-	-	100,067	-	-	**100,067**
- Balances with banks outside Nigeria	-	-	-	-	-	**-**
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	-	-	-	**-**
Loans to banks						
- Placements with banks and discount houses	-	-	-	-	-	**-**
- Placements with other financial institutions	-	-	-	-	-	**-**
Financial instruments held for trading						
- Nigerian Treasury Bills	-	-	-	-	11,324,890	**11,324,890**
- Federal Government of Nigeria Bonds	-	-	-	-	-	**-**
Loans and advances						
- Loans and advances	-	-	-	-	247,576	**247,576**
- Commercial bills	6,572,458	80,198	1,899,368		-	**8,552,024**
- Promissory notes	-	2,040,562	8,240,603	-	5,058,178	**15,339,343**
- Margin facilities	-	-	-	-	-	**-**
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	-	**-**
Investment securities						
- Federal Government of Nigeria bonds	-	-	-	-	21,434,998	**21,434,998**
- Nigerian Treasury Bills	-	-	-	-	-	**-**
- State Government and Corporate bonds	2,016,605	4,346,432	994,037		-	**7,357,074**
Pledged assets						
- Nigerian Treasury Bills	-	-	-	-	22,819,716	**22,819,716**
- Federal Government of Nigeria bonds	-	-	-	-	-	**-**
- State Government and Corporate bonds	-					
Other assets						
- Receivables	-	-	-	-	79,763	**79,763**
Total	**8,589,063**	**6,467,192**	**11,234,075**	**-**	**61,748,758**	**88,039,088**

3.1.12 Financial Assets Individually Impaired

At 31 December 2013

	Group Loans and receivables to customers N'000	**Bank** Loans and receivables to customers N'000
Gross amount	-	-
Specific impairment	-	-
Net amount	-	-
Fair value of collateral	-	-

At 31 December 2012

	Group Loans and receivables to customers N'000	**Bank** Loans and receivables to customers N'000
Gross amount	566,584	566,584
Specific impairment	(566,584)	(566,584)
Net amount	--	
Fair value of collateral	-	-

3.3 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 Merchant Banks, the regulatory liquidity requirement is 20% while the regulatory minimum for Commercial Banks is 30%. As at 31 December, 2013, the Group's liquidity ratio stood at 81%

3.3.1 Managing Liquidity Risk

The Group's board of directors sets the Group's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to Assets & Liability Committee (ALCO). ALCO approves the Group's liquidity policies and procedures. Treasury and International Banking unit manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Bank and Group. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The key elements of the Group's liquidity strategy are as follows.

- Maintaining a diversified funding base consisting of customer deposits and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Group's financial assets and financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Group's liquidity position.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account both Group specific events (e.g. a rating downgrade) and market-related events (e.g. prolonged market illiquidity, reduced flexibility of currencies, natural disasters or other catastrophes).

The Group has in place a contingency funding line to the tune of N15 billion with Nigerian banks

3.3.2 Funding approach

Our sources of liquidity are regularly reviewed by 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.

Group

At 31 December 2013 (N'000)	**Up to 1 months**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 Years**	**Total**
Financial Assets						
Cash and bank balances	7,804,718	-	-	-	-	7,804,718
Loans and receivables to banks	424,203	-	-	-	-	424,203
Financial assets held for trading	9,971	239,560	962,506	-	3,625	1,215,662
Loans and receivables to customers	1,803,670	1,104,909	4,500,000	2,257,404	9,672,011	19,337,994
Derivative financial instruments	-	65,723	-	-	-	65,723
Investment securities	726,183	917,403	6,467,161	5,691,065	22,163,139	35,964,951
Pledged assets	489,783	4,261,645	1,848,457	-	4,688,435	11,288,320
Other assets	-	342,784	-	-	-	342,784
Total financial assets (contractual maturity)	11,258,528	6,932,024	13,778,124	7,948,469	36,527,210	76,444,355

	Up to 1 months	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 Years**	**Total**
Financial Liabilities						
Due to banks		5,286,462	-	-	-	5,286,462
Due to customers	40,147,624	5,989,919	374,430	313,962	-	46,825,935
Debt securities issued	-	-	-	-	5,542,721	5,542,721
Other liabilities	-	265,839	-	-	-	265,839
Total financial liabilities (contractual maturity)	40,147,624	11,542,220	374,430	313,962	5,542,721	57,920,957
Credit Commitments						
Letters of Credit	-	5,562,569	-	-	-	5,562,569
Loan Commitments	-	-	-	-	22,263,893	22,263,893
Total	**-**	**5,562,569**	**-**	**-**	**22,263,893**	**27,826,462**

At 31 December 2012 (N'000)	**Up to 1 months**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 Years**	**Total**
Financial Assets						
Cash and bank balances	913,900	-	-	-	-	913,900
Loans and receivables to banks	-	16,415,697	-	-	-	16,415,697
Financial assets held for trading	749,990	4,551,563	4,924,056	1,244,048	-	11,469,657
Loans and receivables to customers	2,556,788	1,065,560	-	340,165	4,868,506	8,831,019
Derivative financial instruments	-	-	-	-	-	-
Investment securities	661,108	2,438,477	144,949	3,285,576	22,604,498	29,134,608
Pledged assets	-	20,820,130	1,999,586	-	-	22,819,716
Other assets	-	279,676	-	-	-	279,676
Total financial assets (contractual maturity)	4,881,786	45,571,103	7,068,591	4,869,789	27,473,004	89,864,273

	Up to 1 months	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 Years**	**Total**
Financial Liabilities						
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	-	252,951	-	-	-	252,951
Total financial liabilities (contractual maturity)	57,328,765	10,852,197	1,934,986	240,877	-	70,356,825

Bank

At 31 December 2013 (N'000)	**Up to 1 months**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 Years**	**Total**
Financial Assets						
Cash and bank balances	7,487,144	-	-	-	-	7,487,144
Loans and receivables to banks	-	-	-	-	-	-
Financial assets held for trading	9,971	239,560	962,506	-	-	1,212,037
Loans and receivables to customers	1,803,670	1,104,909	4,500,000	2,257,404	9,454,231	19,120,214
Derivative financial instruments	-	65,723	-	-	-	65,723
Investment securities	726,183	917,401	6,467,161	5,691,066	21,007,474	34,809,286
Pledged assets	489,783	4,261,644	1,848,457	-	4,688,436	11,288,320
Other assets	-	73,414	-	-	-	73,414
Total financial assets (contractual maturity)	10,516,751	6,662,652	13,778,124	7,948,470	35,150,140	74,056,138

	Up to 1 months	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 Years**	**Total**
Financial Liabilities						
Due to banks		5,286,462	-	-	-	5,286,462
Due to customers	41,026,522	5,989,919	374,430	313,962	-	47,704,833
Debt securities issued	-	-	-	-	5,542,721	5,542,721
Other liabilities	-	71,147	-	-	-	71,147
Total financial liabilities (contractual maturity)	41,026,522	11,347,528	374,430	313,962	5,542,721	58,605,163
Credit Commitments						
Letters of Credit	-	5,562,569	-	-	-	5,562,569
Loan Commitments	-	-	-	-	22,263,893	22,263,893
Total	**-**	**5,562,569**	**-**	**-**	**22,263,893**	**27,826,462**

At 31 December 2012 (N'000)	**Up to 1 months**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 Years**	**Total**
Financial Assets						
Cash and bank balances	883,704	-	-	-	-	883,704
Loans and receivables to banks	-	-	-	-	-	-
Financial assets held for trading	749,989	4,406,796	4,924,056	1,244,049	-	11,324,890
Loans and receivables to customers	15,546,083	3,106,122	-	346,908	5,139,830	24,138,943
Derivative financial instruments		-	-	-	-	-
Investment securities	561,215	2,438,477	-	3,285,576	22,506,804	28,792,072
Pledged assets	-	20,820,130	1,999,586	-	-	22,819,716
Other assets	-	79,763	-	-	-	79,763
Total financial assets (contractual maturity)	17,740,991	30,851,288	6,923,642	4,876,533	27,646,634	88,039,088
Financial guarantee contracts						

	Up to 1 months	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 Years**	**Total**
Financial Liabilities						
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	-	133,033	-	-	-	133,033
Total financial liabilities (contractual maturity)	58,268,058	10,732,279	1,934,986	240,877	-	71,176,200

3.2 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 products, 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.

3.2.1 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

3.2.2 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 scenario 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 scenario, 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 Bank has minimized its foreign exchange risk by funding Dollar denominated assets with Dollar denominated liabilities. 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 Group's exposure to foreign currency risk is not considered significant.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency.

Group	**31 December 2013**	**31 December 2013**	**31 December 2013**	**31 December 2013**
	Naira	**USD**	**GBP**	**Total**
ASSETS				
Cash and bank balances	6,514,681	1,289,286	2,681	7,806,648
Loans and receivables to banks	424,203	-	-	424,203
Financial assets held for trading	1,324,139	-	-	1,324,139
Loans and receivables to customers	16,989,866	2,348,128	-	19,337,994
Derivative financial instruments	-	65,723	-	65,723
Investment securities	34,527,100	3,207,243	-	37,734,343
Pledged assets	11,288,320		-	11,288,320
Other assets	342,784	-	-	342,784
Total assets	71,411,093	6,910,380	2,681	78,324,154
Due to banks	-	5,286,462	-	5,286,462
Due to customers	46,375,139	450,796	-	46,825,935
Derivative financial instruments	-	62,156	-	62,156
Debt securities issued	5,542,721	-	-	5,542,721
Total liabilities	51,917,860	5,799,414	-	57,717,274
Net on Balance Sheet Financial Position	**19,493,233**	**1,110,966**	**2,681**	**20,606,880**
Credit Commitments				
- Letters of Credit	-	5,562,569	-	5,562,569
- Loan commitments	16,537,056	5,726,837	-	22,263,893
	16,537,056	**11,289,406**	**-**	**27,826,462**

Group	**31 December 2012**	**31 December 2012**	**31 December 2012**	**31 December 2012**
	Naira	**USD**	**GBP**	**Total**
ASSETS				
Cash and bank balances	913,900	-	-	913,900
Loans and receivables to banks	16,415,697	-	-	16,415,697
Financial assets held for trading	11,504,477	-	-	11,504,477
Loans and receivables to customers	8,559,695	-	-	8,559,695
Derivative financial instruments	-	-	-	-
Investment securities	30,280,755	-	-	30,280,755
Pledged assets	22,819,716	-	-	22,819,716
Other assets	551,000	-	-	551,000
Total assets	91,045,240	-	-	91,045,240
Due to banks	40,504,336	-	-	40,504,336
Due to customers	29,599,539	-	-	29,599,539
Derivative financial instruments	-	-	-	-
Total liabilities	75,646,595	-	-	75,646,595
Net on balance sheet financial position	**15,398,645**	**-**	**-**	**15,398,645**

Bank	**31 December 2013**	**31 December 2013**	**31 December 2013**	**31 December 2013**
	Naira	**USD**	**GBP**	**Total**
ASSETS				
Cash and bank balances	6,195,177	1,289,286	2,681	7,487,144
Loans and receivables to banks		-	-	-
Financial assets held for trading	1,212,037	-	-	1,212,037
Loans and receivables to customers	16,772,086	2,348,128	-	19,120,214
Derivative financial instruments	-	65,723	-	65,723
Investment securities	31,573,463	3,207,243	-	34,780,706
Pledged assets	11,288,320		-	11,288,320
Other assets	73,414	-	-	73,414
Total assets	67,114,497	6,910,380	2,681	74,027,558
Due to banks	-	5,286,462	-	5,286,462
Due to customers	47,253,921	450,796	-	47,704,717
Derivative financial instruments	-	62,156	-	62,156
Debt securities issued	5,542,721	-	-	5,542,721
Total liabilities	52,796,642	5,799,414	-	58,596,056
Net on balance sheet financial position	**14,317,855**	**1,110,966**	**2,681**	**15,431,502**
Credit Commitments				
- Letters of Credit	-	5,562,569	-	5,562,569
- Loan commitments	16,537,056	5,726,837	-	22,263,893
	16,537,056	**11,289,406**	**-**	**27,826,462**

Bank	**31 December 2012**	**31 December 2012**	**31 December 2012**	**31 December 2012**
	Naira	**USD**	**GBP**	**Total**
ASSETS				
Cash and bank balances	883,704	-	-	883,704
Loans and receivables to banks	-	-	-	-
Financial assets held for trading	11,324,890	-	-	11,324,890
Loans and receivables to customers	23,891,367	-	-	23,891,367
Derivative financial instruments	-	-	-	-
Investment securities	28,792,738	-	-	28,792,738
Pledged assets	22,819,716	-	-	22,819,716
Other assets	327,339	-	-	327,339
		-	-	
Total assets	88,039,754	-	-	88,039,754
Due to banks	40,504,336	-	-	40,504,336
Due to customers	30,538,832	-	-	30,538,832
Derivative financial instruments	-	-	-	-
Total liabilities	76,585,888	-	-	76,585,888
Net on balance sheet financial position	**11,453,866**	**-**	**-**	**11,453,866**

The table below shows the impact on the Group's profit before tax if foreign exchange rates on financial instruments held at amortised cost or at fair value had increased by 500 basis points, with all other variables held constant. At 31 December 2013, if the currency had weakened/strengthened by 5% against the US dollar and UK pound with all other variables held constant, profit is more sensitive to movement in currency exchange rates in 2013 than 2012 because of the increased amount of foreign exchange transactions.

	31 December 2013	**31 December 2012**
Effect of 500 basis points movement on foreign exchange assets (N'000)	345,653	-

3.2.3 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 2013 (N'000)	Carrying amount	Variable interest	Fixed interest	Non interest-bearing
Assets				
Cash and bank balances	7,806,648	-	-	7,806,648
Loans and receivables to banks	450,796	-	450,796	-
Financial assets held for trading	1,324,139	-	1,215,662	108,477
Loans and receivables to customers	19,337,994	18,336,017	1,001,977	-
Derivative financial instruments	65,723	-	-	65,723
Investment securities	37,734,343	-	35,964,952	1,769,391
Pledged assets	11,288,320	-	11,288,320	-
Other assets	342,784	-	342,784	-
	78,350,747	18,336,017	50,264,491	9,750,239
Liabilities				
Due to banks	5,286,462	-	5,286,462	-
Due to customers	46,825,935	-	46,825,935	-
Debt securities issued	5,542,721	-	5,542,721	-
Derivative financial instruments	62,156	-	-	62,156
Other liabilities	245,200	-	-	265,839
	57,962,474	-	57,655,118	327,995

31 December 2012 (N'000)	Carrying amount	Variable interest	Fixed interest	Non interest-bearing
Assets				
Cash and bank balances	913,900	-	913,258	642
Loans and receivables to banks	16,415,697	-	16,415,697	-
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	1,348,251	-	271,324	1,076,927
	91,842,491	8,552,952	81,024,260	2,265,279
Liabilities				
Due to banks	40,504,336	-	40,504,336	-
Due to customers	29,599,538	-	29,599,538	-
Other liabilities	260,030	-	-	260,030
	70,363,904	-	70,103,874	260,030

Bank

31 December 2013 (N'000)	Carrying amount	Variable interest	Fixed interest	Non interest-bearing
Assets				
Cash and bank balances	7,487,144	-	-	7,487,144
Financial assets held for trading	1,212,037	-	1,212,037	-
Loans and receivables to customers	19,120,214	18,318,298	801,916	-
Derivative financial instruments	65,723	-	-	65,723
Investment securities	34,780,706	-	34,780,040	666
Pledged assets	11,288,320	-	11,288,320	-
Other assets	73,414	-	73,414	-
	74,027,558	18,318,298	48,155,727	7,553,533
Liabilities				
Due to banks	5,286,462	-	5,286,462	-
Due to customers	47,704,717	-	47,704,717	-
Debt securities issued	5,542,721	-	5,542,721	-
Derivative financial instruments	62,156	-	-	62,156
	58,596,056	-	58,533,900	133,303

31 December 2012 (N'000)	**Carrying amount**	**Variable interest**	**Fixed interest**	**Non interest-bearing**
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	682,378	-	247,576	434,802
	88,394,793	8,552,025	79,406,937	435,831
Liabilities				
Due to banks	40,504,336	-	40,504,336	-
Due to customers	30,538,831	-	30,538,831	-
Other liabilities	140,112	-	-	140,112
	71,183,279	-	71,043,167	140,112

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

	31 December 2013	**31 December 2012**
Effect of 100 basis points movement on profit before tax (N’000)	(717,406)	(712,396)

3.2.4 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 price risk is largely limited to quoted securities.

	31 December 2013	**31 December 2012**
Effect of 1000 basis points movement on the price of equity securities (N’000)	176,939	114,615

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

3.4 Fair Value
A) 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 2013 (N'000)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets held for trading				
-Treasury bills	1,212,037	-	-	1,212,037
-Federal Government of Nigeria Bonds	3,625	-	-	3,625
-Quoted equity securities	108,477	-	-	108,477
	1,324,139	-	-	1,324,139
Investment securities classified as available for sale				
-Treasury bills	9,431,789	-	-	9,431,789
-Federal Government of Nigeria Bonds	6,466,119	2,100,216	-	8,566,335
-State government and corporate bonds	-	10,694,055	-	10,694,055
-Quoted equity securities	1,399,279	-	-	1,399,279
-Quoted mutual funds	207,405	-	-	207,405
-Unquoted Equity	-	162,707	-	162,707
	17,504,592	12,956,978	-	30,461,570
Pledged Securities				
Held for Trading				
-Treasury bills	2,100,040	-	-	2,100,040
-Federal Government of Nigeria Bonds	-	-	-	-
Available for Sale				
-Treasury bills	2,692,975	-	-	2,692,975
-Federal Government of Nigeria Bonds	900,141	1,347,525	-	2,247,666
-State government and corporate bonds	-	4,247,639	-	4,247,639
	5,693,156	5,595,164	-	11,288,320

At 31 December 2012 (N'000)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Held for Trading				
-Treasury bills	11,469,657	-	-	11,469,657
-Quoted equity securities	34,820	-	-	34,820
	11,504,477	-	-	11,504,477
Available for sale				
-Treasury bills	244,842	-	-	244,842
-Federal Government of Nigeria Bonds	8,329,138	-	-	8,329,138
-State government and corporate bonds	-	7,439,803	-	7,439,803
-Quoted equity securities	1,010,190	-	-	1,010,190
-Unquoted Equity	-	135,957	-	135,957
	9,584,170	7,575,760	-	17,159,930
Pledged Securities				
Held for Trading				
-Treasury bills	7,997,053	-	-	7,997,053
-Federal Government of Nigeria Bonds	-	-	-	-
Available for Sale				
-Treasury bills	14,822,663	-	-	14,822,663
-Federal Government of Nigeria Bonds	-	-	-	-
-State government and corporate bonds	-	-	-	-
	22,819,716	-	-	22,819,716

Bank

At 31 December 2013 (N'000)	Level 1	Level 2	Level 3	Total
Financial assets				
Held for Trading				
-Treasury bills	1,212,037	-	-	1,212,037
-Quoted equity securities	-	-	-	-
	1,212,037	-	-	1,212,037
Available for sale				
-Treasury bills	8,366,067	-	-	8,366,067
-Federal Government of Nigeria Bonds	6,466,119	2,100,216	-	8,566,335
-State government and corporate bonds	-	10,574,865	-	10,574,865
-Quoted equity securities	-	-	-	-
-Unquoted Equity	-	666	-	666
	14,832,186	12,675,747	-	27,507,933
Pledged Securities				
Held for Trading				
-Treasury bills	2,210,015	-	-	2,210,015
-Federal Government of Nigeria Bonds	-	-	-	-
Available for Sale				
-Treasury bills	2,583,000	-	-	2,583,000
-Federal Government of Nigeria Bonds	900,141	1,347,525	-	2,247,666
-State government and corporate bonds	-	4,247,639	-	4,247,639
	5,693,156	5,595,164	-	11,288,320

At 31 December 2012 (N'000)	Level 1	Level 2	Level 3	Total
Financial assets				
Held for Trading				
-Treasury bills	11,324,890	-	-	11,324,890
-Quoted equity securities	-	-	-	-
	11,324,890	-	-	11,324,890
Available for sale				
-Treasury bills		-	-	-
-Federal Government of Nigeria Bonds	8,314,173	-	-	8,314,173
-State government and corporate bonds	-	7,357,074	-	7,357,074
-Quoted equity securities	-	-	-	-
-Unquoted Equity	-	666	-	666
	8,314,173	7,357,740	-	15,671,913
Pledged Securities				
Held for Trading				
-Treasury bills	7,997,053	-	-	7,997,053
-Federal Government of Nigeria Bonds	-	-	-	-
Available for Sale				
-Treasury bills	14,822,663	-	-	14,822,663
-Federal Government of Nigeria Bonds	-	-	-	-
-State government and corporate bonds	-	-	-	-
	22,819,716	-	-	22,819,716

B. Fair value of financial assets and liabilities not measured at fair value

Financial instruments not measured at fair value

Group	**At 31 December 2013**		**At 31 December 2012**	
	Carrying value N'000	**Fair value N'000**	**Carrying value N'000**	**Fair value N'000**
Financial assets				
Cash and bank balances	7,804,718	7,804,718	913,900	913,900
Loans and advances to banks	424,203	424,203	16,415,697	16,415,697
Loans and advances to customers	19,373,721	19,337,994	9,126,280	8,559,695
Investment securities	7,329,405	7,272,773	13,120,825	12,787,624
Other assets	342,784	342,784	279,676	279,676
	35,274,831	35,182,472	39,856,378	38,956,592
Financial liabilities				
Due to banks	5,286,462	5,286,462	40,504,336	40,504,336
Due to customers	46,825,935	46,825,935	29,599,538	29,599,538
Debt securities issued	5,578,363	5,542,721	-	-
Other liabilities	495,594	495,594	252,951	252,951
	58,186,354	58,150,712	70,356,825	70,356,825

Bank	**At 31 December 2013**		**At 31 December 2012**	
	Carrying value N'000	**Fair value N'000**	**Carrying value N'000**	**Fair value N'000**
Financial assets				
Cash and bank balances	7,487,144	7,487,144	883,704	883,704
Loans and advances	19,155,941	19,120,214	24,457,952	23,891,367
Investment securities	7,329,405	7,272,773	13,120,825	12,787,624
Other assets	73,414	73,414	79,763	79,763
	34,045,904	33,953,545	38,542,244	37,642,458
Financial liabilities				
Due to banks	5,286,462	5,286,462	40,504,336	40,504,336
Due to customers	47,704,717	47,704,717	30,538,831	30,538,831
Debt securities issued	5,578,363	5,542,721	-	-
Other liabilities	209,504	209,504	133,033	133,033
	58,779,046	58,743,404	71,176,200	71,176,200

Fair Value Hierarchy for Financial Assets not measured at fair value

Group

At 31 December 2013 (N'000)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets				
Cash and bank balances	7,804,718	-	-	7,804,718
Loans and advances to banks	424,203	-	-	424,203
Loans and advances to customers	19,337,994	-	-	19,337,994
Investment securities				
- Held to maturity	4,551,859	2,720,914	-	7,272,773
Other assets	342,784	-	-	342,784
	32,461,558	2,720,914	-	35,182,472

At 31 December 2012 (N'000)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets				
Cash and bank balances	913,900	-	-	913,900
Loans and advances to banks	16,415,697	-	-	16,415,697
Loans and advances to customers	9,126,280	-	-	9,126,280
Investment securities				
- Held to maturity	13,120,825	-	-	13,120,825
Other assets	279,676	-	-	279,676
	39,856,378	-	-	39,856,378

Bank

At 31 December 2013 (N'000)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets				
Cash and bank balances	7,487,144	-	-	7,487,144
Loans and advances	19,120,214	-	-	19,120,214
Investment securities				
- Held to maturity	4,551,859	2,720,914	-	7,272,773
Other assets	73,414	-	-	73,414
	31,232,631	2,720,914	-	33,953,545

At 31 December 2012 (N'000)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets				
Cash and bank balances	883,704	-	-	883,704
Loans and advances	24,457,952	-	-	24,457,952
Investment securities				
- Held to maturity	13,120,825	-	-	13,120,825
Other assets	79,763	-	-	79,763
	38,542,244	-	-	38,542,244

3.5 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.

The ratios below summarises the composition of regulatory capital and the ratios of the Group for the period ended 31 December 2013. Over this review period, the Group complied with all the externally imposed capital requirements to which it was and is subject.

	31 December 2013	**31 December 2012**
	N'000	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	3,770,251	3,467,659
Retained earnings	12,918,325	11,852,592
Credit Risk reserves	191,697	322,486
Less: Intangible assets		
Total qualifying Tier 1 capital	21,214,654	19,977,118
Tier 2 capital		
Available for sale reserves	(1,944,621)	(580,814)
Total regulatory capital	19,270,033	19,396,304
Risk-weighted assets:		
On-balance sheet	39,202,665	48,348,502
Total risk-weighted assets	39,202,665	48,348,502
Risk weighted Capital Adequacy Ratio	49.15%	40.12%

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 20%.

As at 31 December 2013, the Bank had a capital of N19 billion, well in excess of the regulatory minimum. Also, liquidity ratio stood at 81% and our capital adequacy ratio stood at 49.15%. The risk weighted assets are measured using the Central Bank of Nigeria's interpretation and ranking of the risk assets.

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

4.0 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.

(a) 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.

(b) 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

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.

The fair values for illiquid bonds are gotten from an independent source. The source's bond prices are model prices derived from a modelled yield. The modelled yield is calculated by adding a risk premium to the valuation yield (corresponding TTM yield interpolated off the FGN bond theoretical spot rate curve). This is used to calculate the bond bid price.

Risk premiums are derived by 2 methods described below;

1. Apply risk spread on latest acceptable trade for the respective bonds i.e. determine the spread between the bond yield on the latest acceptable trade and the FGN bond spot rate of comparable TTM.

2. Apply risk spread at issuance i.e. determine the spread between the bond yield at issuance and the FGN bond spot rate of comparable TTM. However, where the risk spread at issuance is less than 1% (100 basis points), a base risk premium of 100 basis points is applied.

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.

(c) Retirement Benefit Obligation

The present value of the retirement benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for retirement benefit obligations include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations. The group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligation. In determining the appropriate discount rate, the group considers the interest rates of high-quality Federal Government of Nigeria bonds and that have terms to maturity approximating the terms of the related retirement benefit obligation.

Other key assumptions for retirement benefit obligation are based in part on current market conditions. Additional information is disclosed in Note 23.

FSDH MERCHANT BANK LIMITED
STATEMENT OF PRUDENTIAL ADJUSTMENTS

		31 December 2013 N '000	31 December 2012 N '000
Prudential guidelines provision:			
- Specific provisions		-	566,585
- General provisions		197,948	322,486
		197,948	889,071
IFRS impairment provisions:			
- Impairment allowance on financial assets classified as loans and receivables	(Note 16)	35,727	566,585
		35,727	566,585
Decrease in IFRS impairment over prudential guidelines accounted for in credit risk reserve*		162,221	322,486

In line with the regulatory requirements of the Central Bank of Nigeria, provisions for loans recognised in the statement of comprehensive income determined based on the impairments provision requirements under IFRS should be compared with provisions determined under prudential guidelines and the difference should be treated as follows:
i. If impairment provisions under Prudential Guidelines exceeds the IFRS provisions; the resulting excess provision should be transferred from the general reserve account to a non-distributable "credit risk reserve".
ii. If provisions under the Prudential guidelines is less than the IFRS provisions; IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve account.
As at 31 December 2013, the difference in prudential guidelines provisions over the IFRS impairment of N162.22million has been designated to a non-distributable credit risk reserve classified under Tier 1 as part of core capital.

	GROUP 2013 N'000	GROUP 2012 N'000	BANK 2013 N'000	BANK 2012 N'000
5. Interest and similar income				
Bonds	3,668,530	4,445,030	3,657,607	4,427,501
Treasury bills	3,330,848	2,473,359	3,300,462	2,389,960
Commercial bills	120,616	2,408,765	265,383	2,407,608
Placements and investment income	248,287	296,596	118,608	175,480
Loans and advances to customers	1,775,535	-	1,775,535	-
Others	43,935	47,861	16,877	42,890
	9,187,751	9,671,611	9,134,472	9,443,439
6. Interest and similar expense				
Interest expense on deposits	1,049,538	-	1,049,322	-
Interbank call borrowings	138,323	1,383,889	138,323	1,383,636
Interest on debt securities	151,656	-	151,656	-
Interest on collaterised borrowing	5,637,974	6,864,806	5,888,054	6,934,067
	6,977,491	8,248,695	7,227,355	8,317,703
7. Fee and commission income				
Credit related fees	87,348	-	87,348	-
Fiduciary fees	2,142,291	1,649,372	-	-
Issuing house activities' fees	21,798	16,000	9,815	16,000
Commission and fees on foreign currency transactions	49,975	-	49,975	-
Other fees, commissions and charges	217,377	103,356	65,500	29,777
	2,518,789	1,768,728	212,638	45,777
8. Impairment charge for credit losses				
Increase in collective impairment	35,727	-	35,727	-
Increase in specific impairment	-	-	-	-
Reversal of impairment	-	-	-	-
	35,727	-	35,727	-
9. Net gains on financial instruments held for trading				
Equity securities	53,126	30,260	-	-
Bonds	97,072	149,746	81,983	145,803
Nigerian Treasury Bills	178,076	436,386	159,699	436,386
Foreign currency	379,834	-	379,794	-
Foreign exchange forward transactions	3,567	-	3,567	-
	711,675	616,392	625,043	582,189
10. Net gains on financial instruments classified as available for sale				
Bonds	566,931	1,651,224	566,931	1,651,224
Nigerian Treasury bills	119,262	134,720	119,262	134,720
	686,193	1,785,944	686,193	1,785,944
11. Other income				
Technical Service Fees	-	-	50,294	42,851
Profit on disposal of property & equipment	3,685	9,105	2,775	12,468
Dividend income	52,922	45,764	50,490	6
Others	963	4,158	5,045	2,180
	57,570	59,027	108,604	57,505

12. Operating expenses

	GROUP 2013 N'000	GROUP 2012 N'000	BANK 2013 N'000	BANK 2012 N'000
Staff related expenses (Note (i) below)	2,230,682	1,946,677	1,248,224	923,704
Depreciation (Note 26)	212,579	186,061	123,175	112,319
Amortisation (Note 25)	91,524	115,351	88,519	112,164
Auditors' remuneration	37,400	31,636	22,400	18,375
Directors' emoluments (Note (ii) below)	258,539	186,916	250,554	181,536
Administrative and other operating expenses	1,252,474	918,708	803,303	558,096
	4,083,198	3,385,350	2,536,175	1,906,194

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

	GROUP 2013 N'000	GROUP 2012 N'000	BANK 2013 N'000	BANK 2012 N'000
Wages, salaries and related costs	2,080,493	1,821,644	1,142,853	836,112
Pension costs	114,030	81,467	75,415	49,908
Gratuity costs (Note 23)	36,159	43,566	29,956	37,684
	2,230,682	1,946,677	1,248,224	923,704

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

	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
Executive	3	2	3	2
Management staff	41	36	21	16
Non management staff	318	284	89	75
	362	322	113	93

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

	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
Below N3,000,000	212	193	24	24
N3,000,001 - N5,000,000	52	51	23	22
N5,000,001 - N7,000,000	24	24	14	11
Above N7,000,000	74	54	52	36
	362	322	113	93

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

	GROUP 2013 N'000	GROUP 2012 N'000	BANK 2013 N'000	BANK 2012 N'000
Fees and sitting allowances	91,602	100,830	83,617	95,450
Executive compensation	166,937	86,086	166,937	86,086
	258,539	186,916	250,554	181,536

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

	GROUP 2013 N'000	GROUP 2012 N'000	BANK 2013 N'000	BANK 2012 N'000
Chairman	8,908	10,500	8,908	10,500
Highest paid director	66,810	47,001	66,810	47,001

13. Income tax (credit)/expense

	GROUP 2013 N'000	GROUP 2012 N'000	BANK 2013 N'000	BANK 2012 N'000
Tax charge for the year comprises:				
a) Income Tax Charge				
Company income tax	629,967	425,217	293,453	209,609
Education tax	22,530	14,104	-	-
Total current tax charge	652,497	439,321	293,453	209,609
b) Deferred tax				
Origination and reversal of temporary differences	78,404	898	24,367	10,382
Amount of unused tax losses	(1,288,902)	(1,331,659)	(1,288,902)	(1,331,659)
Write down or reversal of deferred tax assets	-	-	-	-
Total deferred tax (credit)/charge	(1,210,498)	(1,330,76)	(1,264,535)	(1,321,277)
Income tax (credit)/expense	(558,001)	(891,440)	(971,082)	(1,111,668)
Analysis of income tax (credit)/expense				
Tax on profit for the year	(551,179)	(918,042)	(959,602)	(1,136,609)
Tax effect on other comprehensive income (Note 23 (a))	(6,822)	26,602	(11,480)	24,941
Income tax (credit)/expense	(558,001)	(891,440)	(971,082)	(1,111,668)

Further information about deferred income tax is presented in Note 24. 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 for December 2013

	Gross N'000	Tax N'000	Net of Tax N'000
GROUP			
Actuarial gain on retirement benefit (Note 23)	(22,739)	6,822	(15,917)
Net unrealised loss on available for sale financial assets	(955,200)	-	(955,200)
Other comprehensive income - December 2013	(977,939)	6,822	(971,117)
Actuarial gain on retirement benefit (Note 23)	88,670	(26,602)	62,068
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)	2,297,982
BANK			
Actuarial gain on retirement benefit (Note 23)	(38,268)	11,480	(26,788)
Net unrealised loss on available for sale financial assets	(1,363,807)	-	(1,363,807)
Other comprehensive income - December 2013	(1,402,075)	11,480	(1,390,595)
Actuarial gain on retirement benefit (Note 23)	83,135	(24,941)	58,194
Net unrealised loss on available for sale	1,979,857	-	1,979,857
Other comprehensive income - December 2012	2,062,992	(24,941)	2,038,051

(ii) The tax on the Group's profit differs from the theoretical amount using the basic tax rate as follows:

	GROUP 2013 N'000	GROUP 2012 N'000	BANK 2013 N'000	BANK 2012 N'000
Profit before income tax	2,065,562	2,267,657	967,693	1,690,957
Income tax using the domestic corporation tax rate	619,669	680,297	290,308	507,287
Effect of:				
Non-deductible expenses	101,948	93,279	74,226	71,206
Education tax levy	22,530	14,104	-	-
Dividend tax	299,063	209,610	293,453	209,609
Minimum tax	-	4,037	-	-
Balancing charge	41,681	17,259	35,847	(14,558)
Tax exempt income	(2,590,581)	(2,837,461)	(2,572,100)	(2,805,487)
Tax losses for which no deferred income tax was recognised	954,511	900,833	918,664	895,334
Total income tax expense in income statement	(551,179)	(918,042)	(959,602)	(1,136,609)

The current tax charge has been computed at the applicable rate of 30% (31 December 2012: 30%) plus education tax of 2% (31 December 2012: 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 incomes such as dividend income, interest income on Federal Government of Nigeria, municipal and corporate bonds and the Nigerian Treasury Bills which are exempt from income tax and other applicable taxes as gazetted by the Federal Government of Nigeria.

	GROUP 31 December 2013 N'000	GROUP 31 December 2012 N'000	BANK 31 December 2013 N'000	BANK 31 December 2012 N'000
The movement in the current income tax liability is as follows:				
At start of the period	887,142	701,215	571,774	571,773
Tax paid	(464,540)	(253,394)	(321,953)	(209,608)
Income tax charge	652,497	439,321	293,453	209,609
At end of the period	1,075,099	887,142	543,274	571,774
Current	1,075,099	887,142	543,274	571,774
Non-Current	-	-	-	-
	1,075,099	887,142	543,274	571,774

14. Cash and bank balances

	GROUP 31 December 2013 N'000	GROUP 31 December 2012 N'000	BANK 31 December 2013 N'000	BANK 31 December 2012 N'000
Cash in hand	652	642	473	363
Balances held with other banks:				
- Operating balance with Central Bank of Nigeria	5,436,261	783,274	5,436,261	783,274
- Balances with banks in Nigeria	466,802	129,984	149,407	100,067
- Balances with banks outside Nigeria	1,270,730	-	1,270,730	-
Cash and bank balances included in cash & cash equivalents (see Note 35)	7,174,445	913,900	6,856,871	883,704
- Mandatory reserve deposit with Central Bank of Nigeria	630,273	-	630,273	-
	7,804,718	913,900	7,487,144	883,704
Current	7,174,445	913,900	6,856,871	883,704
Non-Current	630,273	-	630,273	-
	7,804,718	913,900	7,487,144	883,704

Mandatory reserve deposits with the Central Bank of Nigeria represents a percentage of customers' deposits (prescribed from time to time by the Central Bank) which is not available for daily use. For purpose of statement of cashflows, this amount is excluded from cash and cash equivalents.

15. Loans to banks

	GROUP 31 December 2013 N'000	GROUP 31 December 2012 N'000	BANK 31 December 2013 N'000	BANK 31 December 2012 N'000
Placements with banks and discount houses	321,197	16,357,112	-	-
Placements with other financial institutions	103,006	58,585	-	-
	424,203	16,415,697	-	-
Current	321,197	16,357,112	-	-
Non-Current	103,006	58,585	-	-
	424,203	16,415,697	-	-

Placement with other financial institutions represents Pensions Alliance Limited's statutory reserve account balance 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.

	GROUP 31 December 2013 N'000	GROUP 31 December 2012 N'000	BANK 31 December 2013 N'000	BANK 31 December 2012 N'000
16. Financial instruments held for trading				
Quoted equity securities	108,477	34,820	-	-
Nigerian Treasury Bills	1,212,037	11,469,657	1,212,037	11,324,890
Federal Government of Nigeria Bonds	3,761	-	-	-
	1,324,275	11,504,477	1,212,037	11,324,890
Current	1,212,037	11,469,657	1,212,037	11,324,890
Non-current	112,238	34,820	-	-
	1,324,275	11,504,477	1,212,037	11,324,890

17. Loans and advances to customers

	GROUP 31 December 2013 N'000	GROUP 31 December 2012 N'000	BANK 31 December 2013 N'000	BANK 31 December 2012 N'000
Classified as loans and receivables				
Loans and advances at amortised cost	18,371,744	271,324	18,354,025	247,576
Commercial bills at amortised cost	801,916	9,119,537	801,916	9,118,610
Promissory notes at amortised cost	-	-	-	15,339,342
Margin facilities at amortised cost (Note 17(i))	200,061	6,743	-	-
	19,373,721	9,397,604	19,155,941	24,705,528
Allowance for impairment (Note 17(ii))	(35,727)	(566,585)	(35,727)	(566,585)
	19,337,994	8,831,019	19,120,214	24,138,943
Current	9,520,692	8,831,019	9,302,912	24,138,943
Non-Current	9,817,302	-	9,817,302	-
	19,337,994	8,831,019	19,120,214	24,138,943

(i) Margin facilities are shares-backed loans. 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 2013 was N541million (2012: N28.21million).

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

GROUP

	Loans and Advances N'000	Commercial bills N'000	Margin accounts N'000	Total N'000
Balance at 1 January 2013	-	566,585	-	566,585
Increase in impairment for the period (Note 8)	35,727	-	-	35,727
Amounts written off during the year	-	(566,585)	-	(566,585)
At 31 December 2013	35,727	-	-	35,727
Balance at 1 January 2012	-	566,585	31,459	598,044
Provisions written off in the year	-	-	(31,459)	(31,459)
At 31 December 2012	-	566,585	-	566,585

BANK

	Loans and Advances N'000	Commercial bills N'000	Margin accounts N'000	Total N'000
Balance at 1 January 2013	-	566,585	-	566,585
Increase in impairment for the period (Note 8)	35,727	-	-	35,727
Amounts written off during the year	-	(566,585)	-	(566,585)
At 31 December 2013	35,727	-	-	35,727
Balance at 1 January 2012	-	566,585	-	566,585
Provisions written off during the year	-	-	-	-
At 31 December 2012	-	566,585	-	566,585

	GROUP 31 December 2013 N'000	GROUP 31 December 2012 N'000	BANK 31 December 2013 N'000	BANK 31 December 2012 N'000

18. Derivative financial instruments

Foreign exchange forward contracts				
Notional	3,200,086	-	3,200,086	-
Assets	65,723	-	65,723	-
Liabilities	62,156	-	62,156	-

The table above analyses the notional principal amounts and the positive (assets) and negative (liabilities) fair values of the Group's derivative financial instruments. The notional amount represent the amounts of principal underlying the contract at reporting date. Fair value changes are recognised in the statement of comprehensive income.

19. Investment securities

Analysis of investment securities

	GROUP 31 December 2013 N'000	GROUP 31 December 2012 N'000	BANK 31 December 2013 N'000	BANK 31 December 2012 N'000
Debt securities (Note (i))	35,964,952	29,134,608	34,780,040	28,792,072
Equity securities (Note (ii))	1,769,391	1,146,147	666	666
	37,734,343	30,280,755	34,780,706	28,792,738
Current	16,025,085	6,529,481	14,964,163	6,285,305
Non-current	21,709,258	23,751,274	19,816,543	22,507,433
	37,734,343	30,280,755	34,780,706	28,792,738
(i) **Debt securities**				
Classified as available for sale				
Nigerian Treasury Bills	9,431,789	244,842	8,366,067	-
Federal Government of Nigeria bonds	8,566,335	8,329,138	8,566,335	8,314,173
State Government and Corporate bonds	10,694,055	7,439,803	10,574,865	7,357,074
	28,692,179	16,013,783	27,507,267	15,671,247
Classified as held to maturity				
Federal Government of Nigeria bonds	7,272,773	13,120,825	7,272,773	13,120,825
Total debt securities	35,964,952	29,134,608	34,780,040	28,792,072
(ii) **Equity securities**				
Classified as available for sale				
Quoted equity securities	1,399,279	1,010,190	-	-
Quoted mutual funds	207,405	-	-	-
Unquoted equity securities	162,707	135,957	666	666
	1,769,391	1,146,147	666	666

20. Pledged assets

	GROUP 31 December 2013 N'000	GROUP 31 December 2012 N'000	BANK 31 December 2013 N'000	BANK 31 December 2012 N'000
classified as held for trading				
Nigerian Treasury Bills	2,210,015	7,997,053	2,210,015	7,997,053
classified as available for sale				
Nigerian Treasury Bills	2,583,000	14,822,663	2,583,000	14,822,663
Federal Government of Nigeria bonds	2,247,666	-	2,247,666	-
State Government and Corporate bonds	4,247,639	-	4,247,639	-
	11,288,320	22,819,716	11,288,320	22,819,716
Current	6,588,707	22,819,716	6,588,707	22,819,716
Non-current	4,699,613	-	4,699,613	-
	11,288,320	22,819,716	11,288,320	22,819,716

Debt securities are pledged as collateral to secure liabilities and on repurchase agreements with clients. The disclosure above includes any transferred assets associated with secured borrowing or liabilities under repurchase agreements as disclosed in Notes 27 & 28.

21. Other assets

	GROUP 31 December 2013 N'000	GROUP 31 December 2012 N'000	BANK 31 December 2013 N'000	BANK 31 December 2012 N'000
Financial assets				
Receivables	342,784	279,677	73,414	79,763
	342,784	279,677	73,414	79,763
Non financial assets				
Prepayments	630,201	413,574	522,005	335,089
Withholding tax receivable	572,064	379,973	23,503	17,540
Others	6,136	3,704	6,138	2,410
	1,208,401	797,251	551,646	355,039
	1,551,185	1,076,928	625,060	434,802
Current	1,169,929	778,743	264,655	145,406
Non-current	381,256	298,185	360,405	289,396
	1,551,185	1,076,928	625,060	434,802

22. Investment in subsidiaries

	31 December 2013 N'000	31 December 2012 N'000
FSDH Asset Management Limited	200,000	200,000
Pensions Alliance Limited	587,010	587,010
	787,010	787,010

The bank holds 51% equity stake in Pensions Alliance Limited (PAL) and 99.7% in FSDH Asset Management Limited. 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.

23. Retirement benefit asset/(obligation)

Defined contribution scheme

The group 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 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:	GROUP 31 December 2013 N'000	GROUP 31 December 2012 N'000	BANK 31 December 2013 N'000	BANK 31 December 2012 N'000
Retirement benefit asset/(liability)	(3,383)	55,515	(17,332)	50,892
Income statement charge for:				
Gratuity costs	36,159	43,566	29,956	37,684
Actuarial gain/(loss) recognised in Other Comprehensive Income	(22,739)	88,670	(38,268)	83,135
Tax effect at 30%	6,822	(26,601)	11,480	(24,941)
Actuarial gain/(loss) recognised in Other Comprehensive Income net of taxes	(15,917)	62,069	(26,788)	58,194

(b) The following tables show a reconciliation from the opening balances to the closing balances for the net defined benefit asset/(obligation) and its components.

GROUP

	Defined benefit N'000	Plan assets N'000	Net defined benefit asset/(obligation) N'000
Balance at 1 January 2013	(471,184)	526,699	55,515
Included in profit or loss			
Current service cost	(38,265)	-	(38,265)
Interest cost/(income)	(62,204)	64,310	2,106
	(100,469)	64,310	(36,159)
Included in other comprehensive income			
Remeasurement loss/(gain)			
- actuarial gain	(21,087)	(1,652)	(22,739)
- return on plan asset excluding interest income	-	-	-
	(21,087)	(1,652)	(22,739)
Others			
Contribution by employer during the period	-	-	-
Benefits paid	-	-	-
	-	-	-
Balance at 31st December 2013	(592,740)	589,357	(3,383)

	Defined benefit N'000	Plan assets N'000	Net defined benefit liability/(asset) N'000
Balance at 1 January 2012	(451,920)	462,331	10,411
Included in profit or loss			
Current service cost	(39,948)	-	(39,948)
Interest cost/(income)	(59,024)	55,406	(3,618)
	(98,972)	55,406	(43,566)
Included in other comprehensive income			
Remeasurement loss/(gain)			
- actuarial gain	79,708	8,962	88,670
- return on plan asset excluding interest income	-	-	-
	79,708	8,962	88,670
Others			
Contribution by employer during the period	-	-	-
Benefits paid	-	-	-
	-	-	-
Balance at 31st December 2012	(471,184)	526,699	55,515

BANK

	Defined benefit N'000	Plan assets N'000	Net defined benefit liability/(asset) N'000
Balance at 1 January 2013	(421,537)	472,429	50,892
Included in profit or loss			
Current service cost	(31,990)	-	(31,990)
Interest cost/(income)	(55,650)	57,684	2,034
	(87,640)	57,684	(29,956)
Included in other comprehensive income			
Remeasurement loss/(gain)			
- actuarial gain	(36,786)	(1,482)	(38,268)
-return on plan asset excluding interest income	-	-	-
	(36,786)	(1,482)	(38,268)
Others			
Contribution by employer during the period	-	-	-
Benefits paid	-	-	-
	-	-	-
Balance at 31st December 2013	(545,963)	528,631	(17,332)

	Defined benefit N'000	Plan assets N'000	Net defined benefit liability/(asset) N'000
Balance at 1 January 2012	(408,766)	414,207	5,441
Included in profit or loss			
Current service cost	(33,927)	-	(33,927)
Interest cost/(income)	(53,388)	49,631	(3,757)
	(87,315)	49,631	(37,684)
Included in other comprehensive income			
Remeasurement loss/(gain)			
- actuarial gain	74,544	8,591	83,135
-return on plan asset excluding interest income	-	-	-
	74,544	8,591	83,135
Others			
Contribution by employer during the period	-	-	-
Benefits paid	-	-	-
	-	-	-
Balance at 31st December 2012	(421,537)	472,429	50,892

(c) Composition of the plan assets are as follows:

	31 December 2013 %	31 December 2012 %
Cash and cash equivalents	91.62	74.33
Government Bonds	8.38	25.67
	100.00	100.00

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

	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Discount rate	13.00%	12.21%	13.00%	12.21%
Inflation rate	10.00%	10.00%	10.00%	10.00%
Salary increase rate	10.00%	10.00%	10.00%	10.00%

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

(e) Sensitivity of significant assumptions

The valuation results are based on a number of assumptions, some as enumerated above. The value of liability is thus sensitive to the assumptions used. Below is a recalculated liability to show effect of discount rate and salary increase rate assumptions on the defined benefit obligation by adding and subtracting 1% on the discount rate and salary increase rate holding other assumptions constant.

GROUP

Discount rate		**Amount N'000**	**+1% N'000**	**-1% N'000**
Defined benefit obligation	-	592,740	549,148	642,003
Change			-7.35%	8.31%

Salary Increase rate		**Amount N'000**	**+1% N'000**	**-1% N'000**
Defined benefit obligation	-	592,740	643,021	547,571
Change			8.48%	-7.62%

BANK

Discount rate		**Amount N'000**	**+1% N'000**	**-1% N'000**
Defined benefit obligation	-	545,963	505,811	591,338
Change			-7.35%	8.31%

Salary Increase rate		**Amount N'000**	**+1% N'000**	**-1% N'000**
Defined benefit obligation	-	545,963	592,276	504,359
Change			8.48%	-7.62%

24. Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using a statutory tax rate of 30% (2012: 30%).

Deferred income tax assets are attributable to the following items:

	GROUP 31 December 2013 N'000	GROUP 31 December 2012 N'000	BANK 31 December 2013 N'000	BANK 31 December 2012 N'000
Deferred tax assets				
Accelerated tax depreciation	(63,634)	21,592	(31,889)	3,958
Tax loss carry forward	2,648,553	1,359,651	2,648,554	1,359,652
Gratuity post retirement benefit	115,797	108,975	109,169	97,689
	2,700,716	1,490,218	2,725,834	1,461,299

Movements in temporary differences during the year:

GROUP

	1 January 2013 N'000	Recognised in P&L N'000	Recognised OCI N'000	31 Dec 2013 N'000
Accelerated tax depreciation	21,592	(85,226)	-	(63,634)
Tax loss carry forward	1,359,651	1,288,902	-	2,648,553
Gratuity post retirement benefit	108,975	-	6,822	115,797
	1,490,218	1,203,676	6,822	2,700,716

	1 January 2012 N'000	Recognised in P&L N'000	Recognised OCI N'000	31 Dec 2012 N'000
Accelerated tax depreciation	(4,113)	25,705	-	21,592
Tax loss carry forward	27,992	1,331,659	-	1,359,651
Gratuity post retirement benefit	135,576	-	(26,601)	108,975
	159,455	1,357,364	(26,601)	1,490,218

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2013, the group did not recognise deferred income tax assets of N1.8billion in respect of losses that can be carried forward against future taxable income.

BANK

	1 January 2013 N'000	Recognised in P&L N'000	Recognised OCI N'000	31 Dec 2013 N'000
Accelerated tax depreciation	3,958	(35,847)	-	(31,889)
Tax loss carry forward	1,359,652	1,288,902	-	2,648,554
Gratuity post retirement benefit	97,689	-	11,480	109,169
	1,461,299	1,253,055	11,480	2,725,834

	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	1,331,660	-	1,359,652
Gratuity post retirement benefit	122,630	-	(24,941)	97,689
	140,022	1,346,218	(24,941)	1,461,299

25. Intangible assets

	GROUP 31 December 2013 N'000	GROUP 31 December 2012 N'000	BANK 31 December 2013 N'000	BANK 31 December 2012 N'000
Cost				
At 1 January 2013	652,608	400,118	567,716	400,118
Additions	74,357	950	58,642	-
Reclassifications	-	83,942	-	-
Work in progress	-	167,598	-	167,598
Disposals	(60,391)	-	(60,391)	-
At 31 December 2013	666,574	652,608	565,967	567,716
Accumulated amortisation				
At 1 January 2013	(416,506)	(224,333)	(335,503)	(224,333)
Charge for the year	(91,524)	(115,351)	(88,519)	(112,164)
Reclassifications	-	(76,822)	-	994
Disposals	59,750	-	59,750	-
At 31 December 2013	(448,280)	(416,506)	(364,272)	(335,503)
Net book amount at 1 January 2013	236,102	175,785	232,213	175,785
Net book amount at 31 December 2013	218,294	236,102	201,695	232,213

The work-in-progress of N167.59million as at 31 December 2012 related to part acquisition cost of a new banking software and was capitalised during the year when the software was put to use.

26. 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 2013	123,648	343,370	135,639	424,580	-	1,027,237
Additions	67,616	45,863	12,647	249,822	538	376,486
Disposals	(28,662)	(34,559)	(4,653)	(97,755)		(165,629)
At 31 December 2013	162,602	354,674	143,633	576,647	538	1,238,094
Accumulated depreciation						
At 1 January 2013	(73,213)	(276,960)	(95,932)	(187,973)	-	(634,078)
Charge for the year	(29,041)	(40,516)	(19,990)	(123,032)	-	(212,579)
Disposals	28,662	34,558	4,641	97,403	-	165,264
At 31 December 2013	(73,592)	(282,918)	(111,281)	(213,602)	-	(681,393)
Net book amount at 31 December 2013	**89,010**	**71,756**	**32,352**	**363,045**	**538**	**556,701**
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 1 January 2012	77,487	94,991	48,328	175,726	-	396,532
Net book amount at 31 December 2012	**50,435**	**66,410**	**39,707**	**236,607**	**-**	**393,159**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2013

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 2013	83,832	198,201	96,648	237,001	-	615,682
Additions	57,536	20,666	4,627	131,559	538	214,926
Disposals	(28,662)	(34,559)	(4,653)	(53,390)	-	(121,264)
At 31 December 2013	112,706	184,308	96,622	315,170	538	709,344
Accumulated depreciation						
At 1 January 2013	(59,695)	(171,344)	(69,421)	(90,071)	-	(390,531)
Charge for the year	(18,576)	(18,796)	(13,666)	(72,137)	-	(123,175)
Disposals	28,662	34,558	4,642	53,305	-	121,167
At 31 December 2013	(49,609)	(155,582)	(78,445)	(108,903)	-	(392,539)
Net book amount at 31 December 2013	63,097	28,726	18,177	206,267	538	316,805
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 1 January 2012	39,294	46,340	40,133	90,952	-	216,719
Net book amount at 31 December 2012	24,137	26,857	27,227	146,930	-	225,151

	31 December 2013 N'000	31 December 2012 N'000	31 December 2013 N'000	31 December 2012 N'000

27. Due to banks

	31 December 2013 N'000	31 December 2012 N'000	31 December 2013 N'000	31 December 2012 N'000
Call borrowings	1,606,363	17,371,115	1,606,363	17,371,115
Secured borrowings and liabilities under repurchase agreement	3,680,099	23,133,221	3,680,099	23,133,221
	5,286,462	40,504,336	5,286,462	40,504,336
Current	5,286,462	40,504,336	5,286,462	40,504,336
Non-current	-	-	-	-
	5,286,462	40,504,336	5,286,462	40,504,336

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).

28. Due to customers

	31 December 2013 N'000	31 December 2012 N'000	31 December 2013 N'000	31 December 2012 N'000
Liabilities under repurchase agreements	10,358,560	29,475,259	10,358,560	30,520,785
Demand	3,443,802	-	3,158,014	-
Term	32,737,785	-	34,188,143	-
Other customer balances	285,788	124,279	-	18,046
	46,825,935	29,599,538	47,704,717	30,538,831
Current	46,825,935	29,599,538	47,704,717	30,538,831
Non-current	-	-	-	-
	46,825,935	29,599,538	47,704,717	30,538,831

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.

29. Other liabilities

	31 December 2013 N'000	31 December 2012 N'000	31 December 2013 N'000	31 December 2012 N'000
Financial liabilities:				
Customers' deposit for foreign trade (Note (i))	7,407	-	7,407	-
Accounts payable	10,355	252,951	7,696	133,033
Sundry accounts	65,097	-	56,044	-
	82,859	252,951	71,147	133,033
Non financial liabilities:				
Accrued expenses and other payables	407,787	7,079	148,433	7,079
	407,787	7,079	148,433	7,079
	490,646	260,030	219,580	140,112
Current	490,646	260,030	219,580	140,112
Non-current	-	-	-	-
	490,646	260,030	219,580	140,112

(i) This represents the naira value of foreign currencies held on behalf of customer(s) to cover letters of credit transactions.

	31 December 2013 N'000	31 December 2012 N'000	31 December 2013 N'000	31 December 2012 N'000
30. Debt securities issued				
Debt securities at amortised cost:				
Fixed rate senior unsecured bonds	5,542,720	-	5,542,720	-
	5,542,720	-	5,542,720	-

Debt securities represents note issuance of N5.53billion under the note issuance agreement with FSDH Funding SPV Plc, a structured entity incorporated in Nigeria set up to issue bonds to the public in order to provide funding to the bank. The note issuance is with respect to the N5.53billion fixed rate unsecured non-convertible bond issued by the SPV in October 2013 for a period of 3 years. The debt security is redeemable in October 2016 and coupon is payable half yearly at the rate of 14.25% per annum.

31. Share capital

	31 December 2013 N'000	31 December 2012 N'000
GROUP AND BANK		
Authorised		
3,100,000,000 Ordinary shares of N1 each	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

32. Share premium and reserves

GROUP AND BANK

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

(a) Share premium: Premiums from the issue of shares are reported in share premium.

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

(c) Statutory reserve: In accordance with the Banks and Other Financial Institutions Act of 1991 (Amended), 15% of profit after taxation has been transferred to statutory reserve. In addition, Pensions 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.

(d) 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.

(e) Treasury share reserve: This represents 241.42million units (31 December 2012: 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.

33. Credit risk reserve

This represents a non-distributable reserve for the excess between the impairment reserve on loans and advances determined using Prudential Guidelines issued by the Central Bank of Nigeria over the impairment reserve calculated under IFRS.

b) Movement in credit risk reserve

	GROUP		BANK	
	31 December 2013 N '000	31 December 2012 N '000	31 December 2013 N '000	31 December 2012 N '000
Balance as at 1st January	322,486	144,672	322,486	144,672
(Write-back)/charge to retained earnings	(160,265)	177,814	(160,265)	177,814
Balance as at 31st December	162,221	322,486	162,221	322,486

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

	31 December 2013 N'000	31 December 2012 N'000	31 December 2013 N'000	31 December 2012 N'000
Profit before income tax	2,065,562	2,267,657	967,693	1,690,957
Adjustments for:				
– Depreciation (note 26)	212,579	186,061	123,175	112,319
– Amortisation (note 25)	91,524	115,351	88,519	112,164
– (Profit) on disposal of property and	(3,685)	(9,105)	(2,775)	(12,468)
– Benefit plan charge (note 23)	36,159	43,566	29,956	37,684
– Net interest income	(2,210,260)	(1,328,264)	(1,907,117)	(1,125,736)
– Dividend income from subsidiaries	-	-	(50,490)	-
Changes in working capital:				
– Balances with Central Bank (restricted cash)	(630,273)	-	(630,273)	-
– Loans to banks (restricted cash)	(44,421)	(31,620)	-	-
– Loans and receivables to customers	(10,617,073)	(94,705)	4,913,742	(15,445,347)
– Financial instruments held for trading	6,928,606	(920,654)	7,006,024	(885,834)
– Derivatives financial assets	(65,723)	-	(65,723)	-
– Pledged assets	11,531,396	6,146,155	11,531,396	6,146,155
– Other assets	(474,257)	(100,191)	(190,258)	15,795
– Due to banks	(35,217,542)	4,875,939	(35,203,079)	4,875,939
– Due to customers	17,034,627	8,633,045	16,974,116	8,923,513
– Derivatives financial liabilities	62,156	-	62,156	-
– Other liabilities	230,616	2,717	79,468	(16,649)
Cash generated from operations	(11,070,009)	19,785,952	3,726,530	4,428,492

35. 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 fro when the group became a party to the instrument.

	GROUP		BANK	
	2013	2012	2013	2012
	N'000	N'000	N'000	N'000
Cash and bank balances (Note 14)	7,174,445	913,900	6,856,871	883,704
Placements with banks and discount houses in Nigeria (Note 15)	321,197	16,357,112	-	-
Treasury bills held for trading	2,459,546	5,711,142	2,459,546	5,566,375
Treasury bills classified as available for sale	1,659,198	244,842	1,459,729	-
	11,614,386	23,226,996	10,776,146	6,450,079

36. Group entities

The Group is controlled by FSDH Merchant Bank Limited "the ultimate parent". The controlling interest of FSDH Merchant Bank Limited in the Group entities is as disclosed in the accompanying disclosures below -

The basis of consolidation of the Group's subsidiaries is as stated in Note 2.2. The following disclosures are provided as regards the bank's interest in other entities and information relating to significant non-controlling interests in entities within the Group.

List of significant subsidiaries

	Type of holding	Principal line of business	Ownership Interest 2013	Ownership Interest 2012
FSDH Asset Management Limited, incorporated in Nigeria	Direct	Fund & portfolio management	99.7%	99.7%
Pensions Alliance Limited, incorporated in Nigeria	Direct	Pension fund administration	51.0%	51.0%
FSDH Securities Limited, incorporated in Nigeria	Indirect	Stockbroking	99.6%	99.6%

Structured entities

The accounts of FSDH Staff Co-operative Society, a staff co-operative scheme which holds 8.64% of the equity holdings of the parent bank and FSDH Funding SPV Plc, a special purpose vehicle, set up to issue bonds to the public in order to provide funding to the bank has been consolidated in the Group financials. For information on judgements made to conclude the group has control in this entity, see Note 2.2.

The Group did not give any financial support during the year (2012 : Nil) to any structured entity it consolidated.

Unconsolidated structured entities

The Group has interests in some special purpose entities set up to hold the title to underlying assets held as collateral for mortgage loans advanced to employees. The entities are set up primarily to ensure that the employees do not suffer a double charge on transfer of title, while still providing collateral to the Group for the loans advanced. The SPE is held in trust by a nominee and the title to the property vested in the SPE. Under the terms of the Trust, the nominee can only take the following actions; return ownership of SPE to employee upon liquidation of the loan or commence recovery process on behalf of the Group against the property upon a default event by the employee.

The Group did not give any financial support during the year (2012 : Nil) to any unconsolidated structured entity.

Significant restrictions

There are no significant restrictions on the Group's ability to access and use assets or settle liabilities of the group other than those resulting from regulatory frameworks within which the subsidiaries operate. Pensions Alliance Limited, a pension fund administration company is the only group subsidiary besides the parent bank that regulatory framework requires it to keep certain percentages of its profits in a restricted statutory reserve account (as disclosed in Note 32).

Non-Controlling Interests (NCI) in subsidiaries

Information relating to the Group's subsidiary with material NCI is as below -

Pensions Alliance Limited

NCI ownership interests & voting rights percentage	49%	49%
	2013	2012
	N'000	N'000
Total assets	2,368,967	1,689,179
Total liabilities	567,809	263,781
Net assets	1,801,158	1,425,398
Carrying amount of NCI	882,567	698,445

Pensions Alliance Limited (cont'd)	**2013**	**2012**
	N'000	**N'000**
Revenue	1,997,016	1,515,813
Profit	770,510	462,606
Total comprehensive income	517,996	361,204
Profit allocated to NCI	238,022	176,990
Dividend paid to NCI during the year	53,900	-
Summarised cashflows		
Cashflow from operating activities	(317,890)	337,441
Cashflow from investing activities	(66,585)	16,831
Cashflow from financing activities, before dividends to NCI	(56,100)	-
Cashflow from financing activities, cash dividends to NCI	(53,900)	-
Net increase in cash and cash equivalents	(494,475)	354,272

37. 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.

(b) Credit related commitments

In the normal course of business, the bank is party to financial instruments with off-balance sheet risk. The instruments are used to meet credit and other financial requirements of customers. The contractual amounts of the off-balance sheet financial instruments are:

	GROUP		**BANK**	
	31 December 2013 N'000	**31 December 2012 N'000**	**31 December 2013 N'000**	**31 December 2012 N'000**
Letters of Credit	5,562,569	-	5,562,569	-
Loan commitments	22,263,893	-	22,263,893	-
	27,826,462	-	27,826,462	-

38. Related party transactions

The parent company of the Group is FSDH Merchant Bank 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 2013 N'000**	**31 December 2012 N'000**
Wages and salaries	486,900	326,842
Pension costs	32,413	21,647
	519,313	348,489

(b) Loans and advances

	31 December 2013 N'000	31 December 2012 N'000
Loans outstanding	237,280	196,362

Loans to key management personnel as disclosed above represent staff loans which are payable between 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 for over 5 years. Mortgage loans are collateralised by the underlying property. There were no loan loss provision related to the amounts outstanding.

No loan was granted to any key management staff or employee outside their employment scheme of service.

(c) Deposits

	31 December 2013 N'000	31 December 2012 N'000
Due to customers	256,870	680,813

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

(ii) Directors and their related entities

(a) Deposits

	31 December 2013 N'000	31 December 2012 N'000
Due to customers	470,580	101,536

(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:

	31 December 2013 N'000	31 December 2012 N'000
Income earned*	-	132
Expense paid**	12,812	17,861

*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 fee is included in the expense paid disclosed.

**The bank used Swift Networks Limited 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.

(c) Loans and advances

	31 December 2013 N'000	31 December 2012 N'000
Loans and advances to customers	2,073,649	-
	2,073,649	-

This represents balance outstanding on credits advanced to directors and directors' related entities. No impairment has been recognised in respect of loans granted to these related parties.

(iii) Shareholders and related entities

(a) Deposits

	31 December 2013 N'000	31 December 2012 N'000
Due to banks	-	8,012,022
Due to customers	2,317,820	8,671,652

(b) Cash and bank balances	**31 December 2013 N'000**	**31 December 2012 N'000**
Bank balances	76,308	13,730

(c) Loans and advances

There were no loans to shareholders and shareholders' related entities during the year (2012: Nil).

(iv) Subsidiaries

(a) Deposits	**31 December 2013 N'000**	**31 December 2012 N'000**
Due to customers	921,502	829,819
Interest expense	248,885	69,266

This represents deposit balances of the subsidiaries with FSDH Merchant Bank Limited. The interest expense and balances as disclosed above have been eliminated in the consolidated group figures.

(b) Loans and receivables	**31 December 2013 N'000**	**31 December 2012 N'000**
Promissory notes	-	15,339,342
Interest income	265,383	681,244

This represents promissory notes issued by various banks discounted from FSDH Asset Management Limited and FSDH Securities Limited by FSDH Merchant Bank Limited as at year end. 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 interest income in the statement of comprehensive income.

(b) Transactions		**31 December 2013 N'000**	**31 December 2012 N'000**
FSDH Asset Management Limited	Technical management**	35,838	27,239
FSDH Securities Limited	Technical management**	19,481	15,612

**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 2012: 7.5% of earnings).

39. Insider related credits

In compliance with the Central Bank of Nigeria circular BSD/1/2004 on disclosure requirements on insider related credits, the following insider related credits and their performance as set below were outstanding as at 31 December 2013 (2012: Nil)

Customer and relationship	Facility Type	Amount	Status	Nature of security
Emerging Markets Telecoms Services Limited (Director related)	Term loan	2,073,649	Performing	Fixed charge on bank accounts, shares & license in subsidiaries, assignment of insurance policies and floating charge over other assets
IHS Nigeria Plc (Ex-Director related)	Term loan	919,638	Performing	All asset debenture
		2,993,287		

Insider-related credits include transactions involving shareholders, employees, directors and their related interests; the term director being as defined in section 20(5) of BOFIA 1991 (as amended). Under the circular, credits to employees under their employment scheme of service and shareholders' whose shareholding and related interest are less than 5% of the bank's paid up capital, are excluded.
Interest charged on insider related credits are similar to what would be charged in an arms' length transaction. No impairment charge has been recognised in these financials with respect to the insider related credits.

40. Earnings per share

(i) Basic
Basic earnings per share is calculated by dividing 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

	GROUP		BANK	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Profit after tax attributable to equity holders of the parent bank (N'000)	2,378,719	3,008,709	1,927,295	2,827,566
Weighted average number of ordinary shares ('000)	2,794,794	2,794,794	2,794,794	2,794,794
Treasury shares ('000)	(241,419)	(241,419)	-	-
Weighted average number of ordinary shares excluding treasury shares ('000)	2,553,375	2,553,375	2,794,794	2,794,794
Basic earnings per share (expressed in kobo per share)	93	118	69	101

(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 2012: Nil).

Diluted earnings per share (expressed in	93	118	69	101

41. Dividends

	31 December 2013 N'000	31 December 2012 N'000
Proposed dividend at 35kobo (2012: 25kobo) per share	978,178	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 2013 of 35kobo per share (2012: 25kobo) amounting to a total of N978.178million (2012: 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 2014.

42. Compliance with banking regulations

The bank did not pay any penalties in respect of contravention of any regulations of the Banks and Other Financial Institutions Act or relevant circular issued by the Central Bank of Nigeria (CBN).

43. Events after statement of financial position date

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

FSDH MERCHANT BANK LIMITED

OTHER FINANCIAL INFORMATION

STATEMENT OF VALUE ADDED

GROUP

	Dec 2013		Dec 2012	
	₦'000	%	₦'000	%
Gross earnings	13,161,978		13,901,702	
Interest and similar expenses	(6,977,491)		(8,248,695)	
	6,184,487		5,653,007	
Write back on impairment allowance on risk assets	(35,727)		-	
Bought-in materials and services- local	(1,289,874)		(950,344)	
Value added	4,858,886	100	4,702,663	100
Distribution of value added				
To employees and directors:				
Salaries and benefits	2,489,221	51	2,133,593	45
To government:				
Government as taxes	(551,179)	(11)	(918,042)	(20)
The future:				
For replacement of fixed assets (depreciation)	212,579	4	186,062	4
For replacement of intangible assets (amortisation)	91,524	2	115,351	3
Transferred to non-controlling Interest	238,022	5	176,990	4
To pay declared dividend	638,343	13	638,343	14
To augment reserves	1,740,376	36	2,370,366	50
	4,858,886	100	4,702,663	100

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

BANK

	Dec 2013		Dec 2012	
	₦'000	%	₦'000	%
Gross earnings	10,766,950		11,914,854	
Securities trading expenses	(7,227,355)		(8,317,703)	
	3,539,595		3,597,151	
Write back on allowance on assets value	(35,727)		-	
Bought-in materials and services- local	(825,703)		(576,471)	
Value added	2,678,165	100	3,020,680	100
Distribution of value added				
To employees and directors:				
Salaries and benefits	1,498,778	56	1,105,240	37
To government:				
Tax	(959,602)	(36)	(1,136,609)	(38)
The future:				
For replacement of fixed assets (depreciation)	123,175	5	112,319	4
For replacement of intangible assets (amortisation)	88,519	3	112,164	4
To pay declared dividend	698,698	26	698,698	23
To augment reserves	1,228,597	46	2,128,868	70
	2,678,165	100	3,020,680	100

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

FSDH MERCHANT BANK LIMITED

OTHER FINANCIAL INFORMATION

FIVE YEAR FINANCIAL SUMMARY - GROUP

	IFRS Statements			N-GAAP Statements	
	Dec 2013	**Dec 2012**	Dec 2011	Dec 2010	Dec 2009
	₦'000	**₦'000**	₦'000	₦'000	₦'000
Gross earnings	**13,161,978**	**13,901,702**	8,295,007	8,019,999	7,543,490
Interest and similar expenses	**(6,977,491)**	**(8,248,695)**	(5,630,065)	(2,497,159)	(3,482,493)
Operating income	**6,184,487**	**5,653,007**	2,664,942	5,522,840	4,060,997
Profit before tax	**2,065,562**	**2,267,657**	2,561,033	3,458,013	3,014,945
Tax	**551,179**	**918,042**	(334,204)	(351,354)	(366,883)
Profit after tax	**2,616,741**	**3,185,699**	2,226,829	3,106,659	2,648,062
Minority interest	**(238,022)**	**(176,990)**	(113,867)	(56,633)	(21,304)
Profit attributable to equity holders	**2,378,719**	**3,008,709**	2,112,962	3,050,026	2,626,758
Earnings per share (kobo)	**93**	**118**	83	109	94

	IFRS Statements			N-GAAP Statements	
	Dec 2013	**Dec 2012**	Dec 2011	Dec 2010	Dec 2009
	₦'000	**₦'000**	₦'000	₦'000	₦'000
ASSETS					
Cash and bank balances	**7,804,718**	**913,900**	528,479	3,769,107	462,823
Loans to banks	**424,203**	**16,415,697**	694,386	-	-
Treasury bills	**-**	**-**	-	1,796,845	17,193,081
Financial instruments held for trading	**1,324,275**	**11,504,477**	-	-	-
Loans and advances to customers	**19,337,994**	**8,831,019**	8,099,015	-	-
Assets on repurchase agreements	**-**	**-**	-	28,865,889	31,916,736
Derivative financial instruments	**65,723**	**-**	-	-	-
Investment securities	**37,734,343**	**30,280,755**	35,143,058	11,734,873	23,560,739
Pledged assets	**11,288,320**	**22,819,716**	28,965,871	-	-
Margin accounts	**-**	**-**	-	21,272	31,018
Other assets	**1,551,185**	**1,076,928**	1,246,241	940,497	1,101,195
Retirement benefit scheme asset	**-**	**55,515**	10,411	-	1
Deferred tax assets	**2,700,716**	**1,490,218**	159,455	150,918	199,458
Intangible assets	**218,294**	**236,102**	175,785	215,763	-
Property and equipment	**556,701**	**393,159**	396,533	423,690	562,735
	83,006,472	**94,017,486**	75,419,234	47,918,854	75,027,786
LIABILITIES					
Due to banks	**5,286,462**	**40,504,336**	35,628,397	-	26,600,000
Due to customers	**46,825,935**	**29,599,538**	20,911,208	-	-
Liabilities on repurchase agreements	**-**	**-**	-	29,460,565	32,155,600
Derivative financial instruments	**62,156**	**-**	-	-	-
Retirement benefit obligation	**3,383**	**-**	-	16,405	-
Current income tax liability	**1,075,099**	**887,142**	701,215	711,773	836,669
Other liabilities	**490,646**	**260,030**	257,313	543,324	870,732
Deferred tax liabilities	**-**	**-**	-	39,149	-
Debt securities issued	**5,542,720**	**-**	-	-	-
	59,286,401	**71,251,046**	57,498,133	30,771,216	60,463,001
NET ASSETS	**23,720,071**	**22,766,439**	17,921,101	17,147,638	14,564,785
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)	-	-
Retained earnings	**16,141,531**	**14,624,282**	12,693,806	9,634,658	7,593,436
Statutory reserve	**3,932,752**	**3,565,277**	3,241,132	2,848,062	2,398,216
Available for sale reserve	**(1,283,591)**	**(328,391)**	(2,564,305)	-	-
Credit risk reserve	**162,221**	**322,486**	144,672	-	-
Revaluation reserve	**-**	**-**	-	94,939	102,062
	22,837,253	**22,067,995**	17,399,646	16,912,040	14,428,095
Non-controlling interest	**882,817**	**698,445**	521,455	235,598	136,690
SHAREHOLDERS' FUNDS	**23,720,070**	**22,766,440**	17,921,101	17,147,638	14,564,785

FSDH MERCHANT BANK LIMITED

OTHER FINANCIAL INFORMATION

FIVE YEAR FINANCIAL SUMMARY - BANK

	<----------------IFRS Statements	--------------->		<-----N-GAAP Statements------>	
	Dec 2013	**Dec 2012**	Dec 2011	Dec 2010	Dec 2009
	₦'000	₦'000	₦'000	₦'000	₦'000
Gross earnings	**10,766,950**	**11,914,854**	9,727,861	6,836,899	7,102,458
Securities trading expenses	**(7,227,355)**	**(8,317,703)**	(5,674,252)	(2,549,308)	(3,539,293)
Operating income	**3,539,595**	**3,597,151**	4,053,609	4,287,591	3,563,165
Profit before tax	**967,693**	**1,690,957**	2,251,688	3,158,789	2,913,165
Tax	**959,602**	**1,136,609**	(189,387)	(256,119)	(344,429)
Profit after tax	**1,927,295**	**2,827,566**	2,062,301	2,902,670	2,568,736
Earnings per share (Kobo)	**69**	**101**	74	104	92

	<----------------IFRS Statements	--------------->		<-----N-GAAP Statements------>	
	Dec 2013	**Dec 2012**	Dec 2011	Dec 2010	Dec 2009
	₦'000	**₦'000**	₦'000	₦'000	₦'000
ASSETS					
Cash and bank balances	**7,487,144**	**883,704**	527,668	3,409,142	393,829
Loans to banks	**-**	**-**	-	-	-
Treasury bills	**-**	**-**	-	-	-
Financial instruments held for trading	**1,212,037**	**11,324,890**	-	1,796,845	17,193,081
Loans and advances to customers	**19,120,214**	**24,138,943**	8,080,045	-	-
Assets on repurchase agreements	**-**	**-**	-	29,557,334	32,812,458
Derivative financial instruments	**65,723**	**-**	-	-	-
Investment securities	**34,780,706**	**28,792,738**	33,549,615	10,658,272	22,569,730
Pledged assets	**11,288,320**	**22,819,716**	28,965,871	-	-
Margin accounts	**-**	**-**	-	-	-
Other assets	**625,060**	**434,802**	698,173	574,539	590,682
Investment in subsidiaries	**787,010**	**787,010**	787,010	608,000	564,000
Retirement benefit scheme asset	**-**	**50,892**	5,441	-	-
Deferred tax assets	**2,725,834**	**1,461,299**	140,022	-	48,540
Intangible assets	**201,695**	**232,213**	175,785	215,763	-
Property and equipment	**316,805**	**225,151**	216,719	324,915	472,206
	78,610,548	**91,151,358**	73,146,349	47,144,810	74,644,526
LIABILITIES					
Due to banks	**5,286,462**	**40,504,336**	35,628,397	-	26,600,000
Due to customers	**47,704,717**	**30,538,831**	21,560,033	-	-
Liabilities on repurchase agreements	**-**	**-**	-	30,158,236	33,057,548
Derivative financial instruments	**62,156**	**-**	-		
Retirement benefit obligation	**17,332**	**-**	-	19,588	-
Current income tax liability	**543,274**	**571,774**	571,773	545,993	754,341
Other liabilities	**219,580**	**140,112**	156,761	216,773	506,217
Deferred tax liabilities	**-**	**-**	-	39,149	
Debt securities issued	**5,542,720**	**-**	-		
	59,376,241	**71,755,053**	57,916,964	30,979,739	60,918,106
NET ASSETS	**19,234,307**	**19,396,305**	15,229,385	16,165,071	13,726,420
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	**-**	**-**	-		
Retained earnings	**12,912,075**	**11,852,593**	10,126,101	8,915,793	7,007,481
Statutory reserve	**3,770,251**	**3,467,659**	3,184,902	2,819,958	2,384,558
Available for sale reserve	**(1,944,621)**	**(580,814)**	(2,560,671)	-	-
Credit risk reserve	**162,221**	**322,486**	144,672	-	-
Revaluation reserve	**-**	**-**	-	94,939	-
			-		
	19,234,307	**19,396,305**	15,229,385	16,165,071	13,726,420