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FBN Microfinance

FBN Microfinance Bank Limited | Annual Report and Accounts 2013

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The term 'FBN Holdings Plc' or the 'Group' means FBN Holdings together with its subsidiaries, which include FBN Microfinance Bank Limited. FBN Holdings Plc is a financial holding company incorporated in Nigeria on 14 October 2010. The Company was listed on the Nigerian Stock Exchange under the 'Other Financial Services' sector on 26 November 2012 and has issued and fully paid-up share capital as 32,632,084,345 ordinary shares of 50 kobo each (₦16,316,042,172.50). FBN Holdings Plc is the parent company of all companies in the FirstBank Group. In this report the abbreviations '₦000' '₦mn' and '₦bn' represent thousands, millions and billions of naira respectively.

FBN Holdings Plc is structured under four business groups, namely: Commercial Banking, Investment Banking and Asset Management, Insurance, and Other Financial Services.

- The Commercial Banking business group comprises First Bank of Nigeria Limited, FBN Bank (UK) Limited, Banque Internationale de Crédit (BIC), First Pension Custodian Nigeria Limited and FBN Mortgages Limited. Others include the International Commercial Banks (ICB) in Ghana, Guinea, The Gambia and Sierra Leone. First Bank of Nigeria Limited is the lead entity of the Commercial Banking business group.
- Investment Banking and Asset Management business group consists of FBN Capital Limited, First Trustees Nigeria Limited, First Funds Limited and FBN Securities Limited. FBN Capital Limited is the lead entity of the Investment Banking and Asset Management business group.
- The Insurance business group comprises FBN Life Assurance Limited (now FBN Insurance Limited) and FBN Insurance Brokers Limited.
- Other Financial Services business group includes FBN Microfinance Bank Limited (FBN MFB).

This report encompasses FBN Microfinance Bank Limited. It is the second annual report prepared under the International Financial Reporting Standards, which the Company has adopted. Consequently, prior-year results have been restated to be consistent with this reporting standard. Unless otherwise stated, the income statement analysis compares the 12 months to December 2013 to the corresponding 12 months of 2012, and the balance sheet comparison relates to the corresponding position at 31 December 2012. Unless otherwise stated, all disclosed figures relate to continuing operations. Relevant terms that are used in this document but are not defined under applicable regulatory guidance or International Financial Reporting Standards (IFRS) are explained in the abbreviation section of this report. This report is also available online at www.fbnmicrofinancebankltd.com.

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

INTRODUCTION

Our mission is to consistently develop a new generation of micro entrepreneurs by providing market-driven products and services in a profitable and sustainable manner.

OVERVIEW

WHO WE ARE

FBN Microfinance Bank (FBN MFB), a wholly owned subsidiary of FBN Holdings (FBNH), was incorporated in 2008 with over 23 branches across Lagos state.

With years of versed experience in microfinance banking, we have successfully provided financial access to the un-banked and under-banked active poor, very small businesses, artisans and salary earners through functional, friendly and cost effective outlets, to meet their business aspirations and create wealth and employment.

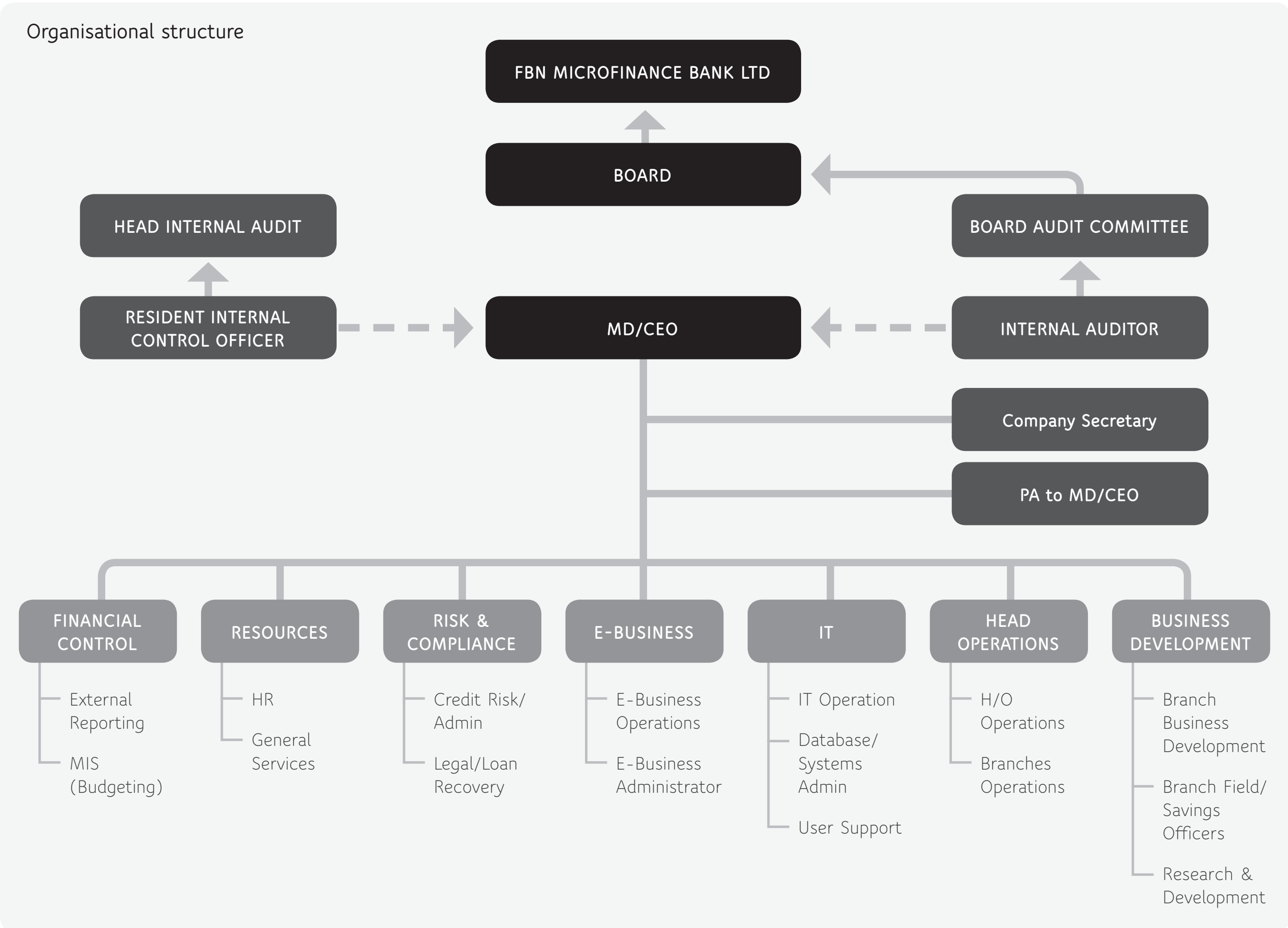
We provide timely and effective services through the use of our point of sale (POS) terminals where our customers are able to make deposits as well as withdrawals from the comfort of their locations. We plan to establish a friendlier website where updates, enquiries and an e-library on both local and international microfinance repository will be hosted.

We are dynamic in nature and excellent in service delivery, determined to live to our vision of being the microfinance bank of first choice. We operate strictly by the microfinance regulatory and supervisory framework issued by Central Bank of Nigeria (CBN).

Presently, we are the number three biggest bank in the microfinance sector, while striving to be the best in the nearest future. As at 31 December 2013, FBN MFB had a total of 83,642 customers and 17,100 new accounts opened in that year. It recorded profit before tax (PBT) of ₦175 million in 2013.

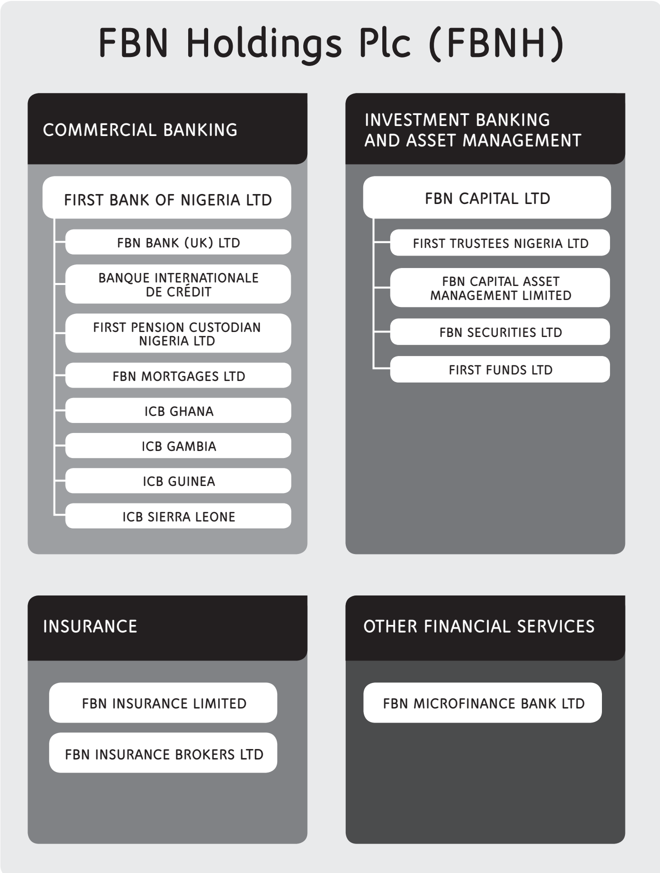
With its national licence, FBN MFB is spreading its operations to other locations outside Lagos State such as Ibadan, Abuja, Uyo, Port-Harcourt and Warri in 2014.

FBN MICROFINANCE BANK LTD



OVERVIEW

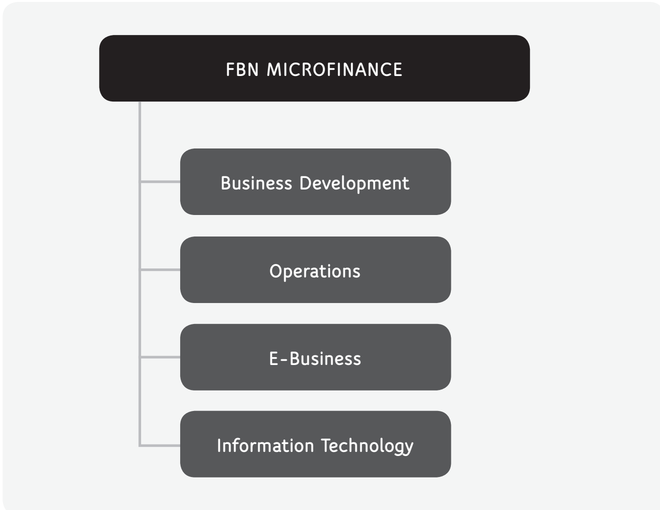
OUR GROUP STRUCTURE



WHAT WE DO

The Bank operates from 24 locations including head office in Lagos state and offers a wide range of products and services to the economically active poor. These include:

- deposit products such as The Young Shall Grow Savings Account, Current Account, Little-by-Little Savings Accounts, Micro fix Deposit Account, My Daily Savings Account (MDSA);
- loan products such as Step-Up Loan, Easy Loan Level-Don-Change (Asset Loan Account), Kia-Kia Loan, Grow Rich Loan and Easy Life;
- Electronic Banking;
- Business Advisory Services; and
- Technical Support Services.



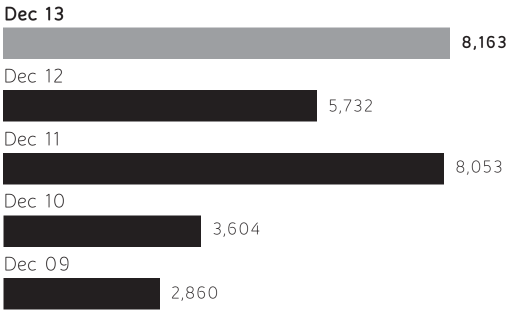
STRATEGIC APPROACH

We have leveraged on the FirstBank brand, its unique products, well-trained and experienced personnel, customer-centric approach to business and strong risk management policies to achieve our goals. Our vision is to be Nigeria's microfinance services provider of first choice. Our mission is to consistently develop a new generation of micro entrepreneurs by providing market-driven products and services in a profitable and sustainable manner, thereby boosting economic development.

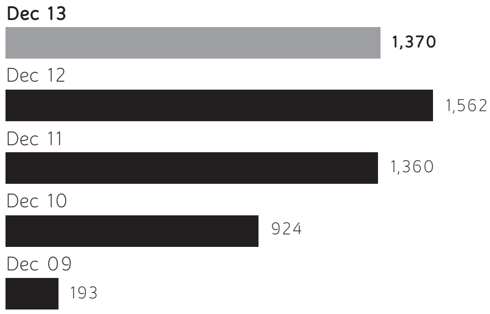
PERFORMANCE HIGHLIGHTS

FINANCIAL HIGHLIGHTS

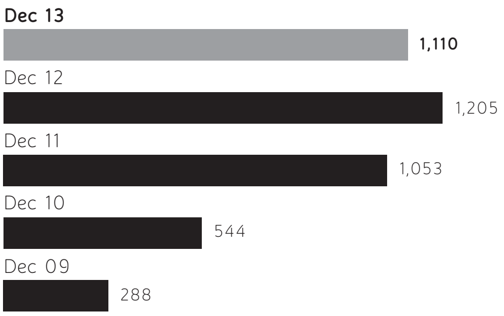
Total assets (₦'m)



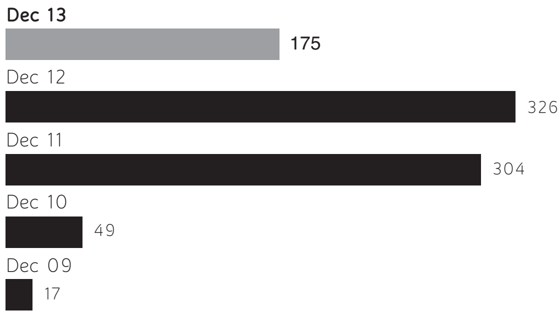
Net loans and advances (₦'m)



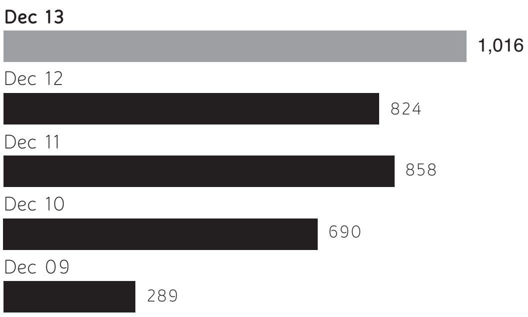
Gross earnings (₦'m)



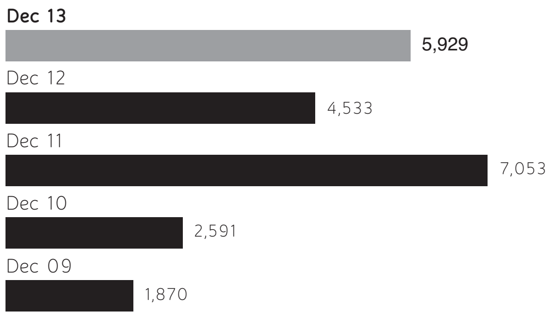
Profit before tax (₦'m)



Deposit liabilities (₦'m)



Total liabilities (₦'m)



For the financial year ending 2013 performance report, gross earnings declined by 7.9% to ₦1,110 million compared to ₦1,205 million the previous year. Net operating income similarly declined by 0.08% to ₦1,072 million (FY 2012: ₦1,174 million) while profit before tax dropped by 46.2% to ₦175 million (FY 2012: ₦326 million).

NET INTEREST INCOME

Net interest income declined by 14.2% to ₦904 million (FY 2012: ₦1,053 million). This was due to a decrease in total loan disbursement in 2013 (+17% year-on-year) and increasing interest expense (+214% year-on-year). The decrease in interest income was due to the management's strategic decision to reduce lending in the first half of the year and concentrate on recovery to improve Portfolio At Risk (PAR) to less than 5% compared to 7.1% for FY 2012.

Investment income increased by 117.9% to ₦181 million compared to ₦83 million for FY 2012, due to increased treasury activities in the period under review as a result of increased deposit mobilisation and the injection of additional capital.

NON-INTEREST INCOME

Non-interest income, largely made up of fees and commissions, other operating income increased by 13.4% to ₦153 million (FY 2012: ₦135 million); this was driven by a 65% increase in placements with banks and sales of Joint Admissions and Matriculation Board (JAMB) cards, SMS alerts, etc.

NON-FINANCIAL HIGHLIGHTS

- Achieved the conversion of its financials from Nigerian Generally Accepted Accounting Principles or Nigerian (GAAP) to International Financial Reporting Standards (IFRS) in line with CBN requirement on IFRS.
- Converted from 'State' licensed microfinance bank to 'National' with the injection of additional capital by FBN Holdings.
- Comprehensively reviewed the Credit Risk manual of the Bank to improve portfolio quality and achieve process efficiency aimed at meeting the Bank's growth imperatives. A recovery structure to focus on the prompt workout and recovery of delinquent loans was also established.
- Customer forums were held during the year to inform customers of new policies as they affect our relationship and also respond to their demands and expectations on pricing, service delivery and other requirements for accessing loans. This initiative is expected to support the retention and growth of our customer base and market share.
- External training was organised for HR and Credit Risks staff, to improve performance.

CHAIRMAN'S STATEMENT

Francis Shobo
Chairman

Distinguished ladies and gentlemen, invited guests and our shareholders, I welcome you all to the fourth Annual General Meeting of FBN Microfinance Bank Limited convened to present the Bank's audited Annual Report and Accounts for the financial year ended 31 December 2013.

OVERVIEW

FBN Microfinance Bank Limited (FBN MFB) renders financial services to micro-entrepreneurs as well as the poor and low-income population on a sustainable basis. In line with the Central Bank of Nigeria (CBN) objective of economic development and poverty reduction, the Board strives to promote entrepreneurship by granting loans to small and micro businesses for improvement and expansion of their businesses.

A crucial focus of the Board during the review period was ensuring compliance with the revised regulatory and supervisory guidelines for microfinance banks in Nigeria. Hence, appropriate steps were taken by the Board and management to ensure compliance with the CBN directive to increase the Bank's share capital to ₦2 billion, and convert its licence from 'state' to 'national'. We are happy to report that the National licence has been obtained, having fully complied with the recapitalisation requirements. We will therefore be able to achieve our growth aspirations as well as expand into other value-adding business opportunities in and outside Lagos State.

BUSINESS ENVIRONMENT

We are mindful of the fact that the Bank operates in a very competitive and highly regulated sector as CBN again withdrew the licences of 83 microfinance banks in addition to the 224 licences withdrawn in 2011. The recent withdrawal of licences is due to the Bank's inability to recapitalise by 31 December 2013 in line with the 2012 revised regulatory framework for microfinance banks. While this will impact positively on the businesses of the big microfinance banks, it will negatively impact the sector as customers' confidence will be further eroded especially as it concerns deposit mobilisation.

Currently, there are about 720 microfinance banks with a potential market of over 34 million customers. However, according to the EFInA Access to Financial Services in Nigeria 2011 Survey, only 3.5 million of this market has been exploited to date, with FBN MFB controlling less than 3% of the market.

The business environment has continued to be challenging particularly in operational and regulatory areas. FBN MFB in rendering financial services to its target market has recorded cases of loan default arising from challenges in their businesses such as demolition of business premises, ill-health, loss of goods due to insecurity, customers' relocation from verified residences and business premises, and the generally poor attitude to loan repayment. The high cost of operations due to infrastructural challenges has compelled us to provide electricity, water and security in business locations.

On the regulatory side, there are challenges arising from huge tax liabilities and in some cases double taxation, stringent supervision requirements such as compliance to certain ratios which do not take into consideration the operating environment.

These challenges contributed to the closure of over 300 microfinance banks by CBN in the last two years.

OBJECTIVES OF THE CBN GUIDELINES

The guidelines are aimed at safeguarding the interest of all the stakeholders while ensuring that the activities of microfinance banks are conducted in the most transparent manner, with the operators being accountable to both the stakeholders and regulators in line with best practice. As such, the guidelines have enabled us to enhance our operations and made our business more sustainable. Examples include the compulsory certification programme for practitioners, yearly review of operations by CBN/NDIC and follow up review by external auditors appointed by CBN. Seven of our staff have qualified as certified microfinance practitioners through the CBN training programme thereby impacting capacity and skills in our bank.

OUR CUSTOMERS

Our customers are self-employed micro entrepreneurs in the rural and urban areas such as traders, farmers, street vendors and service providers including hairdressers, motorcycle riders, artisans and employees of small businesses. We are not unmindful of the unstructured nature of their businesses and by implication the risks involved in servicing them, however, we have employed appropriate measures to address both the credit and operational risks. These include the use of individual and group lending methodologies for lending, and point-of-sales terminals for collection of loan repayments and mobilisation of deposits among others.

We have also revised the loan creation process to ensure no staff starts and conclude a credit transaction. Other efforts aimed at improving the quality of risk assets include the adoption of a 60%/20%/20% loan distribution model i.e. 60% Group, 20% SMEs and 20% Individual.

BUSINESS PERFORMANCE

Within the context of a fragmented market, heightened security risks, increased unemployment rate and tighter regulatory environment, 2013 was indeed a challenging year.

As a result of the strategic initiative to reduce Portfolio-At-Risk (PAR), which led to cessation of lending in Q1, 2013, the operating income dropped by 0.83% from ₦1.2 billion in 2012 to ₦1.1 billion in 2013. However, this did not significantly impact gross earnings as a result of increased earnings from non-credit related transactions, which rose by 36% to ₦448 million from ₦330 million. We were also able to grow our deposit liabilities to ₦2.4 billion as at December 31 2013, against a balance of ₦822 million for the financial year ended 31 December 2012. The increase was attributed to the enhanced deposit mobilisation product "My Daily Savings" (MDS). The Bank achieved a profit before tax of ₦175 million against ₦326 million in 2012, as at year end.

While ensuring our business continues to remain profitable, we remain committed to supporting the economy through the advancement of credit to our defined market segment. Consequently, we have comprehensively reviewed our credit policy and processes to support our growth imperatives. In this regard, ₦3.3 billion was disbursed to 8,949 customers against ₦4.3 billion to 10,008 customers in 2012 despite not lending in Q1, 2013. To further demonstrate our commitment, we have strengthened our shareholders' funds by 85% to ₦2.44 billion through injection of additional capital of ₦1 billion and capitalisation of profits. This will enable our Bank to participate in emerging business opportunities.

CHAIRMAN'S STATEMENT

BUSINESS OPPORTUNITIES

We have extended our strategic partnerships to Lagos State Microfinance Institution (LASMI) and Rural Finance Institution (RUFFIN). We are currently partnering LASMI to support rural farmers in Epe with a Lagos State ₦500 million fund. We intend to establish such collaborative relationship with other States' Government in the coming year. We are also working to get listed among the selected microfinance banks to disburse the following funds:

- ₦1 billion set aside for the empowerment of the Niger Delta people through micro credit by the Ministry of Niger Delta
- ₦2 billion by the Bank of Agriculture through the rural finance institution (RUFFIN) building programme to small-scale farmers and rural dwellers.

In exploring business opportunities, we are committed to the continuous training of management and other staff to enable them to understand better the nature and mode of operations of FBN MFB. A certain percentage of the Bank's annual budget is therefore set aside for the training of staff, management and directors.

This will ensure that the objective of the Bank to provide diversified microfinance services on a sustainable and long-term basis for the poor and low-income groups is met.

BOARD EFFECTIVENESS

We, as a Board, meet quarterly in line with statutory regulations. Five meetings were held during the financial period under review, with all the directors in attendance, save for the apology received twice from a Board member who was unavoidably absent owing to other official engagements. In line with good governance, nomination into the Board of FBN Microfinance Bank Limited is subject to the approval of the Board of Directors of the parent company FBN Holdings Plc, upon the recommendation of the Board Governance Committee through a merit driven process.

BOARD CHANGES

Board membership has been consistent with the number of Directors standing at four as there was no change in the Board during the financial year ended 31 December 2013. However, in line with the provisions of Section 259 (1) of the Companies and Allied Matters Act 2004, Bernadine Okeke and Dahiru Chadi having retired by rotation and being eligible, were re-elected into the Board.

LOOKING AHEAD

In 2014, we will continue to improve on the structural foundation we have laid over the years for growth, among which are effective internal control measures, deployment of effective business strategies, branch expansion, strict adherence to regulations and improved processes for effective customer service delivery. Staff welfare (training inclusive) will also be given priority, while we will invest in developing a strong performance culture that will boost productivity.

A business performance management system was introduced to measure performance against KPIs every month.

CONCLUSION

We will strive to make FBN Microfinance Bank Limited a leader in the sector (in terms of deposit mobilisation, risk asset quality, innovation, service delivery, staff competence and branch network by leveraging the strength and capabilities that exist across the FBN Holdings group. We are however, mindful of the attendant challenges such as the high cost of operation, repayment problems, inexperienced credit staff and are deploying effective strategies that will edge out competitors to become the microfinance bank of first choice in the country.

I thank you all, particularly our customers, for your patronage over the years and still solicit your support and continued patronage in the coming years.

Thank you and God bless.

Francis Shobo
Chairman

April 2014

LEADERSHIP AND GOVERNANCE

BOARD OF DIRECTORS

Francis Shobo
Chairman

Pauline Nsa
MD/CEO

Bernadine Okeke
Non-Executive Director

Dahiru Chadi
Non-Executive Director

MANAGEMENT COMMITTEE

Pauline Nsa
MD/CEO

John Ologe
Head, Business Development

Tony Ozore
Head, Operations

Oke Eddie
Head, Human Resources

Enoh Asuquo
Head, Internal Audit

Moses Idehen
Head, Information Technology

Agboola Adedayo
Acting Head, Financial Control

Kuha Torkuma
Head, Credit Risk

Deborah Olutimi
Head, E-Business

Omowunmi Adedurotimi
Head, Legal/ Loan Recovery

BUSINESS REVIEW

The bank achieved profit before tax (PBT) of ₦175 million as against ₦326 million in 2012. The drop in PBT is due to the suspension of lending activities between February and June 2013, to drive down non-performing loans (NPLs). Deposit liabilities grew from ₦824 million in 2012 to ₦1.012 billion in 2013. This growth is attributable to a savings initiative (My Daily Savings Account), as well as current accounts and term deposits.

Managing director/CEO's review

Given the low-income nature of the country, as well as its largely informal structure, the market for microfinance services is huge.

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Operating environment

FBN MFB has approximately 2% of the market share making it the third largest microfinance provider in Nigeria.

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Strategy and performance

The Bank's strategy is to grow low-cost deposits.

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MANAGING DIRECTOR/CEO'S REVIEW

Pauline Nsa
MD/CEO

Board of Directors, shareholders and colleagues, I am honoured to present to you a review of the business and operations of FBN Microfinance Bank Limited for the year 2013.

OVERVIEW

The Bank is fully committed to providing financial access to the un-banked and under-banked active poor – very small businesses, petty traders, artisans and individuals – to meet their day-to-day business aspirations, create wealth and employment.

Over the past four years, the Bank has consistently recorded positive achievements despite various challenges in the business environment until 2013. In 2013, profit before tax (PBT) was ₦175 million against ₦326 million in 2012 and return on equity was 10% as against 17.6% in 2012. The drop in PBT is the result of a deliberate review of business processes to address loan repayment default in the first half of 2013. With the injection of an additional ₦1 billion capital from FBN Holdings and conversion of licence from State to National, the Bank intends to further expand its customer base by increasing its branch network in Lagos and open branches in five other states of the Federation of Nigeria. This will make the Bank the second largest microfinance bank in Nigeria in terms of branch networks.

OUR STRATEGY

Given the low-income nature of the country, as well as its largely informal structure, the market for microfinance services is huge. With a market of more than 34 million potential customers and total loans across the industry of more than ₦81 billion, we have continued to selectively increase our risk assets, strengthen risk review process and increase our customer base by opening new branches and enhancing the My Daily Savings Account (MSDA) product.

The Bank has developed enhanced risk management requirements for loans, strengthened the control function with the appointment of a substantive Head of Internal Audit and recruitment of additional Internal Control Officers, while a new Loan Recovery unit was created to help Legal Services recovery activities. The Bank also introduced a number of measures to retain and expand its customer base and increase its market share, including improved service delivery, robust product offerings, funds transfers across the country using the First Bank of Nigeria platform and online real-time banking services across the 23 branches.

Through customers forums, we hear directly from our clients and respond to their challenges. We have also introduced incentive and reward systems for loyal customers, such as quicker and easier repeat loans, negotiation or waivers of some fees, recognition, scholarships to wards of loyal customers and the opportunity to win various prizes from savings promotions raffles. The CBN policy on cash-based transactions (cashless economy) equally presented an opportunity for the Bank to market products such as ATMs, cheque books, internal transfers, point of sale (POS) transactions and the FirstBank mobile money – 'Firstmonie®'.

BUSINESS PERFORMANCE

FBN Microfinance Bank's performance in the last four years has been steadily positive despite challenges posed by the instability of the economic, political environment and security situation in the country. Gross earnings declined by 7.9% to ₦1.1 billion (December 2012: ₦1.2 billion), as a result of strategic process review to improve risk assets and enhance other income streams. In the current year, the Bank made a full year profit before tax of ₦175 million, down 46.2% from ₦326 million in 2012, because loans disbursed declined from ₦4.5 billion in 2012 to ₦3.3 billion in 2013. The bank achieved a return of equity of 10% relative to 30% in 2012. In addition, we also created net risk assets of ₦1.58 billion, up 0.04% from ₦1.51 billion in 2012. Deposit liabilities grew to ₦1.012 billion, 23.3% higher than ₦824 million in 2012 while gross revenue declined to ₦1.124 billion by 5.6% from ₦1.191 billion in 2012. Over 57% of deposit liabilities are in placement, while a marginal spread of 0.5% is earned.

These achievements were the consequence of the Bank's strategy at the beginning of the year to diversify our income stream, increase earnings from fees and commissions, strategically grow loan portfolio, improve PAR while maintaining quality risk assets and reduce operating expenses, all leading to the growth of the shareholders' funds to ₦2.234 billion.

Given the low-income nature of the country, as well as its largely informal structure, the market for microfinance services is huge.

Our total active customer account was 83,642 as at 31 December 2013, with 17,100 new accounts. We expect to increase our lending through the Group in 2014 to 60% from 15% in 2012.

BRANCH EXPANSION

Two new branches at Epe and Tejuosho were opened within the year, while Ketu Mile 12 and Ketu branches were merged bringing our branch network to 23. The growth in branch expansion was hampered by the delay in transitioning from a state microfinance bank to a national microfinance bank, as well as ensuring the fixed assets to capital ratio is maintained in line with the revised regulatory framework for microfinance banks.

STAFF RELATED MATTERS

Staff strength decreased to 251 from 256. In addition, two additional staff qualified as Microfinance Certified Bankers after passing the Microfinance Certified Professional Examination (MCPE), thereby bringing the Microfinance Certified Bankers within the Bank to seven. The Bank has continuously improved the quality of its workforce through internal and external training to ensure better-motivated staff and improved productivity. To ensure effective monitoring of performance towards achieving planned targets, a new unit, Performance Monitoring and Evaluation, was created in 2013 for assessing staff performance and contribution to the Bank.

In ensuring our workflow maintain a healthy lifestyle, we have adopted a Health Maintenance Organisation (HMO) model of providing medical healthcare services. Through this scheme, our workforce is sure of getting appropriate and acceptable healthcare services at subsidised rates.

NEW PRODUCTS:

A deposit of ₦1.39 billion was mobilised by the year end, through the new savings product, My Daily Savings Account (MDSA). Also, fee income was generated from FirstPay, our new payment platform, as well as from Firstmonie, the mobile money platform. The Bank aims to use these products to increase its reach and generate more deposits, as well as fee income.

CONCLUSION

Our goal is to develop financial solutions and products that resonate across all our customers. In the coming year, we intend to increase our focus on the lower-end micro customers. Having stratified our customers into individuals, groups, micro, small- and medium-scale entrepreneurs, we aim to develop bespoke products and services for each of these segments, with greater attention to artisans and trade associations, self-help groups and professional groups. To improve customer retention, in addition to financing business growth, we will also provide other support schemes including scholarship awards to children of poor but loyal customers.

The Bank's partnership with Lagos State Microfinance Institution (LASMI) and the Rural Finance Institution (RUFFIN) is on-going. The partnership with LASMI is to support rural farmers in Epe with a ₦500 million credit facility. The benefits are increased, spread in terms of outreaches, more income, visibility and goodwill. With the strong support of our Board of Directors and other colleagues, we are confident of remaining competitive and profitable while becoming the microfinance service provider of 'first choice'.

Thank you.

Pauline Nsa
Managing Director/Chief Executive Officer

April 2014

OPERATING ENVIRONMENT

The microfinance sector is highly fragmented with over 800 microfinance banks and a market size of over 34 million potential customers. It is estimated that only 3.5 million people have been reached. FBN MFB has approximately 2% of the market share making it the third largest microfinance provider in Nigeria. The sector has witnessed significant growth in deposit liabilities, loans and advances, as well as assets over the years and it is projected to continue to grow at a significant rate.

The following Central Bank of Nigeria (CBN) initiatives aimed at promoting financial inclusion are also driving growth in the sector:

- increasing access to financial services of the economically active poor by 10% annually;
- increasing the share of microcredit as a percentage of total credit to the economy annually;
- ensuring state and local government participation in microfinance activities by 2015; and
- eliminating gender disparity by ensuring that women's access to financial services increases by 15% annually.

CHALLENGES

The revised Microfinance Policy and Supervisory Guidelines, which raised the paid-up capital for a National Microfinance Bank from ₦1 billion to ₦2 billion, have presented new challenges.

They restricted expansion in 2013, as the CBN categorically stated that further approvals for branches within Lagos or other states for state microfinance banks would depend on capital injection, while unit microfinance banks were mandated to close all their cash centres (customer meeting points). The attraction of investors to the microfinance sector is a result of the huge potential for profitability while contributing to alleviating poverty. Competition has therefore increased as new microfinance banks and non-governmental organisations (NGOs) with international affiliations have been licensed. This is a challenge to us.

The sector has also witnessed the entrance of international microfinance organisations with good track records and experience in the sector. While there is increased competition among the 'state licensed banks', there has been a reduction of 'unit licensed' microfinance banks due to capital requirements and the high cost structure. Consequently, we expect to see more consolidation in the sector over coming periods. The Boko Haram bombings and other security unrest in the country equally impacted on the quality of risk assets as consumer demand declined, funds were trapped with suppliers in the north and businesses lost.

OPPORTUNITIES

- Increase earnings from sale of JAMB/West African Examination Council (WAEC) cards as direct contacts have been established with the agencies
- Follow-up for additional ₦250 million from LASMI for course IV of the Agric-YES project of the Lagos State Government, having achieved an appreciable milestone in the ₦500 million disbursed for courses II and III through FBN MFB
- We have commenced discussions on modalities with the Lagos State Government on the disbursement of ₦250 million under the RUFFIN scheme for some selected farmers in Lagos State
- A proposal for the provision of funds to some selected cooperatives in the state has been presented to Lagos State Government
- LASMI has equally proposed the take-over by FBN MFB of the ₦250 million Course I Agric-YES project, which is directly handled by the state government in conjunction with LASMI given our impressive management of courses II and III
- The Federal Government through CBN has commenced the disbursement of the ₦220 billion micro, small- and medium-scale enterprises (MSME) funds. We are looking at the possibility of applying for this fund as we can assess up to 50% of our paid-up capital i.e. ₦1 billion
- The proposal to set up branches in Abuja, Ibadan, Port Harcourt, Uyo and Warri is on-going. This will deepen our spread and provide easy access to state funds for microfinance activities that will positively impact our business.

STRATEGY AND PERFORMANCE

OVERVIEW

Our vision

'To be Nigeria's microfinance services provider of first choice.'

Our mission

'To consistently develop a new generation of micro entrepreneurs by providing market-driven products and services in a profitable and sustainable manner, thereby boosting economic development.'

OUR ASPIRATIONS:

- to be the microfinance bank of first choice;
- to be the leader in terms of balance sheet size and profitability;
- to hold ourselves to the highest standard of integrity and ethical conduct; and
- to improve customer service delivery across the Bank.

We will continue to aspire to 'be the microfinance Bank of first choice', and how we will achieve this is by focusing on unique products that will make a difference in the market, as well as a customer-centric approach to business and strong risk management policies. In 2013, we have actually made some progress on this vein; henceforth, we will pursue this objective with renewed impetus, as well as develop new approaches to ensure that we create real value for our shareholders.

BUSINESS MODEL

The Bank serves micro enterprises and other low-income economic agents in the informal sector of Nigeria, deploying robust IT infrastructure for the provision of efficient service delivery. Through its network of functional, friendly and cost-effective service outlets it mobilises deposits from the un-banked and the under-banked, as well as providing loans and other financial services to the economically active poor.

The Bank operates from 23 locations in Lagos state and is committed to supporting the economy through the advancement of credit to our defined market segment, but comprehensively reviewing our credit policy and processes towards meeting our growth imperative. In this regard, ₦3.3 billion was disbursed to 8,949 customers in 2013, against ₦4.3 billion to 10,008 customers in 2012. To further demonstrate our commitment, we have enhanced our shareholders' funds by 85% to ₦2.44 billion with an injection of ₦1 billion of additional capital and transfer of profits to reserves.

KEY MARKETS AND TARGETS

The bank has identified three key segments with defined strategic intents to enable it achieve its vision.

- **Individuals:** to be the 'one-stop' microfinance service provider for the individual segment.
- **Groups:** to be the market leader in group lending by outreach and profitability.
- **MSMEs:** to control a minimum of 5% of the market share of the MSME industry.

INDIVIDUALS

Individuals refers to economically active people who do not belong to any group; usually business owners or salary earners. Sub-segments include professionals, public sector employees, traders, artisans, vendors and small savers.

This segment provides a ready market for savings and loans for emergencies, asset financing/business expansion and meets with obligations during festive periods.

GROUPS

Groups refers to clusters of individuals often with similar interests and located in close proximity. However, the members may engage in varying business/economic activities. They may be individuals or joint liability groups. Sub-segments include cooperatives, artisans, associations/trade unions and religious societies.

This segment also provides a ready market for loans and savings for business and personal needs of the customers.

MSMEs

MSMEs refers to micro, small- and medium-scale enterprises that are registered with Corporate Affairs Commission and are employers of labour. Sub-segments include schools, supermarkets and bookshops/publishing organisations, etc.

Key products/services for this segment include asset financing, target savings for stock acquisitions, etc.

BANK STRATEGY

The Bank's strategy is to grow low-cost deposits through savings, current and specialised savings accounts and to undertake strategic branch expansion through organic growth by opening branches where there are business opportunities. We will also develop diversified products (market driven), improve existing products and develop new ones. The Bank will employ the use of individual and group lending methodologies for lending to customers.

BANK FINANCIAL PRIORITIES

- Increase fees and commissions: the Bank intends to significantly increase revenue from non-interest income sources. This is because fees and commissions have significantly enhanced the Bank's profitability in the past. We are not satisfied with our pace and progress and have begun taking steps to boost this line of income.

  We will continue to leverage opportunities across our existing loan portfolio, as well as grow deposit product volumes. We shall intensify sales of JAMB/WAEC cards to yield substantial income. In addition, we shall also boost the usage of FirstPay, Firstmonie, SMS and POS to generate additional fee income.
- Grow low-cost deposit: we shall aggressively grow the sales of My Daily Savings Account (MSDA) through market storming sessions, adverts/publicity and account opening targets for staff
- Operating expenditure (OPEX) control: we will focus on containing our operating expense level by ensuring strict monitoring of expense heads and approvals. We will keep cost under control and closely monitor our cost management framework, as well as commence centralised processing to reduce cost.

BANK NON-FINANCIAL PRIORITIES

- Performance management
- Talent management
- Service excellence
- Credit quality/process excellence.

STRATEGY AND PERFORMANCE

KEY PERFORMANCE INDICATORS

The Bank's overall strategy is to be the leader in microfinance in Africa, as well as the 'microfinance bank of first choice'. To measure our performance and the progress towards these goals, the following indicators are being used:

- **KPI 1 Customer satisfaction**

  Excellent customer service is still at the forefront of our drive to enhance our aim of being the leader in the industry. We aim to consolidate our ambition by growing our customer base, as well as broadening our appeal to wider market segments.

- **KPI 2 Cost to income**

  This is a relative measure that indicates the consumption of resources in generating revenue. The key initiatives we will pursue in terms of cost containment will focus on making improvements to our cost allocation processes to better reflect the underlying cost of doing business. We will focus on containing our operating expense level and ensuring that our costs grow at a slower pace. We will keep cost under control and closely monitor our cost management framework. Our efforts in improving fee and commission income will also impact the cost-to-income ratio significantly.

- **KPI 3 Credit performance**

  This is an important instrument for assessing whether credit is performing, as well as well-priced. We shall review our credit audit processes to ensure stricter risk monitoring to drastically reduce default rate.

BANK FINANCIAL PRIORITIES

Summary of the Bank's financial priorities to 2014:

Bank financial priorities	Description	Highlight
Fees and commissions	Significantly increase revenue from non-interest income sources.	Leverage opportunities across our existing loan portfolio, as well as grow deposit product volumes. Intensify sales of JAMB/WAEC cards to yield substantial income. In addition, boost the usage of FirstPay, Firstmonie, SMS and POS.
Low cost deposit mobilisation	Aggressively grow low-cost savings account (MDSA).	Market storming sessions, adverts/publicity as well as account opening targets for staff.
Operating expenditure (OPEX) control	Control OPEX growth rate to a significant level.	Ensure strict monitoring of expense heads and approvals, keep cost under control and closely monitor cost management framework, as well as commence centralised processing.

STRATEGY AND PERFORMANCE

PRINCIPAL RISK SUMMARY

INFORMATION SECURITY

This is the risk of confidentiality, integrity and availability of the Bank's information assets.

Impact on business

Information assets are critical to FirstBank's operations and the confidentiality, integrity and availability of these assets are crucial to the effective and efficient delivery of service to customers. Disruption or interruptions to these assets would have dire consequences on the Bank's operations.

Mitigation measures

- Development of a risk assessment methodology that enables the Bank to carry out risk assessment of its information assets
- Documenting and standardising the processes within the Bank while building appropriate controls into these processes.

LEGAL RISK

Our ability to identify, mitigate and manage the legal risks in our activities and business transactions continues to improve.

Impact on business

Increased costs, loss of revenue, abuse and/or loss of intellectual property, distraction, negative brand equity, strained relationships with customers, employees, service providers, investors, regulators and other stakeholders and possible disruption of business activities are the legal risks that could impact our business.

Mitigation measures

This is done through consistent application of professional standards, transparency and fairness. Transacting, bespoke documentation and clarity in documentation and agreements are some of the measures taken to prevent possible conflicts, while engaging external counsel with proven competence in the prosecution of the Bank's claims against third parties and in the conduct of the Bank's defence, and exploring alternative dispute resolution mechanisms, among others.

CREDIT RISK

Credit risk is the risk of loss that may arise if an obligor fails to perform an obligation under a loan or trading contract. The business of creating loans and the management of the risk inherent in the loan portfolio will remain a crucial responsibility for the Bank's risk managers as the Bank continues to process a variety of loan request enquiries.

Impact on business

- Poor asset quality arising from a high level of non-performing loans and ultimately low yields on risk assets
- Financial loss due to increased loan loss provisions and charges on impaired assets
- Could lead to impairment of shareholders' funds.

Mitigation measures

- Strong credit analysis to identify the risk and proffer mitigants
- Limitation of exposure and prevent concentration risk
- Clear loan covenants and transaction dynamics.

OPERATIONAL RISK

PEOPLE RISK

This is the risk arising from failure of employees or employer, conflicts of interest or other internal fraudulent behaviour.

Impact on business

Human actions (accidental or deliberate) can put the business at risk notwithstanding flawless processes and technology. This could lead to financial loss, as well as reputational damage, hence, not being able to meet or exceed stakeholders' expectations.

Mitigation measures

- Zero tolerance of staff non-integrity issues and fraud
- Effective background checks and thorough confirmation process on new hires
- A disciplinary committee that deals with and resolves employees' issues
- Meeting training and development needs of staff
- Proper segregation of duties.

TECHNOLOGY RISK

This is the risk of failing to implement or develop, as well as operate, the Bank's technology platforms and solutions to meet stakeholders' expectations.

Impact on business

This could manifest in defective hardware or software, failures in other technology such as networks or telecommunications, breaches in IT security, or lack of support from the manufacturers.

Mitigation measures

- Regular IT audit and control
- Comprehensive service level agreements (SLA) with service providers
- A disaster recovery centre.

EXTERNAL RISK

This is the risk arising from fraud or litigation by parties external to the firm, as well as lack of physical security for the institution and its representatives.

Impact on business

This could lead to poor service, reputational damage and financial loss to the Bank.

Mitigation measures

- Enforcing SLA sanctions for breach of contracts
- Strict adherence to the Bank's outsourcing policy.

STRATEGY AND PERFORMANCE

PRINCIPAL RISK SUMMARY

MARKET RISK AND LIQUIDITY RISK

The Bank's market risk management process allows disciplined risk taking within a framework of well-defined risk appetite that enables the Bank to enhance shareholder value while maintaining competitive advantage through effective utilisation of risk capital.

Liquidity risk is the risk that the Bank does not have financial resources to meet its obligations as they fall due, or will have to meet the obligations at an excessive cost. The objective of the Bank's liquidity risk management is to ensure that all anticipated funding commitments can be met when due and that access to funding sources is coordinated and cost effective.

Impact on business

This could result in significant financial loss from reduction in net interest income and impairment of interest rate-related instruments. In addition, there is an insolvency and eventual reputational risk that could unfold.

Mitigation measures

Market risk

- Ensuring the implementation of market risk and the Board policies including credit limits
- Monitoring and provision of relevant information and data on liquidity, pricing and interest rates to the MD/CEO
- Continual evaluation of risk appetite, communicated through risk limits and overall effectiveness of the market management process
- The Bank does not undertake any risk that cannot be managed, or risks that are not fully understood, especially for new products
- Where the Bank takes on any risk, full consideration is given to regulatory pronouncements guidelines or policies. The risk taken must be adequately compensated by the anticipated reward.

Liquidity risk

- Adherence to liquidity risk tolerance appropriate for the microfinance business and in line with the Central Bank's microfinance policy guidelines
- Alignment of the business undertaken with resultant liquidity risk exposure in performance management and in product approval process
- Sound processes for identifying, measuring, monitoring and controlling liquidity risk, including projections for cash flows arising from assets, liabilities and off-balance sheet items over an appropriate period of time
- Clear funding strategy providing effective diversification in the sources and tenor of funding
- Ranking and prioritising funding sources by stability
- Early warning indicators to aid prompt identification of liquidity risk such as concentrations in either assets or liabilities and deterioration in quality of credit portfolio
- Proper and effective portfolio management.

The Bank's liquidity ratio as at year end 2013 was 91%.

COMPLIANCE RISK

Compliance risk is the risk to earnings, capital or reputation occurring from violations of or non-conformance with laws, regulations, prescribed practices or ethical standards and may result in fines, penalties, payment of damages and voiding of contracts.

Impact on business

This could result in significant financial loss, impairment of shareholders' funds and/or outright closure of business, occasioned by sanctions or fines on the Group, or loss or suspension of its licence.

Mitigation measures

To ensure effective management of compliance risk, the Bank:

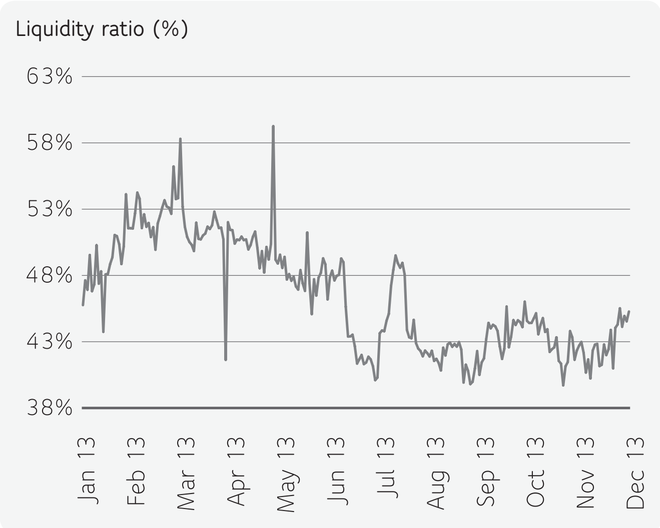
- develops worksheets, forms and checklists to assist the staff, as they perform their jobs, in complying with laws, regulations and rules;
- creates an extensive profile of laws, regulations and guidelines with which the Company must comply, i.e., the 'rule book';
- analyses the impact of new and amended legal and regulatory requirements, and implements such requirements;
- tracks changes to federal and state laws and regulations, and disseminates relevant information across the Company; and
- takes prompt and appropriate action to correct compliance problems that are identified through self-assessments, internal or external compliance audits.

STRATEGY AND PERFORMANCE

FINANCIAL REVIEW

LIQUIDITY SOURCES, DIVERSIFICATION, TREND

The Commercial Banking Group is funded primarily by a well-diversified mix of retail and corporate deposits; a funding base that ensures stability and low funding cost with minimal reliance on higher cost time deposits and interbank takings as significant sources of funding. The Group places considerable importance on demand and savings deposits, which provide over 85% of its funding base. Although these accounts are contractually repayable on demand, in reality, they are stable and have formed a core component of the group's liabilities.



The bank maintained a stable liquidity position during the year, with an average liquidity ratio of 46.49%.

OTHER FINANCIAL SERVICES GROUP

The Microfinance Bank is primarily funded by micro savings and corporate deposits. The micro savings are short term, but due to the bank's concerted efforts at maintaining good liquidity, aggressive drive for savings through introduction of schemes, like My Daily Savings promotion and mandatory deposits on loans, have helped in maintaining stability of liquidity. These deposits come at a very minimal cost.

STRATEGY AND PERFORMANCE

PERFORMANCE SUMMARY

FBN MFB posted a profit before tax (PBT) of ₦175 million as against ₦326 million in 2012, a decrease of 46.2%. The drop in PBT is a result of the suspension of lending activities in the first quarter of the year to drive down non-performing loans (NPLs). The drag in performance is a result of additional provision on loans made during the year. The impact on performance was muted by achieving only 66% of risk assets due to increased efficiency in the use of funds through Treasury activities, and cost control measures. Furthermore, the results achieved were the consequence of the Bank's strategy to increase earnings from fees and commission, depend less on money market trading, grow quality risk assets and contain operating expenses.

During the period under review, commission and fee income declined by 52.3% to ₦29 million compared to the prior year's figure of ₦62 million, due to decreased business volume in fee earning products. Interest income however, decreased by 11.1% driven primarily by lower loan disbursement. Income from placements increased by 117.9% while transaction volume increased by 83%. The Bank's financial indices as at 31 December 2013 are:

- profit before tax at ₦175 million against ₦326 million in 2012, and net loans and advances of ₦1.59 billion against ₦1.51 billion in 2012;
- deposit liabilities at ₦2.4 billion compared with ₦821 million in 2012, while net revenue declined by 18% to ₦1.09 billion from ₦1.19 billion in 2012; and
- shareholders' funds grew to ₦2.24 billion with return on equity (ROE) at 10%. These were achieved despite the challenging operating environment. We continue to work on diversifying our business and improving the sustainability of our income streams.

Loans and advances: loans of ₦3.3 billion were disbursed to 8,949 loan customers as at 31 December compared to ₦4.3 billion in 2012. Total active customer account was 83,642 with 10,008 new accounts.

Branch expansion: Tejuosho and Epe branches were opened within the year while Ketu mile 12 and Ketu branches were merged bringing the branch network to 23. The growth in the branch network was limited by late injection of fresh capital to enable the Bank to convert its 'state licence' to 'national' as well as improve its fixed assets to capital ratio in line with the revised regulatory framework for microfinance banks.

Human capital: the Bank has staff strength of 251. Two additional staff qualified as Microfinance Certified Bankers after passing the Microfinance Certified Professional Examination (MCPE). The Bank has continuously improved the quality of its workforce through internal and external training. The services of an Health Maintenance Organisation (HMO) was contracted to facilitate the delivery of quality health services to its staff to ensure a healthy workforce.

New products: the Bank successfully launched a new deposit mobilisation product, MDSA. The deposit mobilised on this product has grown to ₦626 million by year end from ₦317 million in 2012.

FirstPay: this FirstBank payment solution was successfully introduced. Transfers are being made on this platform and it is generating additional income for the Bank.

RESPONSIBILITY FOR ANNUAL FINANCIAL STATEMENTS

The Companies and Allied Matters Act (CAMA) and the Bank and Other Financial Institutions Act require the directors to prepare financial statements for each year that gives a true and fair view of the state of financial affairs of the bank at the end of the year and of its profit or loss. The responsibilities include ensuring that the Bank:

I. keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank and complies with the requirements of the Companies and Allied Matters Act and the Banks and Other Financial Institutions Act;
II. establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and
III. prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgements and estimates that are consistently applied.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates.

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 of the profit for the year. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least 12 months from the date of this statement.

Pauline Nsa
MD/CEO

Francis Shobo
Chairman

CORPORATE GOVERNANCE

The Bank's governance framework is fashioned after that of the parent company, FBN Holdings, which ensures strict compliance with defined regulations.

Chairman's introduction

FBN MFB in line with the parent company's stance is committed to implementing initiatives that would improve corporate governance principles for the benefit of all stakeholders.

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Leadership

During the period under review, management focused mainly on refining the Bank's processes, especially in terms of risk assets management.

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CHAIRMAN'S INTRODUCTION

Francis Shobo
Chairman

FBN MFB in line with the parent company's stance is committed to implementing initiatives that would improve corporate governance principles for the benefit of all stakeholders. In this regard, the FBN MFB Board of Directors has the primary responsibility for ensuring adherence to laid-down rules and regulations, which will guarantee good practice. The Board is responsible for establishing strategic objectives, policies and procedures that will direct the activities of the Bank and the means to attain them, as well as the mechanism for monitoring management performance.

FBN MFB has 23 branches in operation and they all operate under a governance framework that enables the Board to balance its role of providing oversight and strategic counsel with its function of ensuring conformity with regulatory requirements and acceptable risk tolerance parameters. Presently, the Bank has complied with the CBN directive of the National Bank with the increase in share capital. FBN MFB operates in a highly regulated environment which demands strict adherence to laid-down rules and regulations to be reflected in its operations, particularly the principles of corporate governance namely: compliance, disclosure, accountability, transparency and accuracy of information emanating from management.

As management is in charge of the day-to-day running of the Bank, the Board monitors compliance with regulations by means of the quarterly presentations made by the management at Board meetings. This includes credit risk policies, business prospects, and branch expansion plans, etc. The following committees have been established by the Board to aid its oversight functions: the Board Credit Committee, Board Audit & Risk Assessment Committee, and the Board Establishment, Promotions & Disciplinary Committee. The committees' roles and functions are determined by the Board and are reviewed periodically so as to evaluate their performance(s) and relevance. On behalf of the Board, I (the Chairman) pledge to ensure continued adherence to global best practices on corporate governance and will always ensure that corporate governance principles are given top priority in the Bank's operations.

REPORTING STANDARDS AND DISCLOSURE

FBN MFB is committed to improving on the quality of disclosure in its operations, and in the published annual report and accounts. It has complied with the CBN directives that microfinance banks should adopt the new International Financial Reporting Standards (IFRS) as against the previous standard, which was the Nigerian Generally Accepted Accounting Principles (NGAAP). This will no doubt boost investor values and encourage business relationships across the world.

REGULATIONS

FBN MFB operates in a highly regulated environment that requires strict adherence to laid-down rules and regulations. The Board ensures compliance with these relevant regulations in its oversight functions. In particular, it monitors compliance with the Guidelines for microfinance banks in Nigeria and the Policy, Regulatory and Supervisory Framework, which both enhance the provision of diversified microfinance services on a long-term sustainable basis for the poor and low-income groups. Developments in 2011, which resulted in the revocation of the licences of about 224 microfinance banks and the liquidation of 103 microfinance banks, make it imperative to give priority to the prescribed governance principles. This is with a view to safeguarding the interest of all stakeholders. The reasons identified by the CBN for the recorded failures by the microfinance banks were:

- weak capitalisation;
- poor corporate governance;
- insider abuses;
- incompetence;
- ineffective oversight of the Board; and
- poor risk management/weak internal control.

Lessons learnt from the incident revealed that microfinance banks should be expected to comply with the prescribed governance principles, and the Board has a greater duty to ensure that the requisite structures are put in place for the successful operation of a microfinance bank and to safeguard stakeholders' interests. Some of the structures are:

- institution of a strong risk management culture;
- rigorous training and retraining of staff to bridge knowledge gaps;
- implementation of effective cost-saving measures at all levels;
- strong internal control systems; and
- effective monitoring of loan portfolio.

The Board and management are strongly committed to complying with prescribed rules and regulations as things are less likely to go wrong if regulations are properly followed.

Francis Shobo
Chairman

LEADERSHIP

The Board comprises four members who are knowledgeable and experienced individuals from diverse backgrounds. They have brought on board their vast experience, which has impacted positively on the Bank operations via meaningful contributions to deliberations. This has in turn enhanced the Bank's profitability and also put it in good stead to operate effectively in a rather competitive and harsh environment. During the year under review, there were no changes made on the Board.

BIOGRAPHY OF BOARD OF DIRECTORS

FRANCIS SHOBO

Chairman

Gbenga Shobo was appointed to the Board of the Bank in 2012. Prior to his appointment he was Executive Vice President (Retail South) he was also General Manager in charge of Products and Channel deployment for the Bank in addition to holding several management positions within the Bank. His banking career spans over 23 years with experience in:

- Corporate banking;
- Institutional banking; and
- Commercial banking and Treasury.

His vast proficiency is epitomised in his achievements within the Bank's Retail Banking South Directorate. He is a member of the Institute of Chartered Accountants of Nigeria and a recipient of the FirstBank CEO Merit Award for Most Outstanding Business Development Manager in 2007. He is married with children.

BERNADINE OKEKE

Non-Executive Director

Bernadine Okeke was appointed Executive Vice President and head of Private Banking in 2011. Before this appointment, she had been Business Development Manager (BDM), Lekki. Prior to this, she was head of Human Capital Management and Development (HCMD) where she led major service quality and change management initiatives that helped improve the overall service standard of the Bank. Bernadine has over 24 years of diverse management and operational experience in banking and manufacturing. Her varied banking experience includes:

- domestic banking operations;
- Corporate banking;
- Treasury;
- credit and marketing; and
- branch development and roll-out.

This integrated experience supports her function in facilitating the Bank's Private banking business. She is married with children.

DAHIRU CHADI

Non-Executive Director

Dahiru graduated from the Ahmadu Bello University, Zaria with a BSc degree in Textile Science and Technology in 1985. He subsequently received an MBA from Enugu State University of Science and Technology. In 1989, he started his banking career with Bank of Industry (formerly Nigerian Industrial Development Bank Limited) where he worked in the Project Appraisal Division and the Investments Supervision Division. In 1992, he moved on to Afribank International Limited (Merchant Bankers) where he held management roles.

He moved to United Bank for Africa Plc in 1996 before joining. His experience includes:

- maintenance and management of risk assets portfolios;
- credit policy formation, initiation and development; and
- implementation of credit transformation.

He has attended several local and offshore courses.

PAULINE NSA

Managing Director/Chief Executive Officer

Pauline Nsa is the pioneer MD/CEO of FBN MFB, She holds a BSc degree in Business Administration from the Ahmadu Bello University, Zaria, Nigeria (1983) and an MA in Business Administration (MBA) in Finance from the University of Ibadan (1992). She has more than 26 years' banking experience spanning:

- banking examination;
- credit risk management;
- Consumer banking;
- training and microfinance operations; and
- risk management.

Her experience in financial analysis follows her 12 years in the risk management, first at International Merchant Bank (IMB) Plc, and then United Bank for Africa (UBA) Plc.

Prior to joining the First Bank of Nigeria, Pauline was responsible for the setting up of the now defunct UBA Microfinance Bank Ltd. She was actively involved in the market research that led to the UBA/AfriCap decision to invest in a microfinance initiative.

Pauline has attended numerous training programmes within and outside the country including the risk management course organised by Euromoney, London (1986); Best and Brightest Bankers Programme of IFESH/USAID in New York (2002); Building new ventures in established companies by Harvard Business School (2008); Strategic Leadership in Microfinance by Accion/Harvard Business School (2009) to name a few. Her key strengths are leadership abilities, presentation and analytical skills. Her hobbies include reading, teaching, gardening and house-keeping. She also enjoys facilitating in training programmes. She is married with children.

BOARD OF DIRECTORS

Francis Shobo	Chairman
Bernadine Okeke	Non-Executive Director
Dahiru Chadi	Non-Executive Director
Pauline Nsa	Managing Director/Chief Executive Officer

HOW OUR BOARD MEETINGS WORK

At meetings, Board members thoroughly scrutinise proposals presented by management to ensure that their ultimate decision or approval will augur well for the smooth operations of the Bank, its corporate image and the interest of its customers and stakeholders, and that such approvals and proposals are in line with defined regulations.

The Board meets quarterly to enable Board members to contribute meaningfully to deliberations; meeting packs are prepared and sent a week ahead of the scheduled date. The memoranda are taken as read at the meeting since they have been dispatched ahead of time. Members are invited by the Chairman to air their views or comments as he goes through the agenda listing the issues to be deliberated upon. Where there are dissenting opinions, the Board weighs all the overall arguments or comments made by members and their impact or significance to the Company's operation, client base and regulations before it takes a final decision.

LEADERSHIP

The Board therefore has the following responsibilities:

- to approve an annual financial budget for the Bank;
- to approve set targets against which the performance of the Bank will be measured;
- to map out strategies for the Bank that will distinguish it from its peers amid tight competition;
- to ensure compliance with laid-down regulations; and
- to ensure that a risk management structure and internal audit functions exist.

During the period under review, management focused mainly on refining the Bank's processes, especially in terms of risk assets management, by training members of staff for improvement on the quality of loans being booked. Also, there was focus on compliance with Know Your Customer requirements (KYC), general training of staff to bridge identified gaps and the deployment of internal control personnel to all the branches so as to address some identified operational lapses.

The Bank's governance framework is fashioned after that of the parent company, FBN Holdings, which ensures strict compliance with defined regulations, i.e., transparency in its operations. The frequency of meetings is in line with statutory regulations and the functionality of the sub-committees constituted is to aid the Board in the discharge of its duties. The following committees exist:

Name of committee	Membership
Board Credit Committee	Dahiru Chadi – Chairman
	Francis Shobo – Member
	Pauline Nsa – Member
Board Audit & Risk Assessment Committee	Francis Shobo – Chairman
	Dahiru Chadi – Member
	Pauline Nsa – Member
Board Establishment, Promotions & Disciplinary Committee	Bernadine Okeke – Chairman
	Francis Shobo – Member
	Pauline Nsa – Member

STRATEGY

In the discharge of its oversight functions the Board ensures that management runs the Bank or Company in the most efficient manner that would safeguard the interest of all stakeholders. In between scheduled meetings, management is sometimes requested to provide details of crucial issues via email for the attention of Board members and appropriate measures.

Industry practice is often relied upon or used as a benchmark before a proposal is approved. Most importantly, there is a cordial relationship between Board members that enhances teamwork. The management and Board members have unhindered access to the management of the parent company. This is in addition to the quarterly meetings of the Group Management Committee (MANCO) where the performances of the subsidiary companies are reviewed to ensure compliance with the Group's goals.

BOARD COMPENSATION

In line with the Central Bank of Nigeria (CBN) code, board members receive fixed annual fees and sitting allowances for services on Board meetings.

The amounts below represent the total remuneration paid to Board members in the period under review.

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Fees		
Chairman	1,120	720
Other directors	2,610	1,774
As executive	1,000	1,880
Total	**4,730**	**4,374**

EFFECTIVENESS

NEW DEVELOPMENTS IN CORPORATE GOVERNANCE IN NIGERIA IN 2013

The development of corporate governance in Nigeria has been on a steady rise in view of the corporate failures recorded in all spheres of the economy. It is mandatory for directors serving on the board of microfinance banks to gain a Microfinance Certification. Management and board of a parent company ensure that competent hands with requisite experience and knowledge are nominated to the board of the subsidiary.

FOCUS AREAS FOR 2014

- Board performance evaluation.
- Implementation of the three-year strategy plan.
- Rigorous training and retraining of staff to bridge knowledge gaps.
- Intensification of risk management culture.
- Enhanced compliance culture with prescribed regulations.
- Establish upcountry branches in Abuja, Oyo, Rivers, Delta, Edo and Akwa Ibom states.
- Commence centralised processing with upcountry to reduce cost.
- Setting up of additional branches in Lagos state.

AUDITORS

Akintola Williams Deloitte
235 Ikorodu Road, Ilupeju
PO Box 965, Marina
Lagos

LEGAL ADVISER AND COMPANY SECRETARY

Safiya Hassan

BANKERS

First Bank of Nigeria Ltd

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

The directors have pleasure in submitting their report together with the audited financial statements of the Company for the year ended 31 December 2013.

LEGAL FORM

The Bank was incorporated in Nigeria on 18 March 2008 under the provisions of the Companies and Allied Matters Act, CAP C20 LFN 2004, with Registration Number RC 736874. It was licensed to carry on the business of microfinance banking in August 2008 by the Central Bank of Nigeria.

PRINCIPAL ACTIVITIES

The principal activity of the Company is to carry on the business of microfinance banking.

RESULTS OF OPERATIONS

The profit of the Bank for the year after taxation is ₦175 million.

DIRECTORS

The names of the directors who held office during the year and at the date of this report are as stated on page 9.

RECORDS OF DIRECTORS' ATTENDANCE AT MEETINGS

In accordance with section 258(2) of the Companies and Allied Matters Act, CAP C20 LFN 2004, the records of directors' attendance at Board meetings during the year under review will be available for inspection at the Annual General Meeting.

CONTRACTS

None of the directors has notified the Company of any disclosable interest in contracts in which the Company was involved during the year under review for the purpose of section 277 of the Companies and Allied Matters Act, CAP C20 LFN 2004.

EMPLOYMENT POLICIES AND TRAINING

The Company's employment policy ensures that opportunities are given to disabled persons. Disabled applicants are therefore given a special consideration for employment having regard to the aptitude and capabilities of each applicant.

No application for employment was received from any disabled person neither did any employee become disabled during the period under review.

HEALTH, SAFETY AND WELFARE OF EMPLOYEES

The Company has no staff clinic, but has retainership with reputable hospitals run by competent medical personnel where free medical services are provided for all staff.

AUDITORS

Akintola Williams Deloitte has indicated its willingness to continue in office as auditors of the Company in accordance with section 357(2) of the Companies and Allied Matters Acts, CAP C20 LFN 2004. A resolution will be proposed to authorise the directors to determine their remuneration.

CORPORATE INFORMATION AND PROFESSIONAL ADVISERS

Corporate Affairs Commission (CAC) registration no	RC 736874
Date of incorporation	18 March 2008
Central Bank of Nigeria licence no.	00252
Date granted	25 August 2008

BY ORDER OF THE BOARD

Company Secretary
Lagos, Nigeria

April 2014

RISK FACTORS

The Board ensures that the organisation has a robust process in place for identifying, managing and monitoring its principal risks.

Liquidity risk

How we ensure that all anticipated funding commitments can be met when due.

p27

Information security risk

Information security risk is the risk of the Bank's information assets being accessed by unauthorised persons leading to avoidable losses.

p27

Reputational risk

This is the risk that may occur to earnings or capital that results from negative public opinion of FBN MFB.

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RISK MANAGEMENT DISCLOSURE

COMPLIANCE RISK

OVERVIEW

The Bank identifies compliance risk through several methodologies such as:

- regular self-assessment reviews;
- data gathering from both internal and external sources; and
- internal reviews, examinations, surveys and questionnaires.

The Bank utilises risk indicators to monitor the compliance risk exposure of the business units and assess the effectiveness of controls for the key risk areas.

A compliance risk management plan, with responsibilities and target dates, is used to indicate how the risks identified are managed. The plan entails preventive details to lower the probability of the risk occurring and contingent controls to reduce the impact should the risk materialise.

Function	Role
Board of Directors	Assumes overall responsibility for compliance performance
Chief Executive Officer	Provides demonstrable support to the staff with the development of compliance culture
Unit Heads	Responsible for day-to-day compliance with regulations to their units
Branch managers	Assume overall responsibility for compliance in their branches
All employees	Responsible for familiarising themselves with the regulatory requirements applicable to their business and ensuring that all transactions and activities in which they are involved are carried out in accordance with those regulations
Internal Control	Conduct independent monitoring
External Audit	Responsible for reviewing the compliance risk management process as part of their statutory audit duties.

COMPLIANCE RISK MANAGEMENT PROCESS

To ensure effective management of compliance risk, the Bank:

- develops worksheets, forms and checklists to assist the staff, as they perform their jobs, in complying with laws, regulations and rules;
- creates an extensive profile of laws, regulations and guidelines with which the Company must comply, i.e., the 'rule book';
- analyses the impact of new and amended legal and regulatory requirements, and implements such requirements;
- tracks changes to federal and state laws and regulations, and disseminates relevant information across the Company; and
- takes prompt and appropriate action to correct compliance problems that are identified through self-assessments and internal or external compliance audits.

COMPLIANCE RISK IDENTIFICATION

The Bank identifies compliance risk through several methodologies, such as:

- regular self-assessment reviews;
- data gathering from both internal and external sources; and
- internal reviews, examinations, surveys and questionnaires.

COMPLIANCE RISK MANAGEMENT AND REPORTING

The Bank utilises risk indicators to monitor the compliance risk exposure of the business units and assess the effectiveness of controls for the key risk areas. A compliance risk management plan, with responsibilities and target dates, is used to indicate how the risks identified are managed. The plan entails preventive details to lower the probability of the risk occurring and contingent controls to reduce the impact should the risk materialise.

The Head of Compliance's department is expected to report on:

- losses experienced by the Company arising from non-compliance with regulatory provisions;
- compliance risk exposures; and
- new provisions and/or directives by regulatory bodies in addition to amendments or changes to existing provisions.

OPERATIONAL RISK

The Bank's operational risk exposure is measured by:

- the number of unauthorised or improperly authorised transactions per month;
- the number of non-compliance cases per month;
- the date and number of unresolved balances in general ledger accounts;
- the age and volume of outstanding debts;
- the number of defalcations per month; and
- the number of discovered control override in a month.

OPERATIONAL RISK CONTROL

The Company's policies, processes and procedures to control, mitigate and manage material operational risks include:

- proper segregation of duties;
- staff rotation and mandatory annual leave;
- proper succession planning;
- an adequate recruitment process;
- enhanced Know Your Customer (KYC) drive and background checks on employees;
- dissemination of SMS alerts to the Bank's customers for transactions on their accounts;
- physical controls such as dual access control to safes and the strong room;
- installation of mercury lights and CCTV in the branches;
- regular staff training;
- proper handling of complaints;
- transparent disciplinary process for all erring employees;
- effective internal audit; and
- proper authorisation of transactions.

MARKET RISK

The Bank's market risk management process allows disciplined risk taking within a framework of well-defined risk appetite that enables the Bank to enhance shareholder value while maintaining competitive advantage through effective utilisation of risk capital.

The Bank manages its market risk through:

- ensuring the implementation of market risk and Board policies including credit limits;
- monitoring and provision of relevant information and data on liquidity, pricing and interest rates to the MD/CEO; and
- continual evaluation of risk appetite, communicated through risk limits and overall effectiveness of the market management process.

The Bank does not undertake any risk that cannot be managed or fully understood, especially for new products.

Where the Bank takes on any risk, full consideration is given to regulatory pronouncements guidelines or policies. The risk taken must be adequately compensated by the anticipated reward.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank does not have financial resources to meet its obligations as they fall due, or will have to meet the obligations at excessive cost. The objective of the Bank's liquidity risk management is to ensure that all anticipated funding commitments can be met when due and that access to funding sources is coordinated and cost effective.

LIQUIDITY RISK MANAGEMENT

The following principles guide liquidity risk management in FBN MFB:

- liquidity risk tolerance appropriate to the microfinance business and in line with the Central Bank's Microfinance Policy guidelines;
- alignment of risk-taking business with resultant liquidity risk exposure in performance management and new product approval process;
- sound processes for identifying, measuring, monitoring and controlling liquidity risk, including projections for cash flows arising from assets, liabilities and off-balance sheet items over an appropriate period of time;
- a clear funding strategy that provides effective diversification in the sources and tenor of funding;
- ranking and prioritisation of funding sources by stability;
- early warning indicators to aid prompt identification of liquidity risks such as concentrations either in assets or liabilities, or deterioration in quality of credit portfolio; and
- proper and effective portfolio management.

The Bank currently maintains a liquidity ratio of 121.09%.

INFORMATION SECURITY RISK

Information security risk is the risk of the Bank's information assets being accessed by unauthorised persons, leading to avoidable losses. The Bank complies with all legal regulatory, contractual and commercial requirements of information security. The Bank employs a combination of continuous monitoring, well-defined and established risk management metrics and an effective awareness programme to manage its data. The Bank has put in place processes that will ensure that confidentiality of information will be maintained across its operations and processes. The Bank is committed to preserving the integrity of information through protection from unauthorised modification, disclosure and theft. The Bank's information risk appetite is set by the Board of Directors as identified in the risk assessment methodology; it is set at a level that minimises risk to the integrity, confidentiality and availability of information assets.

INFORMATION ASSET MANAGEMENT

Security of information assets is managed as follows:

- ensuring that information assets are classified according to FBN MFB classification guidelines;
- ensuring that information assets are properly labelled;
- monitoring the security condition of information assets;
- reviewing staff logical access rights to systems and applications quarterly;
- ensuring the System Auditor reports information security incidents on a weekly basis;
- reviewing annual risk assessment of the department or branch's information assets and processes;
- reviewing the department's or branch's operating procedure annually;
- maintaining and updating the department's or branch's assets register;
- ensuring implementation of information security controls; and
- ensuring all staff receive information security awareness training before granting them access to information assets.

CREDIT RISK

Credit Risk management verifies and manages the credit process from origination to collection. In designing credit policies, due consideration is given to the bank's commitment to:

- creating, monitoring, and managing credit risk in a manner that complies with all applicable laws and regulations;
- identifying credit risk in each investment, loan or other activity of the bank;
- utilising appropriate, accurate and timely tools to measure credit risk;
- adopting a risk based approach for determining appropriate pricing for lending products and service offerings;
- setting acceptable risk parameters;
- maintaining acceptable levels of credit risk for existing individual credit exposures;
- maintaining acceptable levels of overall credit risk for the bank's portfolio; and
- coordinating credit risk management and other risks inherent in the Bank's business activities.

KEY CREDIT MONITORING FUNCTION

There must be continuous monitoring of facilities after approval and draw down. This includes keeping track of borrowers' compliance with credit terms, identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring timely repayments.

This function covers among others:

- account credit operations;
- complete satisfaction of conditions subsequent;
- repayment in line with facility terms;
- control of excesses above approved limits;
- preventing unauthorised lending; and
- collection of appropriate revenue.

SPECIFIC CREDIT MONITORING FUNCTIONS INCLUDE:

- agreeing transaction dynamics are complied with. Transaction dynamic is a major tool in Loan Control and Monitoring. It describes how a loan will be disbursed, utilised and repaid. The Bank's fallback position in the event of default will also be specified. Poor transaction dynamics makes Control and Monitoring difficult;
- repayment following the terms and conditions of loan (with negligible probability of default);
- ensuring security documentation are complete with full legal authority to take any necessary action without recourse to the customer;

- maintenance of loan documentation on memoranda, call memo, correspondence, annual and quarterly financial reports;
- ascertaining that borrower's financial conditions have not deteriorated (assessment can be made through quarterly management and annual audited accounts);
- follow-up and review of waiver, deferrals, etc;
- ensuring quality and condition of collateral is not deteriorating;
- reporting critical issues such as changing government policy that can adversely affect repayment to management;
- ensuring economic conditions in the relevant industry remain favourable (Market Intelligence to be conducted);
- conducting reviews of troubled loans are made more frequently. Whenever warning signs are manifesting, it is necessary to quickly conduct a review to ascertain what to do about the facility;
- monitoring loan maturity to be monitored for renewal ahead of the expiry date;
- monitoring the loan covenant; and
- setting remedial and recovery actions.

RESPONSIBILITIES FOR CREDIT MONITORING IN FBN MFB

The credit monitoring function is cascaded among the following officers:

a. **Field Officer** – first level monitoring covering all loans initiated by the officer.
b. **Senior Field officer** – second level monitoring for loans initiated by his team.
c. **Branch Manager** – third level monitoring for loans initiated by the service outlet.
d. **Credit Monitoring Officers at Head Office** – fourth level monitoring for all loans with past due obligations.
e. **Head, Credit Risk Management at Head Office** – fifth level monitoring for all loans with past due obligations including portfolio monitoring for service outlets.
f. **Head, Business Development** – sixth level monitoring for all loans with past due obligations including portfolio monitoring for all service outlets with non-performing loans.

The Bank will continue to pursue an aggressive but sustainable loan growth strategy by optimally exploiting the millennium development goals of the government while achieving its own strategic imperatives. It is expected that the demand for credit will be sustained, while our selection criteria will remain rigorous with pricing reflecting the risks being taken on such exposures for asset creation to make business sense. The drive to bring the portfolio-at-risk to an acceptable level will be sustained, while motivating customers to repay through various incentives. The legal and recovery unit will also continue to work with our external recovery agents and the courts to ensure the safety of our risk assets.

REPUTATIONAL RISK

We define reputational risk as the risk that may occur to earnings or capital that results from negative public opinion of FBN MFB. Reputational risk arises when a situation, occurrence, business practice or event has the potential to materially influence the public and stakeholders' perceived trust and confidence in an institution. The risk can expose the Company to litigation, financial loss or damage to its reputation.

KEY PRINCIPLES FOR THE MANAGEMENT OF FBN MFB

The following principles govern the management of reputational risk in FBN MFB:

- reputational risk as both an individual and collective responsibility of the Board and all employees;
- zero tolerance for non-compliance with laws and regulatory guidelines in all the Company's locations;
- full compliance with internal policies and management regulations;
- strict ethical behaviour by Board members and management;
- transparency and probity in management of resources;
- professionalism, ethics and corporate social responsibility; and
- effective communication of the Company's vision and strategy to all.

KEY STAKEHOLDER AND AUDIENCE FOR REPUTATIONAL RISK MANAGEMENT

The following are considered the major stakeholders and audience whose perceptions are important to managing the Company's reputation: regulatory bodies and law enforcement agents, directors, client companies, shareholders, employees (past and present), financial analysts and stockbrokers, industry competitors, news media and the general public.

RESPONSIBILITIES FOR MANAGING REPUTATIONAL RISK

The following parties have responsibilities for the management of the Company's reputational risk:

- the Board of Directors;
- the Chief Executive Officer and members of the Executive Committee of the Bank; and
- all employees.

The directors of the Bank have ultimate responsibility for the management of the Bank's reputational risk, and ensure that management conducts the affairs of the Bank in a manner consistent with the positive projection of the Bank's reputation with all stakeholders. The Board has the responsibility of:

- approving the framework of managing the Company's reputational risk;
- exercising adequate oversight over the effective implementation of risk management;
- projecting and maintaining a positive image of the Company in the industry; and
- supporting management in advancing stakeholders' interests.

RISK MANAGEMENT DISCLOSURE

The Managing Director/Chief Executive Officer of the Bank has the overall management responsibility for the Bank and its reputation and is assisted in this task by the various departmental heads.

The Bank also ensures that:

- the principles and policies guiding reputational risk management are effectively communicated to line management staff and employees;
- the Company earns the respect and confidence of all regulatory bodies in the industry;
- processes and procedures guiding the operations of the Bank are duly followed in all areas of the Bank's operations;
- all exception reports by both internal and external auditors are promptly attended to and all recommendations implemented; and
- no actions cause the Company discomfort and embarrassment.

REPUTATIONAL RISK MANAGEMENT PROCESS

The key elements of the Bank's reputational risk management process are:

- identification of reputational risk;
- measurement of reputational risk; and
- controlling and reporting reputational risks.

Measurement of reputational risk is performed periodically. It includes both analytical data and comments from the marketplace. For FBN Microfinance, measurement has been from commentaries among industry players, customers and the marketplace. The Bank's reputation is currently positive.

The methodology for measurement covers the following:

- analysis of the frequency of positive or negative publicity in the news media, especially printed media;
- analysis of reports by external examiners, including auditors, for exceptions and comparison over time of noticeable trends of improvement or deterioration;
- periodic customer forum interactions with question and answer sessions; and
- periodic administration of questionnaires to customers, competitors, regulators and other stakeholders to obtain their perception of the Bank in comparison to its peers with regard to a number of indices, including:
  - trustworthiness and reliability;
  - proactiveness and technology content;
  - management focus and competence;
  - integrity and reputation of key management, directors and customers;
  - financial health and profitability;
  - service quality and efficiency;
  - quality of staff and personnel loyalty; and
  - openness and transparency in dealing with service providers.

STRATEGIC RISK REPORTING

The following reports should be generated and reviewed by the Executive Committee for strategic risk assessment and controls:

- a business plan report – evaluating the Company's progress towards its strategic objectives and goals;
- a performance analysis report – a progress report detailing the performance of each Strategic Business Unit and/or products compared to the business plan, generated monthly;
- a competitor analysis report – a report comparing the Bank's performance with that of its peers;
- a market share analysis report – a report showing the Bank's overall performance in the market;
- a macro-economic and industry scan report; and
- a budget performance.

STRATEGIC RISK CONTROL

- The Executive Committee of the Bank ensures that strategic risk management encompasses sound planning and procedures preparation, identifiable internal controls to address strategic risk, and periodic adjustment of such controls throughout the Company.
- The Executive Committee of the Bank reviews the appropriateness of the Company's strategic risk management system, given its scope, nature and the complexity of its tasks.
- The Executive Committee of the Bank reviews the validity of scenarios used in the strategic risk management system.

REVIEW METHODOLOGY AND FRAMEWORK

Internal audit reviews the risk management process and internal controls periodically and scales the audit frequency according to the level of risk. The depth and frequency of audits have to be increased if weaknesses are found or significant changes have been made to the risk oversight process, product lines, modelling methodologies, internal controls or the Company's overall risk profile.

Independent audit coverage of the Bank's risk management framework and its underlying methodologies is conducted annually by competent professionals to ensure the timely identification of internal control weaknesses and/or system deficiencies.

For each audit assignment an audit programme is prepared. The audit programme describes the objectives as well as the outline of the audit work that is considered necessary to achieve them. It is a relatively flexible tool that will have to be adapted completely according to the risks identified. All audit procedures forming part of the assignment are documented in working papers. The working papers enable proper matching of results against audit objectives.

The Bank will continue to review its risk management strategies in line with environmental, economic and regulatory realities, while ensuring service delivery and operational excellence driven by innovative talent management.

LEGAL RISK AND FRAMEWORK

OVERVIEW

The Bank has a committed Legal Services department that is responsible for the management of its legal risk profile because of potential legal risks in all aspects of the Bank's business activities. The department is in charge of virtually all legal matters that affect the Bank and its branches within Lagos state. It manages, among other matters, litigation, contract and security documentation of the Bank. The department also handles loan recovery where it interfaces with defaulting customers, law enforcement agencies and regulatory bodies for the possible recovery of bad debts.

APPROACH

Legal risk management is controlled in the Bank through:

- recognising potential legal risks;
- establishing or pre-empting the degree of possible harm where the potential legal risks occur;
- measuring the risks and impact of the current Bank's controls;
- prioritising according to the risk appetite of the Bank;
- instituting controls to reduce or eliminating the risks as determined by the Bank's risk appetite; and
- monitoring the controls to ensure effectiveness.

This approach guarantees effective management and control of the Bank's policies and operational guidelines, as well as bringing the Bank and its employees a true appreciation of the legal constraints affecting its business activities.

GOVERNANCE

The Legal Services department reports directly to the Business Development Manager. Currently, there are no separate units within the department. However, there is a plan for expansion in the coming year and this has been factored into the 2013 budget of the Bank.

Be that as it may, the department diligently handles the following:

- **contracts and documentation** preparing and reviewing transaction documentation, especially for the Bank's institutional and corporate clients;
- **litigation** monitoring and managing the Bank's litigation portfolio, including the evaluation, recommendation and pursuit of alternative dispute resolution mechanisms with extensive external counsel interface; and
- **security documentation and management** documenting and perfecting the various vehicles used to secure credit facilities extended to the Bank's customers.

FINANCIAL STATEMENTS

Our financial statements for the year ended 31 December 2013 have been prepared in accordance with the International Financial Reporting Standards (IFRS).

GENERAL INFORMATION

BOARD OF DIRECTORS:	Francis Gbenga Shobo	Chairman
	Pauline Nsa	Managing Director/CEO
	Bernadine Okeke	
	Dahiru Chadi	
MANAGEMENT:	Pauline Nsa	Managing Director/CEO
SECRETARY:	Safiya Hassan	Company Secretary
REGISTERED OFFICE:	305, Herbert Macaulay Way Yaba Lagos	
AUDITORS:	Akintola Williams Deloitte Chartered Accountants 235, Ikorodu Road Ilupeju Lagos	
BANKERS:	First Bank of Nigeria Limited	

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report on the affairs of FBN Microfinance Bank Limited (FBN MFB) together with FBN MFB's audited financial statements and auditor's report for the year ended 31 December 2013.

LEGAL FORM

FBN MFB was incorporated in Nigeria on 18 March 2008 under the provisions of the Companies and Allied Matters Act CAP C20 LFN 2004 with registration number RC 736874. It was licensed to carry on the business of microfinance banking on 25 August 2008 by the Central Bank of Nigeria.

The authorised share capital was increased to ₦2.0 billion and the issued share capital increased to ₦2.0 billion which has been fully paid.

PRINCIPAL ACTIVITY

FBN MFB's principal activity is to carry on business as a microfinance bank, providing financial services to micro, small and medium-scale enterprises and other people on low incomes in Nigeria in the form of working capital and loans. FBN MFB is eligible to accept deposits from individuals, groups and organisations and also raise finance in accordance with the CBN regulations and guidelines on microfinance banks.

OPERATING RESULTS

Highlights of FBN MFB's operating results for the year under review are as follows:

	2013 ₦'000
Profit before taxation	175,229
Taxation	(92,662)
Profit after taxation	**82,567**
APPROPRIATION:	
Transfer to statutory reserve	41,283
Transfer to general reserve	41,284
	82,567
Earnings per share – basic (kobo)	4

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:

Francis Shobo – Chairman

Bernadine Okeke – Member

Dahiru Chadi – Member

Pauline Nsa – Managing Director/Chief Executive Officer

The directors are representatives of the institutional investors who are the shareholders of FBN MFB. The directors do not have any interest in their personal capacity, which is required to be disclosed under Section 275 of the Companies and Allied Matters Act.

REPORT OF THE DIRECTORS

SHAREHOLDING

The shareholders of FBN MFB as at 31 December 2013 and the irrespective shareholding are as follows:

Shareholder	Number of shares held	%
ISSUED AND FULLY PAID:		
FBN Holdings Plc	2,000,000,000	100

REPORT OF THE DIRECTORS

DIRECTORS' RESPONSIBILITIES

In accordance with the provisions of Sections 334 and 335 of the Companies and Allied Matters Act, Sections 24 and 28 of the Banks and Other Financial Institutions Act CAP B3 LFN 2004 and the CBN Regulatory and Supervisory Framework for microfinance banks, the Directors are responsible for the preparation of annual financial statements which give a true and fair view of the state of affairs of FBN MFB and the profit or loss for the financial year.

In doing so, they ensure that:

(a) appropriate internal controls are established both to safeguard the assets of FBN MFB and to prevent and detect fraud and other irregularities;

(b) FBN MFB keeps accounting records, which disclose with reasonable accuracy the financial position of FBN MFB and which ensure that the financial statements comply with the requirements of the International Financial Reporting Standards, Companies and Allied Matters Act of Nigeria, Banks and Other Financial Institutions Act of Nigeria and the Central Bank of Nigeria Regulatory and Supervisory Framework for Microfinance Banks;

(c) all applicable accounting standards are followed;

(d) judgements and estimates made are reasonable and prudent; and

(e) the going-concern basis is used, unless it is inappropriate to presume that FBN MFB will continue in business.

FIXED ASSETS

Information relating to changes in fixed assets is given in note 17 on page 52 to the financial statements.

EMPLOYMENT OF DISABLED PERSONS

FBN MFB operates a non-discriminatory policy in the consideration of applications for employment including those received from disabled persons. FBN MFB's policy is to recruit the most well-qualified candidates for appropriate job levels irrespective of an applicant's disability status. In the event of members of staff becoming disabled, every effort will be made to ensure that their employment with FBN MFB continues and that appropriate training is arranged. It is the policy of FBN MFB that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

HEALTH, SAFETY AND WELFARE AT WORK

FBN MFB maintains business premises designed with a view to guaranteeing the safety and healthy living conditions of its employees and customers alike. Employees are adequately insured against occupational and other hazards.

EMPLOYEE INVOLVEMENT AND TRAINING

FBN MFB's policy with regard to employee involvement and training is to encourage participation of employees in arriving at decisions in respect of matters affecting their well-being.

Towards this end, FBN MFB provides opportunities where employees deliberate on issue affecting FBN MFB and employee interests, with a view to making inputs to decisions thereon. FBN MFB places a high premium on the development of its manpower. Consequently, FBN MFB sponsored its employees for various training courses in the year under review.

AUDITORS

Akintola Williams Deloitte has indicated their willingness to continue in office in accordance with section 357(2) of the Companies and Allied Matters Act.

By order of the Board
29 April 2014

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF FBN MICROFINANCE BANK LIMITED

Deloitte.

We have audited the accompanying financial statements of FBN Microfinance Bank Limited which comprise the statement of financial position as at 31 December 2013, 31 December, 2012 and 1 January, 2011 the statement of profit or loss and other comprehensive income, statement of changes in equity, cash flow statement for the years ended 31 December 2013 and 31 December, 2012, a summary of significant accounting policies and other explanatory information set out on pages 35 to 77.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards, the Companies and Allied Matters Act CAP C20 LFN 2004, the Banks and other Financial Institutions Act CAP B3 LFN 2004, the Financial Reporting Council of Nigeria Act No 6, 2011, Regulatory and Supervisory Framework for Microfinance Banks, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

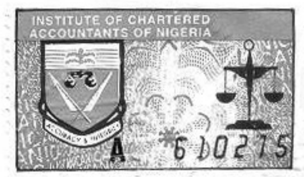
OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of FBN Microfinance Bank Limited as at 31 December 2013, 31 December 2012 and 1 January, 2011 and the financial performance and cash flows for the years then ended 31 December 2013 and 31 December 2012 in accordance with the International Financial Reporting Standards, the Companies and Allied Matters Act CAP C20 LFN 2004, the Banks and other Financial Institutions Act CAP B3 LFN 2004, the Financial Reporting Council of Nigeria Act No 6, 2011 and Regulatory and Supervisory Framework for Microfinance Banks.

OTHER REPORTING RESPONSIBILITIES

The bank has complied with the requirements of the relevant circulars issued by Central Bank of Nigeria. In accordance with circular BSD/1/2004 issued by the Central Bank of Nigeria, details of insider-related credits and other balances have been disclosed in note 28 of the financial statements.

No contravention of the Banks and Other Financial Institutions Act CAP B3 LFN 2004 by the Bank came to our knowledge during the year ended 31 December 2013.



David Achugamonu, FCA
FRC/2013/ICAN/00000000840

For: Akintola Williams Deloitte
Chartered Accountants
Lagos, Nigeria
29 April 2014

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Interest income	4	949,665	1,067,796
Interest expense	5	(45,446)	(14,442)
Net interest income		904,219	1,053,354
Impairment charge for credit losses	6	(15,395)	(45,613)
Net interest income after impairment charge for credit losses		888,824	1,007,741
Net fee and commission income	7	22,104	59,302
Other operating income	8	131,288	75,937
Operating expenses	9	(866,987)	(817,051)
Profit before tax		175,229	325,929
Income tax expense	10	(92,662)	(129,781)
Profit for the year		82,567	196,148
Profit for the year attributable to:			
Owners of the parent		82,567	196,148
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employee benefit obligations	23	4,491	(1,977)
Other comprehensive loss for the year, net of tax		4,491	(1,977)
Total comprehensive income for the year		87,058	194,171
Total comprehensive income for the year attributable to:			
Owners of the parent		87,058	194,171
Earnings per share for profit attributable to owners of the parent			
Basic and diluted earnings per share (kobo)	11	4	20

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
ASSETS				
Cash and bank balances	12	**232,517**	207,141	200,269
Due from other banks	13	**6,035,399**	3,435,087	5,992,510
Loans and advances to customers	14	**1,370,218**	1,561,587	1,360,064
Held-to-maturity financial assets	15	**148,742**	98,528	49,360
Prepayments and other assets	16	**107,628**	163,751	149,116
Property and equipment	17	**250,218**	264,940	275,215
Deferred tax asset	22	**16,969**	-	-
Intangible assets	18	**1,072**	563	31,030
Total assets		**8,162,763**	5,731,597	8,057,564
LIABILITIES				
Deposits from banks	19	**4,514,122**	3,312,313	5,798,448
Deposits from customers	20	**1,016,471**	824,186	857,930
Bank borrowings - overdraft	21	**-**	-	92,054
Current income tax liability	10.1	**127,515**	145,049	56,203
Deferred tax liability	22	**-**	17,883	46,583
Retirement benefit obligations	23	**94,233**	65,340	40,110
Other liabilities	24	**176,790**	168,054	161,635
Total liabilities		**5,929,131**	4,532,825	7,052,963
EQUITY				
Share capital	25	**2,000,000**	1,000,000	1,000,000
Statutory reserve	26	**250,785**	209,502	116,060
Statutory credit reserve	27	**3,240**	39,029	27,338
Retained earnings		**(20,393)**	(49,759)	(138,797)
Total equity		**2,233,632**	1,198,772	1,004,601
Total equity and liabilities		**8,162,763**	5,731,597	8,057,564

These financial statements were approved and authorised for issue by the Board of Directors on 25 April 2014 and signed on its behalf by:

Pauline Nsa
FRC/2013/CIBN/00000005253
Managing Director\CEO

Francis Shobo
FRC/2013/ICAN\00000002330
Chairman

Tony Ozore
FRC/2013/ICAN\00000005387
Chief Finance Officer

STATEMENT OF CHANGES IN EQUITY

	Share capital ₦'000	Statutory reserve ₦'000	Retained earnings ₦'000	Statutory credit reserve ₦'000	Total ₦'000
Balance at 1 January 2013	1,000,000	209,502	(49,759)	39,029	1,198,772
Profit for the year	-	-	82,567	-	82,567
Other comprehensive income	-	-	4,491	-	4,491
Total comprehensive income	-	-	87,058	-	87,058
Transaction with owners					
Issue of new shares***	1,000,000	-	-	-	1,000,000
Transfer between reserves*	-	41,283	(41,283)	-	-
Transfer from loan loss provision**	-	-	35,789	(35,789)	-
Dividend paid	-	-	(52,198)	-	(52,198)
Total transaction with owners	1,000,000	41,283	(57,692)	(35,789)	947,802
At 31 December 2013	2,000,000	250,785	(20,393)	3,240	2,233,632
Balance at 1 January 2012	1,000,000	116,060	(138,797)	27,338	1,004,601
Profit for the year	-	-	196,148	-	196,148
Other comprehensive income	-	-	(1,977)	-	(1,977)
Total comprehensive income	-	-	194,171	-	194,171
Transactions with owners					
Transfers between reserves*	-	93,442	(93,442)	-	-
Transfer to statutory credit reserve**	-	-	(11,691)	11,691	-
Total transactions with owners	-	93,442	(105,133)	11,691	-
At 31 December 2012	1,000,000	209,502	(49,759)	39,029	1,198,772

* The Central Bank of Nigeria requires all microfinance banks to make an annual appropriation to a statutory reserve. This transfer is to comply with Section 18.1.7 of the revised regulatory and supervisory guidelines for microfinance banks in Nigeria.

** The Prudential guidelines on loan loss provisioning stipulate that the excess of the Prudential guidelines-based provision over the provision determined in line with IAS 39 must be credited to a statutory credit reserve. In the subsequent periods the excess of the IAS 39-based provision over the Prudential guidelines-based provision shall be transferred from the statutory credit reserve to retain earnings, to the extent that the reserve shall not become negative.

** An additional 1,000,000,000 shares were issued during the year at ₦1 per share. The additional shares were issued at par.

STATEMENT OF CASH FLOWS

	Note	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Cash flows from operating activities	32	1,903,705	(2,300,636)
Income tax paid	10.1	(145,049)	(69,635)
Net cash provided by\(used in) operating activities		1,758,656	(2,370,271)
Cash flows from investing activities			
Purchase of property, plant and equipment	17	(32,643)	(39,362)
Disposal of property, plant and equipment		3,152	655
Purchase of intangible assets	18	(1,065)	(351)
Net cash used in investing activities		(30,556)	(39,058)
Cash flows from financing activities			
Inflow from issue of shares	25	1,000,000	-
Dividend paid during the year		(52,198)	-
Net cash provided by financing activities		947,802	-
Increase in cash and cash equivalents		2,675,902	(2,409,329)
Cash and cash equivalents at start of year		3,740,756	6,150,085
Cash and cash equivalents at end of year	12.1	6,416,658	3,740,756

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

FBN Microfinance Bank Limited (FBN MFB) is a microfinance bank incorporated in Nigeria on the 18th of March 2008 under the provisions of the Companies and Allied Matters Act CAP C20 LFN 2004 with registration number 736874. It is licensed to carry on the business of microfinance banking by the Central Bank of Nigeria.

The principal activity of FBN MFB is the provision of banking and other financial services to individual customers and small business owners.

The address of its registered office and principal place of business is 305 Macaulay Way, Yaba, Lagos, Nigeria.

The financial statements for the year ended 31 December 2013 were authorised for issue by the Board of Directors on 24 April 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Additional information required by national regulations is included where appropriate.

These are the first annual financial statements of FBN MFB prepared in accordance with IFRS and IFRS 1. First-time adoption of IFRS has been applied.

The impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies is disclosed in note 34.

The financial statements comprise the statement of profit or loss and other comprehensive income shown as one statement, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements.

The financial statements are presented in naira, which is FBN MFB's functional and presentational currency. The figures shown in the financial statements are stated in thousands.

The disclosures on risks arising from financial instruments are presented in the financial risk management report contained in these financial statements.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted

The following standards have been adopted by FBN MFB for the first time for the financial year beginning on 1 January 2013 and have a material impact on FBN MFB.

IAS 19, 'Employee benefits', was revised in June 2011. The changes to FBN MFB's accounting policies have been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

IAS 1, 'Financial statement presentation', was amended in regards to other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The impact of this amendment is a change in the presentation of the statement of profit or loss and other comprehensive income

There are no other IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2013 that would be expected to have a material impact on FBN MFB.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these annual financial statements. None of these is expected to have a significant effect on the financial statements of FBN MFB, except the following set out below.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of profit or loss and other comprehensive income, unless this creates an accounting mismatch. FBN MFB is yet to assess IFRS 9's full impact.

Amendments to IAS 32, 'Offsetting financial assets and financial liabilities', clarify the requirements to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legal enforceable right of set-off' and simultaneous realisation and settlement'.

The Directors of FBN MFB do not anticipate that the application of these amendments to IAS 32 will have a significant impact on its financial statements as FBN MFB does not have any financial assets and financial liabilities that qualify for offset.

NOTES TO THE FINANCIAL STATEMENTS

(c) Early adoption of standards

FBN MFB did not early adopt new or amended standards which are effective from 1 January 2014 and beyond.

2.2 FINANCIAL ASSETS AND LIABILITIES

FBN MFB initially recognises financial instruments on the date at which they are originated. All financial instruments (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which FBN MFB becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

In accordance with IAS 39, 'Financial instruments: recognition and measurement', all financial assets and liabilities have to be recognised in the statement of financial position and measured in accordance with their assigned category.

2.2.1 Financial assets

FBN MFB's financial assets were classed into the following IAS 39 categories: loans and receivables and held-to-maturity investments.

Management determines the classification of its financial instruments at initial recognition depending on the nature and purpose of financial assets and management intentions.

(a) Loans and receivables

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

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

ii) those that FBN MFB, upon initial recognition, designates as available for sale; or

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

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Interest on loans and receivables are included in the statement of profit and loss and reported as 'interest income'.

FBN MFB's financial assets, classified as loans and receivables to banks and customers, include staff loans, cash and bank balances.

(b) Held-to-maturity financial assets

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

i) those that FBN MFB, upon initial recognition, designates as at fair value through profit or loss;

ii) those that FBN MFB designates as available for sale; and

iii) those that meet the definition of loans and receivables.

These are initially recognised at fair value, including direct and incremental transaction costs, and measured subsequently at amortised cost, using the effective interest method. Interest on held-to-maturity financial assets is included in the statement of profit and loss and reported as 'interest income'.

FBN MFB's held-to-maturity investments are treasury bills at the reporting dates presented.

2.2.2 Financial liabilities

FBN MFB's holding in financial liabilities is those measured at amortised cost.

(a) Other financial liabilities

Other financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks, deposits from customers and short-term bank borrowings. Interest on other liabilities is included in the statement of profit and loss and reported as 'interest expense'.

2.2.3 Derecognition

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

NOTES TO THE FINANCIAL STATEMENTS

2.2.4 Reclassification of financial assets

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

FBN MFB may reclassify a financial instrument when its intentions and the characteristics of the financial instrument change.

2.3 OFFSETTING FINANCIAL INSTRUMENTS

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

2.4 DETERMINATION OF FAIR VALUE

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (for example, NSE) and broker quotes from Bloomberg and Reuters.

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

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, volatilities and counterparty spreads) existing at the dates of the statement of financial position.

The estimated fair value of loans and advances represents an estimation of the value of the loans using average benchmarked lending rates which were adjusted for specific entity risks based on history of losses.

2.5 IMPAIRMENT OF FINANCIAL ASSETS

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

The criteria that FBN MFB uses to determine that there is objective evidence of an impairment loss include existence of the following circumstances:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- breach of loan covenants or conditions;
- initiation of bankruptcy proceedings;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral;
- downgrading below investment grade level;
- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including: adverse changes in the payment status of borrowers in the portfolio; and national or local economic conditions that correlate with defaults on the assets in the portfolio.

FBN MFB first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Company's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

Impairment charges relating to loans and advances to banks and customers are classified in "impairment charges for credit losses". The impairment charge for other assets is included in other operating expenses

2.6 COLLATERAL

FBN MFB obtains collateral from customers, where appropriate, to manage their credit risk exposure to the customer. The collateral normally takes the form of a lien over the customer's assets and gives the Company a claim on these assets for both existing and future customers in the event that the customer defaults.

Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. Collateral received in other forms is not recorded on the statement of financial position. These items are assigned to deposits received from banks or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

2.7 REVENUE RECOGNITION

(a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the statement of profit or loss using the effective interest method.

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

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

(b) Fees and commission income

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to effective interest arising from loan application fees, commission on turnover and cash handling charges.

2.8 CASH FLOWS STATEMENT

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

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

The cash flows from investing and financing activities are determined by using the direct method. FBN MFB's assignment of the cash flows to operating, investing and financing categories depends on FBN MFB's business model (management approach).

For the purposes of the cash flow statement, cash and cash equivalents include cash, treasury bills and bank overdrafts. In the statement of financial position bank overdrafts are shown as bank borrowings - overdraft in current liabilities.

NOTES TO THE FINANCIAL STATEMENTS

2.9 LEASES

Leases are divided into finance leases and operating leases.

(a) FBN MFB is the lessee

(i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) Finance lease

Leases of assets where the Company has substantially all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(b) FBN MFB is the lessor

(i) Operating lease

When assets are subject to an operating lease, the assets continue to be recognised as property and equipment based on the nature of the asset. Lease income is recognised on a straight-line basis.

(ii) Finance lease

When assets are held subject to a finance lease, the related asset is derecognised and the present value of the lease payments (discounted at the interest rate implicit in the lease) is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

2.10 PROPERTY AND EQUIPMENT

All property, plant and equipment used by FBN MFB is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to FBN MFB and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	2%
Furniture and fittings	20%
Office equipment	20%
Motor vehicle	25%
Computer equipment	33%

The assets' residual values and useful lives are reviewed annually, and adjusted if appropriate. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment charges are recognised in the income statement under operating expenses.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the statement of profit or loss. Payments in advance for items of property and equipment are included as prepayments - property, plant and equipment, and upon delivery are reclassified as additions in the appropriate category of property and equipment.

NOTES TO THE FINANCIAL STATEMENTS

2.11 INTANGIBLE ASSETS

Computer software

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

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

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis over three years and are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when the carrying amount exceeds its recoverable amount.

2.12 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

2.13 INCOME TAXATION

(a) Current income tax

Income tax is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the period except for current tax related 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).

(b) Deferred income tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and for carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses, can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, for which deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The principal temporary differences arise from depreciation of property, plant and equipment provisions for pensions and other post-retirement benefits 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 or loss.

NOTES TO THE FINANCIAL STATEMENTS

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 statement of financial position 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 FBN MFB and it is probable that the difference will not reverse in the foreseeable future. FBN MFB has no investments in subsidiaries or associates.

Deferred tax related to fair value re-measurement of equity instruments, which are recognised in other comprehensive income, is also recognised in the other comprehensive income and subsequently in the profit or loss together with the deferred gain or loss. FBN MFB had no equity investments at the reporting date.

2.14 EMPLOYEE BENEFITS

(a) Defined contribution scheme

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The company 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.

FBN MFB pays contributions to publicly or privately administered pension insurance plans on a contractual basis. FBN MFB has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. Amounts outstanding as at year end are included in the retirement benefit obligation balance on the statement of financial position.

(b) Defined benefit scheme

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.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise as remeasurement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise as remeasurement.

2.15 PROVISIONS

Provisions are recognised for present obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

Where there are 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. The increase in the provision due to passage of time is recognised as interest expense.

2.16 SHARE CAPITAL AND RESERVES

(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 FBN MFB's shareholders.

Dividends for the year that are declared after the date of the statement of financial position are dealt with in the subsequent events note.

NOTES TO THE FINANCIAL STATEMENTS

(c) Retained earnings

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

Statutory reserve

The Central Bank of Nigeria requires all microfinance banks to make an annual appropriation to a statutory reserve. As stipulated in Section 18.1.7 of the revised regulatory and supervisory guidelines for microfinance banks in Nigeria:

- an appropriation of 50% of profit after tax is made if the statutory reserve is less than the paid-up share capital;
- 25% of profit after tax if the reserve is 50% or more; and
- 12.5% of profit after tax if the statutory reserve is greater than the paid-up share capital.

(d) Statutory credit reserve

The company determines its loan loss provisions based on the requirements of IFRS. The difference between the loan loss provision as determined under IFRS and the provision as determined under Nigerian Prudential guidelines (as prescribed by the Central Bank of Nigeria) is recorded in this reserve. This reserve is non-distributable.

Classification	Provision requirement	Basis
Performing	1%	Interest/Principal not due
Pass and Watch	5%	Interest/Principal overdue by 1 day but less than 31 days
Substandard	20%	Interest/Principal overdue by 31 days but less than 61 days
Doubtful	50%	Interest/Principal overdue by 61 days but less than 91 days
Lost	100%	Interest/Principal overdue by 91 days and above

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

The results of the application of the Prudential guidelines and the impairment determined for these assets under IAS 39 are compared. The IAS 39-determined impairment charge is always included in the statement of profit or loss in all cases.

Where the Prudential guidelines' provision for doubtful balances is greater, the difference is appropriated from retained earnings and included in a non-distributable reserve "Statutory Credit Reserve" (SCR).

Where the IFRS-computed impairment is greater and there is no credit balance in the SCR, no appropriation is made and the IFRS-computed amount is recognised in the statement of profit or loss. Where there is a credit balance in the SCR, a transfer is made to the retained earnings to the extent of the difference between IFRS impairments and NGAAP provision figures.

2.17 MANAGED FUNDS

Managed funds refers to funds that FBN MFB received from the Lagos State Microfinance Institution (LASMI), an agency of the Lagos State Government, for disbursement to qualifying people, as part of the LASMI policy of assisting the less privileged and small-scale peasant farmers through microcredit schemes.

The arrangement requires FBN MFB to facilitate the disbursement and monitoring of seven-year-term loans on behalf of LASMI to qualifying indigenes of Lagos State that have been trained under the Lagos State Agricultural Youth Empowerment Scheme. The arrangement is effectively one in which FBN MFB acts as an agent in the disbursement of the funds to beneficiaries through designated co-operative societies as may be instructed by LASMI, and assists in the collection of interest and principal due on a best-effort basis. FBN MFB carries no credit risk in case of defaults on this loan and it is not significantly exposed to the risk and reward of ownership. Additionally, FBN MFB will earn commission income on a predetermined basis as fee for the service of facilitating the transaction between LASMI and the co-operative societies.

At 31 December 2013, no income had been earned from this arrangement as repayments by the borrowers were yet to commence. At 31 December 2013, no income had been earned from this arrangement as repayments by the borrowers were yet to commence.

As FBN MFB is effectively an agent and not significantly exposed to the risk and reward of ownership, the funds received and the funds disbursed would not be recognised in the statement of financial position of FBN MFB as at year end.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

FBN MFB's IFRS financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of these IFRS financial statements. FBN MFB makes estimates and assumptions that affect the reported amounts of assets and liabilities within the 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 FBN MFB's results and financial situation due to their materiality.

NOTES TO THE FINANCIAL STATEMENTS

(a) Impairment charges on financial assets

FBN MFB reviews its loan portfolios for impairment on an ongoing basis. FBN MFB first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant together with significant assets assessed individually as not impaired. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Management uses estimates based on historical loss experience for assets with credit-risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The use of historical loss experience is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from that suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the statement of financial position date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment loss derived solely from historical loss experience.

The detailed methodologies, areas of estimation and judgement applied in the calculation of FBN MFB's impairment charge on financial assets are set out in the financial risk management section.

(b) Held-to-maturity investments

In accordance with IAS 39 guidance, FBN MFB classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, FBN MFB evaluates its intention and ability to hold such investments to maturity. If FBN MFB were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – FBN MFB is required to reclassify the entire category as available for sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

(c) Retirement benefit obligation

For defined-benefit pension plans, the measurement of FBN MFB's benefit obligation and net periodic pension cost/(income) requires the use of certain assumptions, including, among others, estimates of discount rates and expected return on plan assets. See Note 23, "Retirement benefits obligation," for a description of the defined-benefit plans. An actuarial valuation is performed by actuarial valuation experts on an annual basis to determine the retirement benefit obligation of FBN MFB.

4 INTEREST INCOME

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Placements and short-term funds	169,233	75,683
Investment securities	11,855	7,407
Loans and advances	768,577	984,706
	949,665	1,067,796

Interest income on loans and advances carried at amortised cost which allocates interest, and direct and incremental fees and costs, over the expected lives of the liabilities.

5 INTEREST EXPENSE

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Current accounts	1	3
Savings accounts	42,490	8,797
Time deposits	2,955	5,642
	45,446	14,442

Interest expense carried at amortised cost is calculated using the effective interest rate method which allocates interest, and direct and incremental fees and costs, over the expected lives of the liabilities.

NOTES TO THE FINANCIAL STATEMENTS

6 IMPAIRMENT CHARGE FOR CREDIT LOSSES LOANS AND ADVANCES TO CUSTOMERS

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
(Decrease)\Increase in specific impairment for loans and advances	(48,868)	36,209
Increase in collective impairment for loans and advances	65,023	12,389
Income recovered from previously written-off loans	(760)	(2,985)
	15,395	45,613

7 FEE AND COMMISSION INCOME

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Commission	11,419	16,911
Other fee income and commission	17,948	44,624
	29,367	61,535
Fee and commission expense	(7,263)	(2,233)
Net fee and commission income	22,104	59,302

Fee and commission income excludes amounts included in determining the effective interest rate on financial assets measured at amortised cost and liabilities that are not at fair value through profit or loss.

8 OTHER OPERATING INCOME

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
SMS and service charges	8,349	10,828
Cash handling charges	799	1,845
Booklet issuance	3,488	3,800
Other income	118,337	60,250
Gain/(loss) on sale of property, plant and equipment	315	(786)
	131,288	75,937

9 OPERATING EXPENSES

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Maintenance	26,244	24,946
Directors' remuneration	4,730	4,374
Auditors'/Consultancy remuneration	10,288	4,700
Depreciation and amortisation (note 9.1)	45,084	79,669
Employee benefit expense (note 9.2)	434,715	407,565
Insurance premium	13,308	13,756
Advert and corporate promotions	23,118	23,031
Legal and other professional fees	18,460	6,212
Donations and subscriptions	1,240	300
Rents and rates	54,162	45,091
Stationery and printing	9,540	7,026
Statutory fees	21,239	6,500
Other operating expenses	204,848	190,934
Fraud and forgery	-	1,736
Impairment of other assets	11	1,211
Operating expenses	866,987	817,051

NOTES TO THE FINANCIAL STATEMENTS

9.1 DEPRECIATION AND AMORTISATION

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Depreciation	44,528	48,851
Amortisation	556	30,818
	45,084	79,669

Amortisation arises from computer software which has been classified as an intangible asset.

9.2 EMPLOYEE BENEFIT EXPENSE

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Salaries and wages	395,158	364,055
Pension costs:		
- Defined benefit contribution	11,050	21,712
- Defined benefit plans (note 23)	28,507	21,798
	434,715	407,565

10 INCOME TAX EXPENSE

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Current tax:		
Current taxes on profit for the year	127,515	122,645
Adjustment in respect to prior years	-	35,836
Total current tax	127,515	158,481
Movement in deferred tax provision for the year	(34,853)	(28,700)
Total deferred tax	(34,853)	(28,700)
Income tax expense	92,662	129,781

Reconciliation of effective tax rate		
Profit before income tax	176,981	325,929
Income tax @30%	53,094	97,779
Tax effects of:		
Expenses not deductible for tax purposes	74,541	7,840
Education tax levy	8,230	9,308
Income not subject to tax	(4,177)	(4,013)
Tax incentives	(4,173)	(16,969)
Adjustment for under provided in prior years	-	35,836
Tax charge	127,515	129,781

10.1 MOVEMENT IN CURRENT INCOME TAX LIABILITY

At 1 January	145,049	56,203
Charge for the year	127,515	158,481
Payments during the year	(145,049)	(69,635)
At 31 December	127,515	145,049

NOTES TO THE FINANCIAL STATEMENTS

11 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Basic and diluted earnings per share	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Profit/(loss) attributable to equity holders of the Company	82,567	196,148
Weighted average number of ordinary shares in issue (in '000s)	2,000,000	1,000,000
Basic earnings per share (expressed in kobo per share)	4	20

The Company does not have potential ordinary shares with convertible options. Hence, basic and diluted EPS are the same.

12 CASH AND BANK BALANCES

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Cash	61,134	62,465	57,501
Current account balances	171,383	144,676	142,768
Cash and cash balances	232,517	207,141	200,269

12.1 CASH AND CASH EQUIVALENTS

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Cash and cash equivalents comprise of:			
Cash (note 12)	232,517	207,141	200,269
Due from other banks (note 13)	6,035,399	3,435,087	5,992,510
Treasury bills (note 15)	148,742	98,528	49,360
Bank borrowings - overdraft (note 21)	-	-	(92,054)
Total cash and cash equivalents	6,416,658	3,740,756	6,150,085

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, bank overdraft, deposits held at call with other banks and other short-term highly liquid investments with original maturities less than three months.

13 DUE FROM OTHER BANKS

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Placements with banks	6,035,399	3,320,774	5,992,510
Placements with other financial institutions	-	114,313	-
Carrying amount	6,035,399	3,435,087	5,992,510
Current	6,035,399	3,435,087	5,992,510
Non-current	-	-	-
Total	6,035,399	3,435,087	5,992,510

NOTES TO THE FINANCIAL STATEMENTS

14 LOANS AND ADVANCES TO CUSTOMERS

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Term loans	1,447,290	1,616,211	1,373,286
Staff loans	15,587	21,880	14,684
	1,462,877	1,638,091	1,387,970
Impairment	(92,659)	(76,504)	(27,906)
Net Loan	1,370,218	1,561,587	1,360,064
Current	1,462,877	1,638,091	1,387,970
Non-current	-	-	-
	1,462,877	1,638,091	1,387,970

14.1 RECONCILIATION OF IMPAIRMENT ALLOWANCE ON LOANS AND ADVANCES TO CUSTOMERS

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Specific allowance for impairment		
Balance as at 1 January	61,823	25,614
Impairment loss for the year		
Charge/(write back) for the year	(48,868)	36,209
Balance as at 31 December	12,955	61,823
Collective allowance for impairment		
Balance as at 1 January	14,681	2,292
Impairment loss for the year		
Charge for the year/(write back)	65,023	12,389
Balance as at 31 December	79,704	14,681
Total impairment	92,659	76,504

14.2 NATURE OF SECURITY IN RESPECT OF LOANS AND ADVANCES TO CUSTOMERS:

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Secured against real estate	64,968	-	-
Secured by shares of quoted companies	-	-	-
Otherwise secured	1,397,909	1,638,091	1,387,970
Unsecured	-	-	-
	1,462,877	1,638,091	1,387,970

15 HELD-TO-MATURITY FINANCIAL ASSETS

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Treasury bills - held to maturity	148,742	98,528	49,360
Current	148,742	98,528	49,360
Non-current	-	-	-
	148,742	98,528	49,360

NOTES TO THE FINANCIAL STATEMENTS

16 PREPAYMENT AND OTHER ASSETS

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Prepayments			
Prepayments - rent	-	73,506	96,474
Prepayments - property, plant and equipment	5,002	3,292	11,240
Prepayments - others	60,286	5,779	3,220
Prepaid employee benefit	9,361	5,347	1,013
	74,649	87,924	111,947
Other assets			
Other receivables	12,103	7,203	2,051
Stock of cheques and stationery	22,388	70,125	35,408
	34,491	77,328	37,459
Less: specific allowances for impairment	(1,512)	(1,501)	(290)
	32,979	75,827	37,169
	107,628	163,751	149,116

16.1 RECONCILIATION OF IMPAIRMENT ALLOWANCE ON OTHER ASSETS

	₦'000	₦'000
At 1 January	1,501	290
Charge for the year	11	1,211
At 31 December	1,512	1,501

17 PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings ₦'000	Land ₦'000	Furniture and fittings ₦'000	Office equipment ₦'000	Computer equipment ₦'000	Motor vehicles ₦'000	Total ₦'000
Cost							
At 1 January 2013	123,808	57,804	29,141	78,104	71,555	45,759	406,171
Additions	250	-	2,723	15,415	5,703	8,552	32,643
Disposals	-	-	-	(6,194)	(220)	(17,473)	(23,887)
At 31 December 2013	124,058	57,804	31,864	87,325	77,038	36,838	414,927
Accumulated depreciation							
At 1 January 2013	8,446	-	15,243	37,215	55,956	24,371	141,231
Charge for the year	2,478	-	6,080	16,285	9,929	9,756	44,528
Disposals/write-offs	-	-	-	(3,762)	(158)	(17,130)	(21,050)
At 31 December 2013	10,924	-	21,323	49,738	65,727	16,997	164,709
Cost							
At 1 January 2012	123,808	57,804	24,959	67,640	60,481	33,558	368,250
Additions	-	-	4,182	10,464	11,074	13,642	39,362
Disposals/write-offs	-	-	-	-	-	(1,441)	(1,441)
At 31 December 2012	123,808	57,804	29,141	78,104	71,555	45,759	406,171

NOTES TO THE FINANCIAL STATEMENTS

	Leasehold buildings ₦'000	Land ₦'000	Furniture and fittings ₦'000	Office equipment ₦'000	Computer equipment ₦'000	Motor vehicles ₦'000	Total ₦'000
Accumulated depreciation							
At 1 January 2012	5,960	-	9,718	22,513	40,110	14,734	93,035
Charge for the year	2,486	-	5,525	14,702	15,846	10,292	48,851
Disposals	-	-	-	-	-	(655)	(655)
At 31 December 2012	8,446	-	15,243	37,215	55,956	24,371	141,231
Carrying value							
At 31 December 2013	**113,134**	**57,804**	**10,541**	**37,587**	**11,311**	**19,841**	**250,218**
At 31 December 2012	115,362	57,804	13,898	40,889	15,599	21,388	264,940
At 31 December 2011	117,848	57,804	15,241	45,127	20,371	18,824	275,215

18 INTANGIBLE ASSETS

Cost	Computer Software ₦'000	Total ₦'000
At 1 January 2012	116,109	116,109
Additions	351	351
At 31 December 2012	116,460	116,460
Additions	1,065	1,065
At 31 December 2013	**117,525**	**117,525**
Accumulated amortisation		
At 1 January 2012	85,079	85,079
Amortisation charge	30,818	30,818
At 31 December 2012	115,897	115,897
Amortisation charge	556	556
At 31 December 2013	**116,453**	**116,453**
Net book value		
At 31 December 2013	**1,072**	**1,072**
At 31 December 2012	563	563
At 1 January 2012	31,030	31,030

19 DEPOSIT FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
First Registrars Limited	**1,392,122**	2,200,000	750,000
First Bank of Nigeria Plc - branches	**3,122,000**	362,313	3,808,448
Nigeria Export Import Bank (NEXIM)	**-**	750,000	1,240,000
	4,514,122	3,312,313	5,798,448
Current	**4,514,122**	3,312,313	5,798,448
Non-current	**-**	-	-
	4,514,122	3,312,313	5,798,448

Deposits from banks only include financial instruments classified as other liabilities and measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

20 DEPOSITS FROM CUSTOMERS

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Demand	219,705	240,087	236,754
Savings	771,310	559,697	534,275
Term	25,456	24,402	86,901
	1,016,471	824,186	857,930
Current	219,705	240,087	236,754
Non-current	796,766	584,099	621,176
	1,016,471	824,186	857,930

21 BANK BORROWINGS: OVERDRAFT

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Bank overdraft	-	-	92,054
	-	-	92,054
Current	-	-	92,054
Non-current			
	-	-	92,054

22 DEFERRED TAX

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Deferred tax assets			
Deferred tax asset to be recovered after more than 12 months	(16,969)	-	-
Deferred tax asset to be recovered within 12 months	-	-	-
Deferred tax liabilities			
Deferred tax liability to be recovered after more than 12 months	-	17,883	46,583
Deferred tax liability to be recovered within 12 months	-	-	-
	(16,969)	17,883	46,583

23 RETIREMENT BENEFIT OBLIGATIONS

	Recognised in P&L	Recognised OCI
Movements in temporary differences during the year:	17,883	-
Opening balance as at 31 December 2012	(8,781)	-
Property, plant and equipment	-	-
Intangible assets	12,071	-
Deferred revenue	-	-
Allowances for loan losses and other provisions	(38,142)	-
Tax loss carry forward	-	-
Employee benefits	-	-
Other - unrealised exchange gains	-	-
At 31 December 2013	(16,969)	-

NOTES TO THE FINANCIAL STATEMENTS

Defined contribution scheme

FBN MFB and its employees make a joint contribution of 15% basic salary, housing and transport allowance to each employee's retirement savings account maintained with their nominated pension fund administrators. For the periods presented, the amounts outstanding as at year end are included in the retirement benefit obligation balance on the statement of financial position.

Gratuity scheme

FBN MFB has a non-contributory defined gratuity scheme whereby on separation, staff who have spent a minimum number of five years are paid a sum based on their qualifying emoluments and the number of periods spent in service of FBN MFB. The defined benefit scheme is unfunded.

The table outlines where the group's post-employment amounts and activity are included in the financial statements.

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Balance sheet obligations for			
Post-employment benefit			
Defined contribution scheme	10,286	5,409	3,954
Defined benefits plan	83,947	59,931	36,156
Liability in the balance sheet	94,233	65,340	40,110
Income statement charge for			
Defined benefits plan	28,507	21,798	-
	28,507	21,798	-
Remeasurements for			
- (Gains)/loss from change in financial assumptions	(5,364)	-	-
- Experience (gains)/loss	873	1,977	-
	(4,491)	1,977	-

Amounts recognised in the statement of financial position are as follows:

Present value of unfunded obligations	83,947	59,931	36,156

The movement in the defined benefit obligation is as follows:

	₦'000
Defined benefit obligations at 1 January 2012	36,156
Current service cost	17,107
Interest cost	4,691
Remeasurements:	
- Experience (gains)/loss	1,977
Benefits paid (in the year)	-
Defined benefit obligations at 31 December 2012	59,931
Current service cost	20,800
Interest cost	7,707
Remeasurements:	
- Gains from change in financial assumptions	(5,364)
- Experience (gains)/loss	873
Defined benefit obligations at 31 December 2013	83,947

NOTES TO THE FINANCIAL STATEMENTS

Amounts recognised in the statement of other comprehensive income are as follows:

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Current service cost	**20,800**	17,107
Interest on obligation	**7,707**	4,691
Total employee benefits expense	**28,507**	21,798

Amounts recognised in other comprehensive income are as follows:

Remeasurement gain/loss	**(4,491)**	1,977

Financial assumptions

Average long-term discount rate (p.a.)	**14.00%**	13.00%
Average long-term pay increase (p.a.)	**12.00%**	12.00%
Average long-term rate of inflation (p.a.)	**10.00%**	10.00%

The projected benefit was discounted to a net present value as at the current balance sheet date. According to IAS 19 revised, the discount rate should be determined on the Company's balance sheet date by reference to market yields on high-quality corporate bonds, except where there is no deep market in such bonds, in which case the discount rate should be based on market yields on Government bonds. The discount rate was based on Federal Government of Nigeria bonds though State bonds exist with (broadly) higher yields.

The weighted average liability duration for the plan is 12 years. The average weighted duration of the longest Nigerian Government bond as at 31st December 2013 was 6.63 years with a gross redemption yield of 13.25%. The benefit liability duration is longer than available risk-free assets – the longer term introduces uncertainty, which typically will be reflected in higher yield/reward demand by investors.

In view of the above, 14% p.a. was prudently adopted as the discount rate for the current valuation.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

24 OTHER LIABILITIES

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Accounts payable	**25,509**	30,306	24,176
Statutory deductions	**47,437**	10,969	7,846
Productivity bonus	**30,006**	73,500	70,012
Sundry creditors	**8,891**	9,696	8,596
Provisions and accruals	**24,711**	-	8,249
Deferred revenue	**40,236**	43,583	42,756
	176,790	168,054	161,635

Statutory deductions include information technology development levy, which represents 1% of profit before tax in accordance with section 12(2a) of National Information Technology Development Act (NITDA) 2007.

25 SHARE CAPITAL

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
AUTHORISED			
1,000,000,000 ordinary shares of ₦1 each	**2,000,000**	1,000,000	1,000,000
ISSUED AND FULLY PAID			
2,000,000,000 (2012: 1,000,000,000) ordinary shares of ₦1 each	**2,000,000**	1,000,000	1,000,000
At 1 January	**1,000,000**	1,000,000	1,000,000
Shares issued during the year	**1,000,000**	-	-
At 31 December	**2,000,000**	1,000,000	1,000,000

During the year the authorised share capital of FBN MFB was increased from 1.0 billion units of shares to 2.0 billion units of ordinary shares by the creation of additional shares of 1.0 billion units of ₦1.00 each at ₦1.00 per share. The shares were fully subscribed and allotted by the bank on the 29 October 2013.

NOTES TO THE FINANCIAL STATEMENTS

26 STATUTORY RESERVE

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
At 1 January	**209,502**	116,060	8,004
Transfer from profit and loss account	**54,141**	93,442	108,056
At 31 December	**263,643**	209,502	116,060

27 STATUTORY CREDIT RESERVE

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
At 1 January	**39,029**	27,338	27,338
Transfer from profit and loss account	**(35,789)**	11,691	-
At 31 December	**3,240**	39,029	27,338

Provision	NGAAP Provision	IFRS Provision	Difference
1 January 2012	(55,244)	(27,906)	(27,338)
31 December 2012	(115,533)	(76,504)	(39,029)
31 December 2013	**(95,900)**	**(92,660)**	**(3,240)**

The movement in the differences is transferred between the statutory credit reserve and retained earnings.

28 RELATED-PARTY TRANSACTIONS

FBN MFB is controlled by FBN Holdings (incorporated in Nigeria), which owns 100% of the Company's ordinary shares. FBN Holdings Plc is the parent company of FBN MFB as well as the ultimate controlling party.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans and deposits.

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

a) Loans and advances to related parties

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

	Parent, entities and associates of parent ₦'000	Key management personnel (and close family members) ₦'000	Total ₦'000
PERIOD ENDED 31 DECEMBER 2013			
Loans outstanding at 1 January	**-**	**20,289**	**20,289**
Loans issued during the year	**-**	**17,490**	**17,490**
Loan repayments during the year	**-**	**20,700**	**20,700**
Loans outstanding at 31 December	**-**	**17,079**	**17,079**
Interest income earned	**-**	**4,452**	**4,452**
Bad or doubtful debts due from related parties expense	**-**	**-**	**-**
PERIOD ENDED 31 DECEMBER 2012			
Loans outstanding at 1 January	-	5,431	5,431
Loans issued during the year	-	46,342	46,342
Loan repayments during the year	-	31,485	31,485
Loans outstanding at 31 December 2012	-	20,289	20,289
Interest income earned	-	6,819	6,819
Bad or doubtful debts due from related parties expense	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

b) Deposits from related parties

	Parent, entities and associates of parent ₦'000	Key management personnel (and close family members) ₦'000	Total ₦'000
PERIOD ENDED 31 DECEMBER 2013			
Deposits at 1 January	-	336	336
Deposits received during the year	-	542	542
Deposits repaid during the year	-	-	-
Deposits at 31 December	-	878	878
Interest expenses on deposits	-	-	-
PERIOD ENDED 31 DECEMBER 2012			
Deposits at 1 January	-	120	120
Deposits received during the year	-	216	216
Deposits repaid during the year	-	-	-
Deposits at 31 December	-	336	336
Interest expenses on deposits	-	-	-

c) Other transactions with related parties

	Parent, entities and associates of parent ₦'000	Key management personnel (and close family members) ₦'000	Total ₦'000
PERIOD ENDED 31 DECEMBER 2013			
Fee and commission income	-	255	-
Guarantees issued	-	-	-
PERIOD ENDED 31 DECEMBER 2012			
Fee and commission income	-	518	-
Guarantees issued	-	-	-

d) Key management compensation

Key management has been determined to be the members of the Executive Committee (EXCO) of FBN MFB. The compensation paid to key management for employee services is shown. There were no sales/purchase of goods and services between FBN MFB and key management personnel below:

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Salaries and other short-term employee benefits	3,430	3,554
Post-employment benefits	-	-
Termination benefits	-	-
	3,430	3,554

NOTES TO THE FINANCIAL STATEMENTS

The loans and advances to key management have the following terms and conditions:

Key management	Relationship	Amount of loan ₦'000	Term	Interest rate
31 Dec 2013				
Pauline Wandoo Nsa	Key management personnel	**3,000**	Tenure: 4-6 months Security: Domiciliation of salary Status: Performing	36-60% p.a.
John Ejenavi Ologe	Key management personnel	**2,500**	Tenure: 6 months Security: Domiciliation of salary Status: Performing	36 % p.a.
Tony Aziakpono Ozore	Key management personnel	**4,070**	Tenure: 2-8 months Security: Domiciliation of salary Status: Performing	5-36 % p.a.
Tejiro Ologe	Spouse	**-**	Tenure: 6-8 months Security: Domiciliation of salary Status: Performing	36-54% p.a.
		9,570		
31 Dec 2012				
Pauline Wandoo Nsa	Key management personnel	17,287	Tenure: 6-72 months Security: Domiciliation of salary Status: Performing	5-60 % p.a.
John Ejenavi Ologe	Key management personnel	5,855	Tenure: 4-12 months Security: Domiciliation of salary Status: Performing	36-60 % p.a.
Tony Aziakpono Ozore	Key management personnel	10,800	Tenure: 3-12 months Security: Domiciliation of salary Status: Performing	5-60 % p.a.
Tejiro Ologe	Spouse	12,400	Tenure: 6 months Security: Domiciliation of salary Status: Performing	36-60 % p.a.
		46,342		

29 EMPLOYEES

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

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
₦300,000 - ₦2,000,000	**231**	238
₦2,000,001 - ₦2,800,000	**15**	13
₦2,800,001 - ₦3,500,000	**3**	3
₦3,500,001 - ₦N4,000,000	**-**	-
₦4,000,001 - ₦5,500,000	**3**	4
₦5,500,001 and above	**3**	2
	255	260

30 COMPLIANCE WITH BANKING REGULATION

The bank did not contravene any regulation of the Banks and Other Financial Institutions Act 1991 or relevant circulars issued by the Central Bank of Nigeria.

31 EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

There were no material events that occurred subsequent to the statement of financial position date that warrant disclosure.

NOTES TO THE FINANCIAL STATEMENTS

32 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000
Profit/(loss) before income tax	175,229	325,929
Adjustments for:		
– Depreciation	44,528	48,851
– Amortisation	556	30,818
– (Gain)/Loss on disposal of property and equipment	(315)	786
– Impairment charge on credit losses	16,155	48,598
– Impairment charge on other assets	11	1,211
– Provision on retirement benefit obligation	33,383	23,253
(Increase)/decrease in operating assets:		
– Loans and advances to customers	175,214	(250,121)
– Other assets	56,113	(15,846)
Increase/(decrease) in operating liabilities:		
– Deposits from banks	1,201,809	(2,486,135)
– Deposits from customers	192,286	(33,744)
– Other liabilities	8,736	6,419
Cash generated from operations	1,903,705	(2,300,636)

33 MANAGED FUNDS

The bank received ₦500,000,000 from the Lagos State Government for disbursement and an on-lending fund to qualifying cooperatives, on behalf of the Lagos State Government. Recovery is on a best-effort basis and therefore does not qualify as a receivable. All interest on principal repayments are due to the Lagos State Government.

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Financial assets: loans and receivables			
Loan and advances to customers	221,361	-	-
Placements with banks	278,639	-	-
	500,000	-	-
Financial liability			
Amounts disbursed to date	221,361	-	-
Amounts not yet disbursed	278,639	-	-
	500,000	-	-

RECONCILIATION OF IFRS WITH NGAAP FINANCIALS AT TRANSITION DATE

34 TRANSITION TO IFRS

Explanation of transition to IFRS

As stated in Note 2.2, these are FBN MFB's first financial statements prepared in accordance with IFRS. FBN MFB has applied IFRS 1 in preparing these annual financial statements and the accounting policies set out in Note 2 have been applied in preparing the annual financial statements for the year ended 31 December 2013, the comparative information presented in these annual financial statements for the period ended 31 December 2012, and the opening IFRS statement of financial position at 1 January 2012 (the date of FBN MFB's transition to IFRS).

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

The most significant IFRS impact for the Company resulted from the implementation of IAS 39 Financial Instruments: Recognition and Measurement which requires FBN MFB to classify its financial instruments into available for sale, fair value through profit and loss, loans and receivables and held to maturity. Also the impairment of financial assets is only recognised in cases where there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset (referred to as an "incurred loss" model).

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

Exceptions from full retrospective application - followed by the Company

FBN MFB applied the following mandatory exceptions from retrospective application:

Estimates exception

FBN MFB applies the estimate exception which states that estimates under IFRS at 1 January 2012 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

Derecognition of financial assets and liabilities exception

Financial assets and liabilities derecognised before 1 January 2012 are not re-recognised under IFRS.

Classification and measurement of financial assets exception

The assessment of whether FBN MFB's financial assets meet the requirements to be measured at amortised cost, as set out in IAS 39, was performed at 1 January 2012.

FBN MFB did not apply any of the optional exemptions from retrospective application.

RECONCILIATION OF EQUITY FOR THE PERIOD

Reconciliation of equity as at:	Note	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Equity under NGAAP		99,735	6,293
IFRS adjustments brought forward from opening balance sheet		(145,090)	-
Loan loss provision			
Recognition of interest in suspense	b	18,718	63
Effective interest rate			
Net impact of effective interest rate	c	(827)	(42,756)
Staff loans			
Net Increase in interest income	d	577	848
Net movement in employee benefits expense	d	(253)	(545)
Retirement benefit obligation			
IFRS adjustment to reflect additional provision for retirement benefits	e	(23,775)	(36,156)
Property, plant and equipment			
Reversal of depreciation charged on land	f	1,156	3,468
Provisions			
Adjustment to correct prior period errors	g	-	(70,012)
Total IFRS adjustments		(4,404)	(145,090)
Equity under IFRS		(49,759)	(138,797)

RECONCILIATION OF IFRS WITH NGAAP FINANCIALS AT TRANSITION DATE

RECONCILIATION OF ADJUSTMENTS

		31 December 2012		
Reconciliation of profit for the period	**Note**	**NGAAP ₦'000**	**Adjustments ₦'000**	**IFRS ₦'000**
Interest income	c,d	943,995	123,801	1,067,796
Interest expense		(14,442)	-	(14,442)
Net interest income		929,553	123,801	1,053,354
Impairment charge for credit losses	b	(57,304)	11,691	(45,613)
Net interest income after impairment charge for credit losses		872,249	135,492	1,007,741
Fee and commission income	c	166,869	(105,334)	61,535
Other operating income		75,937	-	75,937
Operating expenses	e, f, g	(798,389)	(20,895)	(819,284)
Profit/(loss) before tax		316,666	9,263	325,929
Income tax expense		(129,781)	-	(129,781)
Profit/(loss) for the year		186,885	9,263	196,148
Other comprehensive income:				
Actuarial gains/(losses) on defined benefit pension scheme	e	-	(1,977)	(1,977)
Other comprehensive income for the year, net of tax		186,885	7,286	194,171

		31 December 2012			1 January 2012		
	Note	**NGAAP ₦'000**	**Adjustments ₦'000**	**IFRS ₦'000**	**NGAAP ₦'000**	**Adjustments ₦'000**	**IFRS ₦'000**
ASSETS							
Cash and bank balances		207,141	-	207,141	200,269	-	200,269
Loans and advances to banks	a	3,434,313	774	3,435,087	5,985,431	7,079	5,992,510
Loans and advances to customers	b, c, d	1,508,497	53,090	1,561,587	1,333,373	26,691	1,360,064
Held-to-maturity financial assets	a	100,000	1,472	98,528	50,000	(640)	49,360
Prepayments and other assets	a	159,178	4,573	163,751	155,182	(6,066)	149,116
Property and equipment	f,g	260,316	4,624	264,940	271,747	3,468	275,215
Intangible assets		563	-	563	31,030	-	31,030
Deferred tax asset		-	-	-	-	-	-
Total assets		5,670,008	61,589	5,731,597	8,027,032	30,532	8,057,564
LIABILITIES							
Deposits from banks		3,312,313	-	3,312,313	5,798,448	-	5,798,448
Deposits from customers	a	821,521	2,665	824,186	843,741	14,189	857,930
Other borrowings - bank overdraft		-	-	-	92,054	-	92,054
Current income tax liability		145,049	-	145,049	56,203	-	56,203
Deferred income tax liability		17,883	-	17,883	46,583	-	46,583
Retirement benefit obligations	e	5,409	59,931	65,340	3,954	36,156	40,110
Other liabilities	a, h	128,608	39,446	168,054	63,696	97,939	161,635
Total liabilities		4,430,783	102,042	4,532,825	6,904,679	148,284	7,052,963

RECONCILIATION OF IFRS WITH NGAAP FINANCIALS AT TRANSITION DATE

		31 December 2012			1 January 2012		
	Note	NGAAP ₦'000	Adjustments ₦'000	IFRS ₦'000	NGAAP ₦'000	Adjustments ₦'000	IFRS ₦'000
EQUITY							
Share capital		1,000,000	-	1,000,000	1,000,000	-	1,000,000
Statutory reserve		209,502	-	209,502	116,060	-	116,060
Statutory credit reserve		-	39,029	39,029	-	27,338	27,338
Retained earnings	b, c, d, e, f, g, h	29,723	(79,482)	(49,759)	6,293	(145,090)	(138,797)
Total equity		1,239,225	(40,453)	1,198,772	1,122,353	117,752	1,004,601
Total equity and liabilities		5,670,008	61,589	5,731,597	8,027,032	30,532	8,057,564

Notes to the reconciliation of equity and profit

a IFRS requires financial assets carried at amortised cost to be measured using the effective interest method. Under previous GAAP accrued interest was recognised as a separate asset, resulting in the gross disclosure of the underlying asset. The effect of applying the effective interest method resulted in a reclassification from other assets/other liabilities to the financial instruments:

	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
From interest receivable (other assets):		
Financial assets: held to maturity	(1,472)	(640)
Loans and advances to banks	774	7,079
From interest payable (other liabilities)		
Deposits from customers	(2,665)	(14,189)

b For the periods presented in this reconciliation, interest and similar income on impaired loans and advances to customers suspended under the previous GAAP was recognised under IFRS, resulting in an increase in interest income of ₦18.78 million for 31 December 2012 (1 January 2012 ₦0.063 million). The overall movement in the provision for doubtful balances and interest in suspense is reflected and explained below:

	31 December 2012			1 January 2012		
	NGAAP provision 31 Dec 2012 ₦'000	IFRS adjustment ₦'000	IFRS Provision 31 Dec 2012 ₦'000	NGAAP provision 1 Jan 2012 ₦'000	IFRS adjustment ₦'000	IFRS Provision 1 Jan 2012 ₦'000
Interest in suspense (derecognised)	(18,781)	(18,781)	-	(63)	63	-
Collective provision	(13,618)	(24,883)	(38,501)	(12,931)	10,639	(2,292)
Specific provision	(101,915)	63,912	(38,003)	(42,313)	16,699	(25,614)
Net Movement	(134,314)	20,248	(76,504)	(55,307)	27,401	(27,906)

Under previous GAAP loans and advances are measured at cost net of impairment losses. A specific provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. This provision is made for each account that is not performing in accordance with the terms of the Prudential guidelines issued by the Central Bank of Nigeria. Also, a general reserve of at least 1% is made for all performing accounts to recognise losses in respect of risks inherent in any credit portfolio. Additionally under the Prudential guidelines, interest on non-performing loans is suspended as interest in suspense. Under IFRS incurred loss model, an impairment loss can only be recognised if there is objective evidence that a loss has occurred after the initial recognition.

The difference in the measurement basis of impairment loss between IFRS incurred loss model and the NGAAP Prudential guidelines resulted in a decrease in total impairment of ₦39.029 million as at 31 December 2012 (1 January 2012: ₦27.338 million).

Under IFRS interest on non-performing loans is not suspended but continues to be recognised at the original effective interest rate. Consequently, interest in suspense (that had been suspended under NGAAP) was reversed; resulting in a write back of ₦18.78 million as at 31 December 2012 (1 January 2012: ₦0.063 million).

The difference in the impairment under IFRS incurred loss model and NGAAP Prudential guidelines was transferred from retained earnings to a non-distributable reserve called the Statutory Credit Reserve (Central Bank of Nigeria Prudential guidelines 2011) as at 1 January 2012 at ₦27.34 million which increased by ₦11.69 million as at 31 December 2012.

RECONCILIATION OF IFRS WITH NGAAP FINANCIALS AT TRANSITION DATE

c IFRS requires that all transactions that are integral to generating an involvement with a financial instrument should be included in the financial instrument's initial measurement using the effective interest method. The effective interest rate calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate. Under NGAAP interest income and expense are recognised in accordance with terms of the related instrument on an accrual basis and the related fees are earned in one period. The effect of applying the effective interest method resulted in a reclassification of ₦61.7 million (which represents a reasonable estimate of earned portion) from fees and commission income for the year ended 31 December 2012 (1 January 2012: ₦59.6 million) to interest income for the income that has been earned. The unearned portion of the fee and commission income of ₦43 .5 million (1 January 2012: ₦42.7 million) is deferred and released as and when due. Most of the loans of the microfinance banks are generally short term in nature and the impact of effective interest rate is expected to be insignificant over the tenor of the loans.

d Employees were granted loans at a below market interest rate. Under IFRS, the difference between the rate granted and a market-related rate is an employee benefit, which must be deferred and recognised as an employee expense over the period of the loan.

	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Net decrease in staff loans	4,010	710
Net increase in other assets (prepayment)	4,334	1,013
Net increase in interest income	577	848
Net movement in employee benefits expense	253	545

e FBN MFB operates a defined benefit plan retirement scheme for employees under its gratuity scheme. Under IFRS, defined benefit schemes should be valued using the projected unit credit method. An actuary was engaged to perform the valuation on the gratuity plan. This resulted in an increase in the recorded retirement benefit liability of ₦23.78 million as at 31 December 2012 (1 January 2012: ₦36.2 million).

f Under the previous NGAAP, land and building were reported as a single item of PPE on the statement of financial position. Under IFRS, land is taken as non-depreciable asset, which resulted in the separation of land from the land and building items. Therefore, the amount depreciated from land was added back resulting in a reversal of ₦1.156 million as at 31 December 2012 (1 January 2012: ₦3.468 million).

g An error was made under NGAAP whereby a provision for bonus was not recognised at the period of the obligation (31 December 2011). The adjustment of ₦70.01 million is a correction of this error in the opening IFRS statement of financial position.

Explanation of material adjustments to the statement of cash flow

Under IFRS, cash and cash equivalents, cash in hand, cash in bank, short-term placement, treasury bills with a maturity of three months or less and other short-term investments (including overdraft liabilities) that are readily convertible to a known amount of cash and subject to insignificant risks of changes in value due to the short maturities thereof (three months or less from the date of acquisition). There were no material adjustments to the cash flow statement on adoption of IFRS.

FINANCIAL RISK MANAGEMENT

FBN MFB defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors. FBN MFB's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on FBN MFB's financial performance.

Risk management is carried out by FBN MFB's Finance department under policies approved by the Board of Directors. FBN MFB's Finance department provides central oversight of risk management across FBN MFB to ensure that risks are mitigated. The risks arising from financial instruments to which FBN MFB is exposed are financial risks, which includes credit risk, liquidity risk and market risk (discussed in subsequent sections).

The key elements of FBN MFB's risk management philosophy are the following:

1. FBN MFB considers sound risk management to be the foundation of a long-lasting financial institution.
2. FBN MFB shall continue to adopt a holistic and integrated approach to risk management and bring all risks together under one or a limited number of oversight functions.
3. Risk officers shall be empowered to perform their duties professionally and independently without undue interference.
4. Risk management shall be governed by well-defined policies which are clearly communicated across FBN MFB.
5. Risk management is a shared responsibility. Therefore FBN MFB shall aim to build a shared perspective on risks that is grounded on consensus.
6. FBN MFB's risk management governance structure shall be clearly defined.
7. There shall be a clear segregation of duties between market-facing business units and risk management/control functions.
8. Risk-related issues are taken into consideration in all business decisions. FBN MFB shall strive to maintain a conservative balance between risk and revenue considerations.
9. Risks are reported openly and fully to the appropriate levels once they are identified.

Measurement of financial assets and liabilities

FBN MFB's financial instruments are categorised as stated below:

	Financial assets	
	Held to maturity N'000	Loans and receivables N'000
31 December 2013		
Cash and bank balances	-	232,517
Loans and advances to banks	-	6,035,399
Loans and advances to customers	-	1,370,218
Treasury bills	148,742	-
Other receivables	-	12,103
	148,742	7,650,237

	Financial liabilities
	Other financial liabilities ₦'000
Deposits from banks	4,514,122
Deposits from customers	1,016,470
Other liabilities (excluding statutory deductions)	127,601
	5,658,193

FINANCIAL RISK MANAGEMENT

	Financial assets	
	Held to maturity ₦'000	Loans and receivables ₦'000
31 December 2012		
Cash and bank balances	-	207,141
Loans and advances to banks	-	3,435,087
Loans and advances to customers	-	1,539,708
Treasury bills	98,528	-
Other receivables	-	7,203
	98,528	5,189,139
Deposits from banks	-	3,312,313
Deposits from customers	-	824,186
Other liabilities (excluding statutory deductions)	-	157,085
	-	4,293,584
1 January 2012		
Cash and bank balances	-	200,269
Loans and advances to banks	-	5,992,510
Loans and advances to customers	-	1,345,380
Treasury bills	49,360	-
Other receivables	-	2,051
	49,360	7,540,210
Deposits from banks	-	5,798,448
Deposits from customers	-	857,930
Other liabilities (excluding statutory deductions)	-	153,789
Bank borrowings - overdrafts	-	92,054
	-	6,902,221

CREDIT RISK

Management of credit risk

Credit risk is the risk that FBN MFB will not be able to recover funds and suffer losses because another party is unable or unwilling to meet contractual obligations to FBN MFB when due. The principal banking activities that create exposure to credit risk include lending, leasing and placement activities.

1) Lending/leasing

a. FBN MFB grants credit to a customer (loan, advances, overdraft etc.) or finances a lease.

b. There is an advance or a loan to an employee (staff loan, cash advance etc.).

2) Placements

a. FBN MFB makes investments in money market placements in other financial institutions or engages in trading activities where the exchange of monetary value and transfer of ownership of purchased assets is not simultaneous.

The following principles guide credit risk management across FBN MFB:

Credit risk management process flow for FBN MFB is as follows:

At the branch:

- Field Officer sources the customer.
- Field Officer carries out first-level assessment, prepares cash flow and collects requisite documents.
- Senior Field Officer (SFO) carries out second-level on-field assessment for loan amounts of ₦300,000 and below.
- Any Field Officer can be assigned by the Branch Manager to carry out home verification of client and guarantors.
- Branch Manager and Credit Officer carry out third-level assessment for loan amounts above ₦300,000.
- Field Officer assembles all the documents in FBN MFB's branded file jacket.
- Senior Field Officer verifies all the documents and if satisfied signs off the appropriate forms which include Credit Check List, Loan Summary Form, Home Verification Forms and possible comment based on his/her assessment.

- The Branch Manager also cross checks and signs off all the necessary fields of the forms (including Credit Checklist, Loan Summary Sheet, Loan Form, Guarantors' Forms, Guarantors' Agreement Forms).
- Branch Credit Committee meets, deliberates and makes individual and collective recommendations.
- The completed credit request file is forwarded to Management Credit Committee for approval.

At Head Office:

- The file is received, time-stamped and recorded.
- First-level assessment/appraisal is done by a credit officer.
- Second-level appraisal by the Head, Credit Risk.
- Third-level appraisal by the Head, Business Development (BDM) who approves loan amounts of ₦300,000 and below.
- Fourth-level appraisal by the Managing Director/Chief Executive Officer who approves loan amounts above ₦300,000.
- After approval, credit file is sent back to branch through authorised staff of the branch who must sign the branch's loan file exit register.
- Note that not all requests sent will be approved – some will be rejected while others may be sent back to the branch for further assessment/documentation. Requests from branches with portfolio at risk (PAR) above accepted limits would not be processed.

On receipt of customer's file at branch:

System operations (software - Banker's Realm):

- Resident Internal Control Officer verifies documents and confirms compliance/resolution of conditions precedent by signing off on approval.
- Field Officer captures data into the system (booking of the loan).
- Branch Manager verifies and sanctions.
- Standard offer letter with repayment schedule is generated and explained to the customer stating all the terms and conditions precedent to drawdown.
- Customer accepts and meets the terms and conditions then signs the offer letter.
- Head of Branch Operations disburses into customer's account.
- Utilisation of funds by customer is then allowed.

Monitoring of credit:

- Field Officers carry out repayment collections with schedule.
- Branch Manager and Senior Field Officer supervise to ensure repayment is up to date.
- Credit Risk Manager, Head Office generates daily detailed report of all facilities to check compliance with repayment terms and the status of our risk assets and submits to the Head, Business Development and Managing Director who also follow up on repayments.

Portfolio management:

- Credit Risk Manager, Head Office, generates reports for Financial Control.
- Financial Controller prepares reports and forwards to management and respective regulators.

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

FBN MFB's maximum exposure to credit risk at 31 December 2013, 31 December 2012 and 1 January 2012 respectively, is represented by the net carrying amounts of its financial assets in the statement of financial position.

Credit concentrations

FBN MFB monitors concentrations of credit risk by sector and by geographical location. An analysis of concentrations of credit risk at 31 December 2013, 31 December 2012 and 1 January 2012 respectively, is set out below:

Concentration of risks of financial assets with credit risk exposure

a) Industry sector

The following table breaks down the Company's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors.

FINANCIAL RISK MANAGEMENT

	Loans and advances to banks ₦'000	Loans and advances to customers ₦'000	Held-to-maturity financial assets ₦'000	Other receivables ₦'000	Cash and bank balances ₦'000
31 DECEMBER 2013					
Real estate and construction	-	1,423	-	-	-
Rent/housing	-	5,332	-	-	-
Retail/commercial	-	-	-	-	-
Service	-	30,459	-	-	-
Financial services	6,035,399	-	-	-	232,517
Public sector	-	-	148,742	-	-
Staff	-	15,587	-	-	-
Trade and commerce	-	1,084,839	-	12,103	-
Transport and communication	-	287,557	-	-	-
Health	-	126	-	-	-
Manufacturing and food processing	-	4,000	-	-	-
Agriculture and forestry	-	-	-	-	-
Consumer/personal	-	32,168	-	-	-
Education	-	1,386	-	-	-
	6,035,399	1,462,877	148,742	12,103	232,517
31 DECEMBER 2012					
Real estate and construction	-	11,938	-	-	-
Rent/housing	-	9,775	-	-	-
Retail/commercial	-	776	-	-	-
Service	-	14,840	-	-	-
Financial services	3,435,087	-	-	-	207,141
Public sector	-	-	98,528	-	-
Staff	-	21,880	-	-	-
Trade and commerce	-	1,119,407	-	7,203	-
Transport and communication	-	389,218	-	-	-
Health	-	410	-	-	-
Manufacturing and food processing	-	6,008	-	-	-
Agriculture and forestry	-	-	-	-	-
Consumer/personal	-	60,270	-	-	-
Education	-	3,570	-	-	-
	3,435,087	1,638,091	98,528	7,203	207,141

FINANCIAL RISK MANAGEMENT

	Loans and advances to banks ₦'000	Loans and advances to customers ₦'000	Held-to-maturity financial assets ₦'000	Other assets ₦'000	Cash and bank balances ₦'000
1 JANUARY 2012					
Real estate and construction	-	995	-	-	-
Rent/housing	-	4,267	-	-	-
Retail/commercial	-	-	-	-	-
Service	-	15,827	-	-	-
Financial services	5,992,510	-	-	-	200,269
Public sector	-	-	49,360	-	-
Staff	-	14,684	-	-	-
Trade and commerce	-	958,431	-	2,051	-
Transport and communication	-	369,072	-	-	-
Health	-	-	-	-	-
Manufacturing and food processing	-	40	-	-	-
Agriculture and forestry	-	-	-	-	-
Consumer/personal	-	22,750	-	-	-
Education	-	1,903	-	-	-
	5,992,510	1,387,970	49,360	2,051	200,269

b) Geographical sectors

The following table breaks down the Company's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as of 31 December 2013, 31 December 2012and 1 January 2012.

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Nigeria:			
South West	**1,370,218**	1,561,587	1,360,064
Loans and advances			
Credit quality of loans and advances is summarised as follows:			
Loans and advances to banks			
Neither past due nor impaired	**6,035,399**	3,435,087	5,992,510
Gross carrying amount	**6,035,399**	3,435,087	5,992,510
Loans and advances to customers			
Neither past due nor impaired	**875,881**	1,304,129	1,178,102
Impaired:			
Individually impaired	**160,043**	75,813	33,919
Collectively impaired	**426,954**	258,149	175,950
Gross carrying amount	**1,462,877**	1,638,091	1,387,971
Impairment allowance:			
Specific impairment	**(12,955)**	(61,823)	(25,614)
Collective impairment	**(79,704)**	(14,681)	(2,292)
Net carrying amount	**1,370,218**	1,561,587	1,360,064

FINANCIAL RISK MANAGEMENT

Portfolio quality

a) Loans and advances to customers: neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the customer's ability to pay based on loss experience. The bank currently does not have any rating system in place, for its loans and advances to customers' portfolio.

b) Loans and advances to customers: past due but not impaired

Loans and advances to customers

	₦'000
31 December 2013	
Past due up to 90 days	**94,722**
Past due by 90-180 days	**50,103**
Past due by more than 180 days	**126,234**
	271,059
31 December 2012	
Past due up to 90 days	434,216
Past due by 90-180 days	116,816
Past due by more than 180 days	-
	551,032
1 January 2012	
Past due up to 90 days	179,389
Past due by 90-180 days	30,480
Past due by more than 180 days	-
	209,869

These advances are not impaired as management individually assessed them and engaged the counterparties. The agreed payment plans with the counterparties reflect that the balances will be fully recovered, hence no impairment provision has been made.

c) Loans and advances to customers: collectively impaired loans

These represent insignificant impaired loans which are assessed on a collective basis.

d) Loans and advances to customers: individually impaired

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Gross amount	**160,043**	75,813	33,919
Specific impairment	**(12,955)**	(61,823)	(25,614)
Net amount	**147,088**	13,990	8,305

e) Credit quality of cash and cash equivalents

The credit quality of cash and cash equivalents and short-term investments that were neither past due nor impaired can be assessed by reference to rating agency designation as at 31 December 2013, 31 December 2012 and 1 January 2012.

	Bank balances ₦'000	Treasury bills ₦'000	Placements ₦'000	Total ₦'000
31 December 2013				
AAA	**232,517**	**148,742**	**6,035,399**	**6,416,658**
AA+				
31 December 2012				
AAA	207,141	98,528	3,435,087	3,740,756
AA+				
1 January 2012				
AAA	200,269	49,360	5,992,510	6,242,139
AA+				

FINANCIAL RISK MANAGEMENT

Liquidity risk

Liquidity risk is the risk that FBN MFB cannot meet its maturing obligations when they become due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions. Liquidity risk management in FBN MFB is solely determined by management, which bears the overall responsibility for liquidity risk. The main objective of FBN MFB's liquidity risk framework is to maintain sufficient liquidity in order to ensure safe and sound banking operations.

Management of liquidity risk

As a part of liquidity risk management, FBN MFB manages its liquidity by keeping cash resources to the recommended cash reserve ratio and non-mismatch of funds.

Maturity analysis

The table below analyses FBN MFB's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The cash flows presented are the undiscounted amounts to be settled in future.

	0-30 days ₦'000	31-90 days ₦'000	91-180 days ₦'000	181-365 days ₦'000	Total ₦'000
31 December 2013					
Financial liabilities					
Deposits from banks	-	4,514,122	-	-	4,514,122
Deposits from customers	-	-	-	1,016,470	1,016,470
Borrowings	-	-	-	-	-
Other liabilities	23,757	-	-	151,281	175,038
Total financial liabilities	23,757	4,514,122	-	1,167,751	5,705,630
31 December 2012					
Financial liabilities					
Deposits from banks	-	3,312,313	-	-	3,312,313
Deposits from customers	-	-	-	824,186	824,186
Other liabilities	30,306	-	-	137,748	168,054
Total financial liabilities	30,306	3,312,313	-	961,934	4,304,553
1 January 2012					
Financial liabilities					
Deposits from banks	-	5,798,448	-	-	5,798,448
Deposits from customers	-	-	-	857,930	857,930
Bank Borrowings - overdraft	92,054	-	-	-	92,054
Other liabilities	24,176	-	-	137,459	161,635
Total financial liabilities	116,230	5,798,448	-	995,389	6,910,067

Market risk

Market risk is defined as the risk of loss caused by open positions in the market and the adverse development of market risk factors such as interest rates, foreign exchange rates, equity prices, credit spreads and their volatilities. Market risk can arise in conjunction with trading and non-trading activities of the financial institutions.

The primary components of market risk for FBN MFB result from interest rate risk.

Management of market risk

The main objective of market risk management is to provide strategic guidance to all stakeholders on FBN MFB's overall approach to the management of:

Interest Rate Risk

FINANCIAL RISK MANAGEMENT

Measurement of market risk

FBN MFB's major measurement technique used to measure and control market risk is outlined below.

Interest rate risk

Interest rate risk in the banking book is the potential loss resulting from net asset value changes and the future development of net interest income due to adverse interest rate shifts. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Sensitivity analyses

FBN MFB also sensitises the impact of monetary policy rate and other market rate movements on the earnings capabilities of interest-bearing financial assets and expenses from interest-bearing financial liabilities. These are meant to determine the breakeven point for every rate shock in the market, especially on the loan assets and deposit liabilities. The range of the simulation is always between 50 to 500 basis points.

The repricing gap analysis measures the effect of interest rate movement on FBN MFB's total gaps between rate-sensitive assets and liabilities. It showed the additional interest expense FBN MFB will have incurred for each of the assumed interest rate scenarios. FBN MFB's exposure to interest rate risk is that profit before tax would increase by ₦22,728 (₦20,232 at 31 December 2012), which is a 1% interest rate increase.

	Interest earning assets ₦'000	Interest bearing liabilities ₦'000	Repricing gap risk Periodic gap ₦'000	Cumm gap ₦'000	Interest rate risk ₦'000
31 December 2013					
Maturity groups					
0-7 days	232,517	-	232,517	232,517	23,252
8-14 days	-	-	-	232,517	-
15-30 days	-	-	-	232,517	-
31-60 days	-	-	-	232,517	-
61-90 days	6,184,141	4,514,122	1,670,019	1,902,536	167,002
91-180 days	1,370,218	1,016,470	353,748	2,256,284	35,375
Total	7,786,876	5,530,592	2,256,284	-	225,629
31 December 2012					
Maturity groups					
0-7 days	207,141	-	207,141	207,141	2,071
8-14 days	-	-	-	207,141	-
15-30 days	-	-	-	207,141	-
31-60 days	-	-	-	207,141	-
61-90 days	3,533,615	3,312,313	221,302	428,443	2,213
91-180 days	1,561,587	824,186	737,401	1,143,965	7,374
Total	5,302,343	4,136,499	1,165,844	-	11,658
1 January 2012					
Maturity groups					
0-7 days	200,269	92,054	108,215	108,215	1,082
8-14 days	-	-	-	108,215	-
15-30 days	-	-	-	108,215	-
31-60 days	-	-	-	108,215	-
61-90 days	6,041,870	5,798,448	243,422	351,637	2,434
91-180 days	1,360,064	857,930	487,450	839,087	4,875
Total	7,602,203	6,748,432	839,087	-	8,391

FINANCIAL RISK MANAGEMENT

Fair value of financial assets and liabilities

a) Financial instruments not measured at fair value

The following table summarises the carrying amounts of financial assets and liabilities presented on FBN MFB's statement of profit and loss that are not at fair value.

	31 December 2013		31 December 2012		1 January 2012	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and bank balances	232,517	232,517	207,141	207,141	200,269	200,269
Loans and advances to banks	6,035,399	6,035,399	3,435,087	3,435,087	5,992,510	5,992,510
Loans and advances to customers	1,462,877	1,370,218	1,638,091	1,561,587	1,387,970	1,360,064
Investment securities: Loans and receivables	148,742	148,742	98,528	98,528	49,360	49,360
Other assets	107,628	107,628	185,573	185,573	149,116	149,116
	7,987,163	7,894,504	5,564,420	5,487,916	7,779,225	7,751,319
Financial liabilities						
Deposits from banks	4,514,122	4,514,122	3,312,313	3,312,313	5,798,448	5,798,448
Deposits from customers	1,016,470	1,016,470	824,186	824,186	857,930	857,930
Bank borrowings – overdraft	-	-	-	-	92,054	92,054
Other liabilities	175,038	175,038	168,054	168,054	161,635	161,635
	5,705,630	5,705,630	4,304,553	4,304,553	6,910,067	6,910,067

FBN MFB has no financial asset measured at fair value at initial and subsequent-to-initial measurement.

Fair value methods and assumptions

i) Cash and bank balances

The carrying amounts of these balances is their fair value.

ii) Loans and advances to banks

The carrying amounts of these balances is their fair value.

iii) Loans and advances to customers

Loans and advances are carried at amortised cost net of provision for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

iv) Held to maturity: financial assets

Treasury bills represent short-term instruments issued by the Central Bank of Nigeria. The fair value of treasury bills is determined with reference to quoted prices (unadjusted) in active markets for identical assets.

v) Deposits from banks and customers including overdraft

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits and overdraft, is the amount repayable on demand. The estimated fair values of fixed interest-bearing deposits are determined using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

vi) Other assets

Other assets represent monetary assets which usually have a short recycle period and as such the fair values of these balances approximate their carrying amount.

vii) Other liabilities

Other liabilities represent monetary liabilities which usually have a short recycle period and as such the fair values of these balances approximate their carrying amount.

FINANCIAL RISK MANAGEMENT

Capital management

FBN MFB's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

i. to comply with the capital requirements set by the regulators of the banking markets where the entities within FBN MFB operate;

ii. to safeguard FBN MFB's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

iii. to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by FBN MFB's management, employing techniques based on the guidelines developed by the Central Bank of Nigeria (CBN), for supervisory purposes. The required information is filed with the CBN on a monthly basis. Auditors to FBN MFB are also required to render an annual certificate to the Nigerian Deposit Insurance Corporation (NDIC) that includes the computed capital adequacy ratio of FBN MFB. The objective of capital management is to ensure that the minimum capital requirements set by the Central Bank of Nigeria are achieved.

Central Bank of Nigeria Capital Requirements for Microfinance Banks

The Central Bank of Nigeria (CBN) required all microfinance banks to meet the prescribed capital funds adequacy stated below:

(a) Minimum capital requirement for licensing and operation of national microfinance banks in Nigeria: A national microfinance bank is required to have ₦2 billion paid-up capital and is allowed to open branches in all states of the Federation and the FCT.

(b) Capital adequacy ratio of microfinance banks shall be measured as a percentage of the shareholders' funds unimpaired by losses to its risk-weighted assets. The minimum Capital Adequacy Ratio (Capital/Risk Weighted Assets Ratio) for microfinance banks shall be 10 per cent.

(c) Every microfinance bank is expected to maintain a ratio of not more than 1:10 for its shareholders' fund unimpaired by losses to the net credits.

(d) Microfinance banks may be required to maintain additional capital as the Central Bank of Nigeria (CBN) considers appropriate in respect of specific concentration of risks or market risks or connected lending.

(e) Maintenance of capital funds into which it shall transfer from its profit after tax for each year (before dividend), subject to the following provisions:

(i) where the amount of FBN MFB's reserve fund is less than 50 per cent of its paid-up capital, an amount which shall not be less than 50 per cent of FBN MFB's net profit for the year;

(ii) where the amount of FBN MFB's reserve fund is 50 per cent or more, but less than 100 per cent of its paid-up capital, an amount which shall not be less than 25 per cent of FBN MFB's net profit for the year; and

(iii) where the amount of FBN MFB's reserve fund is equal to 100 per cent or more of its paid-up capital, an amount equal to 12.5 per cent of FBN MFB's net profit for the year.

STATEMENT OF VALUE ADDED

	2013 ₦'000	%	2012 ₦'000	%
Gross earnings	1,103,057		1,203,035	
Interest expense	(45,446)		(14,445)	
	1,057,611		1,188,590	
Bought-in goods and services:				
Administrative overheads - local	(387,188)		(329,814)	
Provision on loan losses	(15,395)		(45,613)	
Value added	655,028	100	813,163	100
Distributed as follows:				
To pay employees:				
Salaries and other allowances	434,715	66	407,565	50
To pay Government:				
Taxation	127,515	19	158,481	19
To provide for enhancement of assets expansion of business and payment of dividend to shareholders:				
- Depreciation and amortisation	45,084	7	79,669	10
- Deferred taxation	(34,853)	(5)	(28,700)	(3)
- Profit for the year	82,567	13	196,148	24
	655,028	100	813,163	100

Value added represents the additional wealth FBN MFB has been able to create by its own and its employees' efforts. This statement shows the allocation of that wealth among the employees, shareholders, government and the portion re-invested for creation of more wealth.

FINANCIAL SUMMARY - IFRS

	31 Dec 2013 ₦'000	31 Dec 2012 ₦'000	1 Jan 2012 ₦'000
Assets			
Cash and bank balances	**232,517**	207,141	200,269
Loans and advances to banks	**6,035,399**	3,435,087	5,992,510
Loans and advances to customers	**1,370,218**	1,561,587	1,360,064
Held-to-maturity financial assets	**148,742**	98,528	49,360
Other assets	**107,628**	163,751	149,116
Property and equipment	**250,218**	264,940	275,215
Deferred tax asset	**16,969**	-	-
Intangible assets	**1,072**	563	31,030
Total assets	**8,162,763**	5,731,597	8,057,564
Liabilities			
Deposits from banks	**4,514,122**	3,312,313	5,798,448
Deposits from customers	**1,016,471**	824,186	857,930
Bank borrowings - overdraft	**-**	-	92,054
Current income tax liability	**127,515**	145,049	56,203
Retirement benefit obligations	**94,233**	65,340	40,110
Deferred income tax liability	**-**	17,883	46,583
Other liabilities	**176,790**	168,054	161,635
Total liabilities	**5,929,131**	4,532,825	7,052,963
Equity			
Share capital	**2,000,000**	1,000,000	1,000,000
Statutory reserve	**250,785**	209,502	116,060
Statutory credit reserve	**3,240**	39,029	27,338
Retained earnings	**(20,393)**	(49,759)	(138,797)
Total equity	**2,233,632**	1,198,772	1,004,601
Total equity and liabilities	**8,162,763**	5,731,597	8,057,563
Statement of profit or loss and other comprehensive income			
Gross earnings	**1,103,057**	1,203,035	
Profit before taxation	**175,229**	325,929	
Taxation	**(92,662)**	(129,781)	
Profit/(loss) after taxation	**82,567**	196,148	
Other comprehensive income:			
Remeasurement of post-employee benefit obligations	**4,491**	(1,977)	
Total comprehensive income for the year	**87,058**	194,171	
Per-share data (kobo):			
Earnings per share: [basic]	**4**	20	
Net assets per share: [basic]	**114**	120	

Basic earnings per share are based on profit/(loss) after tax and the number of issued ordinary shares at 31 December of every year.

Net assets per share are based on the number of issued ordinary shares at 31 December on each year.

FINANCIAL SUMMARY - NGAAP

	2010 ₦'000	2009 ₦'000
BALANCE SHEET		
ASSETS		
Cash	33,219	16,118
Treasury bills	50,000	-
Due from banks and other financial institutions	2,094,465	2,153,607
Loans and advances	923,774	193,037
Other assets	172,033	158,266
Fixed assets	330,373	338,965
Total assets	3,603,864	2,859,993
LIABILITIES		
Bank overdraft	34,253	-
Deposits	690,166	288,975
Due to other banks and other financial institutions	1,796,639	1,509,841
Tax payable	15,200	12,449
Deferred taxation	15,821	14,511
Other liabilities	38,682	43,864
	2,590,761	1,869,640
CAPITAL AND RESERVES		
Share capital	1,000,000	1,000,000
Statutory reserve	8,004	-
General reserve	5,098	(9,647)
Shareholders' funds	1,013,102	990,353
Liabilities and shareholders' fund	3,603,864	2,859,993
PROFIT AND LOSS ACCOUNT		
Gross earnings	543,750	288,406
Profit before taxation	48,613	17,313
Taxation	(16,599)	(26,960)
Profit/(loss) after taxation	32,014	(9,647)
Transfer to statutory reserve	8,004	-
Per-share data (kobo):		
Earnings/(loss) per share: [basic]	3.20	(0.96)
Net assets per share: [basic]	101	99

Basic earnings per share are based on profit/(loss) after tax and the number of issued ordinary shares at 31 December of every year.

Net assets per share are based on the number of issued ordinary shares at 31 December on each year.

COMPANY INFORMATION

GROUP AND HEAD OFFICE DEPARTMENT HEADS

Full name	Title
John Ologe	Head, Business Development
Tony Ozore	Head, Operations
Wunmi Adedurotimi	Head, Legal
Matthew Agboola	Acting Head, Financial Control
Kuha Alphonsus	Head, Credit Risk
Eno Asouquo	Head, Internal Audit
Moses Idehen	Head, Information Technology
Eme Oke	Head, Human Resources
Debbie Olutimi	Head, E-Business and Mobile Payment

BUSINESS CONTACT DETAILS

Branch/Customer Meeting Points (CMPs)	Telephone numbers	Address
Head Office	01-8501505 07029743509	35 Herbert Macaulay Way, Yaba, Lagos
Agege Branch	08159393357	77 Old Abeokuta Road, Agege, Lagos
Ajah Branch	08159393174	Ajah-Addo Badore Road, adjacent to Olumegbon Palace, Ajah, Lagos
Ajegunle Branch	08159393289	48 Baale Adeyemo Street, Ajegunle, Lagos
Apapa Branch	08159393329	14 Calcutta Crescent, Apapa, Lagos
Bariga Branch	08159393175	11 Jagunmolu Street, Bariga, Lagos
Broad Street Branch	08159393170	93 Broad Street, Lagos
Ebute Meta Branch	08159393173	84 Murtala Mohammed Way, Ebute Meta, Lagos
Iddo CMP	08159393310	Block C, Iddo Ultra Modern Shopping complex
Idumota CMP	08159393314	78 Docemo Street, Idumota, Lagos
Ikeja CMP	08159393317	Centage Trade Centre, 33 Awolowo Road, next to Oceanic Bank, Ikeja, Lagos
Ikorodu Branch	08159393244	88 Lagos Road, Ikorodu, Lagos
Ikorodu CMP	01-8419080 07029743507	19 Ayangburen Road, Ikorodu, Lagos
Ikotun Branch	08159393177	Block YK 10, Irepodun Market, Ikotun, Lagos
Iyana Ipaja Branch	08159393284	10 Old Iyana Ipaja Road, Iyana Ipaja, Lagos
Ketu Branch	08159393278	6 Demurin Street, Ketu, Lagos
Lawanson CMP	08159393187	2 Lawanson Street, Lawanson bus-stop, Surulere, Lagos
Matori Branch	08159393172	84/88 Ladipo Street, Papa Ajao, Mushin, Lagos
Ogba CMP	08159393302	Suite 74, Ogba Shopping Arcade, Ogba, Lagos
Okoko/Alaba Branch	08159393176	D24-27 Electrical Section, Off St Patrick Catholic Church Road, Alaba International Market, Lagos
Orile Branch	08159393322	104 Market Street, Odunade Market, Coker Orile
Oshodi CMP	08159393302	22 Oshodi Road, Oshodi, Lagos
Tejuosho branch	08159393315	30/32 Ojuelegba Road. The Exquisite Plaza, Suite A07

ABBREVIATIONS

BARAC	Board Audit & Risk Assessment Committee
BIC	Banque Internationale de Crédit SARL
CBN	Central Bank of Nigeria
CEO	Chief Executive Officer
CMP	Customer Meeting Points
FBN BDC	FBN Bureau de Change Limited
FBN MFB	FBN Microfinance Bank Limited
FBN UK	FBN Bank (UK) Limited
FFL	First Funds Limited
FPCNL	First Pension Custodian Nigeria Limited
FTNL	First Trustees Nigeria Limited
HR	Human Resources
IBAM	Investment Banking and Asset Management
ICAN	Institute of Chartered Accountants of Nigeria
IFRS	International Financial Reporting Standards
KYC	Know Your Customer
MDSA	My Daily Savings Account
₦	Naira
PAR	Portfolio at risk
PAT	Profit after tax
PBT	Profit before tax
POS	Point of sale
SLA	Service level agreement

FBN Microfinance

REGISTERED ADDRESS

FBN Microfinance Bank Limited
305 Herbert Macaulay Way,
Sabo Yaba,
Lagos, Nigeria

www.fbnmicrofinancebankltd.com