

**FSDH Merchant Bank Limited**  
**Consolidated Financial Statements for the period**  
**ended 31 December 2018**

**FSDH MERCHANT BANK LIMITED**  
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**for the year ended 31 December 2018**

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# FSDH MERCHANT BANK LIMITED

## CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### DIRECTORS REPORT

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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 auditors’ report for the year ended 31 December 2018.

#### (a) Legal form

The Bank was incorporated on 23 June 1992 as a private limited liability company under the Companies and Allied Matters Act (CAMA). 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 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. The services principally involve transactional products and structuring of finance, money market activities including trading and holding of marketable securities such as treasury bills, government bonds, commercial bills and other eligible instruments.

The Bank has a 99.7% shareholding in an asset management company - FSDH Asset Management Limited. The Bank also has a 99.9% interest in FSDH Securities Limited, a company involved in stockbroking and issuing house business.

In addition, the Bank has 51% interest in Pensions Alliance Limited, which is in the business of 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:

	<b>Group Dec 2018 N’000</b>	<b>Group Dec 2017 N’000</b>	<b>Bank Dec 2018 N’000</b>	<b>Bank Dec 2017 N’000</b>
<b>Profit before tax</b>	6,754,848	5,566,016	<b>5,186,445</b>	3,860,326
Income tax expense	<b>(1,388,148)</b>	(825,410)	<b>(775,053)</b>	(174,085)
Profit after tax	<b>5,366,700</b>	4,740,606	<b>4,411,392</b>	3,686,241
Other comprehensive (loss)/income for the year, net of tax	<b>(177,419)</b>	2,708,275	<b>(176,948)</b>	2,457,072
<b>Total Comprehensive Income for the year</b>	<b>5,189,281</b>	7,448,881	<b>4,234,444</b>	6,143,314
<b>Profit after tax attributable to:</b>				
Equity holders of the parent entity	<b>4,646,755</b>	4,099,028	<b>4,411,392</b>	3,686,241
Non-controlling Interest	<b>719,945</b>	641,578	-	-
<b>Profit attributable to equity-holders</b>	<b>5,366,700</b>	<b>4,740,606</b>	<b>4,411,392</b>	3,686,241

# FSDH MERCHANT BANK LIMITED

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#### Total comprehensive income attributable to:

Equity holders of the parent entity	<b>4,469,336</b>	6,807,303	<b>4,234,445</b>	6,143,313
Non-controlling Interest	<b>719,945</b>	641,578	-	-
	<b>5,189,281</b>	<b>7,448,881</b>	<b>4,234,445</b>	<b>6,143,313</b>

#### (d) Asset under management

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

	<b>Dec 2018</b>	Dec 2017
	<b>N'000</b>	N'000
FSDH Asset Management Limited	<b>66,488,678</b>	62,291,285
Pensions Alliance Limited	<b>358,591,267</b>	298,525,370

#### (e) Proposed dividend

The Board of Directors has proposed, for the approval of the shareholders, the payment of a dividend of ₦3.07billion representing ₦1.10 per share (December 2017: ₦0.79). The dividend is 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. Olufemi Agbaje	Chairman
Mrs. Hamda Ambah	Managing Director
Ms. Olufunsho Olusanya	Executive Director
Mr. Taiwo Otit	Executive Director (Appointed in August 2018)
Mrs. Muhibat Abbas	Representing UNICO CPFA Limited
Mr. Daniel Agbor	Representing KMC Investments Limited
Alhaji Bello Garba	Representing KMC Investments Limited
Mr. Sobandele Sobanjo	Representing AIIICO Insurance Plc
Mr. Vincent Omoike	Independent Director
Mr Tosayee Ogbomo	Representing KMC Investments Limited
Mr Patrice Backer	Representing ACRF
Mr Papa Ndiaye	Representing ACRF
Mr Godwin Eze-Iyamu	Independent Director (Appointed in February 2018)

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 2018 was 23.08% (December 2017: 27.27%) broken down as below:

# FSDH MERCHANT BANK LIMITED

## CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### DIRECTORS REPORT

	Female Directors	Total Directors	Percentage of female (%)
<b>December 2018</b>			
Executive directorship	2	3	66.67
Non-executive directorship	1	10	12.50
<b>Total</b>	<b>3</b>	<b>13</b>	<b>23.08</b>

	Female Directors	Total Directors	Percentage of female (%)
<b>December 2017</b>			
Executive directorship	2	2	66.67
Non-executive directorship	1	9	25.00
<b>Total</b>	<b>3</b>	<b>11</b>	<b>27.27</b>

#### (g) Directors' interests in contracts

In accordance with Section 277 of the Companies and Allied Matters Act (CAMA), 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 2018, the Bank had 15 staff members in this category (Dec 2017: 12).

The proportion of women in the Bank's top management positions as at 31 December 2018 was 40% (December 2017: 41.67%) broken down as below:

	Female	Total	Percentage of female (%)
<b>December 2018</b>			
Assistant General Manager - General Manager	4	12	33.33
Executive Director - Managing Director	2	3	66.67
<b>Total female that held top management positions</b>	<b>6</b>	<b>15</b>	<b>40.00</b>

	Female	Total	Percentage of female (%)
<b>December 2017</b>			
Assistant General Manager - General Manager	3	10	30.00
Executive Director - Managing Director	2	2	100.00
<b>Total female that held top management positions</b>	<b>5</b>	<b>12</b>	<b>41.67</b>

# FSDH MERCHANT BANK LIMITED

## CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### DIRECTORS REPORT

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#### (i) Shareholding analysis

The shareholding pattern of the Bank as at 31 December 2018 is as stated below:

Share range	No of shareholders	Percentage of shareholders (%)	No. of holdings
<u>Nigerian shareholders</u>			
45,000,000 - 100,000,000	3	27.27	160,119,148
101,000,000 - 200,000,000	2	18.18	234,421,560
201,000,000 - 500,000,000	2	18.19	592,570,192
501,000,000 - 1,000,000,000	1	9.09	895,347,544
	8	72.74	1,882,458,444
<u>Foreign shareholders</u>			
50,000,000 - 100,000,000	1	9.09	87,500,000
101,000,000 - 200,000,000	1	9.09	175,000,000
501,000,000 - 1,000,000,000	1	9.09	649,835,286
	<b>11</b>	<b>100</b>	<b>2,794,793,730</b>

The shareholding pattern of the Bank as at 31 December 2017 was as stated below:

Share range	No of shareholders	Percentage of shareholders (%)	No. of holdings	Percentage of holdings (%)
<u>Nigerian shareholders</u>				
45,000,000 - 100,000,000	3	27.27	165,808,008	5.93
101,000,000 - 200,000,000	2	18.18	234,421,560	8.39
201,000,000 - 500,000,000	2	18.19	592,570,192	21.20
501,000,000 - 1,000,000,000	1	9.09	889,658,684	31.84
	8	72.74	1,882,458,444	67.36
<u>Foreign shareholders</u>				
50,000,000 - 100,000,000	1	9.09	87,500,000	3.13
101,000,000 - 200,000,000	1	9.09	175,000,000	6.26
501,000,000 - 1,000,000,000	1	9.09	649,835,286	23.25
	<b>11</b>	<b>100</b>	<b>2,794,793,730</b>	<b>100.00</b>

#### (j) Substantial interest in shares

According to the register of members as at 31 December 2018, the following shareholders held more than 5% of the issued share capital of the Bank:

# FSDH MERCHANT BANK LIMITED

## CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### DIRECTORS REPORT

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Shareholder	No. of shares held	Percentage of shareholding (%)
KMC INVESTMENTS LIMITED	895,347,544	32.04%
ATLANTIC COAST REGIONAL FUND	649,835,286	23.25%
UNITED CAPITAL ASSET MANAGEMENT LIMITED	301,875,000	10.80%
FSDH STAFF CO-OPERATIVE SOCIETY	290,695,192	10.40%
INTERNATIONAL FINANCE CORPORATION	175,000,000	6.26%
Total	<u>2,312,753,022</u>	<u>82.75%</u>

According to the register of members as at 31 December 2017, the following shareholders held more than 5% of the issued share capital of the Bank:

Shareholder	No. of shares held	Percentage of shareholding (%)
KMC Investments Limited	889,658,684	31.83%
Atlantic Coast Regional Fund	649,835,286	23.25%
United Capital Asset Management Limited	301,875,000	10.80%
FSDH Staff Co-operative Society	290,695,192	10.40%
International Finance Corporation (IFC)	175,000,000	6.26%
Total	<u>2,307,064,162</u>	<u>82.55%</u>

#### (k) Property, plant and equipment

Information relating to changes in the property and equipment of the Group is disclosed in Note 25 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 statements.

#### (l) Customer Complaints

It is the policy of the Group to respond to customer complaints, disputes and issues swiftly and to take each complaint seriously. We diligently track complaint information for continuous improvement of our processes and services. An independent review of the root cause of complaints made is carried out and lessons learnt are fed back to the relevant business units to avoid future repetition. Customer complaint metrics are analysed and reports presented to Executive Management and the Risk Management Committee. Reports on customer complaints are also sent to the Central Bank as required.

In line with the Central Bank of Nigeria circular reference FPR/DIR/CIR/GEN/01/020, the Group received five customer complaints during the year (2017: Nil).

# FSDH MERCHANT BANK LIMITED

## CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### DIRECTORS REPORT

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			NUMBER	AMOUNT CLAIMED (N'000)	AMOUNT REFUNDED (N'000)
S/N	CURRENCY	DESCRIPTION OF COMPLAINT	2018	2018	2018
1	NGN	Excess interest charge on multiple credit facility	1	8,783	417
2	NGN	Underpayment of credit interest on fixed placement/ investment in securities	1	63,386	NIL
3	NGN	Client's inability to access pensions fund contribution	1	NIL	NIL
4	NGN	Excess bank charges and credit interest underpayment	1	233	NIL
5	USD	Request for unearned funds on foreign currency syndicated loan	1	168,273	NIL

#### (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 Group as at 31 December 2018 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 40 out of a total staff strength of 132, which represents 30.30% (December 2016: 36 out of 125 which translates to 28.8%)

# FSDH MERCHANT BANK LIMITED

## CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### DIRECTORS REPORT

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of the workforce.

#### Employment of physically challenged 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 the 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 ~~N~~42,128,340.90 (31 December 2017: ~~N~~92,289,354.99) was incurred in respect of donations. Details of the donations and charitable contributions include:

Renovation And Rehabilitation of Fazil Omar Ahmadiya School	23,921,441.00
Rehabilitation of African Church Grammar School, Lagos State	1,486,399.90
Nigerian Society For The Blind	3,600,000.00
Children Development Centre	2,500,000.00
Child Life Line	2,500,000.00
Beth Torrey Home & School, Zaria	2,000,000.00
The Dominican Sisters College	2,000,000.00
Cerebral Palsy Centre	2,000,000.00
Montessori Institute of Nigeria	1,000,000.00
Women Economic Empowerment Committee	350,000.00
Donations (N250,000 and below)	770,500.00
	<hr/> <b>42,128,340.90</b> <hr/>

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

# FSDH MERCHANT BANK LIMITED

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

## DIRECTORS REPORT


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### (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 (CAMA).

1-5 Odunlami Street,  
UAC House, 6<sup>th</sup> floor  
Lagos, Nigeria  
March 2019

BY ORDER OF THE BOARD,

  
Aidevo Odu-Thomas  
Company Secretary  
FRC/2013/NBA/00000003862

# FSDH MERCHANT BANK LIMITED

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### CORPORATE GOVERNANCE REPORT

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#### CORPORATE GOVERNANCE IN FSDH

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 systems 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 environment 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 our governance structures. We have put in place all the structures and processes stipulated in the CBN’s Code of Corporate Governance. The position of the Managing Director/Chief Executive Officer of the Bank is separate from the position of the Chairman. Both positions are occupied by different people who are not related in any way. We have two independent directors and the number of Non-Executive Directors is more than the number of Executive Directors. We have also institutionalized the processes for the performance appraisal of directors (both executive and non-executive directors) and have revised the processes for setting goals for directors.

Directors and members of 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 a code of professional conduct for directors and members of staff. The code of conduct specifies the Bank’s expectations from its directors and members of staff.

Furthermore, the Bank has set up a robust whistle-blowing process as an added measure to ensure that the Board and members of staff of the Bank conform to the Bank’s expectation in the performance of their duties. Whistle blowing provides a confidential channel for stakeholders to report wrong-doing, through hotlines and confidential email. Our whistle-blowing process was reviewed in 2014 to give it more teeth. This resulted in the outsourcing of the process to an independent party - KPMG Professional Services - a reputable professional services and advisory firm. Outsourcing the whistle-blowing process ensures that no member of

# FSDH MERCHANT BANK LIMITED

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### CORPORATE GOVERNANCE REPORT

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staff in FSDH is in a position to access the whistle-blowing reports. All reports are processed by KPMG and a summary sent to FSDH for investigation. Details are contained in the Bank's website: [www.fsdhgroup.com](http://www.fsdhgroup.com).

In 2013, the Bank 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 practices are based on the principles of meeting the needs of today without compromising the needs of future generations. Our policies and processes for on-boarding of clients (customers, vendors and suppliers) are very sensitive to environmental and social issues. The results of some of the measures we have taken in this regard are evident in the bio-friendly work environment that we maintain and the positive changes from our clients' environmental and social practices. We will continue to seek every opportunity to strengthen the processes to ensure that we contribute our own quota towards ensuring sustainable banking practices in Nigeria.

#### 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. As at the 31<sup>st</sup> of December, 2018, the shareholding structure consists of three foreign financial institutions (32.64%), one local bank (3.69%) and seven local non-bank financial institutions (63.67%). One of the three foreign shareholders is the International Finance Corporation (IFC), the private-sector arm of the World Bank. Another foreign shareholder is Atlantic Coast Regional Fund, an international private equity firm with special interest in Africa. While the ownership has gone through a number of changes, the quality has remained the same. The Bank intends to continue to explore the opportunity of the changing ownership structure to establish key relationships necessary for the advancement of its strategic objectives.

#### THE BOARD

FSDH's Board is composed of experienced and knowledgeable professionals who have made their mark in key sectors of the economy. The Board is headed by a Chairman, who also is the Chairman of the Bank. 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. 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 serve as our external consultants 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 three standing committees – the Board Audit Committee, the Board Risk Committee, and the Governance and Nominations Committee. Together with the three committees, the Board provides effective oversight over the operations of the Bank. The duties of the Board are spelt out in the Board Charter. They include:

- 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

# FSDH MERCHANT BANK LIMITED

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### CORPORATE GOVERNANCE REPORT

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- 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 (2014) requires every Bank or discount house to have at least three Standing Committees namely: the Audit Committee, the Risk Management Committee, and the Governance and Nominations Committee. FSDH has all the three Board Committees in compliance with the Code of Corporate Governance. Each Board Committee has a charter approved by the CBN.

The duties and responsibilities of the Board Committees are **summarized** below.

#### The Board Audit Committee

- Ensuring the establishment of effective systems and processes for the preparation of the Bank's financial statements.
- Ensuring the existence of good system of internal controls in the Bank
- Ensuring the existence of a good internal audit function to monitor the activities of the Bank to ensure that the Bank's governance process is working properly, that risks are properly managed and that applicable laws are being complied with.
- Reviewing and monitoring the performance of external auditors and recommending to the Board on the appointment and discharge of external auditors
- Ensuring that there is an effective system of monitoring compliance with laws and regulations and all licensing requirements and the results of management's investigation and follow-up (including disciplinary action) of any instance of non-compliance

The Audit Committee is expected to have a minimum of 3 members and meets at least once every quarter. The Chairman of the Audit Committee is an independent director in compliance with the provisions of the Code of Corporate Governance. The Internal Audit Department, which is independent of management, reports directly to the Audit Committee.

#### The Board Risk Committee

The Committee comprises a minimum of 7 members and its duties are:

- To approve and review the Enterprise Wide Risk Management Framework
- The management of market risk in the Bank covering price risk, interest rate risk in the banking book and foreign exchange risk

# FSDH MERCHANT BANK LIMITED

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### CORPORATE GOVERNANCE REPORT

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- The management of credit risk covering:
  - Credit risk strategy and policy formulation
  - Credit approval
  - Loan review and credit performance monitoring
  - Credit risk compliance
  
- Management of operational risk
- Management of the Internal Capital Adequacy Process
- Management of other risks which includes:
  - liquidity risk
  - reputational risk
  - regulatory compliance risk
  - concentration risk
  - downgrade risk
  - business risk

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

#### **The Governance and Nominations Committee**

The Governance and Nominations Committee is made of 4 members. The Committee's duties include:

- 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 Memorandum of Association, 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.

# FSDH MERCHANT BANK LIMITED

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### CORPORATE GOVERNANCE REPORT

- 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 MEETING								
S/n	Name	Directorship	22-Mar-18	03-May-18	18-Jul-18	25-Oct-18	29-Nov-18	Total Attendance
1	Mr. Femi Agbaje	Chairman	ü	ü	ü	ü	ü	5
2	Mrs. Hamda Ambah	MD/CEO	ü	ü	ü	ü	ü	5
3	Ms. Olufunsho Olusanya	Executive Director	ü	ü	ü	ü	ü	5
4	Mr. Taiwo Oti	Executive Director	N/A	N/A	N/A	ü	ü	2
5	Mr. Vincent Omoike	Independent Director	ü	ü	ü	ü	ü	5
6	Mr. Godwin Ize-Iyamu	Independent Director	ü	ü	ü	ü	X	4
7	Mr. Sobandele Sobanjo	Non Executive Director	ü	ü	ü	ü	ü	5
8	Mrs. Muhibat Abbas	Non Executive Director	ü	ü	ü	ü	ü	5
9	Mr. Dan Agbor	Non Executive Director	ü	ü	ü	ü	ü	5
10	Mr. Tosa Ogbomo	Non Executive Director	ü	ü	ü	ü	ü	5
11	Alhaji Bello Garba	Non Executive Director	ü	ü	ü	ü	ü	5
12	Mr. Patrice Backer	Non Executive Director	ü	X	ü	ü	ü	4
13	Mr. Papa Ndiaye	Non Executive Director	ü	ü	ü	ü	ü	5

GOVERNANCE AND NOMINATIONS COMMITTEE							
S/N	Name	Directorship	01-Mar-18	13-Apr-18	02-Aug-18	17-Oct-18	Total Attendance
1	Mr. Dan Agbor	Chairman	ü	ü	ü	ü	4
2	Mr. David Sobanjo	Non-executive Director	ü	ü	ü	ü	4
3	Mr. Vincent Omoike	Non-executive Director	ü	ü	ü	ü	4
4	Mrs. Muhibat Abbas	Non-executive Director	ü	ü	ü	ü	4
5	Mrs. Fola Wiltshire	In Attendance	ü	ü	ü	ü	4
6	Mr. Patrice Backer	In Attendance	X	ü	X	X	1

Mr. Patrice Backer attended the meeting in observer capacity

BOARD RISK COMMITTEE										
S/N	Name	Directorship	30-Jan-18	07-Mar-18	19-Apr-18	25-Jun-18	02-Aug-18	19-Sep-18	14-Nov-18	Total Attendance
1	Alh. Bello Garba	Chairman	ü	ü	ü	ü	ü	ü	ü	7
2	Mrs. Hamda Ambah	MD/CEO	ü	ü	ü	ü	ü	X	X	5

# FSDH MERCHANT BANK LIMITED

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### CORPORATE GOVERNANCE REPORT

3	Ms. Olufunsho Olusanya	Executive Director	ü	ü	ü	ü	ü	ü	ü	7
4	Mr. Taiwo Otiti	In Attendance	N/A	N/A	N/A	N/A	N/A	ü	ü	2
5	Mrs. Muhibat Abbas	Non-executive Director	ü	ü	ü	ü	ü	ü	X	6
6	Mr. David Sobanjo	Non-executive Director	X	ü	X	ü	ü	ü	ü	5
7	Mr. Godwin Ize - Iyamu	Independent Non-executive Director	N/A	N/A	ü	ü	ü	X	ü	4
8	Mr. Tosa Ogbomo	Non-executive Director	ü	ü	ü	ü	ü	ü	ü	7
9	Mr. Papa Ndiaye	Non-executive Director	ü	ü	ü	ü	ü	ü	ü	7
10	Mr. Robert Ajiamah	In Attendance	ü	ü	ü	ü	ü	ü	ü	7
11	Mr. Richard Osuagwu	In Attendance	ü	ü	ü	ü	X	ü	ü	6
12	Mr. Titus Akintola	In Attendance	ü	ü	ü	ü	X	ü	ü	6

BOARD AUDIT COMMITTEE								
S/N	NAME	DIRECTORSHIP	09-Mar-18	26-Apr-18	11-Jul-18	17-Oct-18	28-Nov-18	Total Attendance
1	Mr. Vincent Omoike	Chairman	ü	ü	ü	ü	ü	5
2	Mr. Dan Agbor	Non-executive Director	ü	ü	ü	ü	ü	5
3	Mr. Godwin Ize - Inyamu	Independent Non-executive Director	N/A	ü	ü	ü	X	3
4	Mr. Tosa Ogbomo	Non-executive Director	ü	ü	ü	ü	ü	5
5	Mr. Patrice Backer	Non-executive Director	ü	ü	ü	X	ü	4
6	Mr. Richard Osuagwu	In Attendance	ü	ü	ü	ü	ü	5

#### Keys

ü	Present at Meeting
X	Absent
N/A	Not Yet Appointed

## 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:

### The Executive Committee

The Executive Committee is made up of the Managing Director, the Executive Director and the Heads of Departments. This is the principal decision making organ of Management and the committee meets on a monthly basis.

### The Asset and Liability Management Committee (ALCO)

The ALCO meets monthly and is composed of 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.

# **FSDH MERCHANT BANK LIMITED**

## **CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

### **CORPORATE GOVERNANCE REPORT**

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#### **The Management Risk Committee**

The Management Risk Committee is responsible for identifying, quantifying and managing the risks inherent in the Bank's operations. The membership of the Committee is constituted by heads of departments and key officers in the business units. The Committee is also responsible for approving new credits and reviewing existing credits for performance and classification.

#### **The IT Steering Committee**

The IT Steering Committee is responsible for making recommendations to Executive Management on the formulation of IT strategies and the identification of systems needed to support the Bank's business. It is also in charge of implementing these systems. The Committee is constituted by the CEO and Heads of Departments.

#### **The Sustainable Banking Committee**

The Committee is charged with the responsibility of ensuring that the Bank conducts its operations in a way that will ensure protection for the environment, enhance social harmony and ensure sustainable development. The Committee ensures that social and environmental risks in all areas of the Bank's operations are identified and dimensioned; and develops policies and controls to ensure that the risks are properly managed.



**REPORT OF THE INDEPENDENT CONSULTANT ON THE APPRASAL OF THE  
BOARD OF DIRECTORS OF FSDH MERCHANT BANK LIMITED FOR THE YEAR  
ENDED 31 DECEMBER 2018**

In compliance with the guidelines of Section 2.8.3 of the Central Bank of Nigeria (CBN) Revised 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 2018.

The Code mandates an annual appraisal of the Board with specific focus on the Board's structure and composition, responsibilities, processes and relationships, individual director competencies and respective roles in the performance of the Board. We have performed the procedures agreed with FSDH in respect of the appraisal of the Board in accordance with the provisions of the CBN Code. These procedures, which are limited in scope but sufficient for the Board's objectives in line with the Code, are different in scope from an external audit. Consequently, no opinion is expressed by us on the activities reported upon.

Our approach to the appraisal of the Board involved a review of the Bank's board papers and minutes, key corporate governance structures, policies and practices. This included the review of the corporate governance framework and representations obtained from questionnaires, interviews with the members of the Board and senior management.

On the basis of our review, the Bank's corporate governance practices are largely in compliance with the key provisions of the CBN Code. Specific recommendations for further improving the Bank's governance practices have been included in our detailed report to the Board. These include recommendations in the following key areas: succession planning for the Board & Senior Management and the process for managing Directors declaration of interests.

Tomi Adepoju

Partner, KPMG Advisory Services

FRC/2013/1CAN/00000001185

21 March 2019

# FSDH MERCHANT BANK LIMITED

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies and Allied Matters Act (CAMA) 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:

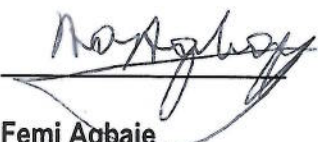
- i) keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Group and comply with the requirements of the Companies and Allied Matters Act (CAMA) and the Banks and Other Financial Institutions Act ;
- ii) establishes adequate internal controls to safeguard 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,

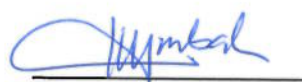
- International Financial Reporting Standards;
- Prudential Guidelines for Licensed Banks;
- relevant circulars issued by the Central Bank of Nigeria;
- the requirements of the Banks and Other Financial Institutions Act; and
- the requirements of the Companies and Allied Matters Act (CAMA).

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.



**Femi Agbaje**  
Chairman  
FRC/2014/ICAN/00000010052



**Hamda Ambah**  
Managing Director  
FRC/2013/CISN/00000001749

# FSDH MERCHANT BANK LIMITED

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### REPORT OF THE AUDIT COMMITTEE

In accordance with the provisions of Section 359 (6) of the Companies and Allied Matters Act (CAMA), 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 (CAMA) 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 2018 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.

  
Vincent Omoike  
Chairman, Audit Committee

5 March, 2019

Members of the Audit Committee are:

1. Vincent Omoike - Chairman
2. Dan Agbor
3. Patrice Backer
4. Tosayee Ogbomo
5. Godwin Ize-Iyamu



## *Independent auditor's report*

To the Members of FSDH Merchant Bank Limited

### *Report on the audit of the consolidated and separate financial statements*

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#### *Our opinion*

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

#### **What we have audited**

FSDH Merchant Bank Limited’s consolidated and separate financial statements comprise:

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

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#### *Basis for opinion*

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

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

#### **Independence**

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

### Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment write back on financial assets - N1,399 million ( refer to notes 2.10, 3.6a, 8)</i></p> <p>We focused on this balance because management exercises significant judgement and uses subjective estimates and assumptions over the timing of recognition and measurement of impairment losses. The significant judgements include:</p> <ul style="list-style-type: none"> <li>• the definition of default and credit impaired financial assets using qualitative and quantitative criteria identified by the Bank;</li> <li>• Determination of the criteria for assessing significant increase in credit risk (SICR);</li> <li>• Determination of the 12 month and Lifetime probability of default (PD) used in the expected credit loss (ECL) model;</li> <li>• estimation of the Loss Given Default (LGD) by considering collateral values adjusted by a haircut and a discount rate;</li> <li>• Determination of the credit conversion factor for off balance sheet exposures and the key inputs used in determining the lifetime exposure at default (EAD); and</li> <li>• incorporation of forward looking information into impairment parameters.</li> </ul>	<ul style="list-style-type: none"> <li>• We applied a risk based target testing approach in selecting a sample of customers for detailed checking of customer information and account history, to test the identification of default and SICR;</li> <li>• Using our credit modelling experts, we checked the calculation of the impairment parameters used in the ECL model. Our other audit procedures around the ECL model included: <ul style="list-style-type: none"> <li>○ assessing the reasonableness of the quantitative and qualitative thresholds set by management for definition of default, SICR and credit impaired assets in line with the recommendations of the standard and our knowledge of the industry;</li> <li>○ checking to determine the accuracy and appropriateness of the probability of default by reviewing the assumptions governing the PD methodology for reasonableness and re-performing the PD computation on select samples;</li> <li>○ evaluating the reasonableness of the Loss Given Default (LGD) by reviewing collateral values along with assumptions on haircut, discount rates and recovery rates;</li> <li>○ checking that the EAD modelling for off-balance exposures considered expected future draw down over the expected life of the asset based on the credit conversion factors (CCF). We examined and checked the appropriateness of the CCF used in estimating future draw downs. We also checked the reasonableness of the computation of the term structure for off balance sheet exposures by re-performing</li> </ul> </li> </ul>
<p>This is considered a key audit matter in both the consolidated and separate financial statements.</p>	



- the EAD computation on a select sample; and
- checking that the bank factored business cycle dependencies into ECL estimates by incorporating forward-looking information into the ECL parameters. We checked this by examining the relevance of forward looking information and multiple economic scenarios considered by reviewing the statistical significance of the forward looking information.
- For a sample of loans, we checked the collateral values to the bank's data.
- Reviewed the IFRS 9 disclosures for reasonableness.

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*Recoverability of deferred tax asset - N 3,231 million (refer to notes 2.22b,3.6c and 23)*

Management applies significant judgement in their estimation of the future taxable profits upon which deductible temporary differences or unutilised tax losses will be applied.

We assessed the reasonableness of the growth rates by comparing them to historical performance.

The bank has carried forward tax losses due to a significant portion of its revenue being tax exempt.

We checked the mathematical accuracy of the model used in estimating the deferred tax asset and assessed the reasonableness of the tax rate applied.

An assumption was made with regards to growth rates applied to actual cash flows taking into consideration future business plans.

We checked the financial statement disclosures for reasonableness in line with the accounting standards.

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

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*Other information*

The directors are responsible for the other information. The other information comprises the Directors Report, Corporate governance report, Statement of Directors' Responsibilities, Report of the Audit Committee, Statement of Value Added and Five-Year Financial Summary (but does not include the consolidated and separate financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the other sections of the FSDH Merchant Bank Limited 2018 Annual Report, which are expected to be made available to us after that date.

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

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



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

When we read the other sections of the FSDH Merchant Bank Limited 2018 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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### *Responsibilities of the directors and those charged with governance for the consolidated and separate financial statements*

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our



auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

#### *Report on other legal and regulatory requirements*

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

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

*Chidi Ojechi*

For: **PricewaterhouseCoopers**  
Chartered Accountants  
Lagos, Nigeria  
Engagement Partner: Chidi Ojechi  
FRC/2017/ICAN/00000015955



26 March 2019

**FSDH MERCHANT BANK LIMITED**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		<b>GROUP</b>	<b>GROUP</b>	<b>BANK</b>	<b>BANK</b>
	<b>Notes</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>
		<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
		<b>N '000</b>	<b>N '000</b>	<b>N '000</b>	<b>N '000</b>
Interest income on financial assets fair value through profit or loss	5(a)	938,743	965,093	937,520	964,337
Interest income on financial assets fair value through other comprehensive income/available for sale	5(b)	6,945,893	8,925,696	6,822,762	8,661,043
Interest income on financial assets at amortised cost/held to maturity	5(c)	7,809,634	10,712,002	7,326,634	10,270,370
		15,694,270	20,602,791	15,086,916	19,895,750
Interest expense	6.	(10,287,949)	(12,906,092)	(10,320,248)	(12,946,751)
<b>Net interest income</b>		<b>5,406,321</b>	<b>7,696,699</b>	<b>4,766,668</b>	<b>6,948,999</b>
Impairment writeback /(charge) for credit losses	8.	1,398,512	(2,263,093)	1,396,641	(2,261,359)
<b>Net interest income after impairment charge for credit losses</b>		<b>6,804,833</b>	<b>5,433,606</b>	<b>6,163,309</b>	<b>4,687,640</b>
Fee and commission income	7.	5,658,718	5,410,271	798,801	1,151,310
Net gains on financial instruments held for trading	9.	764,055	999,940	650,678	880,875
Net gains on financial instruments classified as fair value through OCI	10.	787,458	-	787,458	-
Net gains on financial instruments classified as available for sale	10.	-	511,025	-	511,025
Other income	11.	344,139	535,517	1,201,737	1,109,231
Operating and administrative expenses	12.	(7,604,355)	(7,324,343)	(4,415,538)	(4,479,755)
<b>Profit before tax</b>		<b>6,754,848</b>	<b>5,566,016</b>	<b>5,186,445</b>	<b>3,860,326</b>
Income tax expense	13.	(1,388,148)	(825,410)	(775,053)	(174,085)
<b>Profit after tax</b>		<b>5,366,700</b>	<b>4,740,606</b>	<b>4,411,392</b>	<b>3,686,241</b>
<b>Other comprehensive income:</b>					
<b>Items that will not be reclassified to profit or loss</b>					
Actuarial (losses)/gains in defined gratuity scheme (net of tax)	23.	-	(63,441)	-	(69,805)
<b>Items that may be subsequently reclassified to profit or loss</b>					
Net gains/(losses) on financial assets fair value through OCI:					
- Unrealised net losses arising during the period		(945,532)	1,906,358	(930,616)	1,658,897
- Net gain/loss on financial assets at FVOCI reclassified to profit or loss		466,381	865,358	468,677	867,980
Net change in impairment on FVOCI financial assets		301,732	-	284,991	-
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>(177,419)</b>	<b>2,708,275</b>	<b>(176,948)</b>	<b>2,457,072</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>5,189,281</b>	<b>7,448,881</b>	<b>4,234,445</b>	<b>6,143,313</b>
<b>Profit after tax attributable to:</b>					
Equity holders of the parent entity		4,646,755	4,099,028	4,411,392	3,686,241
Non-controlling interest		719,945	641,578	-	-
<b>Total comprehensive income attributable to:</b>		<b>5,366,700</b>	<b>4,740,606</b>	<b>4,411,392</b>	<b>3,686,241</b>
<b>Total comprehensive income attributable to:</b>					
Equity holders of the parent entity		4,469,336	6,807,303	4,234,445	6,143,313
Non-controlling interest		719,945	641,578	-	-
		<b>5,189,281</b>	<b>7,448,881</b>	<b>4,234,445</b>	<b>6,143,313</b>
Earnings per share per profit attributable to equity holders of parent bank					
Earnings per share - basic (kobo)	41	166	164	158	132
Earnings per share - diluted (kobo)	41	166	164	158	132

FSDH MERCHANT BANK LIMITED  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	GROUP 31 December 2018 N '000	GROUP 31 December 2017 N '000	BANK 31 December 2018 N '000	BANK 31 December 2017 N '000
<b>ASSETS</b>					
Cash and bank balances	14.	11,222,251	15,764,178	11,186,984	15,536,837
Loans to banks and other financial institutions	15.	17,740,029	17,477,008	17,057,637	16,793,701
Financial instruments held for trading	16.	1,827,142	7,704,048	1,473,271	7,653,645
Derivative financial instruments	17.	607,076	70,037	607,076	70,037
Loans and advances to customers	18.	40,870,509	38,025,050	40,536,858	37,376,991
Investment securities	19.	37,521,440	55,854,215	34,026,860	51,787,647
Pledged assets	20.	8,894,229	10,201,862	8,894,229	10,201,862
Other assets	21.	2,041,710	1,788,907	852,999	622,233
Investment in subsidiaries	22.	-	-	961,377	961,377
Deferred tax asset	23.	3,231,220	3,503,749	3,223,982	3,551,132
Intangible assets	24.	315,687	344,535	212,588	217,263
Property and equipment	25.	1,039,052	950,335	604,044	528,239
<b>Total assets</b>		<b>125,310,345</b>	<b>151,683,924</b>	<b>119,637,905</b>	<b>145,300,964</b>
Assets classified as held for sale	26.	-	48,450	-	48,450
		<b>125,310,345</b>	<b>151,732,374</b>	<b>119,637,905</b>	<b>145,349,414</b>
<b>Liabilities</b>					
Due to banks and other financial institutions	27	4,744,992	19,877,963	4,744,992	19,877,963
Due to customers	28	46,542,640	54,574,920	46,719,361	55,186,445
Derivative financial instruments	17.	590,903	54,106	590,903	54,106
Company income tax liability	13.	989,978	1,129,618	241,710	413,161
Other liabilities	29	5,137,097	9,187,852	4,754,722	8,583,434
Debt securities issued	30	14,341,909	12,077,787	14,524,709	12,077,787
Other borrowed funds	31	18,725,951	20,201,819	18,725,951	20,201,819
<b>Total liabilities</b>		<b>91,073,470</b>	<b>117,104,065</b>	<b>90,302,348</b>	<b>116,394,715</b>
Share capital	32	2,794,794	2,794,794	2,794,794	2,794,794
Share premium	33	1,539,587	1,539,587	1,539,587	1,539,587
Treasury share reserve	33	-	(809,753)	-	-
Retained earnings	33	21,229,882	23,182,288	18,950,259	19,291,688
Statutory reserve	33	7,141,272	6,295,904	6,291,991	5,630,282
Fair value reserve	33	(429,782)	20,051	(398,113)	(301,652)
Credit risk reserve	34	157,039	-	157,039	-
		<b>32,432,792</b>	<b>33,022,871</b>	<b>29,335,557</b>	<b>28,954,699</b>
<b>Non-controlling interest in equity</b>		<b>1,804,083</b>	<b>1,605,438</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>		<b>34,236,875</b>	<b>34,628,309</b>	<b>29,335,557</b>	<b>28,954,699</b>
<b>Total equity and liabilities</b>		<b>125,310,345</b>	<b>151,732,374</b>	<b>119,637,905</b>	<b>145,349,414</b>

The notes 5 to 44 are an integral part of these consolidated financial statements. The financial statements were approved and authorised for issue by the Board of Directors on 21 March 2019 and were signed on its behalf by:

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:




Femi Agbaje - Chairman  
FRC/2014/ICAN/00000010052

.....

Hamda Ambah - Managing Director  
FRC/2013/CISN/00000001749

Additional certification:



Wasiu Shafe - Chief Financial Officer  
FRC/2015/ICAN/00000012973

**FSDH MERCHANT BANK LIMITED**
**CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY**

GROUP 2018	Attributable to equity holders of the parent										
	Share capital	Share premium	Retained earnings	Statutory reserve	Treasury Share	Available for sale reserve	Fair Value reserve	Credit risk reserve	Total	Non- controlling interest	Total equity
<b>At 1 January 2018</b>	2,794,794	1,539,587	23,182,288	6,295,904	(809,753)	20,051	-	-	33,022,871	1,605,438	34,628,309
IFRS 9 remeasurement	-	-	3,221	-	-	325,583	(328,804)	-	-	-	-
IFRS 9 impairment transition adjustment	-	-	(1,752,168)	-	-	-	679,905	-	(1,072,263)	(9,250)	(1,081,513)
Restated balance as at 1 January 2018	2,794,794	1,539,587	21,433,341	6,295,904	(809,753)	345,634	351,101	-	31,950,608	1,596,188	33,546,796
<b>Total comprehensive income:</b>											
Profit after tax for the year	-	-	4,646,755	-	-	-	-	-	4,646,755	719,945	5,366,700
Transfer between reserves	-	-	-	-	-	-	-	-	-	-	-
Unrealised net gains arising during the year on FVOCI financial assets	-	-	-	-	-	-	(945,532)	-	(945,532)	-	(945,532)
Net reclassification adjustments for realised loss on FVOCI financial assets	-	-	-	-	-	-	466,381	-	466,381	-	466,381
Net change in impairment on FVOCI financial assets	-	-	-	-	-	-	(301,732)	-	(301,732)	-	(301,732)
	-	-	4,646,755	-	-	-	(780,883)	-	3,865,872	719,945	4,585,817
<b>Transaction with owners:</b>											
De-consolidation of structured entity	-	-	(1,639,920)	-	809,753	(345,634)	-	-	(1,175,801)	-	(1,175,801)
Dividend paid	-	-	(2,207,887)	-	-	-	-	-	(2,207,887)	(512,050)	(2,719,937)
Transfer to statutory reserves	-	-	(845,368)	845,368	-	-	-	-	-	-	-
Transfer to credit risk reserves	-	-	(157,039)	-	-	-	-	157,039	-	-	-
	-	-	(4,850,214)	845,368	809,753	(345,634)	-	157,039	(3,383,688)	(512,050)	(3,895,738)
<b>At 31 December 2018</b>	2,794,794	1,539,587	21,229,882	7,141,272	-	-	(429,782)	157,039	32,432,792	1,804,083	34,236,875
<b>GROUP 2017</b>											
<b>At 1 January 2017</b>	2,794,794	1,539,587	19,267,126	5,579,308	(497,653)	(2,751,665)	-	596,170	26,527,667	1,341,161	27,868,828
<b>Total comprehensive income:</b>											
Profit after tax for the year	-	-	4,099,028	-	-	-	-	-	4,099,028	641,577	4,740,605
Actuarial loss on defined gratuity scheme (net of tax)	-	-	(63,441)	-	-	-	-	-	(63,441)	-	(63,441)
Unrealised net gains arising during the year on AFS financial assets	-	-	-	-	-	1,906,358	-	-	1,906,358	-	1,906,358
Net reclassification adjustments for realised loss on AFS financial assets	-	-	-	-	-	865,358	-	-	865,358	-	865,358
Treasury shares acquired during the year	-	-	-	-	(312,100)	-	-	-	(312,100)	-	(312,100)
	-	-	4,035,587	-	(312,100)	2,771,716	-	-	6,495,203	641,577	7,136,780
<b>Transaction with owners:</b>											
Dividend paid	-	-	-	-	-	-	-	-	-	(377,300)	(377,300)
Transfer to statutory reserves	-	-	(716,596)	716,596	-	-	-	-	-	-	-
Transfer from credit risk reserves	-	-	596,170	-	-	-	-	(596,170)	-	-	-
	-	-	(120,426)	716,596	-	-	-	(596,170)	-	(377,300)	(377,300)
<b>At 31 December 2017</b>	2,794,794	1,539,587	23,182,288	6,295,904	(809,753)	20,051	-	-	33,022,871	1,605,438	34,628,309

**FSDH MERCHANT BANK LIMITED**
**CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY**

	Attributable to equity holders of the parent								
	Share capital	Share premium	Retained earnings	Statutory reserve	Treasury Share	Available for sale reserve	Fair Value reserve	Credit risk reserve	Total equity
<b>BANK 2018</b>									
<b>At 1 January 2018</b>	2,794,794	1,539,587	19,291,688	5,630,282	-	(301,652)	-	-	28,954,699
IFRS 9 remeasurement	-	-	-	-	-	301,652	(301,652)	-	-
IFRS 9 impairment transition adjustment	-	-	(1,726,186)	-	-	-	650,469	-	(1,075,717)
Restated balance as at 1 January 2018	2,794,794	1,539,587	17,565,502	5,630,282	-	-	348,817	-	27,878,982
<b>Total comprehensive income:</b>									
Profit after tax for the year	-	-	4,411,392	-	-	-	-	-	4,411,392
Unrealised net gains arising during the year on FVOCI financial assets	-	-	-	-	-	-	(930,616)	-	(930,616)
Net reclassification adjustments for realised loss on FVOCI financial assets	-	-	-	-	-	-	468,677	-	468,677
Net change in impairment on FVOCI financial assets	-	-	-	-	-	-	(284,991)	-	(284,991)
	-	-	4,411,392	-	-	-	(746,930)	-	3,664,462
<b>Transaction with owners:</b>									
Dividends paid	-	-	(2,207,887)	-	-	-	-	-	(2,207,887)
Transfer to statutory reserves	-	-	(661,709)	661,709	-	-	-	-	-
Transfer to credit risk reserves	-	-	(157,039)	-	-	-	-	157,039	-
	-	-	(3,026,635)	661,709	-	-	-	157,039	(2,207,887)
<b>At 31 December 2018</b>	<b>2,794,794</b>	<b>1,539,587</b>	<b>18,950,259</b>	<b>6,291,991</b>	<b>-</b>	<b>-</b>	<b>(398,113)</b>	<b>157,039</b>	<b>29,335,557</b>
<b>BANK 2017</b>									
<b>At 1 January 2017</b>	2,794,794	1,539,587	15,632,019	5,077,345	-	(2,828,529)	-	596,170	22,811,386
<b>Total comprehensive income:</b>									
Profit after tax for the year	-	-	3,686,241	-	-	-	-	-	3,686,241
Actuarial loss on defined gratuity scheme (net of tax)	-	-	(69,805)	-	-	-	-	-	(69,805)
Unrealised net gains arising during the year on AFS financial assets	-	-	-	-	-	1,658,897	-	-	1,658,897
Net reclassification adjustments for realised loss on AFS financial assets	-	-	-	-	-	867,980	-	-	867,980
	-	-	3,616,436	-	-	2,526,877	-	-	6,143,313
<b>Transaction with owners:</b>									
Transfer to statutory reserves	-	-	(552,936)	552,936	-	-	-	-	-
Transfer from credit risk reserves	-	-	596,170	-	-	-	-	(596,170)	-
	-	-	43,234	552,936	-	-	-	(596,170)	-
<b>At 31 December 2017</b>	<b>2,794,794</b>	<b>1,539,587</b>	<b>19,291,688</b>	<b>5,630,282</b>	<b>-</b>	<b>(301,652)</b>	<b>-</b>	<b>-</b>	<b>28,954,699</b>

**FSDH MERCHANT BANK LIMITED**  
**CONSOLIDATED STATEMENT OF CASHFLOWS**

		GROUP	GROUP	BANK	BANK
	Notes	31 December 2018 N '000	31 December 2017 N '000	31 December 2018 N '000	31 December 2017 N '000
<b>Cash flows from operating activities</b>					
Cash generated from operations	36	(13,935,157)	3,883,981	(16,286,186)	1,869,203
Interest received		14,195,694	20,407,178	13,737,480	19,671,503
interest paid		(10,999,327)	(9,654,382)	(11,029,874)	(9,666,407)
Income taxes paid	13.	(1,255,259)	(699,742)	(619,354)	(133,969)
Retirement benefit - contribution by employer during the year	23.	-	(229,000)	-	(209,673)
<b>Net cashflows from operating activities</b>		<u>(11,994,049)</u>	<u>13,708,035</u>	<u>(14,197,934)</u>	<u>11,530,657</u>
<b>Cash flows from investing activities</b>					
Purchase of investment securities		(31,626,435)	(60,529,055)	(29,960,099)	(58,132,032)
Redemption and proceeds from disposal of investment securities		48,377,139	42,765,903	47,316,416	41,392,977
Additions to property, plant and equipment	25.	(537,031)	(609,376)	(334,075)	(334,676)
Additions to intangible assets	24.	(111,587)	(288,528)	(111,666)	(210,214)
Proceeds from sale of property, plant and equipment		26,150	33,478	25,443	28,188
Acquisition of treasury shares		-	(312,100)	-	-
Dividends received		9,158	35,102	909,623	644,338
<b>Net cash used in investing activities</b>		<u>16,137,394</u>	<u>(18,904,576)</u>	<u>17,845,642</u>	<u>(16,611,419)</u>
<b>Cash flows from financing activities</b>					
Dividends paid to owners		(2,207,887)	-	(2,207,887)	-
Dividends paid to non-controlling interests		(512,050)	(377,300)	-	-
Long term borrowing		-	4,942,500	-	4,942,500
Repayment of long term borrowing		(3,170,315)	(3,282,250)	(3,170,315)	(3,282,250)
Proceeds from debt instrument issued		30,671,133	12,440,002	30,852,181	12,440,002
Repayment of debt instrument		(30,962,709)	(16,174,357)	(30,962,709)	(16,174,357)
<b>Net cash (used)/generated in financing activities</b>		<u>(6,181,828)</u>	<u>(2,451,405)</u>	<u>(5,488,730)</u>	<u>(2,074,105)</u>
Cash and cash equivalents at start of year		22,995,864	30,174,944	22,085,386	28,799,195
Exchange difference on cash held		533,876	468,866	525,179	441,058
Net Increase/(Decrease) in cash and cash equivalents		<u>(2,038,483)</u>	<u>(7,647,946)</u>	<u>(1,841,022)</u>	<u>(7,154,867)</u>
<b>Cash and cash equivalents at end of year</b>		<u>21,491,257</u>	<u>22,995,864</u>	<u>20,769,543</u>	<u>22,085,386</u>
<b>Cash and cash equivalents</b>	36	<u>21,491,257</u>	<u>22,995,864</u>	<u>20,769,543</u>	<u>22,085,386</u>

# **FSDH MERCHANT BANK LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

### **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 commenced operations as a Merchant Bank on 15 January 2013.

The Bank holds 99.7% interest in FSDH Asset Management Limited, an Asset Management company and 99.9% interest in FSDH Securities Limited, a company involved in Stock Broking and Issuing House operations. In addition, the Bank has 51% interest in Pensions Alliance Limited, which is involved in Pension Fund Administration. The Bank also controls FSDH Funding SPV Plc, a special-purpose entity incorporated in Nigeria. The SPV was 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 SPE have been consolidated in these financial statements. The consolidated financial statements for the year ended 31 December 2018 were approved for issue by the Board of Directors on 22 March, 2019.

### **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**

The 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 2018 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 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. The accounting policies adopted are consistent with those of the previous financial period except for the adoption of new Standards IFRS 9 and IFRS 15 during the year.

#### **a. Functional and presentation currency**

These financial statements are presented in Nigerian Naira, which is the Bank's functional currency. Except where indicated, financial information presented in Naira has been rounded to the nearest thousand.

# FSDH MERCHANT BANK LIMITED

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

### b. Basis of measurement

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

- Financial assets measured at fair value through other comprehensive income (FVOCI)
- Financial assets held for trading measured at fair value through profit or loss.

### c. Use of Estimates and Judgements

The preparation of the financial statements in conformity with International Financial Reporting Standards (IFRS) requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant estimates and judgements are in relation to the following as they affect the 2018 financial statements:

- i. Impairment of financial instruments: key assumptions used in estimating recoverable cash flows.
- ii. recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.
- iii. recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
- iv. determination of the fair value of financial instruments with unobservable inputs.
- v. impairment of non-financial assets

More details are provided in notes 3.0 to 3.2.

### 3. New and amended standards and interpretations adopted by the Group

The Group also adopted IFRS 9 and IFRS 15 with a transition date of 1 January 2018. Adequate impact assessments and the required disclosures were made in the financial statements. Accounting policies have also been updated as required.

#### Standards and interpretations effective during the reporting period

The following standards became effective in the annual period starting from 1st January, 2018. The new reporting requirements as a result of the adoption of the new standards (and amendments) and clarifications have been evaluated and their impact or otherwise are noted below:

#### IFRS 15 - Revenue from Contracts with Customers

The IASB, in May 2014, issued a standard for the recognition of revenue from contracts with customers. This replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The standard (IFRS 15) is effective for periods beginning on 1 January 2018 with early adoption permitted.

# **FSDH MERCHANT BANK LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

The standard contains a single five step model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be covered by the other applicable standards (e.g. IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as control over goods and services are transferred based on the performance obligation in the contract. The following five step model in IFRS 15 is applied in determining when to recognise revenue, and at what amount:

- a) Identify the contract(s) with a customer
- b) Identify the performance obligations in the contract
- c) Determine the transaction price
- d) Allocate the transaction price to the performance obligations in the contract
- e) Recognise revenue when (or as) the entity satisfies a performance obligation

The standard has no impact on the Group's financial statements.

### **IFRS 9 - Financial instruments**

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 introduces a new approach for classification and measurement of financial instruments, a more forward looking Impairment methodology and a new general hedge accounting requirement.

### **Classification and Measurement**

IFRS 9 requires financial assets to be classified into one of three measurement categories: fair value through profit or loss, fair value through other comprehensive income and amortised cost.

Financial assets will be measured at amortised cost if they are held within a business model with the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest.

Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss.

# FSDH MERCHANT BANK LIMITED

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

The Group has undertaken an assessment to determine the potential impact of changes in classification and measurement of financial assets.

IFRS 9 retains most of the existing requirements for financial liabilities. However, for financial liabilities designated at fair value through profit or loss, gains or losses attributable to changes in own credit risk shall be presented in Other Comprehensive Income.

### **Impairment Methodology**

The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, debt instruments measured at fair value through other comprehensive income, trade receivable, lease receivables, loan commitments and financial guarantees not measured at fair value through profit or loss.

IFRS 9 replaces the existing 'incurred loss' impairment approach with an Expected Credit Loss ('ECL') model, resulting in earlier recognition of credit losses compared with IAS 39. Expected credit losses are the unbiased probability weighted average credit losses determined by evaluating a range of possible outcomes and future economic conditions.

The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39. The requirement to recognise lifetime ECL for loans which have experienced a significant increase in credit risk since origination, but which are not credit impaired, does not exist under IAS 39.

IFRS 9 requires the use of more forward looking information including reasonable and supportable forecasts of future economic conditions. The Group has developed the capability to model a number of economic scenarios and capture the impact on credit losses to ensure the overall ECL represents a reasonable distribution of economic outcomes. Appropriate governance and oversight has been established around the process.

### **Classification of financial assets and financial liabilities on the date of initial application of IFRS 9**

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018:

# FSDH MERCHANT BANK LIMITED

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

Group				
1 January 2018	Original classification and measurement under IAS 39	New classification under IFRS 9	Original carrying amounts under IAS 39	New carrying amounts under IFRS 9
In thousands of Nigerian Naira				
<b>Financial assets:</b>				
Cash and bank balances	Amortised cost	Amortised cost	15,764,178	15,764,178
Loans to banks and other financial institutions	Loans and receivables	Amortised cost	17,477,008	17,472,661
Financial instruments held for trading	FVTPL	FVTPL	7,704,048	7,952,549
Derivative financial instruments	FVTPL	FVTPL	70,037	70,037
Loans and advances to customers	Loans and receivables	Amortised cost	38,025,050	37,037,545
Investment securities	Available for sale	FVOCI	55,854,215	55,174,310
Pledged assets	Available for sale	FVOCI	10,201,862	10,201,862
Other assets	Amortised cost	Amortised cost	396,040	396,040
<b>Financial liabilities:</b>				
Due to banks and other financial institutions	Amortised cost	Amortised cost	19,877,963	19,877,963
Due to customers	Amortised cost	Amortised cost	55,186,445	55,186,445
Derivative financial instruments	FVTPL	FVTPL	54,106	54,106
Other liabilities	Amortised cost	Amortised cost	8,428,481	8,428,481
Debt securities issued	Amortised cost	Amortised cost	12,077,787	12,077,787
Other borrowed funds	Amortised cost	Amortised cost	20,201,819	20,201,819
<b>Bank</b>				
<b>Financial assets:</b>				
Cash and bank balances	Loans and receivables	Amortised cost	15,536,837	15,536,837
Loans to banks and other financial institutions	Loans and receivables	Amortised cost	16,793,701	16,793,571
Financial instruments held for trading	Held for trading	FVTPL	7,653,645	7,653,645
Derivative financial instruments	FVTPL	FVTPL	70,037	70,037
Loans and advances to customers	Loans and receivables	Amortised cost	37,376,991	36,383,982
Investment securities	Available for sale	FVOCI	51,787,647	51,137,178
Pledged assets	Available for sale	FVOCI	10,201,862	10,201,862
Other assets	Amortised cost	Amortised cost	169,542	169,542
<b>Financial liabilities:</b>				
Due to banks and other financial institutions	Amortised cost	Amortised cost	19,877,963.00	19,877,963.00
Due to customers	Amortised cost	Amortised cost	55,186,445.00	55,186,445.00
Derivative financial instruments	FVTPL	FVTPL	54,106.00	54,106.00
Other liabilities	Amortised cost	Amortised cost	8,428,481.00	8,428,481.00
Debt securities	Amortised cost	Amortised cost	12,077,787.00	12,077,787.00
Other borrowed funds	Amortised cost	Amortised cost	20,201,819.00	20,201,819.00

### Reconciliation of statement of financial position from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets from their previous measurement category in accordance with IAS39 to their new measurement categories upon transition to IFRS on 1 January 2018:

# FSDH MERCHANT BANK LIMITED

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

Group				
1 January 2018	Carrying amount per IAS 39			Carrying amount per IFRS 9
	31 December 2017	Reclassification	Re-measurement	1 January 2018
<b>In thousands of Nigerian Naira</b>				
<b>Financial assets carried at amortised cost</b>				
Cash and bank balances				
Opening amount	15,764,178			
Reclassification		-		
Remeasurement of ECL			-	
Closing balance under IFRS 9		-	-	15,764,178
<i>Loans to banks and other financial institutions</i>				
Opening amount	17,477,008			
Reclassification				
Remeasurement of ECL			(4,347)	
Closing balance under IFRS 9				17,472,661
<i>Loans and advances to customers</i>				
Opening amount	38,025,050			
Reclassification to Amortised Cost		(38,025,050)		
Reclassification from Loans and Receivables		38,025,050	-	
Remeasurement of ECL			(987,505)	
Closing balance under IFRS 9		-	-	37,037,545
<i>Investment Securities</i>				
Opening amount	1,607,488			
Reclassification to amortised cost		-	1,607,488	
Reclassification from HTM		1,607,488		
Closing balance under IFRS 9	-	-		1,607,488
<i>Pledged assets</i>				
Opening amount	102,713			
Reclassification to amortised cost		-	102,713	
Reclassification from HTM		102,713		
Closing balance under IFRS 9	-	-	-	102,713
<b>Total financial assets measured at amortised cost</b>	<b>72,976,437</b>	<b>-</b>	<b>-</b>	<b>991,852</b>
				<b>71,984,585</b>
<b>Financial assets carried at held for trading</b>				
<i>Financial instruments for trading</i>				
Opening amount	7,704,048			
Reclassification				
Remeasurement				
Closing	7,704,048	-	-	7,704,048
<i>Derivative financial instruments</i>				
Opening amount	70,037			
Reclassification from HFT		(70,037)		
Reclassification to FVPL		70,037		
Remeasurement of ECL				
Closing	70,037	-	-	70,037
<b>Financial assets carried at fair value through OCI</b>				
<i>Investment securities</i>				
Opening amount	53,048,973			
Reclassification - to FVOCI		(53,048,973)		
Reclassification from AFS		53,048,973		
Remeasurement of ECL			(679,905)	
Closing	53,048,973	-	(679,905)	52,369,068
<i>Pledged assets</i>				
Opening amount	10,099,149			
Reclassification - from AFS		(10,099,149)		
Reclassification - to FVOCI		10,099,149		
Remeasurement of ECL				
Closing	10,099,149	-	-	10,099,149

# FSDH MERCHANT BANK LIMITED

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

Bank				
1 January 2018	Carrying amount per IAS 39			Carrying amount per IFRS 9
	31 December 2017	Reclassification	Re-measurement	1 January 2018
<b>In thousands of Nigerian Naira</b>				
<i>Financial assets carried at amortised cost :</i>				
<i>Cash and bank balances</i>				
Opening amount	15,536,837			
Reclassification				
Remeasurement of ECL				
Closing	<b>15,536,837</b>	-	-	<b>15,536,837</b>
<i>Loans and advances to banks</i>				
Opening amount	16,793,701			
Reclassification				
Remeasurement of ECL				
Closing	<b>16,793,701</b>	-	-	<b>16,793,701</b>
<i>Loans and advances to customers</i>				
Opening amount	37,376,991			
Reclassification to Amortised Cost		(37,376,991)		
Reclassification from Loans and Receivables		37,376,991	-	
Remeasurement of ECL			(993,009)	
Closing	<b>37,376,991</b>	-	<b>(993,009)</b>	<b>36,383,982</b>
<i>Pledged assets</i>				
Opening amount	102,713			
Reclassification to amortised cost		(102,713)		
Reclassification from HTM		102,713		
Closing	<b>102,713</b>	-	-	<b>102,713</b>
<b>Financial assets carried at held for trading</b>				
<i>Financial instruments held for trading (HFT)</i>				
Opening amount	7,653,645			
Reclassification to FVPL				
Remeasurement of ECL				
Closing	<b>7,653,645</b>	-	-	<b>7,653,645</b>
<i>Derivative financial instruments</i>				
Opening amount	70,037	-		
Reclassification from HFT		(70,037)		
Reclassification to FVPL	-	70,037		
Remeasurement of ECL	-	-		
Closing	<b>70,037</b>	-	-	<b>70,037</b>
<b>Financial assets carried at fair value through OCI</b>				
<i>Investment securities</i>				
Opening amount	51,787,647	-	-	
Reclassification - to FVOCI	-	(51,787,647)	-	
Reclassification from AFS		51,787,647		
Remeasurement of ECL	-	-	(650,469)	
Closing	<b>51,787,647</b>	-	<b>(650,469)</b>	<b>51,137,178</b>
<i>Pledged assets</i>				
Opening amount	10,099,149	-	-	
Reclassification - from AFS	-	(10,099,149)	-	
Reclassification - to FVOCI	-	10,099,149	-	
Remeasurement of ECL	-	-	-	
Closing	<b>10,099,149</b>	-	-	<b>10,099,149</b>

# FSDH MERCHANT BANK LIMITED

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

### Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

<b>GROUP</b>				
<b>Measurement category</b>	<b>Loan loss allowance under IAS 39</b>	<b>Reclassification</b>	<b>Remeasurement</b>	<b>Loan loss allowance under IFRS 9</b>
<b>Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)</b>				
Portfolio allowance / 12 months ECL - Stage 1	606,754	-	731,790	125,036
Lifetime ECL not impaired - Stage 2	-	-	37,845	37,845
Individually impaired / Life Time ECL Credit	2,801,157	-	3,627,832	826,675
<b>Investment Securities - FVOCI</b>				
Bonds: Corporate	-	-	240,250	240,250
Bonds: FGN	-	-	71,794	71,794
Treasury bills	-	-	367,861	367,861
<b>Off balance sheet items</b>				
Loan commitments	-	-	66,218	66,218
Off balance sheet items - LCs	-	-	16,489	16,489
	<b>3,407,911</b>	<b>-</b>	<b>5,160,079</b>	<b>1,752,168</b>
<b>BANK</b>				
<b>Measurement category</b>	<b>Loan loss allowance under IAS 39</b>	<b>Reclassification</b>	<b>Remeasurement</b>	<b>Loan loss allowance under IFRS 9</b>
<b>Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)</b>				
Portfolio allowance / 12 months ECL - Stage 1	601,900	-	728,655	126,755
Lifetime ECL not impaired - Stage 2	-	-	37,845	37,845
Individually impaired / Life Time ECL Credit Impaired - Stage 3	2,799,423	-	3,627,832	828,409
<b>Investment Securities - FVOCI</b>				
Bonds: Corporate	-	-	232,783	232,783
Bonds: FGN	-	-	71,786	71,786
Treasury bills	-	-	345,900	345,900
				-
<b>Off balance sheet items</b>				
Loan commitments	-	-	66,218	66,218
Letters of Credit	-	-	16,489	16,489
	<b>3,401,323</b>	<b>-</b>	<b>5,127,508</b>	<b>1,726,185</b>

### Reclassification from retired categories with no change in measurement

In addition to the above, the following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were 'retired', with no changes to their measurement basis:

- (i) Those previously classified as available for sale and now classified as measured at FVOCI;
- (ii) Those previously classified as available for sale and now reclassified as held for trading and
- (iii) Those previously classified as held to maturity and now classified as measured at amortised cost.

# **FSDH MERCHANT BANK LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

### **Standards and interpretations issued/amended but not yet effective**

The Group has not early adopted the following new standard(s) in preparing these consolidated and separate financial statements as it plans to adopt these standards at their respective effective dates if applicable.

The following standard(s) have been issued or amended by the IASB but are yet to become effective for annual periods beginning on or after 1 January 2018:

#### **IFRS 16 – Leases**

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However it requires lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets.

Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Group has evaluated the standard and established that it will not have a significant impact on its financial statements as there are currently no long term lease contracts in place.

There are no standards/interpretation issued but not effective that affect the Group.

#### **Annual Improvements**

The following improvements are relevant:

- IFRS 1 - deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10 which are no longer relevant.
- IAS 28 - clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

#### **IFRIC 22 Foreign Currency Transactions and Advance Consideration**

The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability).

If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt.

# FSDH MERCHANT BANK LIMITED

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

Entities can choose to apply the interpretation:

- retrospectively for each period presented
- prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or
- prospectively from the beginning of a prior reporting period presented as comparative information.

The group has identified and reviewed the contracts and transaction that are within the scope of this interpretation which indicate that this IFRIC will not materially impact the annual financial statements.

### 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

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

The acquisition method of accounting is used to account for business combinations by the Group. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

#### (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.

# FSDH MERCHANT BANK LIMITED

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

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 statement of comprehensive income as profit or loss attributable to non-controlling interests.

### (d) Changes in ownership interests in subsidiaries without change of control

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of FSDH Merchant Bank Limited.

### (e) Disposal of subsidiaries

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

## 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 FSDH Merchant Bank's functional and presentation currency.

### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in the income statement. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

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 the 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.

# FSDH MERCHANT BANK LIMITED

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

### 2.4 Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

It is also the Group's policy to recognise revenue from a contract when it has been approved by both parties, rights have been clearly identified, payment terms have been defined, the contract has commercial substance, and collectability has been ascertained as probable. Revenue is recognised when control of goods or services have been transferred. Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits (potential cash inflows or savings in cash outflows) associated with the asset.

The following are the income lines of the Group and how income is recognised:

- **Credit related fees:** This includes processing, administrative and commitment fees. These are fees charged for administration and advisory services to the customer up to the customer's acceptance of the offer letter. These fees are not integral to the loan, therefore, they are not considered in determining the effective interest rate. The fees noted here are based on negotiation and as such are deemed to be point in time.
- **Fiduciary fees:** This relates to fee earned on funds managed by entities within the group. Also included in this fee income class are the administrative fees charged and incentive fees earned when certain milestones are reached or exceeded. These classes of fees are regarded as incentive fees and they are earned at a point in time.
- **Commission on trade related transactions:** These are commission earned on trade-related transactions. The rates are agreed ahead and income is based on the value of the transactions and thus are satisfied at a point in time.
- **Issuing house activities fees:** These are agreed upfront and based on financial advisory services rendered to clients. These include capital market service related fees, brokerage and advisory fees. The fees are either earned at point in time or over time dependent on the terms of the contract.
- **Other fees and commissions:** This includes electronic banking charges, account transaction fee, custody fees among others. The fees are earned at a point in time.

### 2.5 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

# FSDH MERCHANT BANK LIMITED

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

counterparty liability received is recognised in the statement of financial position as a liability and classified as due to 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 the agreement using the effective interest rate. When the counterparty has the right to sell or re-pledge the securities, the Group reclassifies those securities in its statement of financial position to 'pledged assets' as appropriate.

Securities purchased under agreements to resell (reverse repos) are recorded as due from banks and measured at amortised cost. 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.

### **2.6 Financial assets and liabilities**

#### **Measurement methods**

##### ***Amortised cost and effective interest rate***

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

##### ***Interest income***

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- (a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- (b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

##### **Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date basis.

# FSDH MERCHANT BANK LIMITED

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

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in note 2.10, which results in an accounting loss being recognised in the income statement when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Group recognises the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

### Financial assets

#### Classification and subsequent measurement

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

#### Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

- (i) the Group's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

# FSDH MERCHANT BANK LIMITED

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

### a) Financial assets measured at amortised cost

b) These represent assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

### c) Financial assets measured at FVOCI

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through Other comprehensive income (OCI), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in the income statement.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in income. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

### Financial assets measured at FVTPL

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and presented in the income statement within 'Net gains on financial instruments held for trading' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in income. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

### Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio levels because this best reflects the way the business is managed and information is provided to management. The information considered includes:

#### SPPI Test

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

# FSDH MERCHANT BANK LIMITED

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

### d) Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Group subsequently measures all equity investments at fair value through profit or loss, except where management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in the income statement as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the "Net gains on financial instruments held for trading" line in the income statement.

### 2.7 Derivative instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. 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 the balance sheet date.

### 2.8 Modifications of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that
- substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also

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

assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

### **(iv) Derecognition other than on a modification**

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

## **2.9 Financial liabilities**

### **Classification and measurement**

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

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

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and losses attributable to changes in the credit risk of the liability are also presented in the income statement;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

### **Derecognition of financial liabilities**

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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Category (as defined by IFRS 9)	Classes as determined by the Group	Subclasses	
Financial assets	Financial assets held for trading	Debt Securities	Treasury Bills
			Federal Government of Nigeria Bonds
		Derivative financial instruments	Foreign exchange forward contracts
			Convertible loans
		Equity Securities	Quoted Equity Securities
	Mutual funds	Listed mutual funds	
	Financial assets fair valued through other comprehensive income (FVOCI)	Debt securities	Treasury Bills
			Federal Government of Nigeria Bonds
			Corporate Bonds
	Amortised Cost	Investment Securities	Treasury bills
		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		
Financial liabilities	Financial liabilities at fair value through profit or 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
		Short term debt instruments	FSDH Commercial Papers
Other Borrowed funds	Trade and credit lines		

# FSDH MERCHANT BANK LIMITED

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### 2.10 Impairment

The Group assesses on a forward looking basis the expected credit losses (ECL) associated with its debt instrument assets carried at amortised cost and fair value through other comprehensive income and with the exposure arising from loan commitments and financial guarantee contracts.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

#### Significant increase in credit risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by:

- identifying the rating classification at initial recognition i.e. investment grade or speculative grade
- comparing the initial rating as at initial recognition with the current rating
- four notches downward movement in a twenty-five notches scale is considered significant
- for loans initially recognized as investment grade, a drop to speculative grade is considered significant
- for corporate debt issue, two notches downgrade of the issuer rating is considered significant
- for all facilities an upward reclassification of rating to the rating captured at its initial recognition or higher is considered a significant reduction in credit risk and a probationary period of 30 days is triggered.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative and qualitative factors. Using its expert credit judgement and where possible relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular

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

qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. There is a rebuttable presumption that the credit risk has increased significantly if contractual payments are more than 30 days past due; this presumption is applied unless the bank has reasonable and supportable information demonstrating that the credit risk has not increased significantly since initial recognition. The number of days past due is determined by counting the number of days since the date the full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

### **Qualitative criteria:**

For large portfolios, if the borrower is on the Watchlist and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans

The assessment of SICR incorporates forward-looking information. In relation to corporate and treasury financial instruments, where a Watchlist is used to monitor credit risk, this assessment is performed at the counterparty level. The criteria used to identify SICR are monitored and reviewed annually for appropriateness by the Risk Management Team.

### **Backstop**

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Group has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2018.

### **Definition of default and credit-impaired assets**

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

The Group defines default as the failure of counterparties to meet the financial and legal obligations including a deviation from the conditions associated with the transaction.

Credit risk default arises from the failure of an obligor of the Group to repay principal or interest at the stipulated time or failure otherwise to perform as agreed. This risk is compounded if the assigned collateral only partly covers the claims made to the borrower, or if its valuation is exposed to frequent changes due to changing market conditions (i.e. market risk).

This definition is fully aligned with the definition of credit-impaired and is triggered when it meets one or more of the following criteria:

### **Quantitative criteria**

The borrower is more than 90 days past due on its contractual payments.

### **Qualitative criteria**

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding. In assessing whether a borrower is in default, the Bank considers indicators that are:
  - ✓ qualitative – e.g. breaches of covenant;
  - ✓ quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
  - ✓ based on data developed internally and obtained from external sources. Inputs into the assessment of whether a financial instrument is in default and the significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. This is based on advice from the Bank's Risk Management Department.

The Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, some international organizations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more

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

pessimistic outcomes. On an annual basis, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The factors the Group considers are as shown below:

Stages	Applicable ECL	Criteria (Quantitative)	Criteria (Qualitative)
<b>Stage 1</b>	12 Month ECL	<ul style="list-style-type: none"> <li>Less than 30 days past due</li> </ul>	<ul style="list-style-type: none"> <li>All loans upon initial recognition</li> </ul>
<b>Stage 2</b>	Lifetime ECL - Loans that have witnessed significant increase in credit risk	<ul style="list-style-type: none"> <li>Internal / external rating downgrade of loans from investment grade to non-investment grade</li> <li>four notches downward movement in a twenty-five notches scale in rating.</li> <li>One notch internal / external rating downgrade of loans for non-investment grade loans</li> <li>Obligation with past due exceeding 30 days</li> <li>Increase of more than 300bps in yield spread over corresponding Federal Government instrument for corporate debt issue</li> <li>For corporate debt issue, three notches downgrade of the issuer rating</li> </ul>	<ul style="list-style-type: none"> <li>Forbearance by CBN</li> <li>Negative modification / restructure to the original loan agreement e.g. for easing the cash-flow burden on the obligor</li> <li>Verified poor credit risk status from the credit bureau</li> <li>Changes in regulatory, economic, or business of the borrower that results in a significant change in the borrower's ability to meet its debt obligations (e.g. a decline in the demand for the borrower's sales product because of a shift in technology)</li> <li>Overdue status and non-payment on another obligation of the same issuer to the Bank</li> </ul>
<b>Stage 3</b>	Lifetime ECL - Loans that have objective evidence of impairment or in default	<ul style="list-style-type: none"> <li>Obligation with past due exceeding 90 days</li> <li>Internal and external rating downgrade to "C" rating</li> </ul>	<ul style="list-style-type: none"> <li>Force majeure leading to loss of borrower's primary asset</li> </ul>

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

The days past due default definition used by the Group as criteria in the credit classification for loan loss provisioning is consistent with the nature and observable trends in the credit of the Group.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on an annual basis.

### **Forward-looking information incorporated in the ECL models**

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the “base economic scenario”) are provided by the Group’s Economics team on a quarterly basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of two to five years.

The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Group’s Research team also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded.

Following this assessment, the Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-

# FSDH MERCHANT BANK LIMITED

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

linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

### ESTIMATION OF MULTI-YEAR EXPOSURE AT DEFAULT

Exposure at Default (EAD) is an estimate of the Bank's exposure to its counterparty at the time of default. This estimation (EAD) relates to payment terms, tenure of exposure and the point in time at which default is expected, or actually occurs. For defaulted accounts, the Bank uses the principal amount outstanding and the accrued interest at the point of default as the EAD.

Prepayment is primarily an option to borrower to make bulk payment (full or partial) for the availed facility ahead of its scheduled time. The model has the capacity to compute prepayment rate per sector using prepayment historical data.

### EAD ESTIMATION FOR CERTAIN EXPOSURE FACILITIES

Under this category, future exposure to the facility is known, as the counterparty cannot increase its exposure beyond contractual drawdown schedule. All forms of term loans including amortizing loans, step-up/step-down loans, bullet loans fall under this category, provided there is no prepayment option.

Periodic and Daily amortization schedule are generated using both contractual and computed effective interest rate (EIR).

### ESTIMATION OF MULTI-YEAR LOSS GIVEN DEFAULT

#### Definition of LGD Parameters

Loss Given Default (LGD) parameter is defined as a percentage of exposure that the Bank expects not to collect if default occurs on the contract. It is the complement of the Recovery Rate which is the percentage of exposure that the Bank expects to recover in the event that there is a default.

**Collateral:** This is a property or other asset that a borrower offers as a way for a lender to secure the loan. Since collateral offers some security to the lender should the borrower fail to pay back the loan, loans that are secured by collateral typically have lower credit risk spreads than unsecured loans.

**Haircut:** The amount of the haircut reflects the lender's perceived risk of loss from the asset falling in value or being sold in a forced sale. Haircut is expressed as a percentage of the collateral's market value.

**DR:** Discount rate is the rate used to discount all estimated recovered cash flows from the period of collection to the period of default. The contractual interest rate is used as DR for stage 3 facilities, while the EIR is used for other stages. Effective interest rate (EIR) is defined as the rate that exactly discounts future contractual cash payments through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

### Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be

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

credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Group’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group’s recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD’s are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD’s are influenced by collection strategies, including contracted debt sales and price.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD.

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### Qualitative Criteria

PDs are assigned by grouping facilities based on a shared risk characteristic, i.e. homogeneous group. The FSDH internal rating of the obligor was used as the relevant shared characteristic for the purpose of this grouping.

CREDIT RATING	DESCRIPTION	INVESTMENT DECISION
AAA	Exceptional Credit Quality	Investment Grade
AA+	Very High Credit Quality	
AA		
AA-		
A+		
A	High Credit Quality	
A-		
BBB+		
BBB	Good Asset Quality	
BBB-		
BB+		
BB	Satisfactory Asset Quality	Speculative Grade
BB-		
B+		
B	Asset Quality with limited capacity	
B-		
CCC+		
CCC	Asset Quality with signs of deterioration	
CCC-		
CC+		
CC	Asset Quality with probability of partial loss	
CC-		
C+		
C	Default	Default Grade
C-		

### The Top-Down Approach

The impact of macro-economic variables on non-performance is determined by the model and applied on ECL level. Factors considered include:

- Gross Domestic Product (GDP) growth rate
- Inflation Rate
- Foreign exchange rate

Data consideration included values from past year (2017), actual for the active year (2018) and forecast for 2019 to 2021.

# FSDH MERCHANT BANK LIMITED

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

### Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2018 are set out below. The scenarios “best”, “downturn” and “optimistic” were used for all portfolios.

		2019	2020	2021	2022	2023
Real GDP Growth Rate - Year on Year	Base Case	2.48%	3.00%	2.80%	2.71%	2.72%
	Best Case	2.71%	2.77%	2.57%	2.48%	2.49%
	Worst Case	1.83%	2.35%	2.14%	2.06%	2.06%
Exchange Rate (N/US\$)	Base Case	375	390	390	390	390
	Best Case	365	365	365	365	365
	Worst Case	400	400	410	410	415
Inflation Rate	Base Case	11.49%	11.11%	11.24%	10.81%	9.83%
	Best Case	9.89%	9.51%	9.64%	9.21%	8.23%
	Worst Case	13.39%	13.01%	13.14%	12.71%	11.73%

### PROBABILITY-WEIGHTED ECL COMPUTATION

A key aspect of IFRS 9 is the introduction of forward-looking estimates into the impairment calculation.

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. This is based on advice from the Group’s Risk Management Department and Research Department

The Group formulates a ‘base case’ view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, some international organizations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. On an annual basis, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

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

### SENSITIVITY ANALYSIS

The most significant assumptions affecting the ECL allowance are as follows:

- (i) Inflation : given its impact on interest rates and companies' likelihood of default.
- (ii) Real GDP: given the significant impact on companies' performance and collateral valuations

Set out below are the changes to the ECL as at 31 December 2018 that would result from reasonably possible changes in this parameter from the actual assumptions used in the bank's economic variable assumptions (for example, the impact on ECL of increasing the estimated inflation rate by 1%):

<b>GROUP (N'000)</b>	<b>[-1%]</b>	<b>No change</b>	<b>[+1%]</b>
<b>Inflation</b>	1,865,321	1,865,637	1,868,953
	<b>[-1%]</b>	<b>No change</b>	<b>[+1%]</b>
<b>GDP</b>	1,865,336	1,865,637	1,865,938
	<b>[-1%]</b>	<b>No change</b>	<b>[+1%]</b>
<b>BANK (N'000)</b>	<b>[-1%]</b>	<b>No change</b>	<b>[+1%]</b>
<b>Inflation</b>	1,824,352	1,824,668	1,824,984
	<b>[-1%]</b>	<b>No change</b>	<b>[+1%]</b>
<b>GDP</b>	1,824,367	1,824,668	1,824,969

### 2.11 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument. For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision.

However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the

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## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

### **2.12 Write-off**

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

### **2.13 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has currently enforceable a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The financial assets and liabilities are presented on a gross basis.

Income and expenses are presented on a net basis only when permitted by accounting standards, or for gains and losses arising from a Group of similar transactions such as in the Group's trading activity.

### **2.14 Borrowing costs**

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get 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.

Other borrowing costs are expensed in the period in which they are incurred.

### **2.15 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 se 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

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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.

### **2.16 Dividend income**

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

### **2.17 Impairment of non-financial assets**

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### **2.18 Cash and cash equivalent**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and Group overdrafts.

### **2.19 Property and equipment**

#### **(i) Recognition and measurement**

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance costs are charged to the income statement during the reporting period in which they are incurred.

An asset's net book value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with net book values. These are included in the income statement.

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

### (iii) Depreciation

Depreciation is recognised in the statement of comprehensive income 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
-Office equipment	-	20%
-Computer equipment	-	33%
-Office Furniture and fittings	-	12.5% - 25%
-Motor vehicles	-	25%
-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 statement of comprehensive income in the year the asset is derecognised.

## 2.20 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. Assets classified as held for sale are measured at fair value, gain or loss arising from a change in the fair value of the asset held for sale is recognised in income statement for the period in which it arise.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated in the financial statements of the Bank.

# FSDH MERCHANT BANK LIMITED

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

### 2.21 Intangible assets

Costs associated with maintaining software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use. The Group chooses to use the cost model for the measurement after initial recognition. Prior to deployment for usage, such assets are classified under work in progress and are not subjected to amortization.

Amortisation is calculated over 3 years on a straight line basis.

### 2.22 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 the current tax relates to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity (for example, current tax on equity instruments for which the entity has elected to present gains and losses in other comprehensive income).

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

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## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

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

### **2.23 Employee benefits**

The Group operates post-employment 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**

The Company operates a defined contribution scheme in line with the subsisting Pension Act where employees are entitled to join the scheme on confirmation of their employment. The employee and the Company contribute 6% and 12% respectively of the employee's basic salary, transport and rent allowances. The Company 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.

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

### (b) Post-employment defined contribution plan

The group in addition to its defined contribution scheme under the Pension Reform Act, also sponsors a post-employment plan under which entities within the group contribute a percentage of employees' basic salary to a fund manager in favour of the employees. The amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by the company to the post-employment benefit plan, together with investment returns arising from the contributions. Thus, actuarial risk (that benefits will be less than expected) and investment risk fall on the employee.

### **2.24 Provisions, contingent liabilities and assets**

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

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

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

### **2.25 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

# FSDH MERCHANT BANK LIMITED

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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 1990 (CAMA).

### (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 classified as performing or non-performing. Non-performing assets are further classed as Substandard, Doubtful or Lost with attendant provision as per the table below based on objective criteria.

<b>Classification</b>	<b>Basis</b>	<b>Percentage provided</b>
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 IFRS 9 are compared. The IFRS 9 determined impairment charge is always included in the income statement. 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 IFRS 9 impairment is greater, no appropriation is made and the amount of the IFRS 9 impairment is recognised in the Statement of Comprehensive Income.

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All provisions determined under Prudential Guidelines are compared with that of IFRS in line with the CBN provisions.

### **2.26 Earnings per share**

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the statement of comprehensive income 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.

### **2.27 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.

### **Rounding of amounts**

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousands of naira unless otherwise stated.

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**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), operational risk, concentration risk, reputational risk, interest rate risk, downgrade risk, business risk, regulatory compliance risk and environment and social risk.

For the Group to achieve long term success, it must manage all chosen opportunities and identified threats effectively within the Group's risk appetite.

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 promotes 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.

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- 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 the Group 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 Group.
- 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 risk appetite guides in setting the parameters listed below:

**Financial**

- a. Financial and prudential ratios are set to meet the minimum statutory requirements
- b. Capital-at-risk driven by the Group's shareholder value creation objectives.
- c. Capital adequacy is set to exceed the minimum 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.

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**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**

The following are the objectives for managing market risk in the Group:

- Maintaining market risk within limits in line with the Group's risk appetite;
- Identifying and accurately measuring our market risk exposure to aid efficient decision making; and
- Mitigating and monitoring our market risk exposures effectively.

The Group in managing market risk tracks the following limits:

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

**Liquidity Risk**

The Group tracks the following limits in compliance with regulatory requirements and/or to conform to leading practices in liquidity risk management:

- a. Liquidity ratio set to exceed minimum 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 proposes a well articulated risk appetite framework and recommends it to the Board for approval annually. It also establishes a process for allocating the appetite among the business units and subsidiaries and reporting against these limits.

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3.1 Financial Instruments

The groups financial instruments are categorised as follows:

Group 31 December 2018	Financial Assets			Financial Liabilities	
	At fair value through profit or loss	FVOCI - Debt	Amortised Cost	At fair value through profit or loss	At amortised cost
In thousands of Nigerian Naira					
Financial assets:					
Cash	-	-	1,085	-	-
Balances with other banks					
- Operating balance with Central Bank of Nigeria	-	-	1,324,916	-	-
- Balances with banks in Nigeria	-	-	691,853	-	-
- Balances with banks outside Nigeria	-	-	5,008,095	-	-
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	4,196,302	-	-
Loans to banks					
- Placements with banks	-	-	17,739,727	-	-
- Placements with other financial institutions	-	-	302	-	-
Financial instruments at fair value through profit or loss					
- Quoted equity securities	1,920	-	-	-	-
- Nigerian Treasury Bills	344,516	-	-	-	-
- Federal Government of Nigeria Bonds	5,280	-	-	-	-
- Corporate Bonds	1,128,755	-	-	-	-
- Mutual Funds	346,671	-	-	-	-
Derivative financial instruments					
- Convertible Loan	-	-	-	-	-
- Foreign exchange forward contract	607,076	-	-	-	-
Loans and advances to customers					
- Loans and advances (net of impairment)	-	-	40,870,509	-	-
Investment securities					
- Equity securities	-	342,473	-	-	-
- Nigerian Treasury Bills	-	25,583,602	6,525,391	-	-
- Commercial Bills	-	19,581	-	-	-
- Federal Government of Nigeria bonds	-	402,868	244,996	-	-
- Corporate bonds	-	4,402,529	-	-	-
Pledged assets					
- Nigerian Treasury Bills	-	3,830,738	-	-	-
- Federal Government of Nigeria bonds	-	5,063,491	-	-	-
Other assets					
- Receivables (net impairment)	-	-	737,280	-	-
<b>Financial liabilities:</b>					
Due to banks					
- Current account - local	-	-	-	-	-
- Current account - foreign	-	-	-	-	-
- Call borrowings	-	-	-	-	705,274
- Secured borrowings	-	-	-	-	3,620,314
- Trade Related Obligations to local banks	-	-	-	-	-
- Trade Related Obligations to foreign banks	-	-	-	-	416,260
- Other Balances	-	-	-	-	3,144
Due to customers					
- Liabilities under repurchase agreements	-	-	-	-	-
- Demand	-	-	-	-	9,092,869
- Term	-	-	-	-	31,245,455
- Client investments under repurchase	-	-	-	-	6,204,316
Derivative financial instruments					
- Convertible Loan	-	-	-	-	-
- Foreign exchange forward contract	-	-	-	590,903	-
Other liabilities					
- Customers' deposit for foreign trade	-	-	-	-	3,278,776
- Amounts held on behalf of third parties	-	-	-	-	848,356
- Unclaimed third party deposits	-	-	-	-	5,268
- Sundry creditors	-	-	-	-	351,947
- Stale cheques and other payable	-	-	-	-	347,264
Debt securities					
- FSDH commercial papers	-	-	-	-	14,341,909
Other borrowed funds					
- Due to Shelter Afrique	-	-	-	-	305,686
- Due to AfDB	-	-	-	-	18,420,265
	<b>2,434,218</b>	<b>39,645,282</b>	<b>77,340,456</b>	<b>590,903</b>	<b>89,187,103</b>

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Group 31 December 2017	Financial Assets			Financial Liabilities	
	Held for Trading	Available for sale	Held to maturity	Held for Trading	Amortised cost
In thousands of Nigerian Naira					
Financial assets:					
Cash	-	-	1,388	-	-
Balances with other banks					
- Operating balance with Central Bank of Nigeria	-	-	634,011	-	-
- Balances with banks in Nigeria	-	-	630,262	-	-
- Balances with banks outside Nigeria	-	-	12,377,991	-	-
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	2,120,526	-	-
Loans to banks					
- Placements with banks	-	-	17,476,837	-	-
- Placements with other financial institutions	-	-	171	-	-
Financial instruments held for trading					
- Quoted equity securities	-	-	-	-	-
- Nigerian Treasury Bills	-	-	-	-	-
- Federal Government of Nigeria Bonds	-	-	-	-	-
Derivative financial instruments					
- Convertible Loan	-	-	-	-	-
- Foreign exchange forward contract	70,037	-	-	-	-
Loans and advances to customers					
- Loans and advances (net of impairment)	-	-	38,025,050	-	-
Investment securities					
- Equity securities	45,292	1,197,754	-	-	-
- Federal Government of Nigeria bonds	1,732,803	1,921,806	-	-	-
- Nigerian Treasury Bills	5,925,953	46,471,695	1,607,488	-	-
- State Government and Corporate bonds	-	4,655,472	-	-	-
Pledged assets					
- Nigerian Treasury Bills	-	5,672,232	-	-	-
- Federal Government of Nigeria bonds	-	4,426,917	102,713	-	-
- State Government and Corporate bonds	-	-	-	-	-
Other assets					
- Receivables	-	-	618,744	-	-
Financial liabilities:					
Due to banks					
- Call borrowings	-	-	-	-	13,178,598
- Secured borrowings	-	-	-	-	6,699,365
- Trade Related Obligations to local banks	-	-	-	-	-
- Trade Related Obligations to foreign banks	-	-	-	-	-
Due to customers					
- Liabilities under repurchase agreements	-	-	-	-	-
- Demand	-	-	-	-	6,619,379
- Term	-	-	-	-	47,955,541
- Other customer balances	-	-	-	-	-
Derivative financial instruments					
- Convertible Loan	-	-	-	-	-
- Foreign exchange forward contract	-	-	-	54,106	-
Other liabilities					
- Customers' deposit for foreign trade	-	-	-	-	8,124,626
- Amounts held on behalf of third parties	-	-	-	-	-
- Unclaimed third party deposits	-	-	-	-	5,268
- Accounts payable	-	-	-	-	552,012
- Stale cheques and other payable	-	-	-	-	302,430
Debt securities					
- Commercial Papers	-	-	-	-	12,077,787
Other borrowed funds					
- Due to AfDB	-	-	-	-	16,799,047
- Due to Shelter Afrique	-	-	-	-	3,402,772
	7,774,085	64,345,876	73,595,181	54,106	115,716,825

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Bank

31 December 2018	Financial Assets			Financial Liabilities	
	At fair value through profit or loss	FVOCI - Debt	Amortised Cost	At fair value through profit or loss	Amortised cost
In thousands of Nigerian Naira					
<b>Financial assets:</b>					
Cash and bank balances					
Cash	-	-	37	-	-
Balances with other banks					
- Operating balance with Central Bank of Nigeria	-	-	1,324,916	-	-
- Balances with banks in Nigeria	-	-	657,634	-	-
- Balances with banks outside Nigeria	-	-	5,008,095	-	-
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	4,196,302	-	-
Loans to banks					
- Placements with banks	-	-	17,057,637	-	-
- Placements with other financial institutions	-	-	-	-	-
Financial instruments held for trading					
- Quoted equity securities	-	-	-	-	-
- Nigerian Treasury Bills	344,516	-	-	-	-
- Corporate bonds	1,128,755	-	-	-	-
- Federal Government of Nigeria Bonds	-	-	-	-	-
Loans and advances					
- Loans and advances (net of impairment)	-	-	40,536,858	-	-
- Margin facilities	-	-	-	-	-
Investment securities					
- Equity securities	-	342,473	-	-	-
- Nigerian Treasury Bills	-	24,524,054	4,693,596	-	-
- Commercial Bills	-	-	-	-	-
- Federal Government of Nigeria bonds	-	325,631	-	-	-
- Corporate bonds	-	4,141,106	-	-	-
Derivative financial instruments					
	607,076	-	-	-	-
Pledged assets					
- Nigerian Treasury Bills	-	3,830,738	-	-	-
- Federal Government of Nigeria bonds	-	5,063,491	-	-	-
- Corporate bonds	-	-	-	-	-
Other assets					
- Receivables (net impairment)	-	-	252,081	-	-
<b>Financial liabilities:</b>					
Due to banks					
- Current account - local	-	-	-	-	-
- Current account - foreign	-	-	-	-	-
- Call borrowings	-	-	-	-	705,274
- Secured borrowings	-	-	-	-	3,620,314
- Trade Related Obligations to local banks	-	-	-	-	-
- Trade Related Obligations to foreign banks	-	-	-	-	416,260
- Other balances	-	-	-	-	3,144
Derivatives					
- FX forward contracts	-	-	-	590,903	-
Due to customers					
- Liabilities under repurchase agreements	-	-	-	-	-
- Demand	-	-	-	-	9,269,590
- Term	-	-	-	-	31,245,455
- Client investments under repurchase	-	-	-	-	6,204,316
Other liabilities					
- Customers' deposit for foreign trade	-	-	-	-	3,278,776
- Amounts held on behalf of third parties	-	-	-	-	848,356
- Unclaimed third party deposits	-	-	-	-	5,505
- Sundry creditors	-	-	-	-	82,226
- Stale cheques and other payable	-	-	-	-	335,693
Debt securities					
- Commercial papers	-	-	-	-	14,524,709
Other borrowed funds					
- Due to Shelter Afrique	-	-	-	-	305,686
- Due to AfDB	-	-	-	-	18,420,265
	<b>2,080,347</b>	<b>38,227,493</b>	<b>73,727,156</b>	<b>590,903</b>	<b>89,265,569</b>

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Bank

31 December 2017	Financial Assets			Financial Liabilities	
	Held for Trading	Available for sale	Held to maturity	-	Amortised cost
In thousands of Nigerian Naira					
Financial assets:					
Cash	-	-	158	-	-
Balances with other banks					
- Operating balance with Central Bank of Nigeria	-	-	633,584	-	-
- Balances with banks in Nigeria	-	-	404,578	-	-
- Balances with banks outside Nigeria	-	-	12,377,991	-	-
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	2,120,526	-	-
Loans to banks					
- Placements with banks	-	-	16,793,701	-	-
- Placements with other financial institutions	-	-	-	-	-
Financial instruments held for trading					
- Quoted equity securities	-	-	-	-	-
- Nigerian Treasury Bills	5,925,953	-	-	-	-
- Federal Government of Nigeria Bonds	1,727,692	-	-	-	-
Derivative financial instruments					
- Convertible Loan	-	-	-	-	-
- Foreign exchange forward contract	70,037	-	-	-	-
Loans and advances					
- Loans and advances (net of impairment)	-	-	37,376,991	-	-
- Margin facilities	-	-	-	-	-
Investment securities					
- Equity securities	-	157,799	-	-	-
- Federal Government of Nigeria bonds	-	1,746,606	-	-	-
- Nigerian Treasury Bills	-	45,400,838	-	-	-
- State Government and Corporate bonds	-	4,482,404	-	-	-
Pledged assets					
- Federal Government of Nigeria bonds	-	4,426,917	102,713	-	-
- State Government and Corporate bonds	-	-	-	-	-
Other assets					
- Receivables	-	-	169,542	-	-
Financial liabilities:					
Due to banks					
- Call borrowings	-	-	-	-	13,178,598
- Corporate bonds	-	-	-	-	6,699,365
- Trade Related Obligations to local banks	-	-	-	-	-
- Trade Related Obligations to foreign banks	-	-	-	-	-
Due to customers					
- Demand	-	-	-	-	6,778,585
- Term	-	-	-	-	48,407,860
- Other customer balances	-	-	-	-	-
Derivative financial instruments					
- Convertible Loan	-	-	-	-	-
- Foreign exchange forward contract	-	-	-	54,106	-
Other liabilities					
- Customers' deposit for foreign trade	-	-	-	-	8,124,626
- Amounts held on behalf of third parties	-	-	-	-	-
- Unclaimed third party deposits	-	-	-	-	5,268
- Accounts payable	-	-	-	-	68,440
- Stale cheques and other payable	-	-	-	-	230,147
Debt securities					
- Commercial Papers	-	-	-	-	12,077,787
Other borrowed funds					
- Due to AfDB	-	-	-	-	16,799,047
- Due to Shelter Afrique	-	-	-	-	3,402,772
	<b>7,723,682</b>	<b>61,886,796</b>	<b>69,979,784</b>	<b>54,106</b>	<b>115,772,495</b>

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**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. It arises principally from the Group's loans and advances to customers and other banks, and investment in debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor risk, country risk 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.

The FSDH Merchant Bank's Enterprise Risk Management (ERM) Framework and Credit Policy Manual 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 Risk Committee is mandated to provide high level centralized management of credit risk for the Group. The purpose of the Management Risk Committee is to assist the Board Risk 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 Group. 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 the 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.
  - Corporate bonds
- 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.

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**3.1.4 Credit Risk Measurement**

Over the years, the Group has expanded its operational scope and enhanced its suite of financial advisory services to its clientele. The product offerings of the Group include 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 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 Obligor Risk Rating and Facility Risk Rating models to assign ratings to obligor and facilities in line with the Bank's Credit Policy. The Obligor Risk Rating models include the Bank Risk Rating and Corporates Risk Rating models. The Group utilises the Bank Rating model and the Corporate Rating model to rate Bank and corporate organisations respectively. Each rating model considers 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 and the financial performance is benchmarked against industry averages. The qualitative section covers corporate governance issues, industry and business considerations to give a perception of the customer.

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.

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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:

<b>SCORE</b>	<b>RATING</b>	<b>EXPLANATION</b>
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.
Below 45	C	Financial condition is very week. Networth is likely to be negative and obligations may already be in default.

A "+" (plus) or "-" (minus) sign may be assigned to ratings from Aa to C to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

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**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 being considered for the client. The Board of Directors of the Group set up a Board Risk Committee (BRC) with the authority to approve credit facilities on behalf of the Board. The Board also gave the authority to grant credit approval to the Management Risk Committee (MRC).

All credits in the Group are rated using the Group's 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 determining values of credit to be advanced to an obligor, also guides 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:

Approving Authorities	Approved Volume	Ratings
*Management Risk Committee	Up to N10.5bn	Aa - Aaa
Board Risk Committee (BRC)	Up to N6bn	Aa - Aaa
Board Risk Committee (BRC)	Up to N3.7bn	Bbb- - A
Full Board	Up to N1.26bn	Bb+ - B-
Full Board	Up to N0.75bn	C

\* The Management Risk Committee shall comprise the officers specified below, signing jointly:

- Chief Risk Officer
- Executive Directors
- 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
- Letters 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.

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- 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 Department 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 perceived client's 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 Risk 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 the group's internal rating model.

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**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**

	<b>Dec-18</b>	<b>Dec-17</b>
	<b>N'000</b>	<b>N'000</b>
Cash and bank balances		
Balances with other banks		
- Operating balance with Central Bank of Nigeria	1,324,916	634,011
- Balances with banks in Nigeria	691,853	630,262
- Balances with banks outside Nigeria	5,008,095	12,377,991
- Mandatory reserve deposit with Central Bank of Nigeria	4,196,302	2,120,526
Loans to banks		
- Placements with banks	17,739,727	17,476,837
- Placements with other financial institutions	302	171
Financial instruments held for trading/fair value through profit or loss		
- Nigerian Treasury Bills	344,516	5,925,953
- Federal Government of Nigeria Bonds	5,280	1,732,803
- Corporate Bonds	1,128,755	
Derivative financial instruments		
- Foreign exchange forward contract	607,076	70,037
Loans and advances to customers		
- Loans and advances (net of impairment)	40,870,509	38,025,050
Investment securities		
- Nigerian Treasury Bills	32,108,993	48,079,183
- Federal Government of Nigeria bonds	647,864	1,921,806
- Corporate bonds	4,402,529	4,655,472
- Commercial Papers	19,581	-
Pledged assets		
- Nigerian Treasury Bills	3,830,738	5,672,232
- Federal Government of Nigeria bonds	5,063,491	4,529,630
Other assets		
- Receivables	737,280	618,744
	<u>118,727,807</u>	<u>144,470,708</u>
Credit related commitments		
- Letters of Credit	21,044,590	6,831,213
- Performance bonds and guarantees	132,598	-
- Loan commitments	20,346,805	12,969,297
	<u>41,523,993</u>	<u>19,800,510</u>

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<b>Bank</b>	<b>Dec-18</b>	<b>Dec-17</b>
	<b>N'000</b>	<b>N'000</b>
Cash and bank balances		
Balances with other banks		
- Operating balance with Central Bank of Nigeria	1,324,916	633,584
- Balances with banks in Nigeria	657,634	404,578
- Balances with banks outside Nigeria	5,008,095	12,377,991
- Mandatory reserve deposit with Central Bank of Nigeria	4,196,302	2,120,526
Loans to banks		
- Placements with banks	17,057,637	16,793,701
Financial instruments held for trading/fair value through profit or loss		
- Nigerian Treasury Bills	344,516	5,925,953
- Federal Government of Nigeria Bonds	-	1,727,692
- Corporate Bonds	1,128,755	-
Derivative financial instruments		
- Foreign exchange forward contract	607,076	70,037
Loans and advances to customers		
- Loans and advances (net of impairment)	40,536,858	37,376,991
Investment securities		
- Nigerian Treasury Bills	29,217,650	45,400,838
- Federal Government of Nigeria bonds	325,631	1,746,606
- Corporate bonds	4,141,106	4,482,404
Pledged assets		
- Nigerian Treasury Bills	3,830,738	5,672,232
- Federal Government of Nigeria bonds	5,063,491	4,529,630
- Corporate bonds	-	-
Other assets		
- Receivables	252,081	169,542
	<u>113,692,486</u>	<u>139,432,305</u>
Credit related commitments		
- Letters of Credit	21,044,590	6,831,213
- Performance bonds and guarantees	132,598	
- Loan commitments	20,346,805	12,969,297
	<u>41,523,993</u>	<u>19,800,510</u>

**3.1.8 Concentrations of Credit Risk**

The group monitors concentration of credit risk by geographical location and by industry. An analysis of concentrations of credit risk as at 31 December 2018 and 31 December 2017 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 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 at 31 December 2018

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In thousands of Nigerian Naira	Chemical and Allied Product	Government	Finance and Insurance	Conglomerate	Oil and Gas Upstream	Oil and Gas Downstream	Real Estate	Telecoms	Crop Production	Flour Mills and Bakeries	Food Products	Pharmaceuticals	Power Generation/Plants	General - Logistics	Textiles and Apparel	Others	Total	
<b>Financial assets:</b>																		
Cash and bank balances																		-
Balances with other banks																		-
- Operating balance with Central Bank of Nigeria	-	1,324,916	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,324,916
- Balances with banks in Nigeria	-	-	691,853	-	-	-	-	-	-	-	-	-	-	-	-	-	-	691,853
- Balances with banks outside Nigeria	-	-	5,008,095	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,008,095
- Mandatory reserve deposit with Central Bank of Nigeria	-	4,196,302	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,196,302
Loans to banks																		-
- Placements with banks	-	-	17,739,727	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,739,727
- Placements with other financial institutions	-	-	302	-	-	-	-	-	-	-	-	-	-	-	-	-	-	302
Financial instruments at fair value through profit or loss																		-
- Nigerian Treasury Bills	-	344,516	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	344,516
- Federal Government of Nigeria Bonds	-	5,280	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,280
- Corporate Bonds	-	1,128,755	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,128,755
- Mutual Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments																		-
- Foreign exchange forward contract	-	607,076	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	607,076
Loans and advances																		-
- Loans and advances (net of impairment)	18,266	-	5,146,159	1,402,213	12,399,772	5,754,231	3,060,656	2,155,760	3,990,459	2,025,215	2,378,001	151,595	270,915	1,305,133	6,908	805,226	-	40,870,509
- Margin facilities (net of impairment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment securities																		-
- Federal Government of Nigeria bonds	-	647,864	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	647,864
- Nigerian Treasury Bills	-	32,108,993	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	32,108,993
- Corporate bonds	-	-	4,402,529	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,402,529
- Commercial Papers	-	-	19,581	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19,581
Pledged assets																		-
- Nigerian Treasury Bills	-	3,830,738	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,830,738
- Federal Government of Nigeria bonds	-	5,063,491	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,063,491
Other assets																		-
- Corporate bonds	-	-	737,280	-	-	-	-	-	-	-	-	-	-	-	-	-	-	737,280
<b>Total</b>	<b>18,266</b>	<b>49,257,931</b>	<b>33,745,526</b>	<b>1,402,213</b>	<b>12,399,772</b>	<b>5,754,231</b>	<b>3,060,656</b>	<b>2,155,760</b>	<b>3,990,459</b>	<b>2,025,215</b>	<b>2,378,001</b>	<b>151,595</b>	<b>270,915</b>	<b>1,305,133</b>	<b>6,908</b>	<b>805,226</b>	<b>118,727,807</b>	
<b>Credit related commitments</b>																		
	Chemical and Allied Product	Beverages	Telecommunications	Conglomerate	Crop Production	Oil and Gas Downstream	Real Estate	Automotive Parts	Plastics	Flour Mills and Bakeries	Food Products	Pharmaceuticals	Power Generation/Plants	General - Logistics	Textiles and Apparel	Others	Total	
- Letters of Credit	241,377	2,858,974	-	-	-	2,009,224	-	65,910	41,308	6,265,913	467,743	344,138	2,170,316	6,517,162	62,523	-	21,044,590	
- Performance bonds and guarantees	-	-	-	-	-	-	-	-	-	-	-	-	62,300	-	-	70,298	132,598	
- Loan commitments	1,145,326	3,064,607	4,055,556	187,880	50,794	2,843,081	-	-	-	1,000,000	545,051	79,040	2,231,458	4,650,830	493,182	-	20,346,805	
<b>Total</b>	<b>1,386,703</b>	<b>5,923,581</b>	<b>4,055,556</b>	<b>187,880</b>	<b>50,794</b>	<b>4,852,305</b>	<b>-</b>	<b>65,910</b>	<b>41,308</b>	<b>7,265,913</b>	<b>1,012,795</b>	<b>423,178</b>	<b>4,464,074</b>	<b>11,167,992</b>	<b>555,706</b>	<b>70,298</b>	<b>41,523,993</b>	

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In thousands of Nigerian Naira	Chemical and Allied Product	Government	Finance and Insurance	Manufacturing	Oil and Gas Upstream	Oil and Gas Downstream	Real Estate	Telecoms	Crop Production	Flour Mills and Bakeries	Food Products	Pharmaceuticals	Power Generation/Plants	General - Logistics	Textiles and Apparel	Others	Total
Financial assets:																	
Cash and bank balances																	
Balances with other banks																	
- Operating balance with Central Bank of Nigeria	-	634,011	-	-	-	-	-	-	-	-	-	-	-	-	-	-	634,011
- Balances with banks in Nigeria	-	-	630,262	-	-	-	-	-	-	-	-	-	-	-	-	-	630,262
- Balances with banks outside Nigeria	-	-	12,377,991	-	-	-	-	-	-	-	-	-	-	-	-	-	12,377,991
- Mandatory reserve deposit with Central Bank of Nigeria	-	2,120,526	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,120,526
Loans to banks																	
- Placements with banks	-	-	17,476,837	-	-	-	-	-	-	-	-	-	-	-	-	-	17,476,837
- Placements with other financial institutions	-	-	171	-	-	-	-	-	-	-	-	-	-	-	-	-	171
Financial instruments held for trading																	
- Nigerian Treasury Bills	-	5,925,953	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,925,953
- Federal Government of Nigeria Bonds	-	1,732,803	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,732,803
Loans and advances																	
- Loans and advances (net of impairment)	-	-	3,912,318	4,297,925	17,162,445	3,762,941	2,036,719	3,554,971	-	-	-	-	1,063,255	-	1,747,671	-	37,538,245
- Margin facilities (net of impairment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	486,805	-	486,805
Derivative financial instruments																	
- Foreign exchange forward contract	-	61,556	8,481	-	-	-	-	-	-	-	-	-	-	-	-	-	70,037
Investment securities																	
- Federal Government of Nigeria bonds	-	1,921,806	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,921,806
- Nigerian Treasury Bills	-	48,079,183	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48,079,183
- Corporate bonds	-	-	4,520,167	135,305	-	-	-	-	-	-	-	-	-	-	-	-	4,655,472
Pledged assets																	
- Nigerian Treasury Bills	-	5,672,232	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,672,232
- Federal Government of Nigeria bonds	-	4,529,630	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,529,630
- Corporate bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets																	
- Receivables	-	-	618,744	-	-	-	-	-	-	-	-	-	-	-	-	-	618,744
<b>Total</b>	<b>-</b>	<b>70,677,700</b>	<b>39,544,971</b>	<b>4,433,230</b>	<b>17,162,445</b>	<b>3,762,941</b>	<b>2,036,719</b>	<b>3,554,971</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,063,255</b>	<b>-</b>	<b>2,234,476</b>	<b>144,470,708</b>
Credit related commitments																	
- Letters of Credit	16,390	1,504,907	465,630	-	-	1,196,341	-	75,822	100,806	1,906,652	387,655	89,662	78,930	896,356	78,533	33,530	6,831,213
- Loan commitments	-	-	193,496	3,964,621	1,178,259	1,000,000	-	-	-	-	-	-	-	5,892,683	740,238	-	12,969,297
<b>Total</b>	<b>16,390</b>	<b>1,504,907</b>	<b>465,630</b>	<b>193,496</b>	<b>3,964,621</b>	<b>2,374,600</b>	<b>1,000,000</b>	<b>75,822</b>	<b>100,806</b>	<b>1,906,652</b>	<b>387,655</b>	<b>89,662</b>	<b>78,930</b>	<b>6,789,039</b>	<b>78,533</b>	<b>773,768</b>	<b>19,800,510</b>

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Bank  
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In thousands of Nigerian Naira	Chemical and Allied Product	Government	Finance and Insurance	Conglomerate	Oil and Gas Upstream	Oil and Gas Downstream	Real Estate	Telecoms	Crop Production	Flour Mills and Bakeries	Food Products	Pharmaceuticals	Power Generation/	General - Logistics	Textiles and	Others	Total
<b>Financial assets:</b>																	
Cash and bank balances																	
Balances with other banks																	
- Operating balance with Central Bank of Nigeria	-	1,324,916	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,324,916
- Balances with banks in Nigeria	-	-	657,634	-	-	-	-	-	-	-	-	-	-	-	-	-	657,634
- Balances with banks outside Nigeria	-	-	5,008,095	-	-	-	-	-	-	-	-	-	-	-	-	-	5,008,095
- Mandatory reserve deposit with Central Bank of Nigeria	-	4,196,302	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,196,302
Loans to banks																	
- Placements with banks	-	-	17,057,637	-	-	-	-	-	-	-	-	-	-	-	-	-	17,057,637
- Placements with other financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial instruments held as fair value through profit or loss																	
- Nigerian Treasury Bills	-	344,516	-	-	-	-	-	-	-	-	-	-	-	-	-	-	344,516
- Federal Government of Nigeria Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Corporate Bonds	-	1,128,755	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,128,755
Derivative financial instruments																	
- Foreign exchange forward contract	-	607,076	-	-	-	-	-	-	-	-	-	-	-	-	-	-	607,076
Loans and advances																	
- Loans and advances (net of impairment)	18,266	-	5,146,159	1,402,213	12,399,772	5,754,231	3,060,656	2,155,760	3,990,459	2,025,215	2,378,001	151,595	270,915	1,305,133	6,908	471,576	40,536,858
- Margin facilities (net of impairment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment securities																	
- Nigerian Treasury Bills	-	29,217,650	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29,217,650
- Federal Government of Nigeria bonds	-	325,631	-	-	-	-	-	-	-	-	-	-	-	-	-	-	325,631
- State Government and Corporate bonds	-	-	4,141,106	-	-	-	-	-	-	-	-	-	-	-	-	-	4,141,106
Pledged assets																	
- Nigerian Treasury Bills	-	3,830,738	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,830,738
- Federal Government of Nigeria bonds	-	5,063,491	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,063,491
- State Government and Corporate bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets																	
- Receivables	-	-	252,081	-	-	-	-	-	-	-	-	-	-	-	-	-	252,081
<b>Total</b>	<b>18,266</b>	<b>46,039,075</b>	<b>32,262,712</b>	<b>1,402,213</b>	<b>12,399,772</b>	<b>5,754,231</b>	<b>3,060,656</b>	<b>2,155,760</b>	<b>3,990,459</b>	<b>2,025,215</b>	<b>2,378,001</b>	<b>151,595</b>	<b>270,915</b>	<b>1,305,133</b>	<b>6,908</b>	<b>471,576</b>	<b>113,692,487</b>
<b>Credit related commitments</b>																	
- Letters of Credit	241,377	2,858,974	-	-	-	2,009,224	-	65,910	41,308	6,265,913	467,743	344,138	2,170,316	6,517,162	62,523	-	21,044,590
- Performance bonds and guarantees	-	-	-	-	-	-	-	-	-	-	-	-	62,300	-	-	70,298	132,598
- Loan commitments	1,145,326	3,064,607	4,055,556	187,880	50,794	2,843,081	-	-	-	1,000,000	545,051	79,040	2,231,458	4,650,830	493,183	-	20,346,805
<b>Total</b>	<b>1,386,703</b>	<b>5,923,581</b>	<b>4,055,556</b>	<b>187,880</b>	<b>50,794</b>	<b>4,852,305</b>	<b>-</b>	<b>65,910</b>	<b>41,308</b>	<b>7,265,913</b>	<b>1,012,795</b>	<b>423,178</b>	<b>4,464,074</b>	<b>11,167,992</b>	<b>555,706</b>	<b>70,298</b>	<b>41,523,993</b>

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31 December 2017																	
In thousands of Nigerian Naira	Chemical and Allied Product	Government	Finance and Insurance	Manufacturing	Oil and Gas Upstream	Oil and Gas Downstream	Real Estate	Telecoms	Crop Production	Flour Mills and Bakeries	Food Products	Pharmaceuticals	Power Generation/	General - Logistics	Textiles and	Others	Total
Financial assets:																	-
Cash and bank balances																	-
Balances with other banks																	-
- Operating balance with Central Bank of Nigeria	-	633,584	-	-	-	-	-	-	-	-	-	-	-	-	-	-	633,584
- Balances with banks in Nigeria	-	-	404,578	-	-	-	-	-	-	-	-	-	-	-	-	-	404,578
- Balances with banks outside Nigeria	-	-	12,377,991	-	-	-	-	-	-	-	-	-	-	-	-	-	12,377,991
- Mandatory reserve deposit with Central Bank of Nigeria	-	2,120,526	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,120,526
Loans to banks																	-
- Placements with banks	-	-	16,793,701	-	-	-	-	-	-	-	-	-	-	-	-	-	16,793,701
- Placements with other financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial instruments held for trading																	-
- Nigerian Treasury Bills	-	5,925,953	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,925,953
- Federal Government of Nigeria Bonds	-	1,727,692	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,727,692
Loans and advances																	-
- Loans and advances (net of impairment)	-	-	3,912,318	4,297,925	17,162,445	3,762,941	2,036,719	3,554,971	-	-	-	-	1,063,255	-	1,586,417	-	37,376,991
- Margin facilities (net of impairment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments																	-
- Convertible Loan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Foreign exchange forward contract	-	61,556	8,481	-	-	-	-	-	-	-	-	-	-	-	-	-	70,037
Investment securities																	-
- Federal Government of Nigeria bonds	-	1,746,606	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,746,606
- Nigerian Treasury Bills	-	45,400,838	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,400,838
- State Government and Corporate bonds	-	-	4,347,099	135,305	-	-	-	-	-	-	-	-	-	-	-	-	4,482,404
Pledged assets																	-
- Nigerian Treasury Bills	-	5,672,232	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,672,232
- Federal Government of Nigeria bonds	-	4,529,630	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,529,630
- State Government and Corporate bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets																	-
- Receivables	-	-	169,542	-	-	-	-	-	-	-	-	-	-	-	-	-	169,542
<b>Total</b>	<b>-</b>	<b>67,818,617</b>	<b>38,013,710</b>	<b>4,433,230</b>	<b>17,162,445</b>	<b>3,762,941</b>	<b>2,036,719</b>	<b>3,554,971</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,063,255</b>	<b>-</b>	<b>1,586,417</b>	<b>139,432,305</b>
Credit related commitments	Chemical and Allied Product	Beverages	Agro Services	Finance and Insurance	Manufacturing	Oil and Gas Downstream	Telecoms	Automotive Parts	Plastics	Flour Mills and Bakeries	Food Products	Pharmaceuticals	Power Generation/	General - Logistics	Textiles and	Others	Total
- Letters of Credit	16,390	1,504,907	465,630	-	-	1,196,341	-	75,822	100,806	1,906,652	387,655	89,662	78,930	896,356	78,533	33,530	6,831,213
- Loan commitments	-	-	-	193,496	3,964,621	1,178,259	1,000,000	-	-	-	-	-	-	5,892,683	-	740,238	12,969,297
<b>Total</b>	<b>16,390</b>	<b>1,504,907</b>	<b>465,630</b>	<b>193,496</b>	<b>3,964,621</b>	<b>2,374,600</b>	<b>1,000,000</b>	<b>75,822</b>	<b>100,806</b>	<b>1,906,652</b>	<b>387,655</b>	<b>89,662</b>	<b>78,930</b>	<b>6,789,039</b>	<b>78,533</b>	<b>773,768</b>	<b>19,800,510</b>

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**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 by credit quality:-

**Group**

31 December 2018

In thousands of Nigerian Naira	Stage 1 Assets	Stage 2 Assets	Stage 3 Assets	Gross	Impairment allowance	Net
<b>Financial assets:</b>						
Balances with other banks						
- Operating balance with Central Bank of Nigeria	1,324,916	-	-	1,324,916	-	1,324,916
- Balances with banks in Nigeria	691,853	-	-	691,853	-	691,853
- Balances with banks outside Nigeria	5,008,095	-	-	5,008,095	-	5,008,095
- Mandatory reserve deposit with Central Bank of Nigeria	4,196,302	-	-	4,196,302	-	4,196,302
Loans to banks						
- Placements with banks	17,744,083	-	-	17,744,083	4,356	17,739,727
- Placements with other financial institutions	302	-	-	302	-	302
Financial instruments held for trading						
- Nigerian Treasury Bills	344,516	-	-	344,516	-	344,516
- Federal Government of Nigeria Bonds	5,280	-	-	5,280	-	5,280
- Corporate Bonds	1,128,755	-	-	1,128,755	-	1,128,755
Derivative financial instruments						
- Foreign exchange forward contract	607,076	-	-	607,076	-	607,076
Loans and advances						
- Loans and advances	39,940,083	-	2,234,234	42,174,317	1,303,817	40,870,500
Investment securities						
- Nigerian Treasury Bills	32,181,123	-	-	32,181,123	72,130	32,108,993
- Federal Government of Nigeria bonds	650,614	-	-	650,614	2,750	647,864
- Corporate bonds	4,402,529	-	-	4,402,529	-	4,402,529
- Commercial Bills	19,790	-	-	19,790	209	19,581
Pledged assets						
- Treasury bills	3,830,738	-	-	3,830,738	-	3,830,738
- Federal Government of Nigeria bonds	5,063,491	-	-	5,063,491	-	5,063,491
<b>Total</b>	<b>117,139,546</b>	<b>-</b>	<b>2,234,234</b>	<b>119,373,780</b>	<b>1,383,262</b>	<b>117,990,518</b>
<b>Off balance sheet financial assets</b>						
- Letters of Credit	21,044,590	-	-	21,044,590	11,136	21,033,454
- Performance bonds and guarantees	132,598	-	-	132,598	313	132,285
- Loan commitments	20,346,805	-	-	20,346,805	92,086	20,254,719
<b>Total</b>	<b>41,523,993</b>	<b>-</b>	<b>-</b>	<b>41,523,993</b>	<b>103,535</b>	<b>41,420,458</b>

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Group

31 December 2017						
In thousands of Nigerian Naira	Neither past due nor impaired	Past due but not impaired	Impaired	Gross	Impairment allowance	Net
<b>Financial assets:</b>						
Cash	-	-	-	-	-	-
Balances with other banks						
- Operating balance with Central Bank of Nigeria	634,011	-	-	634,011	-	634,011
- Balances with banks in Nigeria	630,262	-	-	630,262	-	630,262
- Balances with banks outside Nigeria	12,377,991	-	-	12,377,991	-	12,377,991
- Mandatory reserve deposit with Central Bank of Nigeria	2,120,526	-	-	2,120,526	-	2,120,526
Loans to banks						
- Placements with banks	17,476,837	-	-	17,476,837	-	17,476,837
- Placements with other financial institutions	171	-	-	171	-	171
Financial instruments held for trading						
- Nigerian Treasury Bills	5,925,953	-	-	5,925,953	-	5,925,953
- Federal Government of Nigeria Bonds	1,732,803	-	-	1,732,803	-	1,732,803
Derivative financial instruments						
- Foreign exchange forward contract	70,037	-	-	70,037	-	70,037
Loans and advances						
- Loans and advances	35,457,268	-	5,487,132	40,944,400	3,405,879	37,538,521
- Margin facilities	488,563	-	-	488,563	2,034	486,529
Investment securities						
- Federal Government of Nigeria bonds	1,921,806	-	-	1,921,806	-	1,921,806
- Nigerian Treasury Bills	48,079,183	-	-	48,079,183	-	48,079,183
- Corporate bonds	4,655,472	-	-	4,655,472	-	4,655,472
Pledged assets						
- Nigerian Treasury Bills	5,672,232	-	-	5,672,232	-	5,672,232
- Federal Government of Nigeria bonds	4,529,630	-	-	4,529,630	-	4,529,630
Other assets						
- Receivables	618,744	-	-	618,744	-	618,744
<b>Total</b>	<b>142,391,489</b>	<b>-</b>	<b>5,487,132</b>	<b>147,878,621</b>	<b>3,407,913</b>	<b>144,470,708</b>

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In thousands of Nigerian Naira	Stage 1 Assets	Stage 2 Assets	Stage 3 Assets	Gross	Impairment allowance	Net
<b>Financial assets:</b>						
Cash	-	-	-	-	-	-
Balances with other banks						
- Operating balance with Central Bank of Nigeria	1,324,916	-	-	1,324,916	-	1,324,915.95
- Balances with banks in Nigeria	657,634	-	-	657,634	-	657,634.38
- Balances with banks outside Nigeria	5,008,095	-	-	5,008,095	-	5,008,095.00
- Mandatory reserve deposit with Central Bank of Nigeria	4,196,302	-	-	4,196,302	-	4,196,302.05
Loans to banks						
- Placements with banks	17,057,637	-	-	17,057,637	-	17,057,637.00
Financial instruments held as fair value through profit or loss						
- Nigerian Treasury Bills	344,516	-	-	344,516	-	344,516
- Corporate Bonds	1,128,755	-	-	1,128,755	-	1,128,755
Derivative financial instruments						
- Foreign exchange forward contract	607,076	-	-	607,076	-	607,076
Loans and advances						
- Loans and advances	39,606,238	-	2,229,389	41,835,627	1,298,769	40,536,858
Investment securities						
- Nigerian Treasury Bills	29,274,882	-	-	29,274,882	57,232	29,217,650
- Federal Government of Nigeria bonds	325,631	-	-	325,631	-	325,631
- Corporate bonds	4,141,106	-	-	4,141,106	-	4,141,106
Pledged assets						
- Nigerian Treasury Bills	3,830,738	-	-	3,830,738	-	3,830,738
- Federal Government of Nigeria bonds	5,063,491	-	-	5,063,491	-	5,063,491
- Corporate bonds	-	-	-	-	-	-
<b>Total</b>	<b>112,567,018</b>	<b>-</b>	<b>2,229,389</b>	<b>114,796,406</b>	<b>1,356,001</b>	<b>113,440,405</b>
<b>Off balance sheet financial assets</b>						
- Letters of Credit	21,044,590	-	-	21,044,590	11,136	21,033,454
- Performance bonds and guarantees	132,598	-	-	132,598	313	132,285
- Loan commitments	20,346,805	-	-	20,346,805	92,086	20,254,719
<b>Total</b>	<b>41,523,993</b>	<b>-</b>	<b>-</b>	<b>41,523,993</b>	<b>103,535</b>	<b>41,420,458</b>

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In thousands of Nigerian Naira	Neither past due nor impaired	Past due but not impaired	Impaired	Gross	Impairment allowance	Net
<b>Financial assets:</b>						
Cash	-	-	-	-	-	-
Balances with other banks						
- Operating balance with Central Bank of Nigeria	633,584	-	-	633,584	-	633,584
- Balances with banks in Nigeria	404,578	-	-	404,578	-	404,578
- Balances with banks outside Nigeria	12,377,991	-	-	12,377,991	-	12,377,991
- Mandatory reserve deposit with Central Bank of Nigeria	2,120,526	-	-	2,120,526	-	2,120,526
Loans to banks						
- Placements with banks	16,793,701	-	-	16,793,701	-	16,793,701
Financial instruments held for trading						
- Nigerian Treasury Bills	5,925,953	-	-	5,925,953	-	5,925,953
- Federal Government of Nigeria Bonds	1,727,692	-	-	1,727,692	-	1,727,692
Derivative financial instruments						
- Foreign exchange forward contract	70,037	-	-	70,037	-	70,037
Loans and advances						
- Loans and advances	35,295,736	-	5,482,577	40,778,313	3,401,322	37,376,991
- Margin facilities	-	-	-	-	-	-
Investment securities						
- Federal Government of Nigeria bonds	45,400,838	-	-	45,400,838	-	45,400,838
- Nigerian Treasury Bills	1,746,606	-	-	1,746,606	-	1,746,606
- State Government and Corporate bonds	4,482,404	-	-	4,482,404	-	4,482,404
Pledged assets						
- Nigerian Treasury Bills	5,672,232	-	-	5,672,232	-	5,672,232
- Federal Government of Nigeria bonds	4,529,630	-	-	4,529,630	-	4,529,630
- Corporate bonds	-	-	-	-	-	-
Other assets						
- Receivables	169,542	-	-	169,542	-	169,542
<b>Total</b>	<b>137,351,050</b>	<b>-</b>	<b>5,482,577</b>	<b>142,833,627</b>	<b>3,401,322</b>	<b>139,432,305</b>

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**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 collateral		Principal type of collateral held
	31 December 2018	31 December 2017	
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	0%	0%	None

**3.1.11 RATINGS**

The credit quality of the portfolio of financial assets in stages 1 and stages 2 per IFRS 9 ("Neither past due nor impaired" and "Past due but not impaired" per IAS 39) based on the internal rating system or rating agency adopted by the group are as follows:

**Group**

31 December 2018

In thousands of Nigerian Naira	Aaa to Aa-	A+ to A-	Bbb+ to Bb-	Below Bb-	Unrated	Total
<b>Financial assets:</b>						
Balances with other banks						
- Operating balance with Central Bank of Nigeria	1,324,916	-	-	-	-	1,324,916
- Balances with banks in Nigeria	42,683	649,143	27	-	-	691,853
- Balances with banks outside Nigeria	2,734,354	1,013,459	637,779	622,504	-	5,008,095
- Mandatory reserve deposit with Central Bank of Nigeria	4,196,302	-	-	-	-	4,196,302
Loans to banks						
- Placements with banks	17,530,946	142,746	66,035	-	-	17,739,727
- Placements with other financial institutions	302	-	-	-	-	302
Financial instruments held for trading						
- Nigerian Treasury Bills	344,516	-	-	-	-	344,516
- Federal Government of Nigeria Bonds	5,280	-	-	-	-	5,280
- Corporate Bonds	-	-	1,128,755	-	-	1,128,755
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	-	-
Loans and advances	9,582,218	15,148,466	15,204,351	-	-	39,935,035
- Margin facilities	-	-	181,979	-	-	181,979
Investment securities						
- Nigerian Treasury Bills	32,108,993	-	-	-	-	32,108,993
- Federal Government of Nigeria bonds	647,864	-	-	-	-	647,864
- Corporate bonds	177,686	33,651	694,526	3,496,666	-	4,402,529
- Commercial Papers	-	-	19,581	-	-	19,581
- Nigerian Treasury Bills	3,830,738	-	-	-	-	3,830,738
- Federal Government of Nigeria bonds	5,063,491	-	-	-	-	5,063,491
Other assets						
- Receivables	172	107,551	-	-	629,557	737,280
<b>Total</b>	<b>77,590,461</b>	<b>17,095,016</b>	<b>17,933,032</b>	<b>4,119,170</b>	<b>629,557</b>	<b>117,367,236</b>

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In thousands of Nigerian Naira	Aaa to Aa-	A+ to A-	Bbb+ to Bb-	Below Bb-	Unrated	Total
<b>Financial assets:</b>						
Cash	-	-	-	-	-	-
Balances with other banks						
- Operating balance with Central Bank of Nigeria	-	-	-	-	634,011	634,011
- Balances with banks in Nigeria	225,685	402,141	2,436	-	-	630,262
- Balances with banks outside Nigeria	-	6,439,020	1,095,490	1,023,932	3,819,549	12,377,991
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	-	-	2,120,526	2,120,526
Loans to banks						
- Placements with banks	-	1,658,342	13,827,266	-	1,991,400	17,477,008
- Placements with other financial institutions	-	-	-	-	-	-
Financial instruments held for trading						
- Nigerian Treasury Bills	5,925,953	-	-	-	-	5,925,953
- Federal Government of Nigeria Bonds	1,732,803	-	-	-	-	1,732,803
Loans and advances						
- Loans and advances	4,435,929	5,151,681	25,506,592	-	363,066	35,457,268
- Margin facilities	-	-	488,563	-	-	488,563
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	70,037	70,037
Investment securities						
- Federal Government of Nigeria bonds	-	-	-	-	48,079,183	48,079,183
- Nigerian Treasury Bills	-	-	-	-	1,921,806	1,921,806
- Corporate bonds	8,874	2,879,707	1,766,891	-	-	4,655,472
Pledged assets						
- Nigerian Treasury Bills	-	-	-	-	5,672,232	5,672,232
- Federal Government of Nigeria bonds	-	-	-	-	4,529,630	4,529,630
Other assets						
- Receivables	-	-	100,618	-	518,126	618,744
	<b>12,329,244</b>	<b>16,530,891</b>	<b>42,787,856</b>	<b>1,023,932</b>	<b>69,719,566</b>	<b>142,391,489</b>

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In thousands of Nigerian Naira	Aaa to Aa-	A+ to A-	Bbb+ to Bb-	Below Bb-	Unrated	Total
<b>Financial assets:</b>						
Cash	-	-	-	-	-	-
Balances with other banks						
- Operating balance with Central Bank of Nigeria	1,324,916	-	-	-	-	1,324,916
- Balances with banks in Nigeria	-	657,607	27	-	-	657,634
- Balances with banks outside Nigeria	2,734,354	1,013,459	637,779	622,504	-	5,008,095
- Mandatory reserve deposit with Central Bank of Nigeria	4,196,302	-	-	-	-	4,196,302
						-
Loans to banks						
- Placements with banks	17,057,637	-	-	-	-	17,057,637
						-
Financial instruments held for trading						
- Nigerian Treasury Bills	344,516	-	-	-	-	344,516
- Federal Government of Nigeria Bonds	-	-	-	-	-	-
- Corporate Bonds	-	-	1,128,755	-	-	1,128,755
						-
Loans and advances						
- Loans and advances	9,582,218	15,148,466	14,875,553	-	-	39,606,238
						-
Derivative financial instruments						
- Convertible Loan	-	-	-	-	-	-
- Foreign exchange forward contract	-	-	-	-	607,076	607,076
						-
Investment securities						
- Federal Government of Nigeria bonds	325,631	-	-	-	-	325,631
- Nigerian Treasury Bills	29,217,650	-	-	-	-	29,217,650
- Corporate bonds	-	-	644,440	3,496,666	-	4,141,106
						-
Pledged assets						
- Nigerian Treasury Bills	3,830,738	-	-	-	-	3,830,738
- Federal Government of Nigeria bonds	5,063,491	-	-	-	-	5,063,491
- Corporate bonds	-	-	-	-	-	-
						-
Other assets						
- Receivables	-	107,551	-	-	144,530	252,081
						-
<b>Total</b>	<b>73,677,453</b>	<b>16,927,083</b>	<b>17,286,554</b>	<b>4,119,170</b>	<b>751,606</b>	<b>112,761,866</b>

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In thousands of Nigerian Naira	Aaa to Aa-	A+ to A-	Bbb+ to Bb-	Below Bb-	Unrated	Total
<b>Financial assets:</b>						
Balances with other banks						
- Operating balance with Central Bank of Nigeria	-	-	-	-	633,584	633,584
- Balances with banks in Nigeria	-	402,142	2,436	-	-	404,578
- Balances with banks outside Nigeria	-	6,439,020	1,095,490	1,023,932	3,819,549	12,377,991
- Mandatory reserve deposit with Central Bank of Nigeria	-	-	-	-	2,120,526	2,120,526
Loans to banks						
- Placements with banks	-	1,658,342	13,133,880	-	2,001,479	16,793,701
- Placements with other financial institutions	-	-	-	-	-	-
Financial instruments held for trading						
- Nigerian Treasury Bills	5,925,953	-	-	-	-	5,925,953
- Federal Government of Nigeria Bonds	1,727,692	-	-	-	-	1,727,692
Loans and advances						
- Loans and advances	4,435,929	5,151,681	25,506,592	-	201,534	35,295,736
- Margin facilities	-	-	-	-	-	-
Derivative financial instruments						
- Foreign exchange forward contract	-	-	-	-	70,037	70,037
Investment securities						
- Federal Government of Nigeria bonds	-	-	-	-	45,400,838	45,400,838
- Nigerian Treasury Bills	-	-	-	-	1,746,606	1,746,606
- Corporate bonds	-	2,767,414	1,714,990	-	-	4,482,404
Pledged assets						
- Nigerian Treasury Bills	-	-	-	-	5,672,232	5,672,232
- Federal Government of Nigeria bonds	-	-	-	-	4,529,630	4,529,630
- Corporate bonds	-	-	-	-	-	-
Other assets						
- Receivables	-	-	100,618	-	68,924	169,542
<b>Total</b>	<b>12,089,574</b>	<b>16,418,599</b>	<b>41,554,006</b>	<b>1,023,932</b>	<b>66,264,939</b>	<b>137,351,050</b>

Balances with banks outside Nigeria are rated using the international Fitch ratings of these banks.

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3.1.12 Estimate of the value of collateral and other security enhancements held against loans and advances to customers and banks is shown below:

Group	Loans and advances to customers		Loans and advances to banks	
	<u>December</u>	<u>December</u>	<u>December</u>	<u>December</u>
In thousands of Naira	2018	2017	2018	2017
Property	1,160,082	4,293,437	-	-
Equities	181,979	488,562	-	-
Cash	8,588,400	1,700,666	-	-
Pledged goods/receivables	1,450,372	-	-	-
Others	250,000	2,800,000	-	1,500,822
<b>Total</b>	<b>11,630,833</b>	<b>9,282,665</b>	<b>-</b>	<b>1,500,822</b>
	Loans and advances to customers		Loans and advances to banks	
Bank	<u>December</u>	<u>December</u>	<u>December</u>	<u>December</u>
In thousands of Naira	2018	2017	2018	2017
Property	1,160,082	4,293,437	-	-
Equities	-	-	-	-
Cash	8,588,400	1,700,666	-	-
Pledged goods/receivables	1,450,372	-	-	-
Others	250,000	2,800,000	-	1,500,822
<b>Total</b>	<b>11,448,854</b>	<b>8,794,103</b>	<b>-</b>	<b>1,500,822</b>

### 3.1.13 Reconciliation of loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Additional allowances for existing and new financial assets recognised during the period
- Releases for financial assets sold, paid-down or de-recognised in the period
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period

#### Group

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
In Thousands of Naira				
<b>Loss allowance as at 1 January 2019</b>	1,491,868	37,845	3,639,616	5,169,329
<b>Movements with P&amp;L impact</b>				
Allowance on new financial assets originated or purchased	407,164	-	1,000,621	1,407,785
Additional allowance on existing financial assets	42,289	-	-	42,289
Releases for financial assets sold, matured, paid-down or de-recognised during the period	(1,100,786)	(37,845)	(2,683,444)	(3,822,076)
FX and other movements	22,824	-	-	22,824
<b>Net write-back during the period in income statement</b>	<b>(628,509)</b>	<b>(37,845)</b>	<b>(1,682,823)</b>	<b>(2,349,178)</b>
<b>Other movements with no P&amp;L impact</b>				
Write-offs	-	-	(950,385)	(950,385)
	-	-	(950,385)	(950,385)
<b>Loss allowance as at 31 December 2018</b>	<b>863,358</b>	<b>-</b>	<b>1,006,408</b>	<b>1,869,766</b>

#### Bank

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
In Thousands of Naira				
<b>Loss allowance as at 1 January 2019</b>	1,450,047	37,845	3,639,616	5,127,508
<b>Movements with P&amp;L impact</b>				
Allowance on new financial assets originated or purchased	400,961	-	1,000,621	1,401,582
Additional allowance on existing financial assets	41,578	-	-	41,578
Releases for financial assets sold, matured, paid-down or de-recognised during the period	(1,092,003)	(37,845)	(2,683,443)	(3,813,291)
FX and other movements	22,824	-	-	22,824
<b>Net write-back during the period in income statement</b>	<b>(626,639)</b>	<b>(37,845)</b>	<b>(1,682,822)</b>	<b>(2,347,307)</b>
<b>Other movements with no P&amp;L impact</b>				
Write-offs	-	-	(950,385)	(950,385)
	-	-	(950,385)	(950,385)
<b>Loss allowance as at 31 December 2018</b>	<b>823,408</b>	<b>-</b>	<b>1,006,409</b>	<b>1,829,816</b>

# FSDH MERCHANT BANK LIMITED

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

### 3.2 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises both currency risk and price risk. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Price risk is the earnings risk from changes in interest rates, foreign exchange rates, and equity and commodity prices. Price risk arises in non-trading portfolios, as well as in trading portfolios. 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

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

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.

### 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.

### Stress tests

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

The stress tests carried out include individual market risk factor testing and combinations of market factors on individual asset classes and across different asset classes. Stress tests include a combination of historical and hypothetical simulations.

### 3.2.3 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, primarily with respect to the US dollar. The Group is exposed to foreign exchange risk primarily through its assets, managing customers' deposits and through acting as an intermediary in foreign exchange transactions.

The bank has a robust risk management system that identifies, measures and mitigates the foreign currency exchange rate risk on its financial position and cash flows. Apart from regulatory imposed limits such as the net open position limit (OPL) which is set at 0.5% of Shareholders' funds that helps to limit these exposures, the bank has market risk limits such as:

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

- Daily mark-to-market mechanism that revalues all currency positions daily, ensuring that foreign currency positions are valued at current market price and not at cost.
- An Open Position Limit that is more stringent than the regulatory limit.
- A Bank wide limit on the maximum volume of foreign currency denominated securities to invest in.
- Aggregate position limits for individual currency positions, which limits exchange rate risk in all currencies that the bank has exposures.

The bank mitigates the changes in fair value attributable to foreign-exchange rate movements in certain transactions. Typically, entering into a forward foreign-exchange contract is used as a preferred hedging mechanism. In addition, the Bank enters into currency swaps to hedge against foreign exchange risk.

In the year 2014, the CBN issued a policy stating that the Net Open Position (long or short) of the overall foreign currency assets and liabilities taking into cognizance both those on and off balance sheet should not exceed 10% of shareholders' funds unimpaired by losses using the Gross Aggregate Method.

The Bank does a daily monitoring of its foreign currency balance sheet to ensure that Open positions do not exceed regulatory prescribed limit.

### Breakdown of financial assets and financial liabilities by currency

Group	31 December 2018	31 December 2018	31 December 2018	31 December 2018	31 December 2018	31 December 2018	31 December 2018
	NGN N'000	USD N'000	GBP N'000	EUR N'000	CNY N'000	ZAR N'000	Total N'000
<b>ASSETS</b>							
Cash and bank balances	5,831,842	4,364,750	557,995	433,722	33,926	16	11,222,251
Loans and receivables to banks	682,392	17,057,637	-	-	-	-	17,740,029
Financial assets held for trading	698,387	1,128,754.52	-	-	-	-	1,827,142
Derivative financial instruments	-	606,960	-	116	-	-	607,076
Loans and receivables to customers	27,058,377	13,812,132	-	-	-	-	40,870,509
Investment securities	33,718,656	3,802,784	-	-	-	-	37,521,440
Pledged assets	8,894,229	-	-	-	-	-	8,894,229
Other assets	737,280	-	-	-	-	-	737,280
<b>Total assets</b>	<b>77,621,163</b>	<b>40,773,017</b>	<b>557,995</b>	<b>433,838</b>	<b>33,926</b>	<b>16</b>	<b>119,419,956</b>
<b>LIABILITIES</b>							
Due to banks	708,518	4,036,474	-	-	-	-	4,744,992
Due to customers	35,049,073	11,256,382	232,538	4,647	-	-	46,542,640
Derivative financial instruments	-	590,840	12	52	-	-	590,904
Other liabilities	1,669,930	2,446,209	391,657	406,627	33,926	-	4,948,348
Debt securities issued	14,341,909	-	-	-	-	-	14,341,909
Other borrowed funds	-	18,725,951	-	-	-	-	18,725,951
<b>Total liabilities</b>	<b>51,769,430</b>	<b>37,055,856</b>	<b>624,207</b>	<b>411,326</b>	<b>33,926</b>	<b>-</b>	<b>89,894,744</b>
<b>Net on Balance Sheet Financial Position</b>	<b>25,851,730</b>	<b>3,717,162</b>	<b>-66,212</b>	<b>22,512</b>	<b>-</b>	<b>16</b>	<b>29,641,979</b>
<b>Credit Commitments</b>							
- Letters of Credit	-	20,489,528	29,284	414,840	110,938	-	21,044,590
- Performance bonds and guarantees	132,285	-	-	-	-	-	132,285
- Loan commitments	15,635,255	4,711,550	-	-	-	-	20,346,805
	<b>15,767,540</b>	<b>25,201,078</b>	<b>29,284</b>	<b>414,840</b>	<b>110,938</b>	<b>-</b>	<b>41,523,680</b>

# FSDH MERCHANT BANK LIMITED

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

### Group 31 December 2017

	NGN N'000	USD N'000	GBP N'000	EUR N'000	Total N'000
<b>ASSETS</b>					
Cash and bank balances	3,159,395	11,304,940	557,771	742,072	15,764,178
Loans and receivables to banks	4,185,608	13,291,400	-	-	17,477,008
Financial assets held for trading	7,704,048	-	-	-	7,704,048
Derivative financial instruments	-	61,570	1,518	6,949	70,037
Loans and receivables to customers	20,423,011	17,602,039	-	-	38,025,050
Investment securities	51,564,670	4,289,545	-	-	55,854,215
Pledged assets	10,201,862	-	-	-	10,201,862
Other assets	687,665	-	-	-	687,665
	97,926,259	46,549,494	559,290	749,020	145,784,062
<b>LIABILITIES</b>					
Due to banks	13,178,598	6,699,365	-	-	19,877,963
Due to customers	44,544,074	9,607,933	369,968	52,956	54,574,931
Derivative financial instruments	-	52,524	1,313	269	54,106
Other liabilities	859,710	7,305,427	439,282	379,918	8,984,336
Debt securities issued	12,077,787	-	-	-	12,077,787
Other borrowed funds	-	20,201,819	-	-	20,201,819
	70,660,169	43,867,067	810,563	433,143	115,770,942
Net on Balance Sheet Financial Position	<b>27,266,090</b>	<b>2,682,426</b>	<b>(251,273)</b>	<b>315,878</b>	<b>30,013,120</b>
<b>Credit Commitments</b>					
- Letters of Credit	-	5,375,670	18,865	1,436,678	6,831,213
- Loan commitments	12,369,284	-	-	-	12,369,284
	<b>12,369,284</b>	<b>5,375,670</b>	<b>18,865</b>	<b>1,436,678</b>	<b>19,200,497</b>

Bank	31 December 2018	31 December 2018	31 December 2018	31 December 2018	31 December 2018	31 December 2018	31 December 2018
	NGN N'000	USD N'000	GBP N'000	EUR N'000	CNY N'000	ZAR N'000	Total N'000
<b>ASSETS</b>							
Cash and bank balances	5,798,191	4,363,135	557,995	433,722	33,926	16	11,186,984
Loans and receivables to banks	-	17,057,637	-	-	-	-	17,057,637
Financial assets held for trading	344,516	1,128,755	-	-	-	-	1,473,271
Derivative financial instruments	-	606,960	-	116	-	-	607,076
Loans and receivables to customers	26,724,726	13,812,132	-	-	-	-	40,536,858
Investment securities	30,530,194	3,496,666	-	-	-	-	34,026,860
Pledged assets	8,894,229	-	-	-	-	-	8,894,229
Other assets	252,081	-	-	-	-	-	252,081
Total assets	72,543,937	40,465,285	557,995	433,838	33,926	16	114,034,996
<b>LIABILITIES</b>							
Due to banks	708,518	4,036,474	-	-	-	-	4,744,992
Due to customers	35,225,794	11,256,382	232,538	4,647	-	-	46,719,361
Derivative financial instruments	-	590,839	12	52	-	-	590,903
Other liabilities	1,317,632	2,446,209	406,627	391,657	33,926	-	4,596,050
Debt securities issued	14,524,709	-	-	-	-	-	14,524,709
Other borrowed funds	-	18,725,951	-	-	-	-	18,725,951

# FSDH MERCHANT BANK LIMITED

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

Total liabilities	51,776,653	37,055,855	639,177	396,356	33,926	-	89,901,966
<b>Net on balance sheet financial position</b>	<b>20,812,775</b>	<b>3,409,431</b>	<b>-81,182</b>	<b>37,482</b>	<b>-</b>	<b>16</b>	<b>24,178,523</b>
<b>Credit Commitments</b>							
- Letters of Credit	-	20,489,528	29,284	414,840	110,938	-	21,044,590
- Loan commitments	15,635,255	4,711,550	-	-	-	-	20,346,805
	<b>15,635,255</b>	<b>25,201,078</b>	<b>29,284</b>	<b>414,840</b>	<b>110,938</b>	<b>-</b>	<b>41,391,395</b>

### Bank 31 December 2017

	NGN N'000	USD N'000	GBP N'000	EUR N'000	Total N'000
<b>ASSETS</b>					
Cash and bank balances	2,932,503	11,304,491	557,771	742,072	15,536,837
Loans and receivables to banks	3,502,301	13,291,400	-	-	16,793,701
Financial assets held for trading	7,653,644	-	-	-	7,653,644
Derivative financial instruments	-	61,569.75	1,518.25	6,948.78	70,037
Loans and advances to customers	19,774,952	17,602,039	-	-	37,376,991
Investment securities	47,620,914	4,166,733	-	-	51,787,647
Pledged assets	10,201,862	-	-	-	10,201,862
Other assets	169,539	-	-	-	169,539
	<b>91,855,715</b>	<b>46,426,233</b>	<b>559,290</b>	<b>749,020</b>	<b>139,590,258</b>
	NGN N'000	USD N'000	GBP N'000	EUR N'000	Total N'000
<b>LIABILITIES</b>					
Due to banks	13,178,598	6,699,365	-	-	19,877,963
Due to customers	45,026,040	9,737,480	369,970	52,956	55,186,446
Derivative financial instruments	-	52,523.70	1,313.18	268.96	54,106
Other liabilities	303,855	7,305,427	439,282	379,918	8,428,481

### Bank 31 December 2017

	NGN N'000	USD N'000	GBP N'000	EUR N'000	Total N'000
Debt securities issued	12,077,787	-	-	-	12,077,787
Other borrowed funds	-	20,201,819	-	-	20,201,819
	<b>70,586,280</b>	<b>43,996,614</b>	<b>810,565</b>	<b>433,143</b>	<b>115,826,602</b>
	<b>21,269,436</b>	<b>2,429,619</b>	<b>(251,275)</b>	<b>315,878</b>	<b>23,763,656</b>
<b>Credit Commitments</b>					
- Letters of Credit	-	5,375,670	18,865	1,436,678	6,831,213
- Loan commitments	12,369,284	-	-	-	12,369,284
	<b>12,369,284</b>	<b>5,375,670</b>	<b>18,865</b>	<b>1,436,678</b>	<b>19,200,497</b>

# FSDH MERCHANT BANK LIMITED

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

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 2000 basis points, with all other variables held constant.

Effect of 2000 basis points movement on foreign exchange assets

Group	31 December 2018	31 December 2017
	N'000	N'000
Assets	8,359,758	9,571,561
Liabilities	7,625,063	9,022,155
Impact on profit / loss	734,696	549,406

Bank	31 December 2018	31 December 2017
	N'000	N'000
Assets	8,298,212	9,546,909
Liabilities	7,625,063	9,048,064
Impact on profit / loss	673,150	498,844

At 31 December 2018, if the local currency had weakened/strengthened by 20% against the US dollar, GB pound and Euro with all other variables held constant, this would have translated to a revaluation gain/loss to the tune of the amounts indicated above. It is however pertinent to note that losses sustained on the assets are offset by the gain on the liabilities and vice versa. The gains and losses do not exactly match because of the funding gap in that currency.

# FSDH MERCHANT BANK LIMITED

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

### 3.2.4 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. One of the bank's primary business functions is providing financial products that meet the needs of its customers. Loans and deposits are tailored to the customers' requirements with regard to tenor, and rate type. Net Interest Income (NII) is the difference between the yield earned on portfolio assets (including customer loans) and the rate paid on the liabilities (including customer deposits or wholesale borrowings). NII is affected by changes in the level of interest rates.

Movements in interest rate in the Bank's core activities affect its reported earnings and book capital by impacting the Net Interest Income (NII). The value of the Bank's assets, liabilities, and interest-rate-related, off-balance-sheet items is affected by a change in rates because the present value of future cash flows, and in some cases the cash flows themselves, is changed.

The Bank's primary strategy for managing interest rate risk is to match interest rate sensitivities of both sides of its Balance sheet. In this respect, the Bank separately identifies and classifies its assets and liabilities based on their sensitivities i.e. floating vs. fixed rates. All floating rate components of the Balance sheet are managed against a defined benchmark rate. All fixed rate components are managed against a re-pricing profile benchmark to be determined by the Risk Management Unit and approved by the ALCO.

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

#### Group

31 December 2018	Carrying amount	Variable interest	Fixed interest	Non interest- bearing
	N'000	N'000	N'000	N'000
<b>Assets</b>				
Cash and bank balances	11,222,251	-	-	11,222,251
Loans and receivables to banks	17,740,029	-	17,740,029	-
Financial assets held for trading	1,827,142	-	1,480,551	348,591
Derivative financial instruments	607,076	-	-	607,076
Loans and receivables to customers	40,870,509	944,831	39,925,678	-
Investment securities	37,521,440	-	37,178,967	342,473
Pledged assets	8,894,229	-	8,894,229	-
Other assets	737,280	-	-	737,280
	119,419,956	944,831	105,219,454	13,257,671
<b>Liabilities</b>				
Due to banks	4,744,992	-	4,744,992	-
Due to customers	46,542,640	-	46,542,640	-
Derivative financial instruments	590,903	-	-	590,903
Other liabilities	4,831,611	-	-	4,831,611
Debt securities issued	14,341,909	-	14,341,909	-
Other borrowed funds	18,725,951	18,725,951	-	-
	89,778,006	18,725,951	65,629,541	5,422,514

# FSDH MERCHANT BANK LIMITED

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

### Group

31 December 2017	Carrying amount N'000	Variable interest N'000	Fixed interest N'000	Non interest- bearing N'000
<b>Assets</b>				
Cash and bank balances	15,764,178	-	-	15,764,178
Loans and receivables to banks	17,477,008	-	17,477,008	-
Financial assets held for trading	7,704,048	-	7,658,756	45,292
Derivative financial instruments	70,037	-	-	70,037
Loans and receivables to customers	38,025,050	12,789,674	25,235,376	-
Investment securities	55,854,215	-	54,656,461	1,197,754
Pledged assets	10,201,862	-	10,201,862	-
Other assets	687,665	-	-	687,665
	145,784,063	12,789,674	115,229,463	17,764,926
<b>Liabilities</b>				
Due to banks	19,877,963	-	19,877,963	-
Due to customers	54,574,920	-	54,574,920	-
Derivative financial instruments	54,106	-	-	54,106
Other liabilities	8,984,336	-	-	8,984,336
Debt securities issued	12,077,787	-	12,077,787	-
Other borrowed funds	20,201,819	20,201,819	-	-
	115,770,931	20,201,819	86,530,670	9,038,442

### Bank

31 December 2018	Carrying amount N'000	Variable interest N'000	Fixed interest N'000	Non interest- bearing N'000
<b>Assets</b>				
Cash and bank balances	11,186,984	-	-	11,186,984
Loans and receivables to banks	17,057,637	-	17,057,637	-
Financial assets held for trading	1,473,271	-	1,473,271	-
Derivative financial instruments	607,076	-	-	607,076
Loans and receivables to customers	40,536,858	944,831	39,592,027	-
Investment securities	34,026,860	-	33,684,387	342,473
Pledged assets	8,894,229	-	8,894,229	-
Other assets	252,081	-	-	252,081
	114,034,996	944,831	100,701,551	12,388,614
<b>Liabilities</b>				
Due to banks	4,744,992	-	4,744,992	-
Due to customers	46,719,361	-	46,719,361	-
Derivative financial instruments	590,903	-	-	590,903
Other liabilities	4,550,556	-	-	4,550,556
Debt securities issued	14,524,709	-	14,524,709	-
Other borrowed funds	18,725,951	18,725,951	-	-
	89,856,472	18,725,951	65,989,062	5,141,459

# FSDH MERCHANT BANK LIMITED

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

31 December 2017	Carrying amount	Variable interest	Fixed interest	Non interest- bearing
	N'000	N'000	N'000	N'000
<b>Assets</b>				
Cash and bank balances	15,536,837	-	-	15,536,837
Loans and receivables to banks	16,793,701	-	16,793,701	-
Financial assets held for trading	7,653,645	-	7,653,645	-
Derivative financial instruments	70,037	-	-	70,037
Loans and receivables to customers	37,376,991	12,789,674	24,587,317	-
Investment securities	51,787,647	-	51,629,848	157,799
Pledged assets	10,201,862	-	10,201,862	-
Other assets	58,662	-	-	58,662
	139,479,382	12,789,674	110,866,373	15,823,335
<b>Liabilities</b>				
Due to banks	19,877,963	-	13,178,598	6,699,365
Due to customers	55,186,445	-	55,186,445	-
Derivative financial instruments	54,106	-	-	54,106
Other liabilities	8,428,481	-	-	8,428,481
Debt securities issued	12,077,787	-	12,077,787	-
Other borrowed funds	20,201,819	20,201,819	-	-
	115,826,601	20,201,819	80,442,830	15,181,952

The table below indicates the earliest time the Group can vary the terms of the underlying financial asset or liabilities. The Group's interest rate risk exposure on assets and liabilities are categorised by the re-pricing dates.

# FSDH MERCHANT BANK LIMITED

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

### Group

At 31 December 2018 (N'000)	Up to 1 months	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 Years	Above 5 years	Non-Interest Bearing	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial Assets</b>								
Cash and bank balances	-	-	-	-	-	-	11,222,251	11,222,251
Loans and receivables to banks	17,383,777	356,252	-	-	-	-	-	17,740,029
Financial assets held for trading	249,712.90	97,212	2,225	-	616	1,128,755	348,622	1,827,142
Derivative financial instruments	-	-	-	-	-	-	607,076	607,076
Loans and receivables to customers	7,817,702	24,885,418	4,101,289	2,759,347	674,561	632,188	-	40,870,505
Investment securities	3,711,145	9,853,536	375,293	18,648,715	3,691,184	899,094	342,473	37,521,440
Pledged assets	-	1,010,826	-	3,457,865	2,398,214	2,027,329	-	8,804,735
Other assets	-	-	-	-	-	-	737,280	737,280
Total financial assets (contractual maturity)	29,162,337	36,203,244	4,478,807	24,865,927	6,764,575	4,687,365	13,257,702	119,330,458
	<b>Up to 1 months</b>	<b>1 - 3 months</b>	<b>3 - 6 months</b>	<b>6 - 12 months</b>	<b>1 - 5 Years</b>	<b>Above 5 years</b>	<b>Non-Interest Bearing</b>	<b>Total</b>
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
<b>Financial Liabilities</b>								
Due to banks	191,628	773,808	159,364.80	3,620,191	-	-	-	4,744,992
Due to customers	23,233,815	10,729,112	6,739,326	5,779,768	60,619	-	-	46,542,640
Derivative financial instruments	-	-	-	-	-	-	590,903	590,903
Other liabilities	-	-	-	-	-	-	4,831,611	4,831,611
Debt securities issued	-	256,716	14,085,193.13	-	-	-	-	14,341,909
Other borrowed funds	-	18,725,952	-	-	-	-	-	18,725,952
Total financial liabilities (contractual maturity)	23,425,443	30,485,588	20,953,884	9,399,960	60,619	-	5,422,514	89,778,007
<b>Liabilities Commitments</b>								
Letters of Credit	-	21,044,590	-	-	-	-	-	21,044,590
Loan Commitments	-	-	-	-	-	-	-	-
<b>Total</b>	-	<b>21,044,590</b>	-	-	-	-	-	<b>21,044,590</b>
<b>Interest Rate GAP</b>	<b>5,736,894</b>	<b>-15,326,934</b>	<b>-16,475,077</b>	<b>15,465,967</b>	<b>6,703,956</b>	<b>4,687,365</b>	<b>7,835,188</b>	<b>8,507,861</b>

# FSDH MERCHANT BANK LIMITED

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

### Group

At 31 December 2017

	Up to 1 months	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 Years	Above 5 years	Non-Interest Bearing	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial Assets</b>								
Cash and bank balances	-	-	-	-	-	-	15,764,178	15,764,178
Loans and receivables to banks	13,510,292	3,966,716	-	-	-	-	-	17,477,008
Financial assets held for trading	-	5,925,953	-	-	113,278.27	1,619,513	45,292	7,704,036
Derivative financial instruments	44,941.52	22,962.59	-	2,132.67	-	-	-	70,037
Loans and receivables to customers	7,232,934	19,022,811	674,303	196,764	1,397,048	9,501,190	-	38,025,050
Investment securities	639,437	4,141,853	28,064,603	15,401,815	5,598,776	809,978	1,197,754	55,854,217
Pledged assets	-	97,981	6,224,796	-	2,567,538	1,311,547	-	10,201,862
Other assets	-	-	-	-	-	-	169,539	169,539
Total financial assets (contractual maturity)	21,427,605	33,178,277	34,963,702	15,600,712	9,676,640	13,242,229	17,176,763	145,265,928
<b>Financial Liabilities</b>								
Due to banks	9,868,770	3,309,828	3,356,760.23	3,342,605	-	-	-	19,877,963
Due to customers	28,559,266	16,394,115	2,824,964	6,592,279	-	-	204,297.00	54,574,920
Derivative financial instruments	33,363	20,742	-	-	-	-	-	54,106
Other liabilities	-	-	-	-	-	-	8,984,336	8,984,336
Debt securities issued	-	12,077,787	-	-	-	-	-	12,077,787
Other borrowed funds	-	20,201,819	-	-	-	-	-	20,201,819
Total financial liabilities (contractual maturity)	38,461,399	52,004,292	6,181,724	9,934,883	-	-	9,188,633	115,770,931
<b>Liabilities Commitments</b>								
Letters of Credit	6,831,213	-	-	-	-	-	-	6,831,213
<b>Total</b>	<b>6,831,213</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,831,213</b>
Interest Rate GAP	(23,865,007)	(18,826,015)	28,781,978	5,665,829	9,676,640	13,242,229	7,988,130	22,663,784

# FSDH MERCHANT BANK LIMITED

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

### Bank

At 31 December 2018 (N'000)	Up to 1 months	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 Years	Above 5 years	Non-Interest Bearing	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial Assets</b>								
Cash and bank balances	-	-	-	-	-	-	11,186,984	11,186,984
Loans and receivables to banks	17,057,637	-	-	-	-	-	-	17,057,637
Financial assets held for trading	249,689	94,827	-	-	-	1,128,755	-	1,473,271
Derivative financial instruments	-	-	-	-	-	-	607,076	607,076
Loans and receivables to customers	7,817,702	24,885,418	4,101,288	2,759,347	340,913	632,188	-	40,536,858
Investment securities	3,174,710	9,179,959	1,288	16,889,682	3,616,642	822,102	342,473	34,026,855
Pledged assets	-	1,010,826	-	3,457,865	2,398,214	2,027,329	-	8,894,234
Other assets	-	-	-	-	-	-	252,081	252,081
Total financial assets (contractual maturity)	28,299,738	35,171,030	4,102,576	23,106,894	6,355,769	4,610,373	11,781,538	114,034,996
	<b>Up to 1 months</b>	<b>1 - 3 months</b>	<b>3 - 6 months</b>	<b>6 - 12 months</b>	<b>1 - 5 Years</b>	<b>Above 5 years</b>	<b>Non-Interest Bearing</b>	<b>Total</b>
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
<b>Financial Liabilities</b>								
Due to banks	191,628	773,808	159,365	3,620,191	-	-	-	4,744,992
Due to customers	23,327,106	10,812,541	6,739,326	5,779,768	60,619.19	-	-	46,719,361
Derivative financial instruments	-	-	-	-	-	-	590,903	590,903
Other liabilities	-	-	-	-	-	-	4,550,556	4,550,556
Debt securities issued	-	256,716	14,267,993	-	-	-	-	14,524,709
Other borrowed funds	-	18,725,952	-	-	-	-	-	18,725,952
Total financial liabilities (contractual maturity)	23,518,734	30,569,018	21,166,683	9,399,960	60,619.19	-	5,141,459	89,856,472
<b>Liabilities Commitments</b>								
Letters of Credit	-	21,044,590	-	-	-	-	-	21,044,590
Loan Commitments	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>21,044,590</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,044,590</b>

# FSDH MERCHANT BANK LIMITED

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

### Bank

At 31 December 2017 (N'000)

	Up to 1 months	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 Years	Above 5 years	Non Interest Bearing	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial Assets</b>								
Cash and bank balances	-	-	-	-	-	-	15,536,837	15,536,837
Loans and receivables to banks	13,479,086	3,314,615	-	-	-	-	-	16,793,701
Financial assets held for trading	-	5,925,953	-	-	108,178	1,619,513	-	7,653,644
Derivative financial instruments	44,942	22,963	-	2,133	-	-	-	70,037
Loans and receivables to customers	7,149,959	18,709,196	583,986	196,528	1,273,797	9,463,524	-	37,376,991
Investment securities	69,024	3,911,108	26,874,637	14,681,375	5,296,158	797,547	157,799	51,787,648
Pledged assets	-	97,981	6,224,796	-	2,567,538	1,311,547	-	10,201,862
Other assets	-	-	-	-	-	-	169,539	169,539
Total financial assets (contractual maturity)	20,743,011	31,981,816	33,683,420	14,880,036	9,245,671	13,192,132	15,864,175	139,590,259
<b>Financial Liabilities</b>								
Due to banks	9,868,770	3,309,828	3,356,760	3,342,605	-	-	-	19,877,963
Due to customers	29,375,089	16,394,115	2,824,964	6,592,279	-	-	-	55,186,446
Derivative financial instruments	33,363	20,742	-	-	-	-	-	54,106
Other liabilities	-	-	-	-	-	-	8,428,481	8,428,481
Debt securities issued	-	12,077,787	-	-	-	-	-	12,077,787
Other borrowed funds	-	20,201,819	-	-	-	-	-	20,201,819
Total financial liabilities (contractual maturity)	39,277,222	52,004,292	6,181,724	9,934,883	-	-	8,428,481	115,826,602
<b>Liabilities Commitments</b>								
Letters of Credit	6,831,213	-	-	-	-	-	-	6,831,213
Loan Commitments	-	-	-	-	-	-	-	-
<b>Total</b>	<b>6,831,213</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,831,213</b>
Interest Rate GAP	-25,365,424	-20,022,476	27,501,696	4,945,152	9,245,671	13,192,132	7,435,694	16,932,444

# FSDH MERCHANT BANK LIMITED

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to specific interest rate scenarios. The sensitivity analysis is the effect of the assumed changes in interest rates on the profit or loss for the period, based on the floating rate non-trading financial assets & liabilities and trading financial assets held as at 31 December 2018. The sensitivity analysis on both the trading & non-trading portfolio measures the change in value of the non-trading accrual portfolio due to a 100 basis point parallel move in the interest rates.

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>N'000</b>	<b>N'000</b>
Effect of 100 basis points movement on profit before tax & equity	(684,628.60)	(903,031)

# FSDH MERCHANT BANK LIMITED

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

### 3.2.5 Price Risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity price risk through its subsidiaries' investments in quoted securities on the Nigerian Stock Exchange (NSE) and other non-quoted investments held by both the Bank and its subsidiaries. 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 does not deal in commodities hence it is not exposed to commodities price risk. The Group's exposure to price risk is largely limited to quoted securities.

The Group conducts a sensitivity analysis on its exposure to price risk. This is done by assuming a 10% negative movement on the market price of the financial assets exposed to price risk

The table below shows the impact of a 10% movement on the price of equities held by the group.

For the year ended December 31 2018, there was no exposure to price risk by the group

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>N'000</b>	<b>N'000</b>
Effect of 10% movement on the price of equity securities & profit before tax	-	(78,928)

The sectorial concentration of the Group's exposure to equity risk is shown below;

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>N'000</b>	<b>N'000</b>
Financial Services	-	312,478
Manufacturing	-	251,681
Oil & Gas	-	53,631
Conglomerate	-	52,371
Telecoms	-	119,128
Mutual Funds	-	-
	<hr/>	<hr/>
	-	789,288

# FSDH MERCHANT BANK LIMITED

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

### 3.2.6 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, 2018, the bank's liquidity ratio stood at 113.37%

#### 3.2.6.1 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 the Assets & Liability Committee (ALCO). ALCO approves the Group's liquidity policies and procedures. The ALM Desk 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.

Liquidity limits establish boundaries for market access in business-as-usual conditions and are monitored against the liquidity position on a daily basis. The survival horizon of the Bank has been set to 14 days. To ensure this is the case, the Bank intends to hold enough liquid assets to cover for any negative GAP over the next 14 days.

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 contingency funding lines to the tune of N6 billion with Nigerian financial institutions.

# **FSDH MERCHANT BANK LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

### **3.2.6.2 Funding approach**

Our sources of liquidity are regularly reviewed by ALCO and ALM Desk in order to avoid undue reliance on large individual investors and ensure that a satisfactory overall funding mix is maintained at all times. The funding strategy is geared towards ensuring effective diversification in sources and tenor of funding.

The tables below analyse the group's financial assets and liabilities into relevant maturity groupings based on their contractual maturities for:

- a) all non-derivative financial assets and liabilities, and
- b) net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows.

# FSDH MERCHANT BANK LIMITED

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

Group  
At 31 December 2018

	No Contractual Maturity	Up to 1 months	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 Years	Above 5 years	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial Assets</b>								
Cash and bank balances	11,222,251	-	-	-	-	-	-	11,222,251
Loans and receivables to banks	-	17,394,618	365,897	-	-	-	-	17,760,515
Financial assets held for trading	-	250,447	99,140	2,196	502	5,340	1,150,964	1,508,589
Derivative financial instruments	-	99,814	491,050	15,469	743	-	-	607,076
Loans and advances to customers	-	3,101,013	15,336,652	8,906,939	2,129,247	16,426,938	3,346,028	49,246,817
Investment securities	342,473	5,146,215	9,131,409	715,906	20,048,504	5,649,234	6,659,914	47,693,655
Pledged assets	-	147,224	1,181,934	49,700	4,142,678	4,205,201	2,745,971	12,472,708
Other assets	737,280	-	-	-	-	-	-	737,280
Total financial assets (contractual maturity)	12,302,004	26,139,331	26,606,802	9,690,210	26,321,674	26,286,713	13,902,878	141,248,891
<b>Financial Liabilities</b>								
Due to banks	-	191,816	782,016	162,251	3,805,566	-	-	4,941,649
Due to customers	9,092,869	14,577,811	10,886,263	7,001,917	6,329,536	70,014	-	47,958,411
Derivative financial instruments	-	97,264	481,340	12,299	-	-	-	590,903
Other liabilities	4,831,611	-	-	-	-	-	-	4,831,611
Debt securities issued	-	-	262,575	14,884,237	-	-	-	15,146,812
Other borrowed funds	-	-	643,669	-	633,175	19,079,914	-	20,356,758
Total financial liabilities (contractual maturity)	13,924,480	14,866,892	13,055,864	22,060,704	10,768,276	19,149,928	-	93,826,144
<b>Liabilities Commitments</b>								
Letters of Credit	-	21,044,590	-	-	-	-	-	21,044,590
Loan Commitments	-	9,148,313	3,857,767	169,768	7,170,957	-	-	20,346,805
<b>Total</b>	-	<b>30,192,903</b>	<b>3,857,767</b>	<b>169,768</b>	<b>7,170,957</b>	-	-	<b>41,391,395</b>
GAP	<b>(1,622,476)</b>	<b>(18,920,464)</b>	<b>9,693,171</b>	<b>(12,540,262)</b>	<b>8,382,441</b>	<b>7,136,785</b>	<b>13,902,878</b>	<b>6,032,073</b>

# FSDH MERCHANT BANK LIMITED

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

### Group

At 31 December 2017

	No Contractual Maturity	Up to 1 months	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 Years	Above 5 years	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial Assets</b>								
Cash and bank balances	15,764,178	-	-	-	-	-	-	15,764,178
Loans and receivables to banks	-	13,564,341	4,034,954	-	-	-	-	17,599,295
Financial assets held for trading	45,292	7,299	6,114,181	171	121,652	1,289,606	2,198,132	9,776,333
Loans and advances to customers	-	7,991,111	7,978,551	2,208,699	3,076,328	24,656,630	5,380,806	51,292,125
Investment securities	1,197,754	803,799	4,348,840	29,778,718	17,344,622	7,472,240	1,386,180	62,332,154
Pledged assets	-	81,950	226,060	6,582,725	255,960	4,125,030	1,576,400	12,848,125
Other assets	687,665	-	-	-	-	-	-	687,665
Total financial assets (contractual maturity)	17,694,889	22,448,501	22,702,587	38,570,314	20,798,561	37,543,506	10,541,518	170,299,876
<b>Financial Liabilities</b>								
Due to banks	-	9,902,974	3,474,108	3,436,041	3,424,505	-	-	20,237,628
Due to customers	6,650,376	22,199,013	16,883,231	3,008,633	7,163,007	-	-	55,904,261
Other liabilities	8,984,336	-	-	-	-	-	-	8,984,336
Debt securities issued	-	-	12,397,054	-	-	-	-	12,397,054
Other borrowed funds	-	-	947,320	-	1,002,096	21,363,630	-	23,313,046
Total financial liabilities (contractual maturity)	15,634,712	32,101,988	33,701,713	6,444,674	11,589,608	21,363,630	-	120,836,324
<b>Liabilities Commitments</b>								
Letters of Credit	-	6,831,213	-	-	-	-	-	6,831,213
Loan Commitments	-	193,496	4,725,124	3,698,009	1,701,203	2,051,452	-	12,369,284
<b>Total</b>	-	<b>7,024,708</b>	<b>4,725,124</b>	<b>3,698,009</b>	<b>1,701,203</b>	<b>2,051,452</b>	-	<b>19,200,497</b>
GAP	2,060,177	-16,678,195	-15,724,250	28,427,631	7,507,750	14,128,424	10,541,518	30,263,055

# FSDH MERCHANT BANK LIMITED

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

Bank  
At 31 December 2018

	No Contractual Maturity	Up to 1 months	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 Years	Above 5 years	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial Assets</b>								
Cash and bank balances	11,186,984	-	-	-	-	-	-	11,186,984
Loans and receivables to banks	-	17,074,618	-	-	-	-	-	17,074,618
Financial assets held for trading	-	250,447	96,638	55	501	4,739	1,150,964	1,503,343
Derivative financial instruments	-	99,814	491,050	15,469	743	-	-	607,076
Loans and receivables to customers	-	3,067,259	15,262,305	8,816,203	2,127,579	16,419,705	3,302,740	48,995,792
Investment securities	342,473	4,221,986	8,534,762	4,163,416	19,647,725	5,425,516	6,659,914	44,856,166
Pledged assets	-	147,224	1,181,934	49,700	4,142,678	4,205,201	2,745,972	12,472,708
Other assets	252,081	-	-	-	-	-	-	252,081
Total financial assets (contractual maturity)	11,781,538	24,861,348	25,566,689	13,044,843	25,919,226	26,055,161	13,859,590	141,088,395
<b>Financial Liabilities</b>								
	No Contractual Maturity	Up to 1 months	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 Years	Above 5 years	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
Due to banks	-	191,816	782,016	162,251	3,805,566	-	-	4,941,649
Due to customers	9,269,590	14,102,220	10,970,072	7,001,917	6,329,536	70,014	-	47,743,349
Derivative financial instruments	-	97,264	481,340	12,299	-	-	-	590,903
Other liabilities	4,550,556	-	-	-	-	-	-	4,550,556
Debt securities issued	-	-	262,575	15,077,407	-	-	-	15,339,982
Other borrowed funds	-	-	643,669	-	633,175	19,079,914	-	20,356,758
Total financial liabilities (contractual maturity)	13,820,146	14,391,300	13,139,672	22,253,874	10,768,276	19,149,928	-	93,523,197
<b>Liabilities Commitments</b>								
Letters of Credit	-	21,044,590	-	-	-	-	-	21,044,590
Loan Commitments	-	9,148,313	3,857,767	169,768	7,170,957	-	-	20,346,805
<b>Total</b>	-	<b>30,192,903</b>	<b>3,857,767</b>	<b>169,768</b>	<b>7,170,957</b>	<b>-</b>	<b>-</b>	<b>41,391,395</b>
GAP	<b>(2,038,608)</b>	<b>(20,683,799)</b>	<b>9,431,346</b>	<b>(9,378,799)</b>	<b>7,210,737</b>	<b>6,748,949</b>	<b>6,846,365</b>	<b>(6,173,803)</b>

# FSDH MERCHANT BANK LIMITED

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

### Bank

At 31 December 2017

	No Contractual Maturity	Up to 1 months	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 Years	Above 5 years	Total
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
<b>Financial Assets</b>								
Cash and bank balances	15,536,837	-	-	-	-	-	-	15,536,837
Loans and receivables to banks	-	13,532,788	3,357,633	-	-	-	-	16,890,421
Financial assets held for trading	-	7,250	6,114,019	-	121,269	1,283,688	2,198,132	9,724,357
Loans and receivables to customers	-	7,889,847	7,651,802	2,109,660	3,074,775	24,501,046	5,375,186	50,602,317
Investment securities	157,799	229,568	4,114,004	28,505,215	16,529,629	7,144,059	1,374,916	58,055,190
Pledged assets	-	81,950.00	226,060	6,582,725	255,960	4,125,030	1,576,400	12,848,125
Other assets	169,539	-	-	-	-	-	-	169,539
Total financial assets (contractual maturity)	15,864,175	21,741,403	21,463,519	37,197,600	19,981,632	37,053,824	10,524,634	163,826,787
<b>Financial Liabilities</b>								
Due to banks	-	9,902,974	3,474,108	3,436,041	3,424,505	-	-	20,237,628
Due to customers	6,778,586	22,685,886	16,879,662	3,008,633	7,163,007	-	-	56,515,775
Other liabilities	8,428,481	-	-	-	-	-	-	8,428,481
Debt securities issued	-	-	12,397,054	-	-	-	-	12,397,054
Other borrowed funds	-	-	947,320	-	1,002,096	21,498,696	-	23,448,112
Total financial liabilities (contractual maturity)	15,207,067	32,588,861	33,698,144	6,444,674	11,589,608	21,363,630	0	120,891,983
<b>Liabilities Commitments</b>								
Letters of Credit	-	6,831,213	-	-	-	-	-	6,831,213
Loan Commitments	-	151,916	10,322,618	188,026	2,283,706	3,933,087	-	16,879,353
<b>Total</b>	<b>-</b>	<b>6,983,128</b>	<b>10,322,618</b>	<b>188,026</b>	<b>2,283,706</b>	<b>3,933,087</b>	<b>-</b>	<b>23,710,566</b>
<b>GAP</b>	<b>657,108</b>	<b>-17,830,586</b>	<b>-22,557,243</b>	<b>30,564,901</b>	<b>6,108,319</b>	<b>11,757,106</b>	<b>10,524,634</b>	<b>19,224,238</b>

# FSDH MERCHANT BANK LIMITED

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

	No Contractual Maturity	Up to 1 months	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 Years	Above 5 years	Total	Carrying amount (assets) / liabilities
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	
<b>At 31 December 2018</b>									
<b>Contractual maturities of financial assets</b>									
<b>Derivatives</b>									
Trading derivatives	-	1,457	3,170	676	-	-	-	5,302.69	5,302.69
Gross settled (forward foreign exchange contracts – cash flow hedges)									
- (inflow)	-	99,814	491,050	15,469	743	-	-	607,076	607,076
- outflow	-	97,264	481,340	12,299	-	-	-	590,903	590,903

	No Contractual Maturity	Up to 1 months	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 Years	Above 5 years	Total	Carrying amount (assets) / liabilities
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000	
<b>At 31 December 2017</b>									
<b>Contractual maturities of financial assets</b>									
<b>Derivatives</b>									
Trading derivatives	-	-	-	-	2,132.67	-	-	2,132.67	2,132.67
Gross settled (forward foreign exchange contracts – cash flow)									
- (inflow)	-	(3,928,139)	(764,857)	-	-	-	-	(4,692,996)	70,037
- outflow	-	3,661,718	792,532	-	-	-	-	4,454,250	54,106

# FSDH MERCHANT BANK LIMITED

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

### 3.3 Fair Value

Financial instruments measured at fair value

IFRS 13 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: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices) This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the observable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the difference between the instruments.

The Group uses the following procedures to determine the fair value of financial assets and liabilities:

#### Trading / Investment securities

Where available, the Group uses the quoted market prices to determine the fair value of trading assets and such items are classified as Level 1 of the fair value hierarchy. Quoted market prices are gotten from the website of the Financial Market Dealers Quotations (FMDQ).

Investment securities classified as available-for-sale are measured at fair value by reference to quoted market prices when available and therefore are classified as Level 1

Where there are securities that are not actively traded, the Group uses internal valuation techniques which are based on observable inputs obtained from the quoted market prices of similar actively traded securities. In this instance, these are classified as level 2

#### Derivatives Instruments

The fair value of financial instruments including forward foreign exchange contracts traded in active markets is based on quoted market prices at the closing date. Known calculation techniques, such as estimated discounted cash flows, are used to determine fair value of interest rate and currency financial instruments.

The Group bases the calculation on existing market conditions at each closing date. Financial instruments used in FSDH are standardised products that are either cleared via exchanges or widely traded in the market. Forward

# FSDH MERCHANT BANK LIMITED

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

foreign exchange contracts are entered into with creditworthy financial institutions and with corporates, which have posted sufficient margins prior to executing the contract

Unquoted equity

If quoted market prices are not available, the fair values are estimated based on internal valuation techniques or the last traded price on an OTC exchange. The key inputs depend upon the type of equity and the nature of inputs to the valuation technique. The item is placed in either Level 2 or Level 3 depending on the type of investment and valuation technique used

The Bank's investment in Nigeria Inter-Bank Settlement System Plc. (NIBSS) has been carried as cost due to non-availability of market data.

There was no transfer within fair value hierarchies during the period.

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out below as at 31 December 2018:

Group At 31 December 2018	Level 1 N'000	Level 2 N'000	Level 3 N'000	Total N'000
<b>Financial assets</b>				
<b>Financial assets held for trading</b>				
- Treasury bills	344,516	-	-	344,516
- Federal Government of Nigeria Bonds	5,280	-	-	5,280
- Quoted equity securities	1,920	-	-	1,920
- Quoted mutual funds	-	346,671	-	346,671
- Corporate bonds	1,128,755	-	-	1,128,755
	1,480,471	346,671	-	1,827,142
<b>Derivative financial instruments</b>				
- FX forward contract	-	607,076	-	607,076
	-	607,076	-	607,076
<b>Investment securities classified as available for sale</b>				
- Treasury bills	25,583,602	-	-	25,583,602
- Federal Government of Nigeria Bonds	402,868	-	-	402,868
- Corporate bonds	-	4,402,529	-	4,402,529
- Unquoted Equity	-	-	342,473	342,473
	25,986,470	4,402,529	342,473	30,731,472
<b>Pledged Securities</b>				
<b>FVOCI</b>				
- Treasury bills	3,830,738	-	-	3,830,738
- Federal Government of Nigeria Bonds	5,063,491	-	-	5,063,491
<b>Amortised Cost</b>				
- Treasury bills	-	-	-	-
- Federal Government of Nigeria Bonds	-	-	-	-
- State government and corporate bonds	-	-	-	-
	8,894,229	-	-	8,894,229

# FSDH MERCHANT BANK LIMITED

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

### Group

At 31 December 2017

	Level 1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial assets</b>				
<b>Financial assets held for trading</b>				
-Treasury bills	5,925,953	-	-	5,925,953
-Federal Government of Nigeria Bonds	1,732,803	-	-	1,732,803
-Quoted equity securities	45,292	-	-	45,292
	7,704,048	-	-	7,704,048
<b>Derivative financial instruments</b>				
- FX forward contract		70,037	-	70,037
	-	70,037.00	-	70,037
<b>Investment securities classified as available for sale</b>				
-Treasury bills	46,471,695	-	-	46,471,695
-Federal Government of Nigeria Bonds	1,921,806	-	-	1,921,806
-State government and corporate bonds	-	4,655,472	-	4,655,472
-Quoted equity securities	670,436	-	-	670,436
-Mutual funds	-	248,501	-	248,501
-Unquoted Equity	-	278,817	-	278,817
	49,063,937	5,182,790	-	54,246,727
<b>Pledged Securities</b>				
<b>Held for Trading</b>				
-Treasury bills	-	-	-	-
-Federal Government of Nigeria Bonds	-	-	-	-
<b>Available for Sale</b>				
-Treasury bills	5,672,232	-	-	5,672,232
-Federal Government of Nigeria Bonds	4,426,917	-	-	4,426,917
-State government and corporate bonds	-	-	-	-
	10,099,149	-	-	10,099,149

### Bank

At 31 December 2018

	Level 1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial assets</b>				
<b>Held for Trading</b>				
-Treasury bills	344,516	-	-	344,516
-Federal Government of Nigeria Bonds	-	-	-	-
-Corporate bonds	1,128,755	-	-	1,128,755
	1,473,271	-	-	1,473,271
<b>Derivative financial instruments</b>				
- FX forward contract		607,076	-	607,076
	-	607,076	-	607,076
<b>Investment securities classified as FVOCI</b>				
-Treasury bills	24,525,054	-	-	24,525,054
-Federal Government of Nigeria Bonds	325,631	-	-	325,631
-Corporate bonds	-	4,141,106	-	4,141,106

# FSDH MERCHANT BANK LIMITED

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

	Level 1 N'000	Level 2 N'000	Level 3 N'000	Total N'000
-Unquoted Equity	-	-	342,473	342,473
	24,849,685	4,141,106	342,473	29,333,264
<b>Pledged Securities</b>				
Held for Trading				
-Treasury bills	-	-	-	-
-Federal Government of Nigeria Bonds	-	-	-	-
Fair value through OCI				
-Treasury bills	3,830,738	-	-	3,830,738
-Federal Government of Nigeria Bonds	5,063,491	-	-	5,063,491
-State government and corporate bonds	-	-	-	-
	8,894,229	-	-	8,894,229
<b>Bank</b>				
At 31 December 2017				
	Level 1 N'000	Level 2 N'000	Level 3 N'000	Total N'000
<b>Financial assets</b>				
Held for Trading				
-Treasury bills	5,925,953	-	-	5,925,953
-Federal Government of Nigeria Bonds	1,727,692	-	-	1,727,692
	7,653,645	-	-	7,653,645
Derivative financial instruments				
- FX forward contract	-	70,037	-	70,037
	-	70,037.00	-	70,037
Investment securities classified as available for sale				
-Treasury bills	45,400,838	-	-	45,400,838
-Federal Government of Nigeria Bonds	1,746,606	-	-	1,746,606
-State government and corporate bonds	-	4,482,404	-	4,482,404
-Unquoted Equity	-	15,666	142,133	157,799
	47,147,444	4,498,070	142,132.65	51,787,646
	Level 1	Level 2	Level 3	Total
<b>Pledged Securities</b>				
Held for Trading				
-Treasury bills	-	-	-	-
-Federal Government of Nigeria Bonds	-	-	-	-
Available for Sale				
-Treasury bills	5,672,232	-	-	5,672,232
-Federal Government of Nigeria Bonds	4,426,917	-	-	4,426,917
-State government and corporate bonds	-	-	-	-
	10,099,149	-	-	10,099,149

### 3.4 Fair value of financial assets and liabilities not measured at fair value

The fair values of loans have been estimated using Discounted Cash Flow (DCF) valuation models (level 3).

# FSDH MERCHANT BANK LIMITED

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

Inputs into this valuation technique include: expected cash flows, expected losses, tenor and interest rates. The expected cash flows (estimated recoverable amount from receivables, collateral and otherwise) are thus discounted to obtain the fair value of the loans.

Investment securities have been fair valued using market prices and is within level 1 of the fair value hierarchy.

The carrying value of the following financial assets and liabilities for the bank and the group approximate their fair values: - cash and bank balances, loans and advances to banks and other assets

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values.

Group	At 31 December 2018		At 31 December 2017	
	Carrying value N'000	Carrying value N'000	Carrying value N'000	Fair value N'000
<b>Financial assets</b>				
Cash and bank balances	11,222,892	11,222,892	15,764,178	15,764,178
Loans and advances to banks	17,740,029	17,740,029	17,477,008	17,477,008
Loans and advances to customers	40,870,505	40,870,505	38,025,050	38,025,050
Investment securities	6,789,968	6,839,575	1,607,488	1,634,615
Pledged Assets	-	-	102,713	99,566
Other assets	737,280	737,280	687,665	687,665
	<u>77,360,674</u>	<u>77,410,281</u>	<u>73,664,102</u>	<u>73,688,082</u>
<b>Financial liabilities</b>				
Due to banks	4,744,992	4,744,992	19,877,963	19,877,963
Due to customers	46,542,640	46,542,640	54,574,920	54,574,920
Other liabilities	4,831,611	4,831,611	8,984,336	8,984,336
Debt securities issued	14,341,909	14,283,810	12,077,787	12,202,751
Other borrowed funds	18,725,951	18,725,951	20,201,819	20,201,819
	<u>89,187,103</u>	<u>89,129,004</u>	<u>115,716,825</u>	<u>115,841,789</u>
<b>Bank</b>				
	At 31 December 2018		At 31 December 2017	
	Carrying value N'000	Fair value N'000	Carrying value N'000	Fair value N'000
<b>Financial assets</b>				
Cash and bank balances	11,186,984	11,186,984	15,536,837	15,536,837
Loans and advances to banks	17,057,637	17,057,637	16,793,701	16,793,701
Loans and advances to customers	40,536,858	40,536,858	37,376,991	37,376,991
Investment securities	4,693,596	4,762,784		
Pledged Assets	-	-	102,713	99,566
Other assets	252,081	252,081	169,539	169,539
	<u>73,727,157</u>	<u>73,796,344</u>	<u>69,979,781</u>	<u>69,976,634</u>
<b>Financial liabilities</b>				
Due to banks	4,745,016	4,745,016	19,877,963	19,877,963
Due to customers	46,719,361	46,719,361	55,186,445	55,186,445
Other liabilities	4,550,556	4,550,556	8,428,481	8,428,481
Debt securities issued	14,524,709	14,465,870	12,077,787	12,202,751
Other borrowed funds	18,725,951	18,725,951	20,201,819	20,201,819
	<u>89,265,593</u>	<u>89,206,754</u>	<u>115,772,495</u>	<u>115,897,459</u>

# FSDH MERCHANT BANK LIMITED

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

### Group

At 31 December 2018 (N'000)

	Level 1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial Assets</b>				
Cash and bank balances	-	-	11,222,892	11,222,892
Loans and advances to banks	-	-	17,740,029	17,740,029
Loans and advances to customers	-	-	40,870,505	40,870,505
Investment securities				
- Amortised cost	6,839,575	-	-	6,839,575
Pledged Assets	-	-	-	-
Other assets	-	-	737,280	737,280
	6,839,575	-	70,570,706	77,410,281

### Financial liabilities

Due to banks	-	-	4,745,016	4,745,016
Due to customers	-	-	46,542,640	46,542,640
Other liabilities	-	-	4,831,611	4,831,611
Debt securities issued	-	-	14,283,810	14,283,810
Other borrowed funds	-	-	18,725,951	18,725,951
	-	-	89,129,028	89,129,028

At 31 December 2017 (N'000)

	Level 1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial Assets</b>				
Cash and bank balances	-	-	15,764,178	15,764,178
Loans and advances to banks	-	-	17,477,008	17,477,008
Loans and advances to customers	-	-	38,025,050	38,025,050
Investment securities				
- Held to maturity	1,634,615	-	-	1,634,615
Pledged Assets	99,566	-	-	99,566
Other assets	-	-	687,665	687,665
	1,734,181	-	71,953,901	73,688,082

### Financial liabilities

Due to banks	-	-	19,877,963	19,877,963
Due to customers	-	-	54,574,920	54,574,920
Other liabilities	-	-	8,984,336	8,984,336
Debt securities issued	-	-	12,202,751	12,202,751
Other borrowed funds	-	-	20,201,819	20,201,819
	-	-	115,841,789	115,841,789

### Bank

At 31 December 2018 (N'000)

	Level 1	Level 2	Level 3	Total
	N'000	N'000	N'000	N'000
<b>Financial Assets</b>				
Cash and bank balances	-	-	11,186,984	11,186,984
Loans and advances to banks	-	-	17,057,637	17,057,637
Loans and advances to customers	-	-	40,536,858	40,536,858
Investment securities				
- Amortised cost	4,762,784	-	-	4,762,784
Pledged Assets	-	-	-	-
Other assets	-	-	252,081	252,081
	4,762,784	-	69,033,560	73,796,344

# FSDH MERCHANT BANK LIMITED

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

At 31 December 2018 (N'000)	Level 1	Level 2	Level 3	Total
<b>Financial liabilities</b>				
Due to banks	-	-	4,745,016	4,745,016
Due to customers	-	-	46,719,361	46,719,361
Other liabilities	-	-	4,550,556	4,550,556
Debt securities issued	-	-	14,465,870	14,465,870
Other borrowed funds	-	-	18,725,951	18,725,951
	-	-	89,206,754	89,206,754
<b>At 31 December 2017 (N'000)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
<b>Financial Assets</b>				
Cash and bank balances	-	-	15,536,837	15,536,837
Loans and advances to banks	-	-	16,793,701	16,793,701
Loans and advances to customers	-	-	37,376,991	37,376,991
Investment securities				
- Held to maturity	-	-	-	-
Pledged Assets	99,566	-	-	99,566
Other assets	-	-	169,539	169,539
	99,566	-	69,877,068	69,976,634
<b>Financial liabilities</b>				
Due to banks	-	-	19,877,963	19,877,963
Due to customers	-	-	55,186,445	55,186,445
Other liabilities	-	-	8,428,481	8,428,481
Debt securities issued	-	-	12,202,751	12,202,751
Other borrowed funds	-	-	20,201,819	20,201,819
	-	-	115,897,459	115,897,459

# FSDH MERCHANT BANK LIMITED

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

### 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 Asset 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.

In line with the CBN circular BSD/DIR/GR/GEN/LAB/06/053 regarding Regulatory Capital Measurement for the Nigerian Banking System for the implementation of Basel II/III in Nigeria, Capital adequacy is measured daily and reported monthly to the Central Bank of Nigeria in line with Basel II set principles, which measures Credit, Market and Operational Risks.

The ratios below summarises the composition of regulatory capital and the ratios of the Bank for the period ended 31 December 2018. Over this review period, the Bank complied with all the externally imposed capital requirements to which it was and is subject.

CONSTITUENTS OF ELIGIBLE CAPITAL	Amounts	
	31 December 2018 N'000	31 December 2017 N'000
Paid-up ordinary shares	2,794,794	2,794,794
Share premium	1,539,587	1,539,587
Retained profits	19,107,299	19,291,688
IFRS 9 Transitional Adjustment	1,035,711	-
Statutory Reserve	6,291,990	5,077,345
SMEEIS Reserve	-	-
Minority interests (only for consolidated accounts)	-	-
<b>TIER 1 SUB-TOTAL</b>	<b>30,769,381</b>	<b>28,703,415</b>
<b>LESS</b>	<b>-</b>	<b>-</b>
Deferred Tax Assets	3,223,980	3,551,132
Other intangible assets 2	212,588	217,263
Credit Risk Reserve	-	-
50% of investments in unconsolidated banking and financial subsidiary/associate companies	480,689	480,689
<b>NET-TOTAL TIER 1 CAPITAL</b>	<b>26,852,125</b>	<b>24,454,331</b>
Eligible subordinated term debt (limited to 25% of total Tier 1 capital)	-	-
AFS Reserves	(763,591)	(301,651)
<b>TIER 2 SUB-TOTAL</b>	<b>(763,591)</b>	<b>(301,651)</b>
<b>LESS</b>	<b>-</b>	<b>-</b>
50% of investments in unconsolidated banking and financial subsidiary/associate companies	480,689	480,689
<b>NET-TOTAL TIER 2 CAPITAL</b>	<b>(1,244,280)</b>	<b>(782,340)</b>
<b>TOTAL QUALIFYING CAPITAL</b>	<b>25,607,845</b>	<b>23,671,991</b>

# FSDH MERCHANT BANK LIMITED

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

	31 December 2018 N'000	31 December 2017 N'000
Total Risk-weighted Amount for Credit Risk	62,252,626	60,656,642
Risk-weighted Amount for Operational Risk	14,698,517	14,175,216
Risk-weighted Amount for Market Risk	16,668,589	5,239,273
AGGREGATE RISK-WEIGHTED ASSETS	93,619,732	80,071,130
TOTAL RISK-WEIGHTED CAPITAL RATIO	27.61%	29.56%
TIER 1 RISK-BASED CAPITAL RATIO	28.55%	30.54%

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 2018, the Bank had eligible risk capital of N25.81 billion, which was in excess of the regulatory minimum. In addition, liquidity ratio stood at 113.37% and our capital adequacy ratio stood at 27.61%. 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.

# FSDH MERCHANT BANK LIMITED

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

### 3.6 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 financial assets

The Group reviews its loan portfolio to assess impairment on a quarterly basis. Sequel to the implementation of IFRS 9 1 January 2018, the Group has updated its credit assessment methodology in line with the standard.

IFRS 9 replaces the existing 'incurred loss' impairment approach with an Expected Credit Loss ('ECL') model, resulting in earlier recognition of credit losses compared with IAS 39. Expected credit losses are the unbiased probability weighted average credit losses determined by evaluating a range of possible outcomes and future economic conditions.

The Group has set policies to guide staging criteria in determining significant increase in credit risk. The Group has also developed the capability to model a number of economic scenarios and capture the impact on credit losses to ensure the overall ECL represents a reasonable distribution of economic outcomes. Appropriate governance and oversight has been established around the process

The methodology and assumptions used for estimating probability of default, loss given default, discount factor, exposure at default, forward looking macro-economic factors and timing of future cash flows are reviewed regularly as the Group builds historical data in computation of its expected credit loss.

#### (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

##### 1. Bonds

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 Tenor To Maturity (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;

# FSDH MERCHANT BANK LIMITED

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

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.

### 2. Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Derivatives are presented as financial assets or financial liabilities. Derivative assets and liabilities are only offset if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle on a net basis.

The fair value of financial instruments is based on quoted market prices at the closing date. Known calculation techniques, such as estimated discounted cash flows, are used to determine fair value of interest rate and currency financial instruments. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the closing date.

### (c) Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies. In determining the timing and level of future taxable profits together with future tax planning strategies, the Group assessed the probability of expected future taxable profits based on expected revenues for the next five years. Details of the Group's recognised and unrecognised deferred tax assets and liabilities are as disclosed in note 23.

## 4. Segment Information

The Group segmental reporting is in compliance with IFRS 8 Operating segments. Operating Segments are reported in accordance with the internal reports provided to the Group's Management Committee which is responsible for the Group's resources allocation and performance review of the Operating segments. All transactions between operating segments are conducted on fair value principle.

The group has identified the following reportable operating segments:

### Corporate and Investment Banking

This segment provides wholesale and investment banking services ranging from corporate finance, fund raising, investment and other financial advisory activities to the middle and top end of the banking value chain across diverse sectors.

### Asset Management

This segment engage in portfolios management and investment advisory services

### Pension Funds management

This segment engage in the management of pension funds and other retirement benefit related activities.

### Stockbroking

This segment engage in stock trading with proprietary portfolio and customers' portfolio as well as issuing house activities.

### Others

This relates to other consolidated entities which are not reportable segments as they are not separately included in the reports to the Group's management committee.

### Segment result of operation

Total revenue in the segment represents: interest income, fees and commissions, net gains or loss from financial assets, dividend income, foreign exchange translation, and other operating income.

### Segment Assets and Liabilities

Segment assets and liabilities are measured in the same way as presented in the financial statements.

#### At 31st December 2018

	<b>Corporate &amp; Investment Banking</b>	<b>Asset Management</b>	<b>Pension Funds Management</b>	<b>Stockbroking</b>	<b>Total</b>
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
Total Segment Revenue	18,525,590	634,565	4,855,745	238,393	24,254,293
Inter Segment Revenue	(909,029)	(52,942)	(3,994)	(39,688)	(1,005,653)
<b>Revenue from External Customers</b>	<b>17,616,561</b>	<b>581,623</b>	<b>4,851,751</b>	<b>198,705</b>	<b>23,248,640</b>
Segment result - profit after tax	3,503,173	330,093	1,469,275	64,159	5,366,700
Interest expense	10,289,296	-	-	(1,347)	10,287,949
Impairment charge /(writeback) on credit losses	(1,397,660)	449	3,302	(4,603)	(1,398,512)
Depreciation and Amortisation	350,699	15,794	198,710	-	565,203

**At 31st December 2017**

	<b>Corporate &amp; Investment Banking</b>	<b>Asset Management</b>	<b>Pension Funds Management</b>	<b>Stockbroking</b>	<b>Others</b>	<b>Total</b>
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
Total Segment Revenue	23,542,397	605,449	4,303,148	276,888	72,844	28,800,726
Inter Segment Revenue	(638,494)	(47,361)	(21,822)	(4,871)	(28,634)	(741,182)
<b>Revenue from External Customers</b>	<b>22,903,904</b>	<b>558,088</b>	<b>4,281,325</b>	<b>272,017</b>	<b>44,210</b>	<b>28,059,544</b>
Segment result - profit after tax	3,044,967	280,075	1,287,456	91,007	37,101	4,740,606
Interest expense	12,946,751	(4,826)	(4,689)	(2,511)	(28,634)	12,906,092
Impairment charge on credit losses	2,261,359	-	-	1,734	-	2,263,093
Depreciation	226,273	10,413	158,154	5,040	-	399,880

**At 31st December 2018**

	<b>Corporate &amp; Investment Banking</b>	<b>Asset Management</b>	<b>Pension Funds Management</b>	<b>Stockbroking</b>	<b>Total</b>
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
Total Assets	118,035,275	1,457,765	4,547,516	1,269,789	125,310,345
<b>Other measure of assets</b>					
Loans and advances to customers	40,536,861	14,950	110,118	208,580	40,870,509
Investment securities	34,026,860	683,525	2,077,808	733,247	37,521,440
Total Liabilities	89,656,925	217,426	865,713	333,409	91,073,473

**At 31st December 2017**

	<b>Corporate &amp; Investment Banking</b>	<b>Asset Management</b>	<b>Pension Funds Management</b>	<b>Stockbroking</b>	<b>Others</b>	<b>Total</b>
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
Total Assets	144,271,731	1,139,219	4,371,055	1,160,805	789,563	151,732,374
<b>Other measure of assets</b>						
Loans and advances to customers	37,376,991	16,750	117,364	513,945	-	38,025,050
Investment securities	69,643,154	954,219	1,782,439	590,750	789,563	73,760,125
Total Liabilities	115,459,792	226,331	1,094,717	321,725	1,500	117,104,065

## FSDH MERCHANT BANK LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

	GROUP 2018 N'000	GROUP 2017 N'000	BANK 2018 N'000	BANK 2017 N'000
<b>5. Interest income</b>				
<b>5(a) Financial assets fair value through profit or loss</b>				
- Debt securities	938,743	965,093	937,520	964,337
	<u>938,743</u>	<u>965,093</u>	<u>937,520</u>	<u>964,337</u>
<b>5(b) Financial assets fair value through other comprehensive income</b>				
- Debt securities	6,945,893	8,925,696	6,822,762	8,661,043
	<u>6,945,893</u>	<u>8,925,696</u>	<u>6,822,762</u>	<u>8,661,043</u>
<b>5(c) Financial assets at amortised costs</b>				
- Debt securities	327,931	238,758	58,919	7,121
- Loans to banks and other financial institutions	1,967,718	3,599,502	1,830,478	3,470,909
- Loans and advances to customers	5,047,410	6,700,469	4,970,662	6,620,151
- Correspondent credit lines	466,575	164,491	466,575	164,491
Others	-	8,782	-	7,698
	<u>7,809,634</u>	<u>10,712,002</u>	<u>7,326,634</u>	<u>10,270,370</u>

Interest income on loans and advances to customers includes interest income on impaired loans. Interest income on stage III impaired loans for the year ended 31 December 2018 was Nil. For the prior year December 2017, interest income on stage III impaired loans was N960.65m.

### 6. Interest and similar expense

Customer deposits	4,727,559	6,610,862	4,761,200	6,651,521
Interbank call borrowings	1,244,982	1,565,690	1,244,982	1,565,690
Discount on issued commercial papers	2,557,450	2,737,326	2,557,450	2,737,326
Interest on other borrowed funds	1,431,267	1,904,676	1,429,925	1,904,676
Correspondent credit lines	222,686	87,538	222,686	87,538
Clients' investment fund	104,005	-	104,005	-
	<u>10,287,949</u>	<u>12,906,092</u>	<u>10,320,248</u>	<u>12,946,751</u>

### 7. Fee and commission income

Credit related fees	161,366	406,452	161,366	406,452
Fiduciary fees	4,786,510	4,190,262	-	-
Comission on trade related transactions	245,743	480,868	245,743	480,868
Financial advisory & issuing house activities' fees	213,169	130,412	206,384	128,512
Other commissions, fees and charges	251,930	202,277	185,308	135,478
	<u>5,658,718</u>	<u>5,410,271</u>	<u>798,801</u>	<u>1,151,310</u>

Other commissions, fees and charges includes brokerage commission, current account maintenance charge, funds transfer charge, penalties and charges.

The fees and commission income can be further analysed as below in line with IFRS 15

Point in time	497,613	430,991
Over time fees	5,161,105	367,810
	<u>5,658,718</u>	<u>798,801</u>

### 8. Impairment charge for credit losses

Impairment (write-back)/charge for credit loss on loans and advances	(2,142,770)	2,255,843	(2,145,177)	2,254,109
Impairment (write-back)/charge for credit loss on other financial assets	(206,408)	-	(202,130)	-
Uncollectable amounts written off	950,666	7,250	950,666	7,250
	<u>(1,398,512)</u>	<u>2,263,093</u>	<u>(1,396,641)</u>	<u>2,261,359</u>

The writeback on impairment charges is attributable to the resolution of the bank's credit impaired facility coupled with matured obligations, pay-downs and general improvement on credit quality during the year.

### 9. Net gains on financial instruments held for trading

Equity securities	43,023	64,687	-	-
Bonds	155,847	156,278	95,821	111,388
Treasury bills	170,651	299,113	160,323	289,625
Commercial bills	1,960	-	1,960	-
Foreign exchange	57,386	75,245	57,386	75,245
Derivatives	335,187	404,618	335,187	404,618
	<u>764,055</u>	<u>999,940</u>	<u>650,678</u>	<u>880,875</u>

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	<b>GROUP 2018 N'000</b>	<b>GROUP 2017 N'000</b>	<b>BANK 2018 N'000</b>	<b>BANK 2017 N'000</b>
<b>10. Net gains on debt instruments classified as fair value through other comprehensive income</b>				
Bonds	45,020	-	45,020	-
Treasury bills	742,439	-	742,439	-
	<u>787,458</u>	<u>-</u>	<u>787,458</u>	<u>-</u>
<b>Net gains on financial instruments classified as available for sale</b>				
Bonds	-	14,562	-	14,562
Treasury bills	-	496,462	-	496,462
	<u>-</u>	<u>511,025</u>	<u>-</u>	<u>511,025</u>
<b>11. Other income</b>				
Technical service fees	-	-	63,037	65,639
Profit on disposal of property & equipment	19,598	10,496	18,929	7,420
Dividend income	9,158	35,102	909,623	644,338
Foreign currency translation	163,576	392,644	130,813	364,837
Intermediation income	70,212	64,740	-	-
Other sundry income	81,595	32,535	79,335	26,997
	<u>344,139</u>	<u>535,517</u>	<u>1,201,737</u>	<u>1,109,231</u>
<b>12. Operating expenses</b>				
Staff related expenses (Note (i) below)	3,938,030	3,900,624	2,193,606	2,372,867
Depreciation (Note 26)	434,847	337,631	244,435	188,166
Amortisation (Note 25)	130,355	62,249	106,261	38,107
Auditors' remuneration	68,563	59,336	42,750	36,028
Directors' fees and sitting allowance	311,511	190,675	176,800	149,675
Deposit Insurance	194,047	201,643	194,047	201,643
Occupancy costs	487,644	425,186	140,127	151,583
Information technology and related expenses	466,464	515,954	447,812	486,103
Administrative and operating expenses (Note (ii) below)	1,572,894	1,631,045	869,700	855,583
	<u>7,604,355</u>	<u>7,324,343</u>	<u>4,415,538</u>	<u>4,479,755</u>
(i) Staff related costs, excluding executive directors, during the year amounted to:				
Wages, salaries and staff costs	3,651,604	3,023,582	2,002,485	1,651,709
Pension costs - Defined contribution plan	232,285	188,795	141,039	106,434
Post employment costs - Defined contribution plan	54,141	20,407	50,082	18,818
Gratuity costs - Defined benefit plan	-	667,840	-	595,906
	<u>3,938,030</u>	<u>3,900,624</u>	<u>2,193,606</u>	<u>2,372,867</u>
The group operated a defined benefit staff gratuity scheme which was discontinued on 30th June 2017.				
The average number of persons employed by the group during the year was as follows -				
Executive	3	2	3	2
Management staff	77	76	30	28
Non management staff	381	350	101	102
	<u>461</u>	<u>428</u>	<u>134</u>	<u>132</u>
The number of employees of the group, who received emoluments (excluding pension contributions and other benefits) in the following ranges were -				
Below N3,000,000	254	223	33	33
N3,000,001 - N5,000,000	55	65	19	19
N5,000,001 - N7,000,000	45	49	23	23
Above N7,000,000	107	91	59	57
	<u>461</u>	<u>428</u>	<u>134</u>	<u>132</u>

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	<b>GROUP 2018 N'000</b>	<b>GROUP 2017 N'000</b>	<b>BANK 2018 N'000</b>	<b>BANK 2017 N'000</b>
Directors' remuneration paid in respect of the group:				
Fees and sitting allowances	311,511	190,675	176,800	149,675
Executive compensation	169,514	130,550	169,514	130,550
	<u>481,025</u>	<u>321,225</u>	<u>346,314</u>	<u>280,225</u>

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

Chairman	11,625	22,175	11,625	22,175
Highest paid director	79,171	67,773	79,171	67,773

- (ii) Included in the administrative expenses of the bank and group is the sum of N16.80m (2017: N1.58m) paid to PricewaterhouseCoopers for non-audit services provided during the year.

**13. Income tax expense**

Tax charge for the year comprises:

**a) Income Tax Charge**

Income tax	1,377,330	777,834	753,323	171,425
Education tax	43,709	39,354	-	-
Tax over-provision	(305,420)	-	(305,420)	-
<b>Total current tax charge</b>	<u>1,115,619</u>	<u>817,188</u>	<u>447,903</u>	<u>171,425</u>

**b) Deferred tax**

Recognised in income statement:

Origination and reversal of temporary differences	272,529	8,222	327,150	2,660
<b>Total deferred tax charge/(credit)</b>	<u>272,529</u>	<u>8,222</u>	<u>327,150</u>	<u>2,660</u>

**Income tax expense**

	<u>1,388,148</u>	<u>825,410</u>	<u>775,053</u>	<u>174,085</u>
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(ii) Reconciliation of effective tax

Profit before income tax	6,754,848	5,566,016	5,186,445	3,860,326
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Effective tax as per accounts:

Income tax using the companies income tax rate at 30%	2,026,454	1,669,805	1,555,934	1,158,098
Non-deductible expenses	198,656	363,591	131,738	301,337
Tax exempt income	(2,812,686)	(3,516,110)	(2,930,745)	(3,531,860)
Tax loss unutilised	1,098,595	2,083,946	1,243,074	2,072,426
Minimum tax	-	176,603	-	171,425
Education tax	43,709	39,354	-	-
Dividend tax	866,311	-	753,323	-
Tax over-provision	(305,420)	-	(305,420)	-
Effect of deferred tax	272,529	8,222	327,150	2,660
Income tax	<u>1,388,148</u>	<u>825,410</u>	<u>775,053</u>	<u>174,085</u>
Effective tax rate	<u>20.55%</u>	<u>14.83%</u>	<u>14.94%</u>	<u>4.51%</u>

Based on Nigerian tax law, Companies Income Tax Act provides that current tax is determined as the higher of amount computed based on 30% of taxable profit, minimum tax and 30% of dividend declared. There were no changes in corporate and education tax rates during the year. The corporate income tax charge for the year was based on dividend tax rule (2017 was based on minimum tax rule). Tax exempt income include incomes such as dividend income, income on Federal Government of Nigeria, municipal and corporate bonds and the Nigerian Treasury Bills (Exemption of Bonds and Short Term Government Securities Order 2011) which are exempt from income tax and other applicable taxes as gazetted by the Federal Government of Nigeria. During the period, tax provisions based on the minimum tax rule in prior periods were released as the bank applied for the exemption from the minimum tax rule on account of its percentage foreign shareholding.

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	GROUP 31 December 2018 N'000	GROUP 31 December 2017 N'000	BANK 31 December 2018 N'000	BANK 31 December 2017 N'000
The movement in the current income tax liability is as follows:				
At start of the period	1,129,618	1,012,172	413,161	375,705
Tax paid	(1,255,259)	(699,742)	(619,354)	(133,969)
Prior period over provision	(305,420)	-	(305,420)	-
Income tax charge	1,421,039	817,188	753,323	171,425
At end of the period	<u>989,978</u>	<u>1,129,618</u>	<u>241,710</u>	<u>413,161</u>
Current	989,978	1,129,618	241,710	413,161
Non-Current	-	-	-	-
	<u>989,978</u>	<u>1,129,618</u>	<u>241,710</u>	<u>413,161</u>

**14. Cash and bank balances**

Cash in hand	1,085	1,388	37	158
Balances held with other banks:				
- Operating balance with Central Bank of Nigeria	1,324,916	634,011	1,324,916	633,584
- Balances with banks in Nigeria	691,853	630,262	657,634	404,578
- Balances with banks outside Nigeria	5,008,095	12,377,991	5,008,095	12,377,991
Cash on hand and balances with banks	<u>7,025,949</u>	<u>13,643,652</u>	<u>6,990,682</u>	<u>13,416,311</u>
- Mandatory reserve deposit with Central Bank of Nigeria	4,196,302	2,120,526	4,196,302	2,120,526
	<u>11,222,251</u>	<u>15,764,178</u>	<u>11,186,984</u>	<u>15,536,837</u>
Current	7,025,949	13,643,652	6,990,682	17,632,913
Non-Current	4,196,302	2,120,526	4,196,302	1,452,342
	<u>11,222,251</u>	<u>15,764,178</u>	<u>11,186,984</u>	<u>19,085,255</u>

Included in cash on hand and balances with banks is an amount of N3.28billion (31 Dec 2017: N8.12billion) representing the Naira value of foreign currencies held on behalf of customers to cover letters of credit transactions. The corresponding liability is reported as customers' deposit for foreign trade under other liabilities (see Note 29).

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, these amounts are excluded from cash and cash equivalents.

**15. Loans to banks and other financial institutions**

Placements with banks	17,744,083	17,476,837	17,057,637	16,793,701
Placements with other financial institutions	302	171	-	-
	<u>17,744,385</u>	<u>17,477,008</u>	<u>17,057,637</u>	<u>16,793,701</u>
Impairment on investment securities at amortised cost				
Stage 1 ECL provision	4,356	-	-	-
	<u>4,356</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loans to banks and other financial institutions net of impairment	<u>17,740,029</u>	<u>17,477,008</u>	<u>17,057,637</u>	<u>16,793,701</u>
Current	17,744,083	12,194,336	17,057,637	11,166,282
Non-Current	302	171	-	-
	<u>17,744,385</u>	<u>12,194,507</u>	<u>17,057,637</u>	<u>11,166,282</u>

Included in the Group balance is the sum of N0.30million which represents Pensions Alliance Limited's statutory reserve account balance placed with banks in compliance with the Pensions Reform Act of 2004. This amount is excluded from cash and cash equivalents for the purpose of the statement of cashflow.

The bank made no credit impairment provision on its placements with other banks as all its placements were secured with liquid assets with substantial haircut above the value of the placements.

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	GROUP 31 December 2018 N'000	GROUP 31 December 2017 N'000	BANK 31 December 2018 N'000	BANK 31 December 2017 N'000
<b>16. Financial instruments held for trading</b>				
Quoted equity securities	1,920	45,292	-	-
Nigerian Treasury Bills	344,516	5,925,953	344,516	5,925,953
Federal Government of Nigeria Bonds	5,280	1,732,803	-	1,727,692
Mutual funds	346,671	-	-	-
Corporate bonds	1,128,755	-	1,128,755	-
	<u>1,827,142</u>	<u>7,704,048</u>	<u>1,473,271</u>	<u>7,653,645</u>
Current	344,516	5,925,953	344,516	5,925,953
Non-current	1,482,626	45,292	1,128,755	1,727,692
	<u>1,827,142</u>	<u>5,971,245</u>	<u>1,473,271</u>	<u>7,653,645</u>

Assets under this class are all trading-related. Gains or losses are recognised in the income statement under 'Net gains on financial instruments held for trading'

**17. Derivative financial instruments**

Assets				
- FX forward contracts (Note 17(i))	607,076	70,037	607,076	70,037
	<u>607,076</u>	<u>70,037</u>	<u>607,076</u>	<u>70,037</u>
Liabilities				
- FX forward contracts	590,903	54,106	590,903	54,106
	<u>590,903</u>	<u>54,106</u>	<u>590,903</u>	<u>54,106</u>
Notional principal				
- FX forward contracts (Note 17(i))	11,945,983	6,713,535	11,945,983	6,713,535

(i) This represents the notional principal amounts, the positive (assets) and negative (liabilities) fair values of the Group's FX forward contracts. Fair value changes are recognised in the statement of comprehensive income. All derivative financial instruments are current.

**18. Loans and advances to customers**

Loans and advances at amortised cost	42,174,322	41,432,963	41,835,627	40,778,314
Allowance for impairment (Note 18(ii))	(1,303,813)	(3,407,913)	(1,298,769)	(3,401,323)
	<u>40,870,509</u>	<u>38,025,050</u>	<u>40,536,858</u>	<u>37,376,991</u>
Current	38,067,582	7,517,479	37,906,104	7,041,593
Non-Current	2,802,927	30,507,571	2,630,754	30,335,398
	<u>40,870,509</u>	<u>38,025,050</u>	<u>40,536,858</u>	<u>37,376,991</u>

The reconciliation of the allowance account for losses on loans and advances to customers:

<b>December 2018</b>	<b>GROUP N'000</b>	<b>BANK N'000</b>
Balance at 1 January 2018	3,407,913	3,401,323
IFRS 9 opening remeasurement adjustment	993,009	993,009
Write-off of provisions	(950,386)	(950,386)
Decrease in loan provision for the year	(2,146,723)	(2,145,177)
At 31 December 2018	<u>1,303,813</u>	<u>1,298,769</u>
<i>Analysis of impairment as at 31 December 2018:</i>		
Stage 1 impairment on loans and advances	297,405	292,361
Stage 3 impairment on loans and advances	1,006,408	1,006,408
	<u>1,303,813</u>	<u>1,298,769</u>
<b>December 2017</b>		
Balance at 1 January 2017	1,152,069	1,147,213
Increase in specific impairment (Note 8)	2,142,257	2,142,257
Increase in collective impairment (Note 8)	113,587	111,853
At 31 December 2017	<u>3,407,913</u>	<u>3,401,323</u>

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	GROUP 31 December 2018 N'000	GROUP 31 December 2017 N'000	BANK 31 December 2018 N'000	BANK 31 December 2017 N'000
<b>19. Investment securities</b>				
<b>Analysis of investment securities</b>				
Debt securities (Note (i))	37,178,967	54,656,461	33,684,387	51,629,848
Equity securities (Note (ii))	342,473	1,197,754	342,473	157,799
	<u>37,521,440</u>	<u>55,854,215</u>	<u>34,026,860</u>	<u>51,787,647</u>
Current	32,173,979	30,754,445	29,071,760	28,938,982
Non-current	5,347,461	4,238,716	4,955,100	3,256,546
	<u>37,521,440</u>	<u>34,993,161</u>	<u>34,026,860</u>	<u>32,195,528</u>

**December 2018**

**(i) Debt securities**

**Classified as fair value through other comprehensive income**

Nigerian Treasury Bills	25,583,602	-	24,524,054	-
Federal Government of Nigeria bonds	402,868	-	325,631	-
Corporate bonds	4,402,529	-	4,141,106	-
Commercial bills	-	-	-	-
	<u>30,388,999</u>	<u>-</u>	<u>28,990,791</u>	<u>-</u>

**Classified as amortised cost**

Nigerian Treasury Bills	6,597,521	-	4,750,828	-
Federal Government of Nigeria bonds	247,746	-	-	-
Commercial papers	19,790	-	-	-
	<u>6,865,057</u>	<u>-</u>	<u>4,750,828</u>	<u>-</u>

**Impairment on investment securities at amortised cost**

Stage 1 ECL provision	75,089	-	57,232	-
Stage 2 ECL provision	-	-	-	-
Stage 3 ECL provision	-	-	-	-
	<u>75,089</u>	<u>-</u>	<u>57,232</u>	<u>-</u>

**Net debt securities at amortised cost**

	<u>6,789,968</u>	<u>-</u>	<u>4,693,596</u>	<u>-</u>
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**Total debt securities**

	<u>37,178,967</u>	<u>-</u>	<u>33,684,387</u>	<u>-</u>
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**The reconciliation of the impairment allowance on debt securities is as below:**

Balance at 1 January 2018	-	-	-	-
IFRS 9 opening remeasurement adjustment	12,254	-	14,898	-
Increase in provision for the year	62,835	-	42,334	-
At 31 December 2018	<u>75,089</u>	<u>-</u>	<u>57,232</u>	<u>-</u>

**(ii) Equity securities**

**Classified as fair value through other comprehensive income**

Unquoted equity securities	342,473	-	342,473	-
	<u>342,473</u>	<u>-</u>	<u>342,473</u>	<u>-</u>

- i. The N342.47M investment in equity securities represents the N326.81M equity contribution to the Agricultural/Small and Medium Enterprises Investment Scheme (AGSMEIS), N15M investment in FMDQ OTC exchange and N0.67M investment in the Nigeria Inter-bank Settlement Scheme (NIBSS). Total dividend of N0.05M was received as dividend from NIBSS during the year (2017: N0.03M). The Group chose this presentation alternative because these investments were made based on regulatory directives rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.
- ii. The Group has made an irrevocable election to classify all its unquoted equity investment at FVOCI.

**December 2017**

**(i) Debt securities**

**Classified as available for sale**

Nigerian Treasury Bills	-	46,471,695	-	45,400,838
Federal Government of Nigeria bonds	-	1,921,806	-	1,746,606
Corporate bonds	-	4,655,472	-	4,482,404
	<u>-</u>	<u>53,048,973</u>	<u>-</u>	<u>51,629,848</u>

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	GROUP 31 December 2018 N'000	GROUP 31 December 2017 N'000	BANK 31 December 2018 N'000	BANK 31 December 2017 N'000
<b>Classified as held to maturity</b>				
Nigerian Treasury Bills	-	1,607,488	-	-
Federal Government of Nigeria bonds	-	-	-	-
	<u>-</u>	<u>1,607,488</u>	<u>-</u>	<u>-</u>
Total debt securities	<u>-</u>	<u>54,656,461</u>	<u>-</u>	<u>51,629,848</u>
<b>(ii) Equity securities</b>				
<b>Classified as available for sale</b>				
Quoted equity securities	-	670,436	-	-
Mutual funds	-	248,501	-	-
Unquoted equity securities	-	278,817	-	157,799
	<u>-</u>	<u>1,197,754</u>	<u>-</u>	<u>157,799</u>
<b>20. Pledged assets</b>				
<b>Classified as fair value through other comprehensive income</b>				
Nigerian treasury bills	3,830,738	-	3,830,738	-
Federal Government of Nigeria bonds	5,063,491	-	5,063,491	-
	<u>8,894,229</u>	<u>-</u>	<u>8,894,229</u>	<u>-</u>
<b>Classified as amortised cost</b>				
Pledged securities at amortised cost net of credit impairment	-	-	-	-
Total pledged assets net of credit impairment	<u>8,894,229</u>	<u>-</u>	<u>8,894,229</u>	<u>-</u>
<b>classified as available for sale</b>				
Nigerian treasury bills	-	5,672,232	-	5,672,232
Federal Government of Nigeria bonds	-	4,426,917	-	4,426,917
	<u>-</u>	<u>10,099,149</u>	<u>-</u>	<u>10,099,149</u>
<b>classified as held to maturity</b>				
Federal Government of Nigeria bonds	-	102,713	-	102,713
	<u>-</u>	<u>102,713</u>	<u>-</u>	<u>102,713</u>
Total net pledged assets	<u>8,894,229</u>	<u>10,201,862</u>	<u>8,894,229</u>	<u>10,201,862</u>
Current	5,063,491	6,322,777	5,063,491	6,322,777
Non-current	3,830,738	3,879,085	3,830,738	3,879,085
	<u>8,894,229</u>	<u>10,201,862</u>	<u>8,894,229</u>	<u>10,201,862</u>

Debt securities are pledged for purpose of providing collateral to secure liabilities with counterparties. The disclosure above includes any transferred assets associated with secured borrowing as disclosed in Notes 28.

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	<b>GROUP</b> <b>31 December</b> <b>2018</b> <b>N'000</b>	<b>GROUP</b> <b>31 December</b> <b>2017</b> <b>N'000</b>	<b>BANK</b> <b>31 December</b> <b>2018</b> <b>N'000</b>	<b>BANK</b> <b>31 December</b> <b>2017</b> <b>N'000</b>
<b>21. Other assets</b>				
<b>Financial assets</b>				
Fee receivables	660,305	618,572	109,078	100,118
Other receivables	81,776	172	147,804	69,423
Gross other financial assets	742,081	618,744	256,882	169,541
Credit impairment on other financial assets - receivables	(4,801)	-	(4,801)	-
Net other financial assets	<u>737,280</u>	<u>618,744</u>	<u>252,081</u>	<u>169,541</u>
<b>Non financial assets</b>				
Prepayments	730,559	727,704	470,532	442,107
Withholding tax receivable	573,177	441,891	129,692	10,016
Others	694	568	694	568
	<u>1,304,430</u>	<u>1,170,163</u>	<u>600,918</u>	<u>452,692</u>
	<u>2,041,710</u>	<u>1,788,907</u>	<u>852,999</u>	<u>622,233</u>
Current	1,267,386	1,078,326	307,088	176,737
Non-current	774,324	549,629	545,911	430,408
	<u>2,041,710</u>	<u>1,627,955</u>	<u>852,999</u>	<u>607,145</u>
<b>22. Investment in subsidiaries</b>	<b>31 December</b> <b>2018</b> <b>% Holding</b>	<b>31 December</b> <b>2018</b> <b>N'000</b>	<b>31 December</b> <b>2017</b> <b>% Holding</b>	<b>31 December</b> <b>2017</b> <b>N'000</b>
FSDH Asset Management Limited	99.7	200,000	99.7	200,000
Pensions Alliance Limited	51.0	587,010	51.0	587,010
FSDH Securities Limited	99.9	174,367	99.9	174,367
		<u>961,377</u>		<u>961,377</u>

Further disclosures on the control and line of business of the subsidiaries are as stated in Note 37 of this financial statements.

**23. Deferred tax**

Deferred income taxes are calculated on all temporary differences under the liability method using a statutory tax rate of 30% (2017: 30%).

**Deferred income tax assets are attributable to the following items:**

	<b>GROUP</b> <b>31 December</b> <b>2018</b> <b>N'000</b>	<b>GROUP</b> <b>31 December</b> <b>2017</b> <b>N'000</b>	<b>BANK</b> <b>31 December</b> <b>2018</b> <b>N'000</b>	<b>BANK</b> <b>31 December</b> <b>2017</b> <b>N'000</b>
<b>Deferred tax liabilities</b>				
Accelerated tax depreciation	-	(77,734)	-	(42,352)
Credit impairment	(1,201)	-	(1,199)	-
Foreign exchange translation	(39,294)	(109,451)	(39,294)	(109,451)
	<u>(40,495)</u>	<u>(187,185)</u>	<u>(40,493)</u>	<u>(151,803)</u>
<b>Deferred tax assets</b>				
Credit impairment	-	79,591	-	91,593
Accelerated tax depreciation	10,562	-	3,322	-
Tax loss carry forward	3,261,153	3,611,343	3,261,153	3,611,342
	<u>3,271,715</u>	<u>3,690,934</u>	<u>3,264,475</u>	<u>3,702,935</u>
<b>Deferred tax asset recognised</b>	<u>3,231,220</u>	<u>3,503,749</u>	<u>3,223,982</u>	<u>3,551,132</u>

The group entities have deferred tax assets and deferred tax liabilities which has been presented on a net basis in the financial statements. The group entities have the legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same tax authority.

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	GROUP 31 December 2018 N'000	GROUP 31 December 2017 N'000	BANK 31 December 2018 N'000	BANK 31 December 2017 N'000
<b>Movements in temporary differences during the year:</b>				
<b>GROUP</b>				
	<b>1 January 2018 N'000</b>	<b>Recognised in P&amp;L N'000</b>	<b>Recognised in OCI N'000</b>	<b>31 December 2018 N'000</b>
Accelerated tax depreciation	(77,734)	88,296	-	10,562
Foreign exchange translation	(109,451)	70,157	-	(39,294)
Credit impairment	79,591	(80,792)	-	(1,201)
Tax loss carry forward	3,611,343	(350,190)	-	3,261,153
	<u>3,503,749</u>	<u>(272,529)</u>	<u>-</u>	<u>3,231,220</u>
	<b>1 January 2017 N'000</b>	<b>Recognised in P&amp;L N'000</b>	<b>Recognised in OCI N'000</b>	<b>31 December 2017 N'000</b>
Accelerated tax depreciation	(50,131)	(27,603)	-	(77,734)
Foreign exchange translation	-	(109,451)	-	(109,451)
Credit impairment	60,210	19,381	-	79,591
Tax loss carry forward	3,501,892	109,451	-	3,611,343
Gratuity post retirement benefit	70,948	-	(70,948)	-
	<u>3,582,919</u>	<u>(8,222)</u>	<u>(70,948)</u>	<u>3,503,749</u>
<b>BANK</b>				
	<b>1 January 2018 N'000</b>	<b>Recognised in P&amp;L N'000</b>	<b>Recognised in OCI N'000</b>	<b>31 December 2018 N'000</b>
Accelerated tax depreciation	(42,352)	45,675	-	3,322
Foreign exchange translation	(109,451)	70,157	-	(39,294)
Credit impairment	91,593	(92,792)	-	(1,199)
Tax loss carry forward	3,611,342	(350,189)	-	3,261,153
	<u>3,551,132</u>	<u>(327,150)</u>	<u>-</u>	<u>3,223,982</u>
	<b>1 January 2017 N'000</b>	<b>Recognised in P&amp;L N'000</b>	<b>Recognised in OCI N'000</b>	<b>31 December 2017 N'000</b>
Accelerated tax depreciation	(8,311)	(34,041)	-	(42,352)
Foreign exchange translation	-	(109,451)	-	(109,451)
Credit impairment	60,211	31,381	-	91,592
Tax loss carry forward	3,501,891	109,451	-	3,611,342
Gratuity post retirement benefit	75,929	-	(75,929)	-
	<u>3,629,719</u>	<u>(2,660)</u>	<u>(75,929)</u>	<u>3,551,132</u>

The bank has assessed that based on its profit forecast, it is probable that there will be future taxable profits against which the tax losses, from which deferred tax asset has been recognised, can be utilised. The value of unrecognized deferred tax asset as at 31 December 2018 was N7.80bn (2017 - N6.24bn).

**FSDH MERCHANT BANK LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**At 31 December 2018**

**24. Intangible asset**  
**GROUP**

<b>Cost</b>	Computer		Total
	Software	Work in progress	
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
At 1 January 2018	1,022,108	163,923	1,186,031
Additions	95,837	15,750	111,587
Reclassifications	89,720	(89,720)	-
Transfers	-	(10,080)	(10,080)
At 31 December 2018	<u>1,207,665</u>	<u>79,873</u>	<u>1,287,538</u>
<b>Accumulated amortisation</b>			
At 1 January 2018	(841,496)	-	(841,496)
Charge for the year	(130,355)	-	(130,355)
Disposals	-	-	-
At 31 December 2018	<u>(971,851)</u>	<u>-</u>	<u>(971,851)</u>
Net book amount at 1 January 2018	180,612	163,923	344,535
Net book amount at 31 December 2018	<u>235,814</u>	<u>79,873</u>	<u>315,687</u>
<b>Cost</b>			
	Software	Work in progress	Total
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
At 1 January 2017	852,560	46,856	899,416
Additions	124,605	163,923	288,528
Reclassifications	46,856	(46,856)	-
Disposals	(1,913)	-	(1,913)
At 31 December 2017	<u>1,022,108</u>	<u>163,923</u>	<u>1,186,031</u>
<b>Accumulated amortisation</b>			
At 1 January 2017	(780,115)	-	(780,115)
Charge for the year	(62,251)	-	(62,251)
Disposals	870	-	870
At 31 December 2017	<u>(841,496)</u>	<u>-</u>	<u>(841,496)</u>
Net book amount at 1 January 2017	72,445	46,856	119,301
Net book amount at 31 December 2017	<u>180,612</u>	<u>163,923</u>	<u>344,535</u>

The software was not internally generated. The amortisation charge for the year is included within operating expenses.

**FSDH MERCHANT BANK LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**At 31 December 2018**

**BANK**

<b>Cost</b>	Computer Software	Work in progress	Total
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
At 1 January 2018	819,508	99,800	919,308
Additions	95,916	15,750	111,666
Reclassifications	89,720	(89,720)	-
Transfers	-	(10,080)	(10,080)
At 31 December 2018	<u>1,005,144</u>	<u>15,750</u>	<u>1,020,894</u>
<b>Accumulated amortisation</b>			
At 1 January 2018	(702,045)	-	(702,045)
Charge for the year	(106,261)	-	(106,261)
At 31 December 2018	<u>(808,306)</u>	<u>-</u>	<u>(808,306)</u>
Net book amount at 1 January 2018	117,463	99,800	217,263
Net book amount at 31 December 2018	<u>196,838</u>	<u>15,750</u>	<u>212,588</u>

<b>Cost</b>	Computer Software	Work in progress	Total
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
At 1 January 2017	709,094	-	709,094
Additions	110,414	99,800	210,214
Disposals	-	-	-
At 31 December 2017	<u>819,508</u>	<u>99,800</u>	<u>919,308</u>
<b>Accumulated amortisation</b>			
At 1 January 2017	(663,937)	-	(663,937)
Charge for the year	(38,108)	-	(38,108)
At 31 December 2017	<u>(702,045)</u>	<u>-</u>	<u>(702,045)</u>
Net book amount at 1 January 2017	45,157	-	45,157
Net book amount at 31 December 2017	<u>117,463</u>	<u>99,800</u>	<u>217,263</u>

The software was not internally generated. The amortisation charge for the year is included within operating expenses. During the period, the amount of N10.08million in work-in-progress at the beginning of the year was expensed as the expenditure did not qualify to be capitalised.

## FSDH MERCHANT BANK LIMITED

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

At 31 December 2018

#### 25. Property and equipment

##### GROUP

##### Cost

	Leasehold improvement N'000	Office equipment N'000	Computer Equipment N'000	Furniture, fittings & equipment N'000	Motor vehicles N'000	Work in progress N'000	Total N'000
At 1 January 2018	274,375	149,460	478,622	190,030	1,088,269	49,538	2,230,294
Additions	22,556	72,001	89,612	19,189	333,672	-	537,031
Reclassifications	15,034	2,641	17,010	7,532	-	(42,217)	-
Transfer	-	-	-	-	-	(7,321)	(7,321)
Disposals	(3,795)	(462)	(1,931)	(2,872)	(108,345)	-	(117,406)
At 31 December 2018	308,170	223,640	583,313	213,879	1,313,596	-	2,642,598

##### Accumulated depreciation

At 1 January 2018	(194,399)	(81,748)	(339,638)	(150,425)	(513,749)	-	(1,279,959)
Charge for the year	(35,029)	(26,471)	(90,933)	(14,571)	(267,841)	-	(434,845)
Disposals	3,769	462	1,931	2,860	102,236	-	111,258
At 31 December 2018	(225,659)	(107,757)	(428,640)	(162,136)	(679,354)	-	(1,603,546)

##### Net book amount at 31 December 2018

	<b>82,511</b>	<b>115,883</b>	<b>154,673</b>	<b>51,743</b>	<b>634,242</b>	<b>-</b>	<b>1,039,052</b>
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##### Cost

At 1 January 2017	236,121	594,210	-	188,445	1,279,319	(29,217)	2,268,878
Additions	70,327	55,684	-	1,682	50,912	86,630	265,235
Reclassifications	-	-	-	-	-	(7,875)	(7,875)
Disposals	(32,073)	(21,812)	-	(97)	(241,962)	-	(295,944)
At 31 December 2017	274,375	149,460	478,622	190,030	1,088,269	49,538	2,230,294

##### Accumulated depreciation

At 1 January 2017	(188,488)	(370,339)	-	(142,832)	(514,641)	-	(1,216,299)
Charge for the year	(37,647)	(72,859)	-	(7,690)	(219,469)	-	(337,665)
Disposals	31,736	21,812	-	97	220,361	-	274,006
At 31 December 2017	(194,399)	(81,748)	(339,638)	(150,425)	(513,749)	-	(1,279,959)

##### Net book amount at 1 January 2017

	47,633	223,871	-	45,614	764,678	(29,217)	1,052,579
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##### Net book amount at 31 December 2017

	<b>79,976</b>	<b>67,712</b>	<b>138,984</b>	<b>39,605</b>	<b>574,520</b>	<b>49,538</b>	<b>950,335</b>
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## FSDH MERCHANT BANK LIMITED

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

At 31 December 2018

#### Property and equipment (Cont'd)

<b>BANK</b>	<b>Leasehold improvement N'000</b>	<b>Office equipment N'000</b>	<b>Computer Equipment N'000</b>	<b>Furniture, fittings &amp; equipment N'000</b>	<b>Motor vehicles N'000</b>	<b>Work in progress N'000</b>	<b>Total N'000</b>
<b>Cost</b>							
At 1 January 2018	160,819	63,110	253,558	115,959	629,596	24,529	1,247,571
Additions	-	46,485	63,638	8,453	215,499	-	334,075
Reclassifications	-	2,641	17,010	(2,443)	-	(17,208)	-
Transfer	-	-	-	-	-	(7,321)	(7,321)
Disposals	-	-	-	(221)	(94,827)	-	(95,048)
At 31 December 2018	160,819	112,236	334,206	121,748	750,268	-	1,479,277
<b>Accumulated depreciation</b>							
At 1 January 2018	(152,292)	(48,979)	(164,640)	(93,761)	(259,661)	-	(719,333)
Charge for the year	(6,989)	(10,005)	(57,351)	(4,461)	(165,629)	-	(244,435)
Disposals	-	-	-	221	88,314	-	88,535
At 31 December 2018	(159,281)	(58,984)	(221,991)	(98,001)	(336,976)	-	(875,233)
<b>Net book amount at 31 December 2018</b>	<b>1,538</b>	<b>53,252</b>	<b>112,215</b>	<b>23,747</b>	<b>413,292</b>	<b>-</b>	<b>604,044</b>
During the period, the amount of N7.32million of the work-in-progress at the beginning of the year was expensed as the expenditure did not qualify to be capitalised.							
<b>Cost</b>							
At 1 January 2017	160,819	59,469	175,725	113,016	584,726	7,875	1,101,630
Additions	-	3,641	85,776	3,040	225,565	24,529	342,551
Reclassifications	-	-	-	-	-	(7,875)	(7,875)
Disposals	-	-	(7,943)	(97)	(180,695)	-	(188,735)
At 31 December 2017	160,819	63,110	253,558	115,959	629,596	24,529	1,247,571
<b>Accumulated depreciation</b>							
At 1 January 2017	(132,615)	(43,780)	(139,642)	(92,464)	(290,632)	-	(699,133)
Charge for the year	(19,677)	(5,199)	(32,941)	(1,394)	(128,955)	-	(188,165)
Disposals	-	-	7,943	97	159,927	-	167,967
At 31 December 2017	(152,292)	(48,979)	(164,640)	(93,761)	(259,661)	-	(719,332)
<b>Net book amount at 1 January 2017</b>	<b>28,204</b>	<b>15,689</b>	<b>36,083</b>	<b>20,552</b>	<b>294,094</b>	<b>7,875</b>	<b>402,497</b>
<b>Net book amount at 31 December 2017</b>	<b>8,527</b>	<b>14,131</b>	<b>88,918</b>	<b>22,198</b>	<b>369,935</b>	<b>24,529</b>	<b>528,239</b>

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	31 December 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
<b>26. Assets classified as held for sale</b>				
Collateral assets held for sale	-	55,250	-	55,250
Re-measurement loss on assets held for sale	-	(6,800)	-	(6,800)
	<u>-</u>	<u>48,450</u>	<u>-</u>	<u>48,450</u>

This represents the value of collateral assets (motor vehicles) of a delinquent customer that were taken over by the bank in prior year. These vehicles were fully disposed during the course of the year.

**27 Due to banks and other financial institution**

Call borrowings	705,274	13,178,598	705,274	13,178,598
Secured borrowings	3,620,314	6,699,365	3,620,314	6,699,365
Trade related obligations to foreign banks	416,260	-	416,260	-
Other balances	3,144	-	3,144	-
	<u>4,744,992</u>	<u>19,877,963</u>	<u>4,744,992</u>	<u>19,877,963</u>
Current	<u>4,744,992</u>	<u>19,877,963</u>	<u>4,744,992</u>	<u>19,877,963</u>
	<u>4,744,992</u>	<u>19,877,963</u>	<u>4,744,992</u>	<u>19,877,963</u>

Secured borrowings represent various transactions in which 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). Included in the secured borrowing are placements from other financial institutions amounting to \$10million.

**28 Due to customers**

Demand	9,092,869	6,619,379	9,269,590	6,778,585
Term	31,245,455	47,955,541	31,245,455	48,407,860
Client investments fund	6,204,316	-	6,204,316	-
	<u>46,542,640</u>	<u>54,574,920</u>	<u>46,719,361</u>	<u>55,186,445</u>
Current	<u>46,542,640</u>	<u>54,574,920</u>	<u>46,719,361</u>	<u>55,186,445</u>
Non-current	-	-	-	-
	<u>46,542,640</u>	<u>54,574,920</u>	<u>46,719,361</u>	<u>55,186,445</u>

**29 Other liabilities**

<b>Financial liabilities:</b>				
Customers' deposit for foreign trade (Note (i))	3,278,776	8,124,626	3,278,776	8,124,626
Amounts held on behalf of third parties	848,356	-	848,356	-
Unclaimed third party deposits	5,268	5,268	5,505	5,268
Sundry creditors	351,947	552,012	82,226	68,440
Stale cheques and other payables	347,264	302,430	335,695	230,147
	<u>4,831,611</u>	<u>8,984,336</u>	<u>4,550,558</u>	<u>8,428,481</u>
<b>Non financial liabilities:</b>				
Non financial liabilities				
VAT payable	34,152	39,283	8,655	14,286
WHT payable	51,062	58,070	46,482	54,416
Accruals	116,737	106,163	45,492	86,251
Impairment on off balance sheet financial assets (Note (ii))	103,535	-	103,535	-
	<u>305,486</u>	<u>203,516</u>	<u>204,164</u>	<u>154,953</u>
	<u>5,137,097</u>	<u>9,187,852</u>	<u>4,754,722</u>	<u>8,583,434</u>

## FSDH MERCHANT BANK LIMITED

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Current	5,137,097	5,950,495	4,754,722	5,991,810
Non-current	-	170,964	-	110,805
	<u>5,137,097</u>	<u>6,121,459</u>	<u>4,754,722</u>	<u>6,102,615</u>

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

(ii) This represents IFRS 9 ECL impairment provisions on off-balance sheet financial assets such as loan commitments and financial guarantee contracts - letters of credits.

The movement in ECL impairment provision on off balance sheet financial assets:

Opening balance - 1 January 2018	-	-	-	-
IFR IFRS 9 opening remeasurement adjustment	82,707	-	82,707	-
Additions for the year	20,828	-	20,828	-
	<u>103,535</u>	<u>-</u>	<u>103,535</u>	<u>-</u>

Impairment on contingent off-balance sheet financial assets:

Stage 1 ECL provision	103,535	-	103,535	-
	<u>103,535</u>	<u>-</u>	<u>103,535</u>	<u>-</u>

### 30 Debt instruments issued

Debt instrument at amortised cost:

FSDH Commercial Papers	14,341,909	12,077,787	14,524,709	12,077,787
	<u>14,341,909</u>	<u>12,077,787</u>	<u>14,524,709</u>	<u>12,077,787</u>
Current	14,341,909	12,077,787	14,524,709	12,077,787
Non-current	-	-	-	-
	<u>14,341,909</u>	<u>12,077,787</u>	<u>14,524,709</u>	<u>12,077,787</u>

This represent the outstanding FSDH CP Notes that were issued during the year. The face value of the CP Notes as at the reporting date is N15.34billion and listed on the FMDQ OTC Securities Exchange. This is made up of the FSDH CP Notes Series VII of N262.58million at 12.36% discount rate and Series VIII of N15.07billion at 14% discount rate with tenors of 105-days and 180-days respectively.

Movement in debt securities for the year:

Opening position	12,077,787	13,074,816	12,077,787	13,074,816
Net discounted value of notes issued	30,671,133	12,442,109	30,852,181	12,442,109
Redemptions during the year	(30,962,709)	(16,174,357)	(30,962,709)	(16,174,357)
Interest expense	2,555,698	2,735,219	2,557,450	2,735,219
Closing position	<u>14,341,909</u>	<u>12,077,787</u>	<u>14,524,709</u>	<u>12,077,787</u>

### 31 Other borrowed funds

Due to Shelter Afrique (i)	305,686	3,402,772	305,686	3,402,772
Due to AfDB (ii)	18,420,265	16,799,047	18,420,265	16,799,047
	<u>18,725,951</u>	<u>20,201,819</u>	<u>18,725,951</u>	<u>20,201,819</u>
Current	840,911	465,922	840,911	465,922
Non-current	17,885,040	19,735,897	17,885,040	19,735,897
	<u>18,725,951</u>	<u>20,201,819</u>	<u>18,725,951</u>	<u>20,201,819</u>

(i) The N0.31bn (face value of \$0.89million) represents outstanding balance on a lending facility of \$10m granted to the bank by Shelter-Afrique (The Company for Habitat and Housing in Africa), Kenya at an interest rate of Libor + 7.5% p.a. for 6 years effective December 16th 2015. Interest is payable semi-annually. A prepayment of \$8million was made during the year in addition to the scheduled principal repayment of \$1.11million amounting to a total sum of \$9.11million repaid during the year. Thus, leaving an outstanding balance of \$0.89million as at year end. The liability is carried at amortised cost.

(ii) The N18.42bn (face value of \$50million) represents disbursements in two tranche on a \$50m Line of Credit granted to the bank by African Development Bank, Abidjan, Cote d'Ivoire (AfDB). The first tranche of \$35million dollars is at an interest rate of Libor + 4.5% p.a. effective December 20th 2016 while the second tranche of \$15million (also at same rate of Libor + 4.5%) effective 7th November, 2017 and to both mature on same date of 22 June 2020. Interest is payable semi-annually. The liability is carried at amortised cost.

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	<b>GROUP</b>	<b>GROUP</b>	<b>BANK</b>	<b>BANK</b>
	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
<i>Movement in other borrowed funds for the year:</i>				
Opening position	20,201,819	16,729,278	20,201,819	16,729,278
Additions	-	4,942,500	-	4,942,500
Interest expense	1,413,201	1,159,362	1,413,201	1,159,362
Interest paid	(1,294,427)	(836,662)	(1,294,427)	(836,662)
Repayments	(3,170,315)	(3,282,250)	(3,170,315)	(3,282,250)
Exchange valuation	1,575,673	1,489,591	1,575,673	1,489,591
Closing position	<u>18,725,951</u>	<u>20,201,819</u>	<u>18,725,951</u>	<u>20,201,819</u>

**32 Share capital**

	<b>31 December</b>	<b>31 December</b>
	<b>2018</b>	<b>2017</b>
	<b>N'000</b>	<b>N'000</b>
<b>GROUP AND BANK</b>		
<b>Authorised</b>		
3,100,000,000 Ordinary shares of N1 each	<u>3,100,000</u>	<u>3,100,000</u>
<b>Issued and fully paid</b>		
2,794,793,730 Ordinary shares of N1 each	<u>2,794,794</u>	<u>2,794,794</u>

**33 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) Treasury share reserve:** During the year, the Bank lost control of the FSDH Staff Cooperative, a structured entity which accounts for the treasury shares on consolidation (Note 37). As at 31 December 2017, the treasury share units were 290.69million of the issued share capital of the bank held by FSDH Staff Co-operative Society. The statement of affairs of the scheme have not been consolidated into the financial statements of 2018 subsequent to the loss of control.

**(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 a statutory reserve account which is required to be done on an annual basis under existing legislation.

**(d) Fair value through other comprehensive income (FVOCI) reserve:** The revaluation reserve shows the effects from the fair value measurement of financial instruments of the FVOCI category. 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) AGSMEIS reserve:** In 2017, the Central Bank of Nigeria (CBN) issued guidelines to govern the operations of the Agricultural, Small and Medium Enterprises Scheme (AGSMIES), which was established to support the Federal Government's efforts at achieving sustainable economic development and employment generation.

All Nigerian banks are required to set aside an amount equal to 5% of their annual Profits After Tax (PAT) towards the funding of the equity investments, which qualify under the AGSMIE Scheme.

During the year under review, the CBN debited the bank for a total of N142.05M. Thus, no amount was appropriated from retained earnings. The small and medium scale industries equity investment scheme reserves are non-distributable.

**34 Credit risk reserve**

The credit (regulatory) risk reserve represents the difference between the impairment on loans and advances determined using the prudential guidelines issued by the Central Bank of Nigeria compared with the expected loss model used in determining the impairment loss under IFRSs.

Where the loan loss impairment determined using the prudential guidelines is greater than the loan loss impairment determined using the expected loss model under IFRSs, the difference is transferred to regulatory credit risk reserve and it is non-distributable to owners of the parent. When the prudential provisions is less than IFRS provisions, the excess charges resulting is transferred from the regulatory reserve to retained earnings to the extent of the non-distributable reserve previously recognised.

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**Movement in credit risk reserve**

	GROUP		BANK	
	31 December 2018 N '000	31 December 2017 N '000	31 December 2018 N '000	31 December 2017 N '000
Balance as at 1st January	-	596,170	-	596,170
Transfer from/(to) retained earnings	157,039	(596,170)	157,039	(596,170)
Balance as at 31st December	157,039	-	157,039	-

**35 Prudential adjustment**

	31 December 2018 N '000	31 December 2017 N '000
Prudential guideline provision on loans & advances and off balance sheet exposure:		
- Specific provisions	5,787	721,301
- General provisions	1,450,021	923,918
	1,455,808	1,645,219
IFRS impairment provisions:		
- Impairment allowance on financial assets: loans & advances	1,298,769	3,401,323
	1,298,769	3,401,323
Difference in IFRS impairment over prudential guidelines accounted for in credit risk reserve	157,039	-

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:

- 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".
  - 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 2018, the difference in prudential guidelines provisions over the IFRS impairment of N157.04million has been designated to a non-distributable credit risk reserve classified under Tier 1 as part of core capital.

**36 Reconciliation of profit before tax to cash generated from operations**

Profit before income tax	6,754,848	5,566,016	5,186,445	3,860,326
<i>Adjustments for:</i>				
- Amortisation (note 25)	130,355	62,251	106,261	38,108
- Depreciation (note 26)	434,845	337,665	244,435	188,166
- Foreign exchange revaluation	(163,576)	(392,644)	(130,813)	(364,837)
- Profit on disposal of property and equipment (note 11)	(19,598)	(10,496)	(18,929)	(7,420)
- Benefit plan	-	667,840	-	595,906
- Net interest income	(5,406,321)	(7,696,699)	(4,766,668)	(6,948,999)
- Dividend income	(9,158)	(35,102)	(909,623)	(644,338)
- Fair value (gain)/loss on financial instruments held for trading	(27,302)	(9,277)	(30,522)	(8,368)
- Fair value gain on derivative instruments held for trading	(16,173)	(15,931)	(16,173)	(15,931)
- Impairment (write-back)/charge on loans and advances (Note 8)	(2,142,770)	2,255,844	(2,145,177)	2,254,110
- Uncollectable amounts written off (Note 8)	950,666	7,250	950,666	7,250
- Impairment charge on other financial assets	(171,933)	8,101	(172,013)	8,101
<i>Changes in working capital:</i>				
- Balances with Central Bank (restricted cash)	(2,075,776)	(668,184)	(2,075,776)	(668,184)
- Balances with banks outside Nigeria (restricted cash)	4,845,850	(7,409,381)	4,845,850	(7,409,381)
- Loans to banks (restricted cash)	(131)	110	-	-
- Loans and receivables to customers	(228,064)	(2,306,500)	(525,328)	(2,080,971)
- Financial instruments held for trading	5,907,428	2,952,754	6,210,896	2,981,581
- Derivatives financial assets	(520,866)	(54,106)	(520,866)	(54,106)
- Pledged assets	1,307,633	11,127,611	1,307,633	11,127,611
- Other assets	(575,286)	(169,056)	(222,655)	(23,192)
- Assets held for sale	48,450	(48,450)	48,450	(48,450)
- Due to banks	(13,722,576)	(2,523,368)	(13,722,576)	(2,523,368)
- Due to customers	(6,056,825)	(167,521)	(6,491,629)	(214,090)
- Derivatives financial liabilities	536,797	54,106	536,797	54,106
- Other liabilities	(4,154,288)	2,351,147	(3,932,247)	1,765,573
<b>Cash (used)/generated from operations</b>	<b>(14,373,770)</b>	<b>3,883,981</b>	<b>(16,243,561)</b>	<b>1,869,203</b>

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**36 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 from when the group became a party to the instrument.

	GROUP		BANK	
	2018 N'000	2017 N'000	2018 N'000	2017 N'000
Cash and bank balances (Note 14)	3,747,174	5,519,027	3,711,906	5,291,685
Placements with banks and discount houses in Nigeria (Note 15)	17,744,083	17,476,837	17,057,637	16,793,701
	<u>21,491,257</u>	<u>22,995,864</u>	<u>20,769,543</u>	<u>22,085,386</u>

**37 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	
			2018	2017
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	Direct	Stockbroking	99.9%	99.9%

**Structured entities**

Effective 1st January 2018, following amendments to the Trust Deed of FSDH Staff Cooperative Society, its operating and governance structure, the bank has no power to govern or direct in its financial and operating policies. The bank had no equity or financial interest in the entity and its loss of control stem from the loss of power to approve the entity's investment decisions, arbitrate in conflicts or extend loans to the entity.

a. There was no consideration received as the bank did not have any equity or financial interest in the entity. The basis of consolidation was the existence of the control elements (IFRS 10).

b. The analysis of assets and liabilities over which the bank lost control is as below

	N'000
<b>ASSETS</b>	
Placement with banks	387,738
Investment securities	<u>1,599,316</u>
	<u>1,987,054</u>
<b>LIABILITIES</b>	
Accruals and payables	<u>1,500</u>
<b>Net Assets derecognised</b>	<u><u>1,985,554</u></u>

**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 SPEs are held in trust by nominees 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 (2017 : 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 33).

**Non-Controlling Interests (NCI) in subsidiaries**

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

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**Pensions Alliance Limited**

NCI ownership interests & voting rights percentage

	49%	49%
	<b>2018</b>	<b>2017</b>
	<b>N'000</b>	<b>N'000</b>
Total assets	4,547,516	4,371,055
Total liabilities	865,713	1,094,717
Net assets	3,681,803	3,276,338
Carrying amount of NCI	1,804,083	1,605,406
<b>Pensions Alliance Limited (cont'd)</b>	<b>2018</b>	<b>2017</b>
	<b>N'000</b>	<b>N'000</b>
Revenue	4,855,745	4,303,148
Profit	1,963,736	1,835,531
Total comprehensive income	1,469,275	1,309,279
Profit allocated to NCI	719,945	641,578
Dividend paid to NCI during the year	512,050	377,300
<b>Summarised cashflows</b>		
Cashflow from operating activities	756,870	1,067,782
Cashflow from/(used) in investing activities	95,452	(948,224)
Cashflow used in financing activities, before dividends to NCI	(532,950)	(392,700)
Cashflow used in financing activities, cash dividends to NCI	(512,050)	(377,300)
Net decrease in cash and cash equivalents	(192,678)	(650,442)

**38 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.

**(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 2018 N'000	31 December 2017 N'000	31 December 2018 N'000	31 December 2017 N'000
Letters of Credit	21,044,590	6,831,213	21,044,590	6,831,213
Performance bonds and guarantees	132,598	-	132,598	-
Loan Commitments	20,346,805	12,969,297	20,346,805	12,969,297
	<u>41,523,993</u>	<u>19,800,510</u>	<u>41,523,993</u>	<u>19,800,510</u>

The total outstanding contractual amount of the undrawn credit lines which represents loan commitments does not necessarily represent future cash outflows, as these lines may expire or terminate without being drawn. Likewise, there are varying conditions to be met before such commitments can be drawn upon.

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**39 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**

	<b>31 December 2018 N'000</b>	<b>31 December 2017 N'000</b>
<i>(a) Compensation</i>		
Wages and salaries	649,727	508,634
Pension costs	58,813	42,832
	<u>708,540</u>	<u>551,466</u>
<i>(b) Loans and advances</i>		
	<b>31 December 2018 N'000</b>	<b>31 December 2017 N'000</b>
Loans outstanding	93,756	119,580
Interest income	5,567	3,875

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 specific 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.

	<b>31 December 2018 N'000</b>	<b>31 December 2017 N'000</b>
<i>(c) Deposits</i>		
Due to customers	413,389	187,706
Interest expense	43,371	30,430

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

**(ii) Directors and their related entities**

	<b>31 December 2018 N'000</b>	<b>31 December 2017 N'000</b>
<i>(a) Deposits</i>		
Due to customers	426,507	1,695,200
Interest expense	58,020	178,917

*(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:

	<b>31 December 2018 N'000</b>	<b>31 December 2017 N'000</b>
Income earned	-	-
Expense paid*	44,000	44,000

\*The bank engaged the legal services of the law firm of Udo Udoma & Belo-Osagie, a law partnership firm related to Mr. Dan Agbor (non-executive director) on a retainership basis. The retainership fee is included in the expense paid disclosed.

**FSDH MERCHANT BANK LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**At 31 December 2018**

*(c) Loans and advances*

	<b>31 December 2018 N'000</b>	<b>31 December 2017 N'000</b>
Loans and advances to customers	-	6,797,978
	<u>-</u>	<u>6,797,978</u>
Interest income	224,108	1,542,766
	<u>224,108</u>	<u>1,542,766</u>

This represents balance outstanding on credits advanced to directors and directors' related entities. Specific credit impairment has been recognised in respect of one of the loans granted to the related party.

**(iii) Shareholders and related entities**

*(a) Deposits*

	<b>31 December 2018 N'000</b>	<b>31 December 2017 N'000</b>
Due to customers	262,935	715,914
	<u>262,935</u>	<u>715,914</u>
Interest expense	45,275	14,334
	<u>45,275</u>	<u>14,334</u>

*(b) Cash and bank balances*

	<b>31 December 2018 N'000</b>	<b>31 December 2017 N'000</b>
Bank balances	95,363	56,332
	<u>95,363</u>	<u>56,332</u>

**(iv) Subsidiaries**

*(a) Deposits*

	<b>31 December 2018 N'000</b>	<b>31 December 2017 N'000</b>
Due to customers	393,262	815,822
	<u>393,262</u>	<u>815,822</u>
Interest expense	36,159	40,667
	<u>36,159</u>	<u>40,667</u>

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 advances to customer*

	<b>31 December 2018 N'000</b>	<b>31 December 2017 N'000</b>
Interest income	1,342	-
	<u>1,342</u>	<u>-</u>

This represents short term bridge loan to FSDH Securities during the year. The credit was for a period of 19 days and was repaid during the year. The income earned is included in interest income in the statement of comprehensive income.

*(c) Transactions*

	<b>31 December 2018 N'000</b>	<b>31 December 2017 N'000</b>
FSDH Asset Management Limited	47,472	47,363
	<u>47,472</u>	<u>47,363</u>
FSDH Securities Limited	18,733	21,558
	<u>18,733</u>	<u>21,558</u>

\*\*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 2017: 7.5% of earnings).

## FSDH MERCHANT BANK LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

#### 40 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 2018.

##### 31 December 2018

Customer and relationship	Facility Type	Amount N'000	Status under prudential guidelines	Nature of security
Grand Cereals Limited (Director related to parent company of Grand Cereals Limited, UAC Nigeria Plc)	Import finance facility/ Stock replacement facility	2,147,916	Performing	Clean

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. Impairment charge has been recognised in these financials with respect to the loans.

#### 41 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 shares held as treasury shares.

	GROUP		BANK	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Profit after tax attributable to equity holders of the parent bank (N'000)	4,646,755	4,099,028	4,411,392	3,686,241
Weighted average number of ordinary shares ('000)	2,794,794	2,794,794	2,794,794	2,794,794
Treasury shares ('000)	-	(290,659)	-	-
Weighted average number of ordinary shares excluding treasury shares ('000)	2,794,794	2,504,135	2,794,794	2,794,794
Basic earnings per share (in kobo per share)	166	164	158	132

##### (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 2017: Nil).

#### 42 Dividends

	31 December 2018 N'000	31 December 2017 N'000
Proposed dividend N1.10 (2017: N0.79)	3,074,273	2,207,887

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 2018 of N1.10 per share (2017: N0.79) amounting to a total of N2.79billion (2017: N3.07billion) 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 2019.

#### 43 Compliance with banking regulations

During the year, the bank contravened certain sections of the relevant CBN circulars and/or directive which attracted the following penalty payments -

Nature of Infraction	N'000
Infraction arising breach of AML/CFT checks	2,000
	<u>2,000</u>

#### 44 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 NATIONAL DISCLOSURES

#### STATEMENT OF VALUE ADDED

##### GROUP

	<u>Dec 2018</u>		<u>Dec 2017</u>	
	N'000	%	N'000	%
Gross earnings	23,248,640		28,059,544	
Interest and similar expenses	<u>(10,287,949)</u>		<u>(12,906,092)</u>	
	12,960,691		15,153,452	
Impairment allowance on risk assets	1,398,512		(2,263,093)	
Administrative Overheads- local	<u>(2,789,612)</u>		<u>(2,833,164)</u>	
<b>Value added</b>	<u>11,569,591</u>	100	<u>10,057,195</u>	100
<b>Distribution of value added</b>				
<b>To employees and directors:</b>				
Salaries and benefits	4,249,541	37	4,091,299	41
<b>To government:</b>				
Government as taxes	1,388,148	12	825,410	8
<b>The future:</b>				
For replacement of fixed assets (depreciation)	434,847	4	337,631	3
For replacement of intangible assets (amortisation)	130,355	1	62,249	1
Transferred to non-controlling Interest	719,945	6	641,578	6
To reserves	<u>4,646,755</u>	40	<u>4,099,028</u>	41
	<u>11,569,591</u>	100	<u>10,057,195</u>	100

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

##### BANK

	<u>Dec 2018</u>		<u>Dec 2017</u>	
	N'000	%	N'000	%
Gross earnings	18,525,590		23,548,191	
Interest and similar expenses	<u>(10,320,248)</u>		<u>(12,946,751)</u>	
	8,205,342		10,601,440	
Impairment allowance on risk assets	1,396,641		(2,261,359)	
Administrative Overheads- local	<u>(1,694,436)</u>		<u>(1,730,940)</u>	
<b>Value added</b>	<u>7,907,547</u>	100	<u>6,609,141</u>	100
<b>Distribution of value added</b>				
<b>To employees and directors:</b>				
Salaries and benefits	2,370,406	30	2,522,542	38
<b>To government:</b>				
Tax	775,053	10	174,085	3
<b>The future:</b>				
For replacement of fixed assets (depreciation)	244,435	4	188,166	3
For replacement of intangible assets (amortisation)	106,261	1	38,107	1
To reserves	<u>4,411,392</u>	56	<u>3,686,241</u>	56
	<u>7,907,547</u>	100	<u>6,609,141</u>	100

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

**FSDH MERCHANT BANK LIMITED**
**OTHER NATIONAL DISCLOSURES**
**FIVE YEAR FINANCIAL SUMMARY - GROUP**

	<b>Dec 2018</b>	<b>Dec 2017</b>	Dec 2016	Dec 2015	Dec 2014
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
Gross earnings	<b>23,248,640</b>	28,059,544	19,332,820	20,480,789	15,642,062
Interest and similar expenses	<b>(10,287,949)</b>	(12,906,092)	(9,098,875)	(10,066,110)	(7,190,544)
Operating income	<b>12,960,691</b>	15,153,452	10,233,945	10,414,679	8,451,518
Profit before tax	<b>6,754,848</b>	5,566,016	3,867,114	4,716,102	3,642,102
Tax	<b>(1,388,148)</b>	(825,410)	(601,517)	(621,509)	(613,943)
Profit after tax	<b>5,366,700</b>	4,740,606	3,265,597	4,094,593	3,028,159
Minority interest	<b>(719,945)</b>	(641,578)	(484,312)	(481,699)	(364,435)
Profit attributable to equity holders	<b>4,646,755</b>	4,099,029	2,781,285	3,612,894	2,663,724
Earnings per share (kobo)	<b>166</b>	164	109	141	104
	<b>Dec 2018</b>	<b>Dec 2017</b>	Dec 2016	Dec 2015	Dec 2014
	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>	<b>N'000</b>
<b>ASSETS</b>					
Cash and bank balances	<b>11,222,251</b>	15,764,178	19,432,950	20,693,241	6,619,889
Loans to banks	<b>17,740,029</b>	17,477,008	12,194,617	12,543,134	8,595,908
Financial instruments held for trading	<b>1,827,142</b>	7,704,048	10,647,525	2,844,359	6,323,826
Loans and advances to customers	<b>40,870,509</b>	38,025,050	35,775,678	40,264,878	40,031,099
Derivative financial instruments	<b>607,076</b>	70,037	-	15,918	78,249
Investment securities	<b>37,521,440</b>	55,854,215	34,993,161	23,210,210	39,631,355
Pledged assets	<b>8,894,229</b>	10,201,862	21,807,050	10,764,081	7,620,492
Other assets	<b>2,041,710</b>	1,788,907	1,627,955	1,491,762	1,698,952
Retirement benefit scheme asset	-	-	431,333	111,258	295,425
Deferred tax assets	<b>3,231,220</b>	3,503,749	3,582,918	3,586,430	2,866,771
Intangible assets	<b>315,687</b>	344,535	119,301	138,407	193,139
Property and equipment	<b>1,039,052</b>	950,335	700,564	568,117	564,208
Total assets	<b>125,310,345</b>	151,683,924	141,313,052	116,231,796	114,519,313
Assets classified as held for sale	-	48,450	-	-	-
	<b>125,310,345</b>	<b>151,732,374</b>	<b>141,313,052</b>	<b>116,231,796</b>	<b>114,519,313</b>
<b>LIABILITIES</b>					
Due to banks	<b>4,744,992</b>	19,877,963	22,158,574	16,250,311	40,125,128
Due to customers	<b>46,542,640</b>	54,574,920	54,347,925	51,411,624	41,047,767
Other borrowed funds	<b>18,725,951</b>	20,201,819	16,729,278	3,948,697	-
Derivative financial instruments	<b>590,903</b>	54,106	-	1,382	87,871
Current income tax liability	<b>989,978</b>	1,129,618	1,012,172	1,580,788	1,156,099
Other liabilities	<b>5,137,097</b>	9,187,852	6,121,459	7,166,429	1,059,102
Debt securities issued	<b>14,341,909</b>	12,077,787	13,074,816	5,630,676	5,583,458
	<b>91,073,470</b>	117,104,065	113,444,224	85,989,907	89,059,425
<b>NET ASSETS</b>	<b>34,236,875</b>	34,628,309	27,868,828	30,241,889	25,459,888
<b>SHAREHOLDERS' FUNDS:</b>					
Share capital	<b>2,794,794</b>	2,794,794	2,794,794	2,794,794	2,794,794
Share premium	<b>1,539,587</b>	1,539,587	1,539,587	1,539,587	1,539,587
Treasury share reserve	-	(809,753)	(497,653)	(450,040)	(450,040)
Retained earnings	<b>21,229,882</b>	23,182,288	19,267,126	18,922,897	17,499,000
Statutory reserve	<b>7,141,272</b>	6,295,904	5,579,308	5,026,480	4,399,594
Available for sale reserve	<b>(429,782)</b>	20,051	(2,751,665)	175,741	(1,614,236)
Credit risk reserve	<b>157,039</b>	-	596,170	998,281	254,147
	<b>32,432,792</b>	33,022,871	26,527,667	29,007,740	24,422,846
Non-controlling interest	<b>1,804,083</b>	1,605,438	1,341,161	1,234,149	1,037,042
<b>SHAREHOLDERS' FUNDS</b>	<b>34,236,875</b>	34,628,309	27,868,828	30,241,889	25,459,888

**FSDH MERCHANT BANK LIMITED**
**OTHER NATIONAL DISCLOSURES**
**FIVE YEAR FINANCIAL SUMMARY - BANK**

	<b>Dec 2018</b>	<b>Dec 2017</b>	Dec 2016	Dec 2015	Dec 2014
	<b>N'000</b>		N'000	N'000	N'000
Gross earnings	<b>18,525,590</b>	23,548,191	15,930,510	17,216,322	12,749,233
Interest and similar expenses	<b>(10,320,248)</b>	(12,946,751)	(9,162,759)	(10,126,140)	(7,264,829)
Operating income	<b>8,205,342</b>	10,601,440	6,767,751	7,090,182	5,484,404
Profit before tax	<b>5,186,445</b>	3,860,326	2,948,383	3,377,577	2,251,688
Tax	<b>(775,053)</b>	(174,085)	(105,730)	1,659	(98,505)
Profit after tax	<b>4,411,392</b>	3,686,241	2,842,653	3,379,236	2,153,183
Earnings per share (Kobo)	<b>158</b>	132	102	121	89
	<b>Dec 2018</b>	<b>Dec 2017</b>	Dec 2016	Dec 2015	Dec 2014
	<b>N'000</b>	<b>N'000</b>	N'000	N'000	N'000
<b>ASSETS</b>					
Cash and bank balances	<b>11,186,984</b>	15,536,837	19,085,255	20,615,426	6,557,634
Loans to banks	<b>17,057,637</b>	16,793,701	11,166,282	10,525,606	7,309,935
Financial instruments held for trading	<b>1,473,271</b>	7,653,645	10,626,858	2,844,336	6,254,326
Loans and advances to customers	<b>40,536,858</b>	37,376,991	35,351,414	39,677,039	39,437,893
Derivative financial instruments	<b>607,076</b>	70,037	-	15,918	78,249
Investment securities	<b>34,026,860</b>	51,787,647	32,195,528	21,713,417	37,478,573
Pledged assets	<b>8,894,229</b>	10,201,862	21,807,050	10,764,082	7,620,492
Other assets	<b>852,999</b>	622,233	607,145	447,575	660,354
Investment in subsidiaries	<b>961,377</b>	961,377	961,377	787,010	787,010
Retirement benefit scheme asset	<b>-</b>	-	380,109	87,950	258,368
Deferred tax assets	<b>3,223,982</b>	3,551,132	3,629,720	3,633,002	2,907,908
Intangible assets	<b>212,588</b>	217,263	45,157	110,426	159,229
Property and equipment	<b>604,044</b>	528,239	402,498	335,317	332,144
Total assets	<b>119,637,906</b>	145,300,964	136,258,393	111,557,104	109,842,115
Assets classified as held for sale	<b>-</b>	48,450	-	-	-
	<b>119,637,906</b>	<b>145,349,414</b>	<b>136,258,393</b>	<b>111,557,104</b>	<b>109,842,115</b>
<b>LIABILITIES</b>					
Due to banks	<b>4,744,992</b>	19,877,963	22,158,574	16,250,311	40,125,128
Due to customers	<b>46,719,361</b>	55,186,445	55,006,019	52,661,649	41,810,057
Derivative financial instruments	<b>590,903</b>	54,106	-	1,382	87,871
Current income tax liability	<b>241,710</b>	413,161	375,705	920,152	585,196
Other liabilities	<b>4,754,722</b>	8,583,434	6,102,615	6,661,732	780,604
Debt securities issued	<b>14,524,709</b>	12,077,787	13,074,816	5,630,676	5,583,458
Other borrowed funds	<b>18,725,951</b>	20,201,819	16,729,278	3,948,697	-
	<b>90,302,348</b>	116,394,715	113,447,007	86,074,599	88,972,314
<b>NET ASSETS</b>	<b>29,335,557</b>	28,954,699	22,811,386	25,482,505	20,869,801
<b>SHAREHOLDERS' FUNDS:</b>					
Share capital	<b>2,794,794</b>	2,794,794	2,794,794	2,794,794	2,794,794
Share premium	<b>1,539,587</b>	1,539,587	1,539,587	1,539,587	1,539,587
Retained earnings	<b>18,950,259</b>	19,291,688	15,632,019	15,344,788	14,088,083
Statutory reserve	<b>6,291,991</b>	5,630,282	5,077,345	4,650,947	4,144,062
Available for sale reserve	<b>(398,113)</b>	(301,652)	(2,828,529)	154,108	(1,950,872)
Credit risk reserve	<b>157,039</b>	-	596,170	998,281	254,147
	<b>29,335,557</b>	28,954,699	22,811,386	25,482,505	20,869,801