# Connected.


First
Pension Custodian

**First Pension Custodian Nigeria Limited** | Annual Report and Accounts 2013

# Connected.

## Growth through connected solutions

As a Group, we are exploiting synergies and optimising cross-selling between our subsidiary businesses to become more effective and increase value for our shareholders.

Being more 'connected' as a Group means we can create an improved service for all our customers. By listening to them and understanding their diverse needs, we can provide innovative products and solutions that better connect us to them.

It is this sort of forward thinking that has helped us evolve to become one of the leading financial services in Sub-Saharan Africa.

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The term 'FBN Holdings Plc' or the 'Group' means FBN Holdings together with its subsidiaries, which include First Pension Custodian Nigeria Limited. FBN Holdings Plc is a non-operating holding legal entity 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 '₦'mn', '₦'bn' and '₦'trn' represent millions, billions and trillions 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 is composed of First Bank of Nigeria Plc, FBN Bank (UK) Limited, FBN Bureau de Change Limited, Banque Internationale de Crédit (BIC), First Pension Custodian Nigeria Limited and FBN Mortgages Limited. This includes Banks (International Commercial Bank) in Ghana, Guinea, The Gambia and Sierra Leone. First Bank of Nigeria Plc is the lead entity of the Commercial Banking 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 houses FBN Life Assurance Limited and FBN Insurance Brokers Limited.
- Other Financial Services include FBN Microfinance Bank Limited.

This report encompasses First Pension Custodian Nigeria Limited. Unless otherwise stated, the profit or loss statement analysis compares the 12 months to December 2013 to the corresponding 12 months of 2012, and the financial position 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 glossary or abbreviation section of this report. This report is also available online at www.firstpensioncustodian.com/download/2013financialreport.

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

# INTRODUCTION

First Pension Custodian Nigeria Limited (FPCNL) is one of the foremost pension custodians in the Nigerian pension industry. We are a wholly owned subsidiary of First Bank of Nigeria Limited.

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Strategy and business model

"Going into the future, the priority for our Company is to further drive profitable growth. At FPCNL, we understand the importance of doing things right to create long-term value."

Joseph Sanusi, CON

Chairman

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# OVERVIEW

## WHO WE ARE

First Pension Custodian Nigeria Limited (FPCNL) is one of the foremost pension custodians in the Nigerian pension industry. We are a wholly owned subsidiary of First Bank of Nigeria Limited, the principal bank subsidiary of FBN Holdings. FBN Holdings Plc is a non-operating holding entity and structured under four business groups, namely: Commercial Banking, Investment Banking and Asset Management, Insurance, and Other Financial Services.

First Bank of Nigeria Limited is the lead entity of the Commercial Banking business group, which also includes FBN Bank (UK) Limited, Banque Internationale de Crédit (BIC), First Pension Custodian Nigeria Limited and FBN Mortgages Limited.


The FirstBank brand seeks to draw from its history of being one of Nigeria's biggest and most prosperous financial services groups and streamlining with new-age processes, technology and most importantly, group mindset. The Bank's brand essence of being 'Dependably Dynamic' stands firmly on the four pillars of success: Leadership, Safety & Security, Enterprise and Service Excellence. The recent brand refresh initiative of the FBN Group seeks to continue to set the gold standard of value and excellence across Sub-Saharan Africa.

The elements of the brand are reflected in our vision and mission statements. First Pension Custodian's vision is to be the 'custodian of first choice', while our mission is to provide best-quality custodial services and optimum protection of contributors' assets. To drive the vision and mission of the Company, we are positioned through our existing business structure to take full advantage of opportunities in the ever-changing operating environment.

As at end of December 2013, we had custodial relationships with 16 pension fund administrators (PFAs) and three closed pension fund administrators (CPFAs). We hold about 35% share of the market and had in employment 63 core employees during the year.

## WHAT WE DO

The principal activity of FPCNL as pension fund custodian is to provide a wide range of custody services covering our assigned responsibilities under the Pension Reform Act 2004, in addition to our boutique of global services.

We offer our clients a full spectrum of services designed to meet their business needs. Our overriding priority is to be the leader in customer services driven by superior customer insight and cutting-edge relationship management. We have a strong focus on understanding and responding to our customers' various requirements and offer bespoke solutions. This is achieved through the efficient use of information technology and dedicated staff, as well as through various initiatives aimed at developing value-added services.

The suite of services includes, but is not limited to:

- pension contributions collection from employers on behalf of the PFAs, for the benefit of the contributors;
- investment transactions settlement;
- safekeeping of assets;
- corporate actions across all categories of assets;
- pensions and benefit payment nationwide;
- portfolio valuation;
- cash management; and
- performance measurement and compliance monitoring assistance.

More than eight years after we commenced operation, we continue to engage our employees, continually striving to exceed our customers' expectations and deliver value to our shareholders.

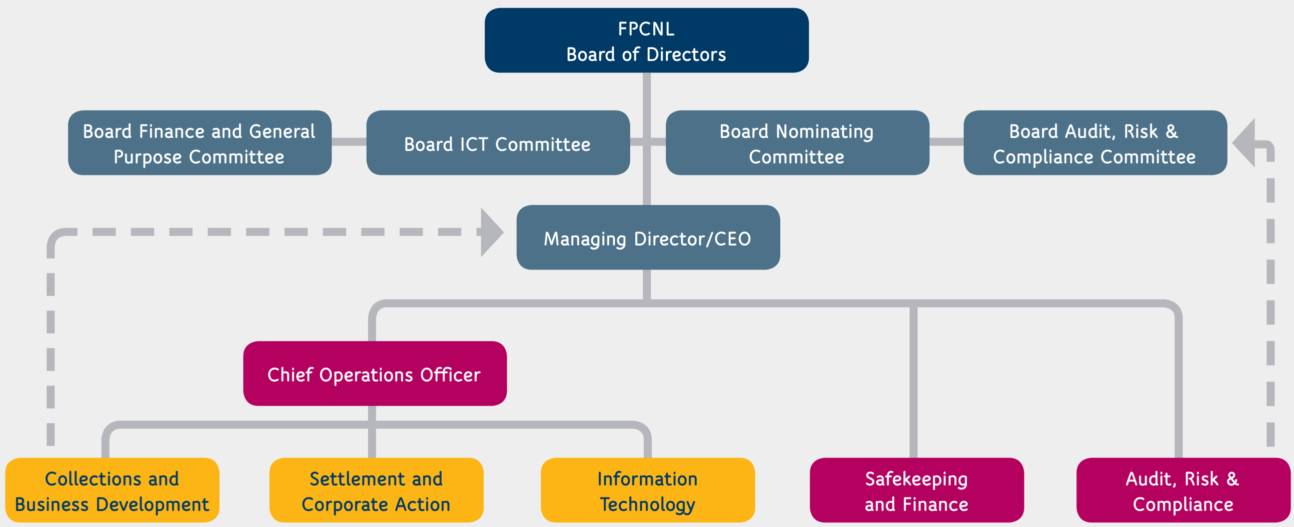
## HOW WE ARE STRUCTURED

The organisational structure incorporates functions that are critical to the Company's success. Our operating model is based on ensuring that activities are carried out efficiently at the most appropriate level and deliver on our strategy.

The Board of Directors is responsible for top-level governance/strategic direction of the Company and oversees the executive management of the Company. The CEO, who is in charge of the day-to-day operations of the Company, is responsible for developing the long-term vision of the Company and executing a growth strategy for the organisation. The Board has also established a number of committees that assist in exercising governance over FPCNL.

The Management Committee, which comprises the CEO and other top management staff, is responsible for strategy development/implementation, and key management and operational decisions that drive business success.

### Our organisational structure



## OUR STRATEGY AND BUSINESS MODEL

Our business model is focused on building a sustainable business as a pension fund custodian, simultaneously creating long-term value for our shareholders and supporting our clients to achieve their operational objectives. The business structure reflects our strategy for sustainable profitable growth through an effective service-oriented approach to customers and delivering better shareholder returns.

We aim to be competitive at all levels and thereby more relevant to our clients. Customers are at the heart of our business.

Our vision sets out our intentions and aspirations at the highest level, while our strategic objectives outline what we need to do to achieve that vision. There are five basic building blocks to our strategy. In our bid for operational excellence, we encourage a high-performing culture, and reward our employees not just for what they do, but how they do it. We focus on understanding our customers' varied requirements and combine our capabilities with the strength of the Group to deliver high-quality needs-based solutions to our customers and drive our growth.

Our strategy aims to enhance our reputation as a pension custodian that delivers quality service and in competition for further growth opportunities.

### Our strategy and business model

#### OUR VISION

True to our name, to be the custodian of first choice

#### OUR STRATEGY

To be the market leader in the pension custodian business by superior customer service delivery and satisfaction, and to deliver better shareholder returns

- Engage our people
- Engage externally
- Deliver operational excellence
- Stimulate innovation
- Drive profitable growth

#### OUR BUSINESS MODEL

**WHAT WE DO**

We are a pension custodian in the Nigerian pension industry. We hold pension fund assets in trust for our clients, execute transactions and undertake activities relating to the administration of pension fund investments upon instructions by our PFA clients. Our focus is driving performance to make sure we meet the needs of our customers and deliver value to our stakeholders.

**HOW WE DO IT**

What we do and how we do it are very important: from setting the tone at the top, with a Board and management team that have a wide range of skills and experience, to our governance structure and how we manage our internal controls, which is an integral part of our day-to-day activities.

#### WHAT DID WE ACHIEVE – SEE PAGE 16

Our business and people support the success of our clients and shareholders

# PERFORMANCE HIGHLIGHTS

## FINANCIAL

| GROSS REVENUE | PROFIT BEFORE TAX | EARNINGS PER SHARE | RETURN ON EQUITY | ASSETS UNDER CUSTODY |
|---|---|---|---|---|
| ₦3.29bn | ₦2.03bn | 75k | 32% | ₦1.45trn |
| ▲ 28% | ▲ 54% | ▲ 83% | ▲ 9% | ▲ 33% |

## NON-FINANCIAL

### SERVICE DELIVERY AND OPERATIONAL EFFICIENCY

During the year, we delivered high-quality needs-based solutions to our varied customers in the most cost-efficient manner. To effectively meet our customers' demands in an evolving operating environment, we acquired and implemented a new custody solution to replace the existing software, which had become inadequate for the growth and sophistication of our business.

### CUSTOMER SATISFACTION

Our customers are at the heart of our business. During the year, we met several times with our customers to gain a better understanding of their needs. Feedback from our customers has indicated a better level of satisfaction with our service delivery.

### OUR PEOPLE

Engaging our people helps to retain the best possible range of talent and experience that is necessary to meet the needs of our business. We are committed to developing our employees to the best of their abilities and creating an all-inclusive culture.

All our training and staff support activities are closely linked to our business strategy; from improving our employee skills to the development of future leaders for FPCNL.

# CHAIRMAN'S STATEMENT

**Joseph Sanusi, CON**
Chairman

**This has been another year of progress for our Company. In 2013, revenue rose by 28% and profit before tax increased by 54%. This is a particularly pleasing development. We have achieved this by focusing on a consistent strategy, and the efforts of our highly skilled management team and dedicated staff, as well as our supportive shareholders and customers.**

Going into the future, the priority for our Company is to further drive profitable growth. At FPCNL, we understand the importance of doing things right to create long-term value. We are implementing many changes across the business, spanning our people, processes and IT infrastructure to create a base for sustainable future growth. All these changes, however, will not affect what our brand is respected for – leadership, safety and security, enterprise and service excellence. We rely on the strength of this platform as essential for our business.

## OUR OPERATING ENVIRONMENT

The Nigerian pension industry has evolved over time and there has emerged more clarity on the future shape of the regulatory environment. It is clear that the industry will continue to be highly regulated. It is also clear that there will be fundamental changes in the operating environment with the proposed reform of the Pension Reform Act 2004.

We have assessed how these developments will affect our business and intend to respond positively to these developments. However, it is essential that the proposed revisions are carefully monitored to achieve what we want to attain in line with our strategy.

## BOARD CHANGES

Having served as Managing Director/CEO for more than four years, since January 2009, Mr Akin Fanimokun resigned from our Company further to his appointment as the Group Executive of First Bank of Nigeria Limited.

Mr Kunle Jinadu, formerly an Executive Director of the Company, was appointed as the new MD/CEO effective April 2013. The fresh insight and perspective that Kunle Jinadu brings are complemented by the accumulated Company knowledge that our serving directors provide.

On behalf of the Board, I would like to thank Akin Fanimokun for his commitment to the Company and the valuable contributions he made as the MD/CEO.

## PEOPLE

The Board is committed to achieving long-term success for the Company and generating strong, stable and sustainable returns for shareholders, and this is underpinned by our high standards of corporate governance.

Delivering excellent service is at the heart of our strategy and we know we have to demonstrate this in all our actions. By acting in our customers' best interest, we will become the great business we aspire to be and a source of pride for our employees. This in turn will enable us to create sustainable returns for our shareholders.

Thus, it is vital to ensure our management and staff are fully engaged in meeting our business objectives and in making further progress. I thank all of them for their commitments thus far.

## GOVERNANCE

Strong governance is essential to our long-term success. We are committed to setting the tone at the top and have an established best-practice structure in our corporate governance framework. Personally, I am dedicated to this approach and will continue to ensure that, as a Board, we remain engaged in exploring ways that can further improve our performance through the Board evaluation process.

Equally, we have a strong management team, with extensive experience and broad understanding of our business.

## OUR PRIORITIES

Delivering and executing our strategic objectives requires hard work and commitment. We have three major focus areas for the coming year: running FPCNL the right way, having a high-performing culture and driving profitable growth.

We will continue to focus on ensuring that our business practices and culture appropriately reflect the needs of all stakeholders

The Board and management have an essential role to play in promoting a culture of excellent service irrespective of cadre, and drive profitable growth without compromising best practice.

## LOOKING AHEAD

As we look forward to 2014 and the continuation of our plan, I believe we have a strong foundation on which to build our strategy of being the 'custodian of first choice'.

I would like to thank all of our employees and shareholders for their ongoing support as we implement our strategy. I am confident that our people will continue to make FPCNL a company we can all be proud of and deliver sustainable returns to our shareholders.

**Joseph Sanusi, CON**
Chairman

# LEADERSHIP AND GOVERNANCE

## BOARD OF DIRECTORS

**The Board is collectively responsible for the long-term success of the Company, by being the custodian of choice and generating stable and sustainable returns for shareholders.**

**Joseph Sanusi, CON**
Chairman
N

**Kunle Jinadu**
MD/CEO
ARC FGP ICT

**Muhammadu Ibrahim, OFR**
Non-Executive Director
ARC N

**Bayo Odeniyi**
Independent Director
ARC ICT N

**Umar Yahaya**
Non-Executive Director
FGP

**Ijeoma Jidenma**
Non-Executive Director
ARC ICT

**Urum Eke**
Non-Executive Director
FGP

**Membership Key:**

- ARC Audit, Risk & Compliance Committee
- FGP Finance & General Purpose Committee
- ICT Information & Communication Technology Committee
- N Nominating Committee

FOR FULL DETAILS TURN TO PAGE p24

## MANAGEMENT COMMITTEE

### The Management Committee is responsible for the day-to-day management of the Company's activities.

**Kunle Jinadu**
MD/CEO

**Akin Denton**
Head, Collections & Business Devt.

**Bunmi Aderonmu**
Head, Safekeeping & Finance

**Fatai Ayoade**
Acting Head, Information Technology

**Tunde Folayan**
Head, Audit, Risk & Compliance

**Wole Fanimokun**
Head, Settlement & Corporate Actions

# BUSINESS REVIEW

It has been a year with many rewarding moments, as well as some challenges. During the year, we made progress on many fronts, and established new strategic platforms.

"My goal as CEO is to ensure that the Company and its employees will always be united by our vision: 'To be the custodian of first choice'."

Kunle Jinadu

MD/CEO

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Operating environment

# MANAGING DIRECTOR/CEO'S REVIEW

**Kunle Jinadu**
MD/CEO

**It is almost a year since I took over as the Chief Executive Officer of FPCNL. It has been a year with many rewarding moments, as well as some challenges. During the year, we made progress on many fronts, and established new strategic platforms.**

I am honoured to be the third CEO in the history of the Company. Personally, I am humbled to lead the talented and dedicated people who work with FPCNL. My goal as CEO is to ensure that the Company and its employees will always be united by our vision: 'To be the custodian of first choice'.

Our operations are influenced and affected by what is going on in the world around us. We shape our decisions by trying to balance the impact of these external factors, so we can deliver value for our customers and shareholders.

During the period, we implemented the roll-out of our new application and a review of our processes. We are now more focused on driving performance to make sure we meet the needs of our customers and deliver value to our shareholders.

## FINANCIALS

We made substantial progress during the year and have delivered a good financial performance for the year ended 2013. Our financial measures have mostly improved compared with the prior year, and we continue to see opportunities for growth in the future.

We delivered a profit before tax of ₦2.03 billion in 2013, a substantial increase of 54% when compared to 2012. This is a reflection of a significant increase in revenue (28%) and stable costs.

## ENSURING PROFITABLE GROWTH

In addition to improving our financial results within the context of our vision and strategic framework, there are specific areas of focus for the Company – our growth drivers – that will help ensure robust growth for the future.

- First is our commitment to create value in everything we do to make us the leading custodian. This is through the constant flow of new ideas and different approaches to meet the challenges and opportunities of the future.
- Second, we will focus on customer service excellence. Across the organisation, we have built greater accountability for quality into the requirements for all our employees. We have redefined standards and processes to improve our level of execution, and to provide superior customer service delivery and satisfaction.
- Thirdly, we will continue to foster a high-performance-driven organisation and develop excellence at every level of our Company. This is essential for us to be able to deliver on the responsibilities we owe to our varied clients.

## OUR PEOPLE

We are committed to developing all our employees to the best of their abilities. We are also determined to create an inclusive, high-performance culture within FPCNL. We aim to ensure that our employees uphold the highest ethical standards and have the right tools to do their jobs. To be a world-class company, we need to institutionalise and perpetuate a great culture and excellent leaders.

This in part is achieved by creating a positive working environment and ongoing training of our staff. We annually train our staff to understand the business, customers and how to do their jobs well.

We also encourage a culture of character and integrity, which comes from fostering an open environment where people speak their minds freely and everyone is treated with respect.

## CUSTOMERS

We are committed to superior service delivery and customer satisfaction. Our customers are crucial to our success, and our performance is an indication of the excellent relationship we have developed with our customers over the years. As part of our strategy, we have in place several initiatives aimed at serving our customers in the most effective and efficient manner. Some of these initiatives are derived from the implementation of the new application. The results of these initiatives are already showing, with improved feedback from our customer satisfaction survey.

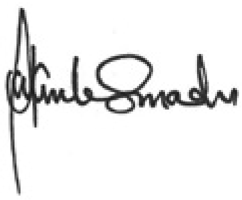
## PRIORITIES FOR THE YEAR AHEAD

- Continue to improve our performance and build on foundations we have established during 2013.
- Maintain a strong focus on the service we provide to our customers, including improving our response to complaints and enquiries, and showing our customer-facing employees how the customers rate the service they provide.
- Improve the customer experience through end-to-end process excellence.
- Continue to enhance our capabilities in processes and performance excellence.
- Increase innovation to help us meet our customers' service expectations.

## LOOKING AHEAD

While we do operate in a highly competitive environment, we are committed to continuing the proud tradition of FPCNL as a purpose-led organisation. We will further dedicate ourselves every day to the responsibilities defined in our mission statement, the first being our responsibility to our clients. We will never lose sight of the reason we are here: to serve our customers.

We will also continue our commitment to our employees and our valued shareholders.



**Kunle Jinadu**
MD/CEO

# OPERATING ENVIRONMENT

**During 2013, the Nigerian pension industry consolidated its efforts to create awareness of the contributory pension scheme. The industry however had to contend with unrelated news of activities in the legacy pension offices outside the reform practices.**

However, in spite of all the challenges, one of the remarkable achievements of the pension industry during the year was the successful decentralisation of the operations of the industry regulatory body, the National Pension Commission, into six zonal offices. The decentralisation was necessary in order to bring the Commission closer to contributors and retirees.

The industry is optimistic that this will attract both informal and state government workers into the scheme, thereby tripling the present level of pension assets.

The increase in pension assets is expected to ease liquidity problems that have dogged the stock market since 2008.

The call for investment of the huge pension asset to build requisite infrastructure for development continues. The stakeholders are, however, working on the appropriate framework and structure on which the pension assets can be channelled in order to finance the nation's infrastructure.

## REGULATION

The regulatory focus during the year has been the review of the Pension Reform Act (PRA) 2004 to address some lapses in the Act and take the industry to a greater level.

The passage of the Bill, which is before the National Assembly, will help address some of the challenges that have been encountered in the effective implementation of the PRA 2004.

The principal thrusts of the PRA 2013 Bill are to enhance the powers of the Commission on its regulatory and enforcement activities, enhance the protection of pension fund assets, unlock opportunities for the deployment of pension assets for national development while guaranteeing safety of the pension assets, review the sanctions regime to reflect current realities, provide for the participation of the informal sector and also provide framework for the adoption of the contributory pension scheme by states and local governments.

The Bill also seeks to enhance the regulatory authority and efficiency of the Commission to provide greater oversight, and reposition the Pension Transition Arrangement Departments (PTADs) for greater efficiency and accountability in the administration and payment of pensions under the defined benefits scheme.

If the objectives are achieved, this will increase the coverage and therefore inflow of pension contributions from employers/employees.

## COMPETITION

The business environment continues to be highly competitive as the market is closed, with limited customers. The contributors under the contributory scheme are not yet permitted to transfer between PFAs. Should the transfer window be opened, it is expected that competition may become more intense.

The opening of the transfer window will change the market share of each PFA and ultimately the pension fund custodians (PFCs). Hence, we continue to strive to deliver efficient services through the implementation of a one-solution custody application to retain our current clientele and attract new clients to achieve our strategic objective of market sector leadership.

## OUTLOOK

The anticipated challenges notwithstanding, the outlook for the operating environment and our business remains positive, and we at FPCNL are positioned to take full advantage.

# STRATEGY AND PERFORMANCE

## OVERVIEW

Our strategy is built around becoming the custodian of first choice for our customers and intending clients. Market sector leadership driven by superior customer insight, better service and relationship focus is the overriding priority.

The sustainability of our business performance is driven by our structure and our people. Our objective is to constantly develop the competencies of our staff. By leveraging these capabilities and our strategic assets, we believe we can deliver on our customer promises and deliver strong, stable and sustainable returns to our shareholders.

## BUSINESS MODEL

Strategic to our business model is our client-focused approach. We operate a model that offers our clients a full spectrum of services to meet their business needs and deliver value to our stakeholders.

Achieving excellent customer service and high business performance is driven by our structure and people.

Our commitment to our people is to create a self-sustaining culture that strives for continual improvement, which will ensure the growth of the Company into the future. Our leading edge in IT keeps us well positioned to sustain our offering of operational and service excellence.

## STRATEGY

During the year, we reviewed our strategy to assess performance within the industry and made necessary adjustments spanning a three-year period. As important as strategy is, we have to execute to win. Our strategy is being delivered through key drivers to ensure our business model delivers sustainable returns, which are outlined below and on subsequent pages.

**Engage our people** – create an inclusive, high-performance culture by developing our employees.

An organisation is only as good as its people. It is through the hard work of our employees that we will achieve our vision, respond to the needs of our clients and create a competitive advantage. To deliver value for our shareholders, we must engage our employees in our business plans and ensure we have the right individuals with the right mix of skills to deliver growth.

We are focused on building robust succession plans and aligning the content of our development programmes with our business strategy.

Our ability to align human capital resources with the business strategy and improve workforce skills through strategic training and development are paramount to our success.

**Engage externally** – our work with customers, regulators and wider industry is critical to understanding their expectations and delivering service that meets their needs.

Policy decisions by regulators, government and others affect our business performance. Consequently, we engage all stakeholders to ensure that our position and perspective shape the future direction of the industry and seek to ensure operational excellence.

We equally seek to understand the expectations of all our stakeholders so we can deliver a service that meets their needs.

**Drive operational excellence** – achieve excellent levels of reliability and customer service.

Our customers demand efficient and effective service delivery. Excellence in operational processes will allow us to manage our assets efficiently and provide services that meet the changing demands of our customers.

We are committed to achieving leadership position in the delivery of excellent customer service.

**Stimulate innovation** – initiate new ideas to work more efficiently and effectively. We always explore new ways of thinking and working to improve and benefit every aspect of how we deliver our customer commitments. This is through enhancement of our complaint management framework, prompt issue resolution and performance reporting.

Embedding innovation and new technology into our operations makes sure we deliver continuous improvements in the quality of our services.

**Drive profitable growth** – we continue our aim of gaining the best possible value from our existing core business portfolio, while exploring opportunities for growth.

Combining this with operational efficiencies and disciplined procurement efficiencies gives us the best possible opportunity to drive strong returns and meet our shareholders' expectations.

## MEASURING PERFORMANCE – OUR KPIS

It has been another important financial year for us at FPCNL, as we carried out organisational change and introduced initiatives to support delivery of our strategy. Our ambition of being the 'custodian of first choice' is monitored via a range of key performance indicators (KPIs).

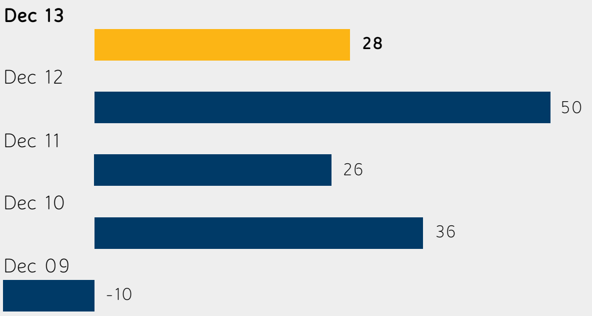
Our KPIs are indicators of the success of past initiatives and also highlight areas for further improvement. They allow us to ensure our actions culminate in sustainable long-term growth in shareholder value. Improvements in these measures build our competitive advantage.

Significant progress has been made against our strategic priorities in 2013, and has been reflected in improved profitability and our cost-to-income ratio.

# KEY PERFORMANCE INDICATORS (KPIS)

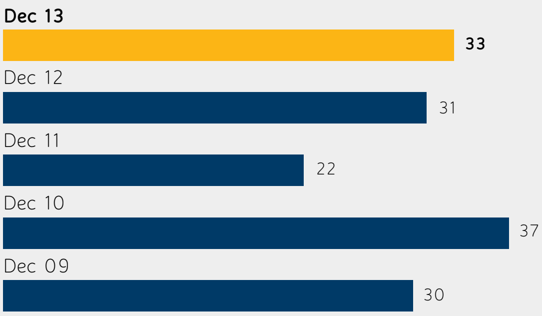
## FINANCIAL KPIS

### Revenue growth (%)



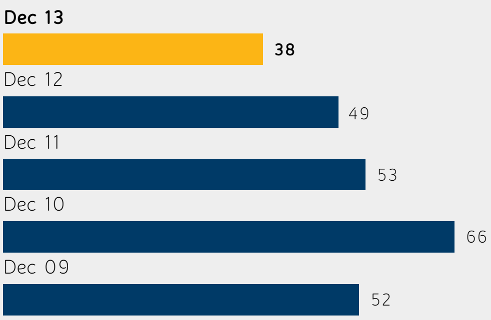

Revenue growth is an indication of our success in generating business. We will continue to grow our business to drive increased revenue and profit growth in line with our growth objectives.

### Assets under custody growth (%)



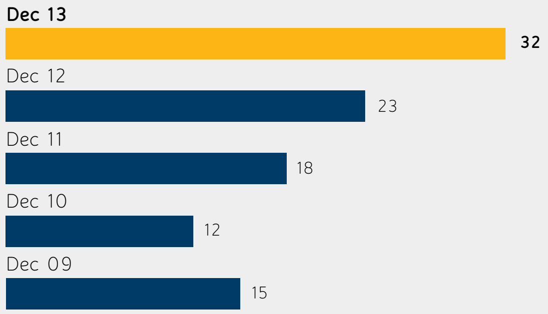

Assets under custody is a key indicator of overall performance to our stakeholders, and asset growth is a key strategic priority in our bid to regain market sector leadership. We have in place measures to ensure continued growth.

### Cost-to-income ratio (%)




We have made progress in reducing our cost-to-income ratio to 38% (2012: 49%). Our objective is to continue to deliver superior financial performance driven by improved revenue and cost optimisation/containment.

### Return on equity (%)




Our objective is to deliver year-on-year growth in returns to shareholders. We aim to be the leader in our market, and enhance market positioning, earnings and profitability.

## NON-FINANCIAL KPIS

### IT PERFORMANCE

To improve our customer service efficiency, we aim to improve our service delivery capability. We have recently implemented a new custody solution that will facilitate greater innovation in the delivery of service to our customers.

Efficient IT performance and system reliability are integral to realising our growth ambitions.

Our technology excellence has been heightened, which has improved our service delivery capability and strategic objectives.

### CUSTOMER SATISFACTION

Customer relationships are critical to our success. We aim to increase customer satisfaction with our services and earn increased loyalty. This is in line with our strategic objective of service excellence by providing superior customer service and satisfaction.

We measure the success of our customer service initiatives through a customer satisfaction survey/scorecard. The areas of focus are overall customer experience and issue resolution.

Recent figures show that customer satisfaction levels continue to improve.

### ENGAGING OUR PEOPLE

We measure employee engagement through our employee opinion survey. The KPI to 'be the employer of choice' is one element of employee engagement.

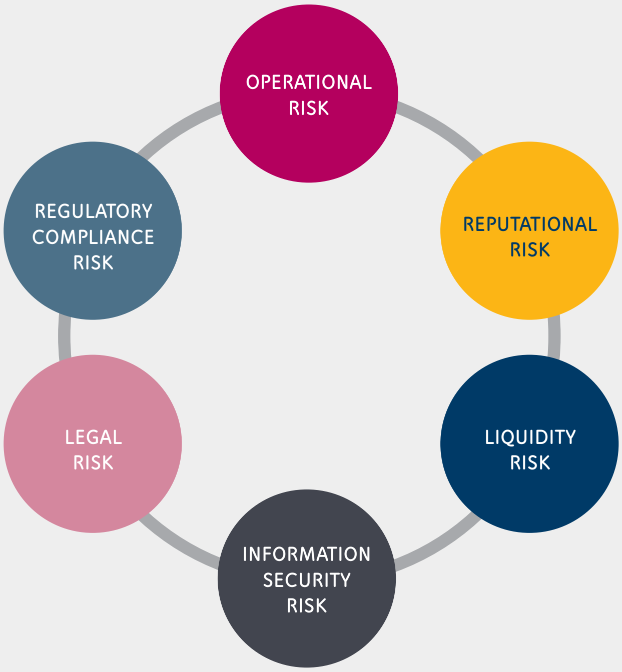
The result of the survey showed that one of the factors driving engagement was having opportunities for personal development.

We will continue to use a variety of channels to ensure that employees are engaged in our strategy and understand their role in the achievement of our strategic objectives.

# KEY RISK SUMMARY

The Company identifies and mitigates risks inherent in all material activities, processes, agreements and systems of the Company by creating awareness among all members of staff of the need to be more diligent in the conduct of transactions, ensuring quality services to the clients and applying best practice in dealing with various stakeholders. Appropriate steps are taken to control major operational risks before they adversely affect operations and hence the business. The major risks faced by the Company are highlighted below:

Major risks faced by First Pension Custodian




## OPERATIONAL RISK

This is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events that impact a company's ability to operate its ongoing business process.

### IMPACT ON BUSINESS

This could result in huge financial loss, reputational damage and loss of clients.

### MITIGATION MEASURES

We mitigate our operational risks through the following measures:

- clearly documented procedures and mapped-out process flow for all business units;
- established specific system of controls, policies and accountability;
- segregation of duties;
- business continuity and disaster recovery policies and processes;
- reviewed and approved control process;
- compliance with regulatory requirements;
- access controls to assets/data privacy;
- adequacy of audit trails/evidence;
- continuous improvement on service delivery to client; and
- adequate insurance cover for assets and staff.

## REPUTATIONAL RISK

This is the risk that an organisation's reputation and high standing may be affected.

### IMPACT ON BUSINESS

This could expose the Company to loss of customers, costly litigation and financial loss.

### MITIGATION MEASURES

The Company identifies and mitigates this risk by creating awareness among all members of staff of the need to be more diligent in the conduct of transactions, ensuring quality services to the clients and applying best practice in dealing with various stakeholders.

Management ensures that official communication with shareholders, regulators, customers and the general public is carried out in a controlled manner by duly authorised individuals/units. Senior management is also responsible for reviewing all reports going to external parties.

## LIQUIDITY RISK

This is the risk that the Company is unable to meet its contractual financial obligations.

### IMPACT ON BUSINESS

This could lead to reputational risk and insolvency.

### MITIGATION MEASURES

We mitigate liquidity risk through effective cash flow planning, diversified sources of funding and efficient asset and liability management.

## INFORMATION SECURITY RISK

This is a business risk related to the use of information assets. It is specifically a business risk associated with the use, ownership, operation, involvement, influence and adoption of information technology within an enterprise. An information asset is any information of value to an organisation and its operations.

### IMPACT ON BUSINESS

This could expose an enterprise to financial loss, customer dissatisfaction and regulatory breaches.

### MITIGATING MEASURES

We mitigate information security risk through building information security control into all processes and procedures through the development of appropriate safeguards and providing a disaster recovery site in case of a disaster, either natural or man-made, which may render existing buildings and/or infrastructures useless.

### RESPONSIBILITY

Management and all staff are made responsible for preventing information security risk through an IT security training programme targeted at increasing staff awareness. In view of IT relevance to the pension custody business, the Board of Directors of FPCNL is actively involved in key IT decisions to ensure that the organisation's IT function is capable of supporting its business strategies and objectives. The Board is also fully responsible for ensuring that effective internal controls and risk management practices are implemented to achieve security, reliability, resilience and recoverability.

## LEGAL RISK

This is the risk of real or threatened litigation against the Company.

#### IMPACT ON BUSINESS

This could cause significant costs to the Company, disrupt the operation of the Company and reduce the earnings and capital of the Company.

#### MITIGATION MEASURES

We mitigate legal risk through strict adherence to sound business practices; avoidance of litigation against the Company and engagement of external counsel with proven competence in the prosecution of the Company's claim against third parties.

## REGULATORY COMPLIANCE RISK

This is the risk arising from non-compliance with applicable laws, codes of conduct and standards of good practice.

#### IMPACT ON BUSINESS

This could result in regulatory sanctions, financial or reputational loss, and in an extreme case, lead to the withdrawal of licence and outright closure of the business.

#### MITIGATION MEASURES

Our Audit, Risk & Compliance team ensures that all relevant internal policies, statutory and regulatory directives are complied with at all times, and that exceptions are promptly identified, corrected and reported.

We also continue to identify and mitigate these risks through continuous improvement in technology infrastructure, improved internal processes and training of stakeholders to understand regulatory obligations and implications of non-compliance.

#### RESPONSIBILITY

All members of staff have the responsibility to fully comply with internal policies and regulatory requirements.

# FINANCIAL REVIEW

**Bunmi Aderonmu**
Head, Safekeeping & Finance

**This year has seen good financial performance for our business. While the execution of our business plans continued to move with pace, we navigated through with strong financial management.**

## STATEMENT OF PROFIT OR LOSS ANALYSIS

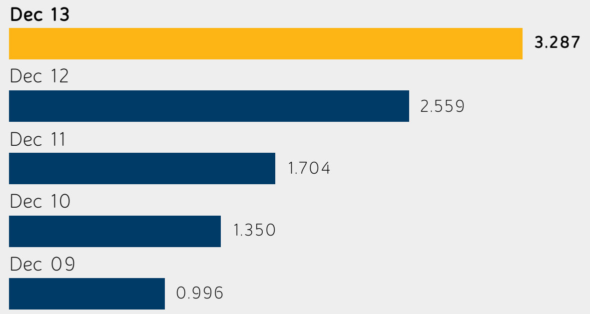
Our revenue was up by ₦0.73 billion, or 28%, driven by an increase in core custody business income relative to the previous year. The contribution from core custody business income increased to 86.5% from 79.9% in the previous year. Investment income fell by 17.9% due to a drop in average interest rate and the impact of reduced investible fund arising from significant investment in property, plant and equipment (PPE). We continue to invest in technology and other infrastructures in line with our strategy to support the future growth of the business.

Operating expenses marginally increased by 1.4% year on year. This is due to the tight management of expenses during the year, though we sustained investment in information technology and property during the year.

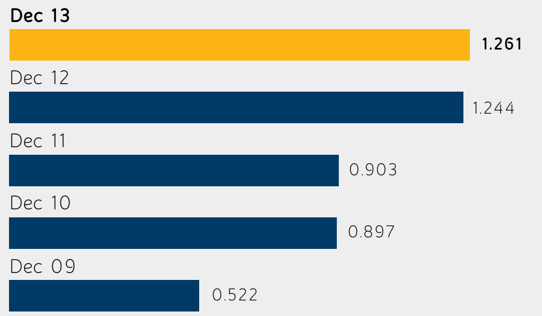
The above performance resulted in a cost-to-income ratio of 38.4% (2012: 48.6%).

We posted a profit before tax of ₦2.03 billion in 2013 (2012: ₦1.32 billion), which is an increase of 54%.

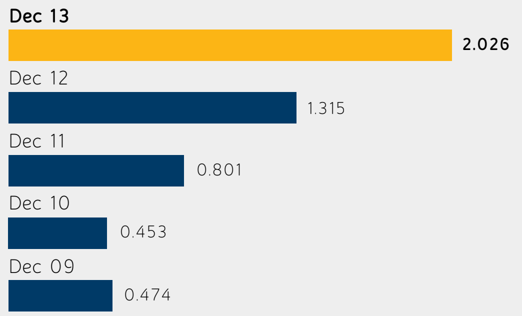
Gross earnings (₦'bn)




Operating expenses (₦'bn)




Profit before tax (₦'bn)



## STATEMENT OF FINANCIAL POSITION ANALYSIS

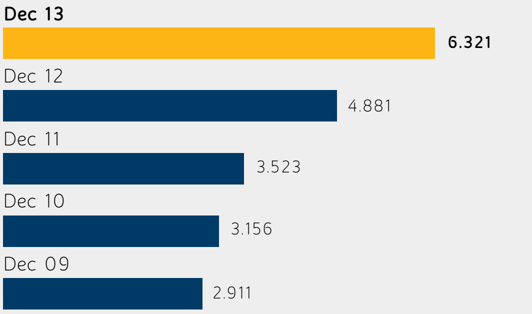
Total assets increased by 29.3% year on year to ₦6.31 billion (2012: ₦4.88 billion). The growth in balance sheet was driven by growth in profitability.

Shareholders' funds increased by 33.3% to ₦4.67 billion (2012: ₦3.51 billion) as a result of a 76.2% increase in retained earnings. This is due to profit accretion.

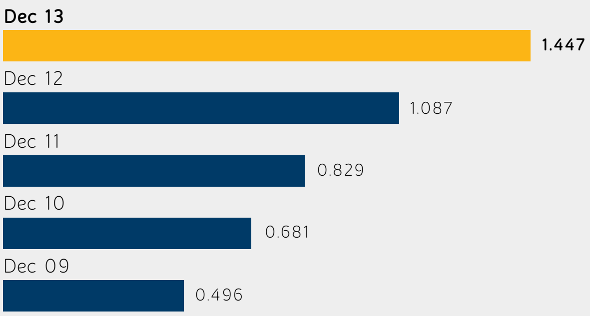
The year's performance translated to a return on assets of 23.8% (2012: 16.9%), improved return on equity of 32.2% (2012: 23.5%) and earnings per share of 75k (2012: 41k).

Total assets under custody grew by 33.1% year on year to ₦1.45 trillion (2012: ₦1.09 trillion), resulting from a fresh injection of funds and organic growth. The total asset of ₦1.45 trillion comprises pension assets of ₦1.35 trillion and AMCON assets of ₦0.10 trillion.

Movement in total assets (₦'bn)




Assets under custody (₦'trn)




## CONCLUSION

Our various strategic initiatives including transformation of our information technology will deliver tangible benefits for both our business and our customers, creating a strong and efficient platform from which to deliver sustainable long-term growth.

Delivering an attractive growing dividend to our shareholders remains a key target for us in the coming years. We aim to do this through growth in assets under custody, earnings and efficient cost management.

We will continue to be disciplined in the execution of our strategy, while delivering superior financial performance.

# RELATIONSHIPS AND RESPONSIBILITY

**The successful delivery of our strategy is dependent on the relationships we develop. We recognise that by acting in the interest of all stakeholders, we can make a sustained positive contribution to the economy and society as a whole.**

**We consider the three stakeholder groups of customers, colleagues and community as key to achieving our vision of being the 'custodian of first choice'.**

## CUSTOMERS

Our approach is centred on efficiently providing services that meet the changing demands of our customers.

Our strategy is underpinned by a clear corporate governance framework and high customer service standards, which ensure we operate in the best interest of our customers. In 2013, we implemented a new application in our bid to better improve our customer service delivery.

## COLLEAGUES

The success of our business is dependent on engaged and motivated employees. We can only meet the needs of our customers through the commitment and applied skills of our employees.

We aim to create an environment conducive to working, as well as attract, retain and develop the best talent. We do this through a competitive reward package, investing in employee skills and knowledge and ensuring our employees have the right tools and resources needed to make their contributions effective.

We ensure that our people feel valued, and recognise and reward their efforts.

## COMMUNITY

One of our main contributions is our direct economic impact. During the period we engaged 63 staff members, and in addition to paying salaries, we collected employment and other taxes on behalf of the government.

Our contribution to the immediate community currently focuses on education by providing learning support materials for disadvantaged institutions.

# CORPORATE GOVERNANCE

FPCNL has a well-defined corporate governance framework in place to support the Board's aim of achieving long-term and sustainable shareholder value.

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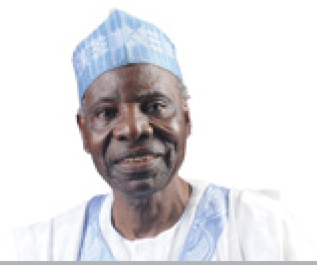
Responsibilities of the Board



"During the year ended 2013, the Committee reviewed and approved plans and programmes of the Audit, Risk & Compliance department."

Muhammadu Ibrahim, OFR

**Chairman, Board Audit, Risk & Compliance Committee**

p29

"During the year, the Committee focused on the upgrade of the Company's IT infrastructural capacity to achieve enhanced operational efficiency and customer delight."

Bayo Odeniyi

**Chairman Board ICT Steering Committee**

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# CHAIRMAN'S INTRODUCTION

**Joseph Sanusi, CON**
Chairman

**I am pleased to present the Company's corporate governance statement for 2013 on behalf of my fellow Board members.**

As a Board, we believe good governance is not just a matter for the Board, but must be embraced throughout the organisation, through the behaviours displayed by our employees every day. We see governance as ensuring that we do the right things, in the right way, ensuring we have the right safeguards, checks and balances in place and that the right considerations underpin every decision.

High standards of corporate governance play an integral part in ensuring consistency and rigour in decision-making to allow us to maximise shareholder value over time. FPCNL has a well-defined corporate governance framework in place to support the Board's aim of achieving long-term and sustainable shareholder value.

At FPCNL, the Board is committed to achieving long-term success for the Company. We focus on long-term sustainability as we build business platforms and relationships that will enable us to create value in the future. Our customers are critical to our success. Retaining and broadening these relationships and adding new customers are a key part of our strategy. This will not be achieved unless we provide a high-quality service. We measure our success through high levels of customer satisfaction. This is in alignment with the group's recent brand refresh initiative, which seeks to continue to set the gold standard of value and excellence across Sub-Saharan Africa.

## KEY ACTIVITIES IN 2013

During 2013, the Board held a strategy session which included an in-depth assessment of where we are as a company, the external and competitive environment, the risks and opportunities we face and the way forward. We then met on a quarterly basis where we regularly discussed and reviewed:

- our current performance and our progress towards our goal of becoming the custodian of first choice;
- our brand, reputation and how we ensure our behaviours and processes protect us for our future;
- our people and how we can create a high-performing team, and the potential for future development and succession along with appropriate motivation and reward; and
- our customers, suppliers and communities, ensuring we treat them fairly.

Our commitment to operating in an ethical and transparent manner and being accountable to our stakeholders is unwavering.

### Our committees and committee chairmen

Nominating
Joseph Sanusi, CON

Audit, Risk & Compliance
Muhammadu Ibrahim, OFR

BOARD OF DIRECTORS
Joseph Sanusi, CON

Finance & General Purpose
Umar Yahaya

Information & Communication Technology
Bayo Odeniyi

## REPORTING STANDARDS AND QUALITY OF FINANCIAL DISCLOSURE

We attach a high level of importance to the quality of disclosure in our annual report and accounts. As part of enhancing transparency and disclosure in our financial reports, the FBN Group, of which FPCNL is a part, has adopted the International Financial Reporting Standards (IFRS), thus aligning with the global standards of transparency in financial reporting.

## APPOINTMENTS AND SUCCESSION

As part of the Board transition programme, Kunle Jinadu was appointed as the Managing Director/CEO of our Company. We said goodbye to Akin Fanimokun, who resigned to take up appointment as the Group Executive at First Bank of Nigeria Limited.

## MONITORING RISK

In view of our longer term ambitions and the significant business initiatives currently underway across our business, the Board Audit, Risk & Compliance Committee has played a significant role in ensuring appropriate governance and challenge around our risk and assurance processes. We have continued to review and discuss how best we can maximise the opportunities available to us for the growth of the business.

## CONCLUSION

Looking ahead, the Board will continue to focus on improving its effectiveness and that of its committees, and responding appropriately and in a timely manner to developments in the governance environment. We remain committed to continuous improvement and transparency in our reporting as we continue on our governance journey

**Joseph Sanusi, CON**
Chairman

# LEADERSHIP

Our Board has an appropriate balance of skills, knowledge and experience. In 2013, we had seven members on our Board, which comprised six non-executive directors none of whom exercises executive powers and one executive director who is the Chief Executive Officer. This is in line with international best practice, which stipulates that the number of non-executive directors should be more than that of executive directors.

One of the six non-executive directors chairs the Board, and another is an independent director who has no relationship with the Company or its related companies (i.e. parent or associate) in line with the requirements of the governance code.

### CHIEF JOSEPH SANUSI, CON

Chairman N (ch)

Joined the Board in October 2005

**Skills and experience:** Chief Sanusi has over 30 years' extensive board, financial and general management experience in banking and finance. He is a highly respected leader with proven experience, clout and judgement to lead the Board of FPCNL.

**External appointments:** Non-Executive Director – Lafarge Cement WAPCO Nig. Plc.

**Former appointments:** Chief Sanusi was appointed Deputy Governor of the Central Bank of Nigeria in 1988. He was Managing Director and Chief Executive Officer of the United Bank of Africa and First Bank of Nigeria in that order. In May 1999, he was appointed Governor of the Central Bank of Nigeria, where he served until 2004.

He was the former Chairman of Standard Chartered Bank, from where he retired in September 2013.

### KUNLE JINADU

Managing Director/CEO ARC FGP ICT

Appointed MD/CEO in April 2013

Joined the Board in January 2009

**Skills and experience:** Kunle Jinadu brings extensive experience and knowledge of banking, finance and global custody business, which has been built over a period of over 30 years, both locally and internationally. His fresh insight and perspective, with his deep commitment to client services, brings significant value to all stakeholders.

**External appointments:** Non-Executive Director – Tiddo Securities Ltd

**Former appointments:** Joined ANZGrindlays Merchant Bank Limited, which transformed into Stanbic Bank Nigeria Limited in 1993, and held various management positions before he rose to the position of General Manager, Corporate Finance, and held other offices simultaneously, including Head, Global Custody and Managing Director/CEO of Stanbic Equities Limited. He took early retirement in 2003 to establish his private consulting company, with which he played very prominent roles in the pension reform implementation.

**Membership Key:**

- ARC Audit, Risk & Compliance Committee
- FGP Finance & General Purpose Committee
- ICT Information & Communication Technology Committee
- N Nominating Committee
- (ch) Chairman

### MUHAMMADU IBRAHIM

Non-Executive Director ARC (ch) N

Joined the Board in October 2005

**Skills and experience:** Muhammadu Ibrahim has a wealth of experience in banking and finance, and public service. As Chairman of the Audit, Risk & Compliance Committee, he has understanding of risk management, underpinned by his knowledge of banking operations. His breadth of experience and strong leadership qualities make him an effective Non-Executive Director.

**External appointments:** Chairman – Rugil Dynasty Int'l Ltd.

**Former appointments:** Muhammadu Ibrahim was a Permanent Secretary in the civil service for 10 years. He held several positions at First Bank including General Manager, North Banking Operations and Company Secretary. He served on its Board between 1996 and 2006. He also served on the Boards of other companies as Chairman or Member. He is an Officer of the Order of the Federal Republic (OFR) and a Justice of the Peace.

### BAYO ODENIYI

Independent Director ARC ICT (ch) N

Joined the Board in April 2009

**Skills and experience:** Bayo Odeniyi brings his experience in research and consulting to bear on the activities of the Board. He is a strong advocate of the application of new technology for effective operations and customer satisfaction, which directly supports FPCNL strategy.

**External appointments:** None

**Former appointments:** Bayo Odeniyi previously worked in Lagos State Ministry of Agriculture and Co-operative for a few years before joining the National Animal Production Research Institute as a Research Fellow. He left service in 1989 to venture into private practice, and currently works as a Lecturer with Tai Solarin University of Education, Ogun State.

### UMAR YAHAYA

Non-Executive Director FGP (ch)

Joined the Board in January 2011

**Skills and experience:** Umar Yahaya has many years' experience at board and executive management level in commercial and investment banking. With his broad experience and analytical mind, he plays an active part in discussions at Board and Committee meetings.

**External appointments:** Non-Executive Director – Fidelity Bank Plc, PZ Cussons Foundation, Leadway Assurance Co, Courier Masters.

**Former appointments:** Executive Director of First Bank of Nigeria, Non-Executive Director FBN Merchant Bankers and MD/CEO of the defunct New Africa Merchant Bank. Was also the immediate past president, Kaduna Chambers of Commerce and a member of the 2020 Vision Team.

**IJEOMA JIDENMA**

Non-Executive Director ARC ICT

Joined the Board in January 2011

Member – ICT Steering Committee

**Skills and experience:** Ijeoma Jidenma has outstanding experience in human resources management and organisational development, a significant portion of which she gained in the financial services and management consultancy environments. With her experience, she is able to contribute effectively as a Non-Executive Director.

**External appointments:** Ijeoma Jidenma is a member of the Advisory Board – Leading Edge Consultancy Services Ltd, Member of the Board of Fellows, Chartered Institute of Personnel Management of Nigeria. She is a member of the Advisory Board of Arthur Mbanefo Digital Research Centre.

**Former appointments:** She was a Training and Development Officer at Industrial Training Fund, a Senior Consultant (Human Resources) at PricewaterhouseCoopers (PwC), Senior Manager/Head of Human Resources and Head of Strategic Planning at Merchant Bank of Africa and Executive Director, Leading Edge Consulting.

**URUM EKE**

Non-Executive Director FGP

Joined the Board in May 2012

**Skills and experience:** Urum Eke has extended board, financial and general management experience across a range of sectors including banking, audit and public service. His breadth of knowledge makes him an effective Non-Executive Director.

**External appointments:** Executive Director, First Bank of Nigeria Ltd, FBN Bank (UK).

**Former appointments:** Urum Eke was previously an Executive Director at Diamond Bank. He was a Non-Executive Director of Diamond Bank du Benin, and Diamond Capital and Financial Markets.

**Membership Key:**

- ARC Audit, Risk & Compliance Committee
- FGP Finance & General Purpose Committee
- ICT Information & Communication Technology Committee
- N Nominating Committee
- (ch) Chairman

## ROLE OF THE BOARD

The Board is responsible for the long-term success of FPCNL by creating and delivering sustainable shareholder value. The Board leads and provides direction for the Company by setting strategy and overseeing its implementation by management. In establishing and monitoring its strategy, the Board considers the impact its decisions will have on FPCNL's obligations to various stakeholders, such as shareholders, employees and the community in which we operate.

Fundamental to the Board's strategy are high standards of corporate governance designed to ensure rigour in the Board's discussions and decision-making.

A number of key decisions and matters are reserved for the Board's approval and not delegated to management. These include matters relating to the Company's strategy, approval of risk appetite, approval of major acquisitions, financial results and overseeing the Company's systems of internal control, governance and risk management.

The Board delegates certain responsibilities to its committees, to assist it in carrying out the functions of ensuring independent oversight. The chairmen of the committees provide updates on their activities during the year. This is further explained later in this report.

## ROLES

**Role of the Chairman:** The Chairman is responsible for the leadership of the Board and promoting the highest standards of corporate governance. Chief Joseph Sanusi provides leadership and manages the Board to ensure that FPCNL satisfies its legal, regulatory and stewardship responsibilities. He ensures that the Board devotes its time and attention to the right matters, facilitates Board discussions and ensures that the discussions are conducted in an open and professional manner, where directors are encouraged to express their views, leading to objective, robust analysis and debate.

Chief Joseph Sanusi is also the Chairman of the Board Nominating Committee.

**Role of the CEO:** The CEO, Kunle Jinadu, is responsible for managing the business of the Company in accordance with the strategy and long-term objectives approved by the Board. He makes decisions in all matters affecting the day-to-day operations, performance and strategy of the Company's business supported by the Management Committee, which he chairs.

**Role of the non-executive directors:** Their role is to bring an independent and external dimension to the Board's activities and play their part in relation to strategy, performance, risk and people. They also effectively and constructively challenge management and monitor its success in delivering the agreed strategy within the risk appetite and control framework set by the Board.

**Role of the company secretary:** The company secretary, Ugochukwu Uzoukwu, ensures good information flows within the Board and its committees. Board and Board committee meeting papers are delivered a week before the meeting. He maintains up-to-date Company records including minutes of meetings.

## CHANGES DURING THE YEAR

Having served as Managing Director/CEO for more than four years, Akin Fanimokun resigned further to his appointment as the Group Executive of First Bank of Nigeria Limited.

Kunle Jinadu, formerly an Executive Director of the Company, was appointed as the new MD/CEO with effect from April 2013.

## HOW DO OUR BOARD MEETINGS WORK?

The Board meets quarterly. Additional meetings are convened as and when required, where it deliberates on updates and briefings on specific aspects of the Company's activities.

The annual calendar of the Board and Committee meetings is approved in advance at the last meeting of the Board in the prior financial year, and all directors are expected to attend. Material decisions may be taken between meetings through written resolutions as provided by the Company's Articles of Association.

All directors are provided with notices, agenda and meeting papers in advance of each meeting, and where a director is unable to attend a meeting, he/she is provided with the relevant papers for the meeting. Such directors reserve the right to discuss with the Chairman matters he/she wishes to raise at the meeting, or can attend the meeting via conference call.

The executives report on significant projects and events. In addition, regular reports are provided, including financial information and strategy progress reports.

At each scheduled Board meeting, the Chairmen of the various committees report on their activities following a committee meeting. There is no strict rotation policy. Changes in committee assignments are made based on needs, director experience and availability.

The number of identified issues and, above all, the intricacies of the issues largely determine the duration of meetings. The meetings take an average of three hours per session.

Board memoranda are dispatched in advance to enable directors to have adequate time to review and prepare for meetings.

## RESPONSIBILITIES OF THE BOARD

The Board as a whole is responsible for the oversight of management on behalf of the Company's shareholders. The Board has a charter, which sets out the authority, responsibilities, composition, procedures, risk management, remuneration, conduct of directors, Board induction and evaluation. The charter is reviewed and re-assessed at least every three years or earlier as required, to ensure it remains consistent with the Board's purpose and responsibility. The key responsibilities of the Board are:

- overseeing, guiding and monitoring the performance of management against approved Key Performance Indicators;
- approving the Company's strategic direction and policies;
- overseeing corporate strategy to achieve long-term value creation and at the same time maintain short-term flexibility;
- ensuring that the Company's strategy is aligned with the Group's values and performance targets, and monitoring its implementation in relation to the Company's risk profile;
- ensuring prompt and timely discussion of all material information, including financial results, the Company's corporate governance practices, codes and charters for the Board and its committees, and details of non-compliance with those codes and charters;
- delegating authority to the CEO, where appropriate, for effective overall management of the Company;
- appointing management staff for the Company;
- regularly reviewing and approving processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance with regulatory requirements to safeguard shareholders' investment and the assets of the Company;
- reviewing and approving the Company's capital and liquidity management, capital expenditure, and project development acquisitions and divestments;
- considering succession plans for the roles of the executives and senior management;
- approving any significant changes to the organisational structure of the Company;
- overseeing the establishment, implementation and monitoring of a Company-wide risk management framework to identify, assess and manage risks facing the Company – this includes, but is not limited to, financial, operational, strategic, reputation and compliance risks;
- maintaining a sound system of internal controls to safeguard shareholders' investments and the Company's assets; and
- reviewing the Company's compensation and benefits programmes.

The Board accomplishes these functions acting directly and through its committees.

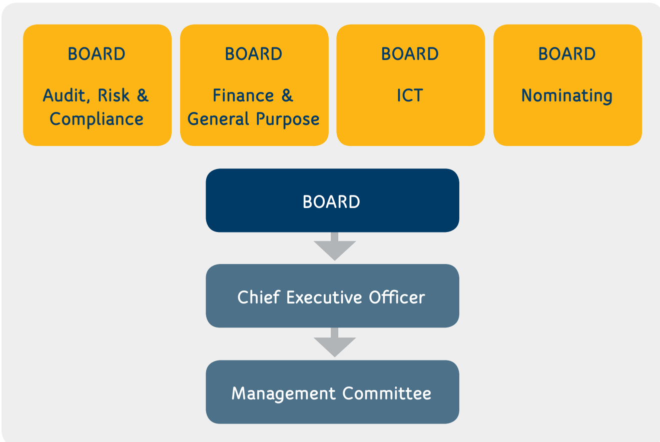
## REMUNERATION OF NON-EXECUTIVE DIRECTORS

Non-executive directors receive fixed annual fees and sitting allowances for service on Board and Board committee meetings. There are no contractual agreements for compensation of loss of office. On an annual basis, the Board reviews and makes recommendations on the remuneration of the Chairman and other non-executive directors.

## CORPORATE GOVERNANCE FRAMEWORK

For effective discharge of its duties, the Board had consciously chosen to delegate broad responsibilities to its committees. The effective functioning of these committees is a critical element in the Board's overall effectiveness, and the roles of the committees are described under 'Our Board committees'.

The Board delegates authority to the CEO, with the right to sub-delegate the power to manage the Company's business, within defined, limited parameters.



## BOARD DISCUSSION 2013

The Board's priority this year was providing oversight of the processes required to achieve the Company's strategic vision of becoming the 'custodian of first choice'. During the year, the Board covered a wide range of topics across the external and competitive environment, and specific business unit strategies. The diagram below gives an overview of how the Board spent its time in 2013.


## STRATEGY AND PLANNING

- Discussed the implementation of the Company's three-year strategic and operating plan, and the implications for the long-term sustainability of our business and organisational model.
- Approved the three-year strategy, financial objectives and 2014 budget.
- Approved allocation of capital and other resources within the Company.

## BUDGET AND PERFORMANCE

- Maintained oversight of the Company's performance in line with the approved budget and Group expectation.
- Focused on the Company's performance vis-à-vis competition in terms of cost efficiency and robust growth.

## EXTERNAL ENVIRONMENT

- Assessed the challenges posed by our competitors and the implication for our Company's intent to be the market leader.
- Considered and advised on the appropriate response to key regulatory changes in the pension industry as it affects our business.

## RISK AND GOVERNANCE

- Maintained oversight on effective risk management, compliance and internal control, to guide against loss, avoid regulatory sanctions, ensure customer satisfaction and safeguard the Company's assets.

## PEOPLE, CULTURE AND VALUES

- Reviewed the business values and culture, ensuring that they remain relevant and core to the business.
- Discussed some of the key people challenges we face currently, projecting into the next three years and how our thinking on people strategy is evolving.
- Continued to focus on the overall effectiveness of the Board and individual directors.

## ATTENDANCE AT BOARD MEETINGS

There were five scheduled meetings this year and one strategy session, where the non-executive directors contributed their expertise and independent oversight into the development of the strategy of the Company.

Details of individual directors' attendance at meetings in 2013 are set out below:

| Name | Attendance |
|---|---|
| **CHAIRMAN** | |
| Joseph Sanusi | 6 of 6 |
| **EXECUTIVE** | |
| Kunle Jinadu | 6 of 6 |
| Akin Fanimokun (until April 2013) | 1 of 6 |
| **NON-EXECUTIVE** | |
| Muhammadu Ibrahim | 6 of 6 |
| Bayo Odeniyi – independent | 6 of 6 |
| Umar Yahaya | 6 of 6 |
| Ijeoma Jidenma | 6 of 6 |
| Urum Eke | 5 of 6 |

Attendance is expressed as number of meetings attended out of the total meetings scheduled for the year.

## OUR BOARD COMMITTEES

To assist the Board in carrying out its functions and provide independent oversight of the internal control and risk management framework, the Board delegates part of its responsibilities to the Board committees. Each of the committees is chaired by an experienced Chairman. The powers and responsibilities of the committees are established in the applicable Committee Charter, which is approved by the Board. The charter defines the purpose of the committees, their composition and structure, frequency of meetings, responsibilities and duties.

To support discussion and decision-making, committee members receive papers in advance of meetings so they can prepare for and consider agenda items. The Board is kept up to date on the activities of the committees through reports from the committee Chairmen at each Board meeting.

### NOMINATING COMMITTEE (NC)

**Role and focus**

The Committee is responsible for ensuring that the Company has an approved Code of Conduct and adequate disclosure of the Company's corporate governance framework. It oversees and reviews Board and executive succession.

**Membership and attendance**

| Name | Attendance |
|---|---|
| Joseph Sanusi (ch) | 1 of 1 |
| Muhammadu Ibrahim | 1 of 1 |
| Bayo Odeniyi (independent director) | 1 of 1 |

### FINANCE & GENERAL PURPOSE (FGP)

**Role and focus**

The Committee reviews all matters relating to staff welfare, including promotions of senior management staff of the Company. It considers and approves significant expenditure above the limit of the Management Committee, or, if appropriate, recommends it to the Board.

**Membership and attendance**

| Name | Attendance |
|---|---|
| Umar Yahaya (ch) | 3 of 4 |
| Kunle Jinadu | 4 of 4 |
| Urum Eke | 4 of 4 |
| Akin Fanimokun (until April 2013) | 1 of 4 |
| **In attendance** | |
| Bayo Odeniyi | 3 of 4 |
| Ijeoma Jidenma | 2 of 4 |

### AUDIT, RISK & COMPLIANCE (ARC)

**Role and focus**

The Committee oversees and is responsible for the integrity of the Company's financial reporting and internal controls and manages the risk and compliance function of the Company and its effectiveness, together with procedures for identifying, assessing and reporting risks.

**Membership and attendance**

| Name | Attendance |
|---|---|
| Muhammadu Ibrahim (ch) | 4 of 4 |
| Kunle Jinadu | 4 of 4 |
| Bayo Odeniyi (independent director) | 4 of 4 |
| Ijeoma Jidenma | 4 of 4 |
| Akin Fanimokun (until April 2013) | 1 of 4 |
| **In attendance** | |
| Head, Audit, Risk & Compliance | 4 of 4 |

### INFORMATION & COMMUNICATION TECHNOLOGY (ICT)

**Role and focus**

The Committee reviews and provides guidance on strategic matters relating to technology and innovation by ensuring that the Company's technology planning processes support its growth and objectives, and ensuring the Company's technology competitiveness, including the effectiveness of its technological efforts.

**Membership and attendance**

| Name | Attendance |
|---|---|
| Bayo Odeniyi (ch) (independent director) | 4 of 4 |
| Kunle Jinadu | 4 of 4 |
| Ijeoma Jidenma | 4 of 4 |
| Akin Fanimokun (until April 2013) | 1 of 4 |

## BOARD AUDIT, RISK & COMPLIANCE COMMITTEE

**Muhammadu Ibrahim, OFR**
Chairman

This Committee is a Board committee with 'frontline' governance responsibilities that go beyond the oversight of financial reporting to also include the oversight and continuous monitoring of the activities of the Audit, Risk & Compliance department of our Company.

We met every quarter of the year to perform responsibilities assigned to the Committee, which include ensuring:

- that the controls put in place are adequate and effective;
- reliability of financial information and reporting integrity;
- an excellent compliance culture and sound corporate governance; and
- effective risk management.

To achieve these, we ensured:

- the independence of the audit, risk and compliance functions and the (Deloitte) external auditors;
- reports are submitted/presented directly to the Committee by the Audit, Risk & Compliance department, external auditors (Akintola Williams Deloitte), FirstBank internal auditors and National Pension Commission examiners; and
- these reports are reviewed, reported to the Board and monitored for effective compliance and resolution of issues.

It is imperative to note that there was a change in the Board structure during the year under review. Akin Fanimokun resigned his appointment with the Company as Managing Director/CEO to assume responsibility as Senior Vice President, Operation and Services at First Bank of Nigeria Limited on 17 April 2013. He was replaced on the Committee by Kunle Jinadu, who was appointed as MD/CEO effective the same day. Kunle Jinadu's appointment was ratified by the National Pension Commission on 14 May 2013.

### REVIEW OF THE YEAR

During the year ended 2013, the Committee reviewed and approved plans and programmes of the Audit, Risk & Compliance department among other reports submitted for consideration. The Committee ensured that they were consistent with the Company's policies, and adequate for internal control and regulatory requirements.

### KEY AREAS OF FOCUS IN 2013

- Review and approval of plans and programmes for Audit, Risk & Compliance and Internal Control functions.
- Internal audit and compliance reports were reviewed every quarter. Comments were made and appropriate directives given on timely resolution of issues raised.
- Internal control and risk management reports were reviewed bi-annually by the Committee, which took decisions thereon for management actions.
- The Committee also received report presentations from the First Bank internal audit, external auditors (Akintola Williams Deloitte) and the National Pension Commission examiners within the year.

### ROLES OF THE COMMITTEE

Audit committees are the cornerstone of a successful and credible financial reporting system. To this end, the Committee ensures the integrity and confidence of the Company's financial statements and continuously monitors the Audit, Risk & Compliance processes.

The Committee carried out its duties within the framework of governance principles and practices established by the Board of Directors. The operating challenges due to the growth of the pension fund and introduction of new regulatory guidelines were another reason for the Committee to increase efforts at discharging its oversight functions.

### FINANCIAL REPORTING

The Committee ensured that the Company complied with the provision of relevant accounting standards and policies in the preparation of its financial statements, and is satisfied with the report of external auditors on the financial statements of the Company.

### INTERNAL AUDIT

As part of the Committee's responsibility to ensure a sound internal audit process, the Committee reviewed and approved the audit plan and programme of the Company at the beginning of the financial year, and ensured that it was adequate and relevant. The Committee assessed the resources devoted to the internal audit functions and ensured that they were sufficient for the assigned tasks.

Internal audit reports are prepared by the internal audit and submitted to the Committee every quarter for review. The reports highlighted the internal audit findings, control issues observed and management responses to the issues. The Committee ensured that issues raised were resolved by management in a timely manner.

### EXTERNAL AUDIT

It is the responsibility of the Committee to approve the selection of external auditors and ensure that they independently deal with the Company's financial statements.

We are satisfied with the performance of our external auditors, Akintola Williams Deloitte, and confirm that they are independent in issuing their opinion on the Company's financial statement. We therefore recommend their re-appointment during the 2013 Annual General Meeting.

### INTERNAL CONTROLS, RISK AND COMPLIANCE

The Committee's role is to ensure that the Company operates sound and effective internal control processes and compliance with regulatory dictates. We do this by approving internal control and compliance plans at the beginning of the financial year. We also reviewed specific control issues and received regular reports on regulatory compliance matters as well as risk management across the Company.

We confirm that, at the end of this financial year, the Company has made great efforts to improve its control, risk and compliance functions.

### AHEAD TO 2014

As a governance body of FPCNL, we will continue to discharge our oversight audit, risk and compliance functions more effectively, focusing more on the business and regulatory environment to ensure maximum achievement of the Company's overall objectives.

## BOARD FINANCE & GENERAL PURPOSE COMMITTEE

**Umar Yahaya**
Chairman, Board Finance & General Purpose Committee

The Committee spent time during the year reviewing and reporting to the Board on the periodic management accounts of the Company. We also approved expenditure above the limit of management in the day-to-day operations of the Company.

The Committee considered and supported the Company's proposal for the acquisition of new office accommodation that will serve as the permanent office site.

### REVIEW OF THE YEAR

Matters considered during the year include:

- reviewing and reporting to the Board on the quarterly/annual management accounts of the Company;
- reviewing and approving expenditure in excess of the Management Committee (MANCO) limits, within limits set by the Board, making recommendations to the Board where necessary;
- acquiring new office accommodation for the Company;
- staff welfare and promotion; and
- reviewing the 2014 draft budget and strategic projections prepared by management and making recommendations to the Board for approval.

### PRIORITY FOR 2014

- Ongoing review of the implementation status of the three-year strategic plan and 2014 approved budget.

## BOARD ICT STEERING COMMITTEE

**Bayo Odeniyi**
Chairman, ICT Steering Committee

During the year, the Committee focused on the upgrade of the Company's IT infrastructural capacity to achieve enhanced operational efficiency and customer delight.

We considered IT Policy, the Business Continuity Plan and IT Capacity Management documents as presented by management. All these served to mitigate various operational and information technology risks.

### REVIEW OF THE YEAR

Matters considered during the year include:

- upgrading the Company's IT infrastructure, including the Disaster Recovery Centre;
- implementing of a new custody software; and
- new IT initiatives for effective customer service.

### PRIORITIES FOR 2014

- Review and approve the revalidated IT Policy documents.
- Ensure continued alignment between the Company's three-year strategic objectives and technology plans.

## MANAGEMENT COMMITTEE

In addition to the aforementioned Board committees, the Company has a Management Committee (MANCO).

Led by the Chief Executive, MANCO is the highest management body within the organisation. MANCO is vital to the application and entrenching of sound governance principles. It oversees the safety, operational and financial performance of the Company. It is responsible for day-to-day management; operational decisions for safeguarding the Company; furthering the strategy, business objectives and targets established by the Board; and ensuring efficient deployment of the Company's resources. It plays a vital role in the development of our people and driving a high-performance culture.

MANCO approves financial commitments and personnel-related issues within its authority level. It discusses, formulates and approves proposals to be considered by the Board.

There are currently six members of the Committee, who have a broad range of skills and expertise, which are updated through training and development.

The Committee met 20 times in 2013, but the members interact much more regularly. Some members of the Committee attended Board committee meetings, which meant that knowledge was shared and every member was kept up to date with business activities and developments.

# EFFECTIVENESS

## BOARD COMPOSITION

The combination of personalities on the Board provides a good range of perspective and challenge.

The Board and its committees have the appropriate balance of skills, experience, independence, commitment and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

The Chairman plays a crucial role in ensuring the Board's overall effectiveness. The Chairman and the Board as a whole are important role models for the Company's culture and values, setting the right tone from the top of the organisation.

## DIRECTORS' INDUCTION

Newly appointed directors receive an induction programme including a directors' information pack, which provides background information on our business and operations, policies and procedures, statutory duties as a director and other corporate governance matters. This is to further their understanding and knowledge of FPCNL, its operations, staff and the industry within which we operate.

Ongoing director education remains a focus. As the internal and external business environment changes, it is important to ensure the directors' skills and knowledge are refreshed regularly. The directors are kept abreast of all applicable regulations, changes to rules, standards and codes.

## PERFORMANCE MONITORING

The Board continuously engages with management and contributes ideas to the Company's strategy from the planning phase to the execution phase. Once a strategy is defined, updates on strategic objectives form part of the ongoing Board agenda. The Board is continuously updated on significant issues and challenges encountered in the course of strategy implementation.

On a quarterly basis, management reviews the financial and performance indicators with the Board, and the Board assesses progress and alignment or otherwise with the Company's strategic goals and objectives, and budgeted performance.

Peer comparison also forms part of the Board meetings to benchmark the Company's performance against our competitors.

## TENURE OF DIRECTORS

The non-executive directors are appointed for an initial term of three years, and can be re-elected for a maximum of two subsequent terms of three years each, subject to satisfactory performance. Hence, the maximum tenure of non-executive directors is nine years, subject to a retirement age of 70 years.

Executive directors are appointed for an initial term of three years and the contract can be renewed for another three years, subject to the performance of the director.

## ACCESS TO INDEPENDENT PROFESSIONAL ADVICE

The Board has the power to obtain advice and assistance from, and to retain at the Company's expense, subject to the prior approval of the Chairman, such independent or outside professional advisors and experts as it determines necessary or appropriate to carry out its duties effectively.

This option was exercised during the year, by the engagement of a consultant to facilitate the Board strategy retreat and annual evaluation process.

## BOARD EVALUATION

To further improve the effectiveness of the Board and its committees, as well as individual directors, the Board undertakes an annual performance evaluation process to formally record, monitor and look to improve its performance in order to maintain high standards of governance. The focus areas for the last appraisal exercise were operations, strategy, corporate culture, monitoring and evaluation against defined goals, and stewardship towards shareholders and other stakeholders.

The evaluation concluded that the Board has a strong composition, constructive culture and sound leadership. Some themes were identified, which will form the basis of an action plan for the new year. We will continue to explore options to continuously enhance our Board's effectiveness.

## ACTION PLAN FOR 2014

- Annual review of the Board's effectiveness.
- Completion of the directors' training programme for 2014.
- Keeping abreast of the development of regulatory requirements and actions by the Company to comply with new or changed requirements.

# ACCOUNTABILITY

## RISK MANAGEMENT PHILOSOPHY

Risks are managed at FPCNL through a collective effort of all staff, the Audit, Risk & Compliance department, senior management and the Board of Directors. The risk management philosophy and objectives of the Company are a reflection of the Company's vision and mission statements. This also guides various decisions of the Board and management of the Company. The key elements of the Company's risk management philosophy are as follows:

- risk management is governed by well-defined policies, which are clearly communicated across the Company;
- distribution of responsibilities among participants of risk management is clearly defined;
- risk-related issues are taken into consideration in all business decisions. The Company strives to maintain a conservative balance between risk and revenue considerations;
- internal control and compliance officers are empowered to perform their duties professionally and independently without undue interference;
- risks are reported openly and fully to the appropriate levels once they are identified; and
- risks are measured and mitigated once they are identified.

## RISK CULTURE

- The Board of Directors is responsible for the oversight of risk functions; this is often accomplished through the Board Audit, Risk & Compliance Committee.
- The MANCO of the Company champions risk management through the Head, Audit, Risk & Compliance.
- Unit heads are responsible for assessing risks within their respective business units.
- The Company pays adequate attention to both quantifiable and unquantifiable risks.
- Management, through continuous awareness programmes and training, educates staff on the need to have a good risk management culture.

## RISK APPETITE

Risk appetite describes the level of risk we are prepared to accept, before action is deemed necessary to reduce it. It is an important element in the management of risk. The appropriate level of risk we are prepared to accept is contained in our approved Enterprise Risk Management framework.

We set a risk level that enhances the risk culture across the organisation, with the objective of maintaining risk at acceptable levels and avoiding transactions/portfolios that are harmful to our system and industry at large.

## RISK MANAGEMENT OVERSIGHT

The Board of Directors provides oversight of risk functions. The Company's Audit, Risk & Compliance department coordinates the management of risks across functional units of the Company. The department ensures that all material risks are identified, measured and treated before they occur, in conjunction with other departments as illustrated below.

| Business Development | Operations | Safekeeping & Finance |
|---|---|---|
| Reputational risk<br>Strategic risk | Operational risk<br>Custodian asset loss risk<br>Settlement risk | Liquidity risk<br>Strategic risk<br>Reputational risk<br>Custodian asset loss risk |

Internal control performs a daily and continuous check of the transactions executed by high-risk business units of the Company. Internal audit evaluates the adequacy and effectiveness of internal control and makes appropriate recommendations where lapses are identified.

## RELATIONSHIP OF RISK MANAGEMENT WITH STAKEHOLDERS

Risk management is everybody's activity; hence the Risk Management unit of FPCNL works with stakeholders in the management of risks, as highlighted in the explanation and diagram below:

- the unit develops a risk appetite level for other business units in line with the agreed risk philosophy and appetites;
- it carries out risk assessment and reporting across the Company;
- heads of business units provide relevant and needed information to the risk manager for effective and efficient risk management in the organisation;
- it oversees the development of a risk governance framework in the Company;
- it collaborates with the Information Technology department to provide necessary user control and compliance monitoring of software applications;
- it provides information and advice on risk issues to management and the Board for strategic decision-making;
- it submits a risk report to the regulator in line with guidelines and responds to risk enquiries and feedback;
- it leverages on external and internal auditors' reports on weaknesses and control issues observed for evaluation, and advises on risk-mitigating measures;
- external/internal auditors review risk reports and make recommendations to the Board for effective risk management; and
- it provides clients with advice, reporting and safeguarding of assets.

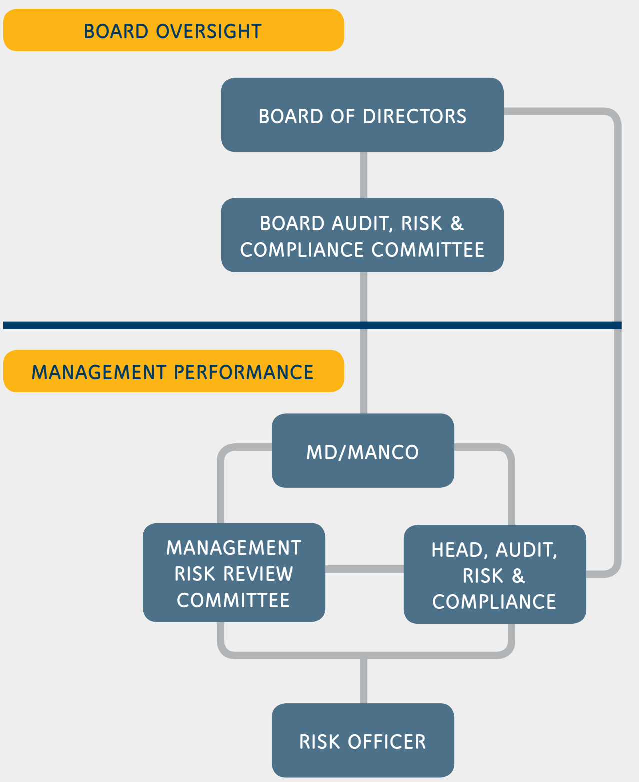
Relationships of risk management with other stakeholders

# RISK MANAGEMENT FRAMEWORK

## RISK GOVERNANCE AND STRUCTURE

Risk governance and structure specifies the distribution of risk management responsibilities among different participants in the organisation. To this end, FPCNL has an approved enterprise risk management (ERM) framework and risk register which stipulates the overall risk governance structure, roles and responsibilities of the various stakeholders in the management of risks across all functional units of the organisation, as depicted in the diagram below:

Risk management governance framework




The ERM document sets out a top-level framework for the management of enterprise risk at FPCNL. It has been developed in keeping with the commitment of the parent company (FBN), Board of Directors of FPCNL (the Board) and the Management Committee (MANCO) of the Company to establish and sustain best practice in risk management on a par with leading global custodians and reputable organisations, and the trend of risk-based supervision being taken by the National Pension Commission (PenCom).

Overall, the Board of FPCNL has the ultimate responsibility for the risk management of the Company. This function is anchored through the Board Audit, Risk & Compliance Committee. MANCO is to execute the ERM framework, including the risk management strategy and policy. The Head, Audit, Risk & Compliance is responsible for the coordination, monitoring and reporting of all risk across the Company.

## ROLE OF THE BOARD OF DIRECTORS

- Provide oversight function on all risk matters.
- Approve the Company ERM framework
- Ensure that the Company's risk policies and procedures meet the needs of the business and the industry at large.
- Ensure management takes proactive steps to monitor and control risk.
- Review and approve risk management procedures and control for new lines of operations and activities.
- Approve the Company's risk appetite and ensure that this appetite and its limits are taken into consideration by business units while carrying out business activities.
- Periodically review Company risk management reports highlighting key risk areas, control failures and remedial actions taken by management.
- Ensure executive management keeps appraised of industry standards on risk matters.

## BOARD AUDIT, RISK & COMPLIANCE COMMITTEE

The Board Audit, Risk & Compliance Committee anchors the risk oversight functions on behalf of the Board of Directors. However, the full Board retains ultimate responsibility for risk management and decisions of the Board committees.

The role of the Committee is to report to the full Board, provide assurance that management has taken proactive steps to identify and control risks, and provide appropriate advice and recommendations to risk management, internal control, compliance and internal audit. The Committee is made up of one executive (Managing Director/CEO) and three non-executive directors. The Head, Audit, Risk & Compliance sits at the Committee meetings.

## MANAGEMENT COMMITTEE (MANCO)

The Management Committee is responsible for designing, implementing and monitoring the ERM policies and procedures. It provides assurance to the Board that these policies and procedures are functioning as directed and proactive steps are taken to mitigate risks before they happen.

The roles of MANCO in risk management are as follows:

- implementing the framework (identifying, monitoring and control of risks);
- providing all reports required by the Board and its committees for the effective performance of risk management oversight functions;
- developing policy initiatives and procedures for measuring, identifying and controlling risk;
- promoting a climate that supports risk management; and
- monitoring the design and review of the risk management framework.

# INTERNAL CONTROL

## OVERVIEW

The whole system of controls (financial and otherwise) is instituted by the management of FPCNL to ensure that the Company is running in an orderly and efficient manner. The control measures put in place ensure that material errors or mistakes are identified and corrected. Internal audit complements the work of internal control by evaluating the effectiveness of the controls, and advises management accordingly.

## INTERNAL CONTROL STRATEGIES

The Company has in place an internal control plan and programme approved by its Board of Directors. An effective control environment sets the tone for the Company's operation. The CEO sets the 'tone at the top' that affects the integrity of financial reports and protection of the Company's assets. Internal control officers carry out daily or routine checks on the key risk areas, identify operational issues and ensure they are corrected.

To achieve the Company's overall objective and avoid operational losses, fraud and customer complaints, all members of staff are saddled with the responsibility of reporting operational problems, monitoring and improving their performance, and monitoring non-compliance with the corporate policies and various regulatory guidelines.

## INTERNAL CONTROL POLICIES

FPCNL has a policy standard that ensures that the organisation's intangible resources such as reputation and intellectual property are protected and reduce exposure to operational risks, as well as ensuring compliance with local laws, regulations and organisational policies.

The policy sets out procedures to protect the organisation's assets against the danger of loss or misuse and to ensure that all transactions are properly authorised, thereby preventing fraud and errors.

Some of the corporate policies in FPCNL relating to internal controls are:

- Access to resources and records are controlled and limited to only authorised individuals.
- An effective maker and checker process ensures that no individual person starts and concludes a transaction/process.
- Expenditure limits are set and controlled to ensure transparency in disbursement of Company funds, e.g. Company cheques are signed by two signatories and there are expenditure approval limits.
- Departments document all transactions and make the registers and/or files available for examination.
- Departments must manage transactions and other significant events by recording transactions promptly.
- Only persons acting within the scope of authority are allowed to authorise and execute transactions.
- There is clear separation of duties.
- FPCNL has a training plan that ensures all members of staff are trained annually. Training is conducted locally, internationally and on the job. The training plan helps improve staff skills, knowledge of the job and internal control requirements.
- Internal control awareness is also constantly maintained.

## EFFECTIVENESS OF INTERNAL CONTROL

The Managing Director of the Company has overall responsibility for designing and implementing effective control. The Head, Audit, Risk & Compliance and Management Committee ensure that the controls embedded in operations are fully complied with by the staff. The Board Audit, Risk & Compliance Committee also oversees the internal control procedures of the Company.

We ensure effectiveness of internal control through periodic tests and reviews of the control systems.

## OBJECTIVES OF INTERNAL CONTROL

- Accuracy and reliability of records.
- Integrity and reliability of financial reporting.
- Safeguarding of assets.
- Detection and prevention of fraud in order to protect the organisation's resources.
- Adherence to regulations and internal policies.

## INTERNAL CONTROL ENVIRONMENT

This is the foundation of all other components of internal control, with factors that include competence and integrity of the people. The control environment sets the tone of an organisation's influence on the control consciousness of the people. The control environment includes:

- sound organisational structures;
- good corporate governance;
- an ethical Board;
- good internal control systems;
- excellent understanding of the operation of the organisation's business by the staff;
- segregation of duties;
- an effective financial and management reporting system;
- a strong regulatory environment; and
- a good compliance culture with all staff.

## LEARNING FROM INTERNAL CONTROL FAILURE

Learning comes in various forms. FPCNL places importance on learning from mistakes and control failures as this helps the learning process and guides against recurrence. When control failure occurs, the following steps are taken:

- Review the process to identify reasons for the deviation from approved procedures.
- Check if other control weaknesses can be identified.
- Communicate the control weaknesses discovered to all concerned.
- Proffer and agree mitigating controls.
- Document and approve a new procedure for the function.
- Update the procedural manual and communicate to all concerned.

## COMPLIANCE WITH EXTERNAL REGULATIONS

FPCNL is committed to complying with all relevant legislations and obligations. The Company has in place a Compliance Policy to ensure conformity to relevant rules, regulations and laws. Some of the policies and processes adopted to ensure compliance with external regulations are:

- identifying and documenting obligations in a compliance framework;
- allocating responsibility to the relevant operational areas to ensure compliance with obligations;
- risk rating obligations to ensure awareness of the risk of non-compliance and to provide a measure of any exposure;
- fostering continuous improvement in compliance processes across the Company to ensure obligations are met;
- promoting awareness among staff and management, the importance of compliance with specific obligations, as well as commitment to compliance as an organisation; and
- engaging qualified employees in the Compliance unit to monitor compliance activities across the Company and report breaches.

## WHISTLE BLOWING

The National Pension Commission (PenCom) issued a Whistle Blowing Guideline for operators to comply with. FPCNL ensures adherence to this guideline in line with its commitment to good corporate governance and transparency.

Some of the whistle blowing procedures in FPCNL are highlighted below:

- internal control, audit and compliance perform independent checks on all areas, and breaches discovered are reported to management and the Board during the quarterly Board meetings;
- significant regulatory breaches of the Company and the PFA clients discovered are reported in the monthly exception report sent to PenCom;
- the Whistle Blowing Guideline from PenCom was circulated to staff and everyone is encouraged to follow its dictates;
- staff members are encouraged to report breaches noticed to the chief compliance officer;
- issues can also be reported anonymously; and
- Board members are aware of their responsibility for whistle blowing.

For more information on whistle blowing please contact:
Email: tunde.folayan@firstpensioncustodian.com
Tel: +234 802 340 7776

# DIRECTORS' REPORT

The directors present their annual report on the affairs of First Pension Custodian Nigeria Limited (the Company), together with the financial statements and auditors' report for the year ended 31 December 2013.

## LEGAL FORM AND PRINCIPAL ACTIVITY

The Company was incorporated on 12 August 2005 while the operating licence was obtained on 7 December 2005.

The principal activity of the Company is to act as a Custodian of pension fund assets in accordance with the Pension Reform Act 2004, or any amendment or re-enactment thereof for the time being in force.

## OPERATING RESULT

The profit for the year after taxation was ₦1.50 billion (31 December 2012: ₦0.82 billion)

## DIRECTORS AND THEIR INTERESTS

The directors who held office during the year were as follows:

Joseph Sanusi, CON – Chairman

Kunle Jinadu – Managing Director/CEO

Akin Fanimokun – Former MD/CEO

(Resigned effective 8 April 2013)

Muhammadu Ibrahim, OFR – Non-Executive Director

Bayo Odeniyi – Non-Executive Director

Umar Yahaya – Non-Executive Director

Ijeoma Jidenma – Non-Executive Director

Urum Eke – Non-Executive Director

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

## PROPERTY, PLANT AND EQUIPMENT

Information relating to changes in property, plant and equipment is given in note 14 to the financial statements. In the directors' opinion, the market value of the Company's properties is not less than the value shown in the financial statements.

## DIVIDEND

The Board of Directors, pursuant to the powers vested in it by the provision of section 379(2) of the Companies and Allied Matters Act 1990, declared a dividend of ₦503 million (31 December 2012: ₦340 million) at the rate of 25k per ordinary share (31 December 2012: 17k).

## ASSETS UNDER CUSTODY

The value of assets held in custody by the Company as at 31 December 2013 was ₦1.45 trillion (31 December 2012: ₦1.09 trillion).

## FUTURE DEVELOPMENTS

The Company intends to carry on fulfilling its objectives as stated in its Memorandum of Association.

## HUMAN RESOURCES

- **Employment of disabled persons** – It is the policy of the Company that there should be no discrimination in considering applications for employment, including those from disabled persons. As at 31 December 2013 there was no disabled person in the employment of the Company.
- **Health, safety and welfare at work** – Health and safety regulations are in force within the premises of the Company. Fire prevention and fire-fighting equipment are installed in strategic locations within the Company's premises.

  The Company operates both Group Personal Accident and the Workmen's Compensation Insurance cover for the benefit of its employees. It also operates a contributory pension scheme in line with the Pension Reform Act 2004, as well as a terminal gratuity scheme for its employees.
- **Employees' training and development** – The Company is committed to keeping employees fully informed as much as possible regarding the Company's performance and progress and seeking their views wherever practicable on matters which particularly affect them as employees.

  In accordance with the Company's policy of continuous development, employees of the Company undergo both in-house and external courses. These are complemented by on-the-job training.
- **Diversity in employment** – The Company is committed to conducting business in a positive, professional manner by consistently ensuring equal employment opportunity.

  The average number of employees of the Company during the year by gender and level is as follows:

### a. Employees

| | Gender (Number) | | | Gender (%) | |
|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female |
| Employees | 40 | 17 | 57 | 70% | 30% |

### b. Board and top management staff

| | Gender (Number) | | | Gender (%) | |
|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female |
| Board members (executive and non-executive) | 7 | 1 | 8 | 88% | 13% |
| Top management (principal manager – general manager) | 3 | 1 | 4 | 75% | 25% |
| | 10 | 2 | 12 | 83% | 17% |

## AUDITORS

The auditors, Messrs. Akintola Williams Deloitte, have indicated their willingness to continue in office as auditors in accordance with Section 357(2) of the Companies and Allied Matters Act 1990. A resolution will be proposed at the Annual General Meeting to approve the appointment of the auditors and authorise the directors to determine their remuneration.

BY ORDER OF THE BOARD

**Ugochukwu Uzoukwu**
Company Secretary
35, Marina, Lagos
FRC/2014/NBA/00000006686
February 2014

# RISK FACTORS

The Board ensures that the organisation has in place a robust process for identifying, prioritising, sourcing, managing and monitoring its critical risks and that the process is improved continuously as the business environment changes.

"The Company's vision and mission statement provide the basis for the risk management philosophy and objectives, while the Board sets the tone of the organisation's risk culture."

Tunde Folayan

Chief Risk Officer

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Key risks faced by the Company

# CHIEF RISK OFFICER'S REPORT

**Tunde Folayan**
Chief Risk Officer

## INTRODUCTION

An organisation's success is largely driven by how wisely it takes risks and how effectively it manages them. The Company's vision and mission statement provide the basis for the risk management philosophy and objectives while the Board sets the tone of the organisation's risk culture. The Board of Directors is responsible for the oversight of risk functions; this is often accomplished through the Board Audit, Risk & Compliance Committee.

The Board ensures that the organisation has in place a robust process for identifying, prioritising, sourcing, managing and monitoring its critical risks, and that the process is improved continuously as the business environment changes. The Head, Audit, Risk & Compliance department is saddled with the responsibility of coordinating and reporting risks matters across functional units in FPCNL.

The National Pension Commission (PenCom), the regulator of the pension industry, mandated risk management and reporting for all pension operators in Nigeria via its Guidelines on Risk Management Framework for Licensed Pension Operators. To this end, FPCNL set up a risk management process with the objective to ensure early identification of risks associated with the Company's activities, and that risk management is implemented in accordance with policies approved by the Board of Directors and in line with PenCom's guideline and best practices.

During 2013, the pension industry witnessed continued organic growth in pension funds, while some employers in the private sector complied with PenCom's persuasion to outsource the management of gratuity schemes to pension fund administrators (PFAs). Also, the regulator has continued to strengthen its supervisory role through the issuance of more guidelines and opening of Zonal Offices. Some of the guidelines issued in 2013 include:

- Revised Sanction Regime and Penalties for Late/Non-submission of Regulatory Returns;
- Circular on Execution of Technical Agreements with Third Parties and;
- Importance of Training for Staff of Pension Fund Operators.

PenCom opened six Zonal Offices in 2013 to bring services and supervision closer to the people/operators. These Zonal Offices are:

- North-West Zonal Office in Kano, Kano State;
- North-Central Zonal Office in Ilorin, Kwara State;
- North-East Zonal Office in Gombe, Gombe State;
- South-West Zonal Office in Ikeja, Lagos State;
- South-East Zonal Office in Awka, Anambra State; and
- South-South Zonal Office in Calabar, Cross River State.

FPCNL places significant importance on risk management, considering the nature of the business, which is the custody of retirement/life savings of workers. The major challenge of the scheme is the low level of compliance on the part of employers, which is currently being addressed by PenCom through legislation. In order to safeguard the fund, PenCom separated the role of pension fund manager and the custodian of the fund. Internally, various controls are instituted including segregation of duties, authorisation limits and access restrictions. The current application has capacity for built-in controls, hence going forward, controls are automated and enhanced. Also, various reports are built into the system, which allow for the regular review of activities by senior management.

## RISK MANAGEMENT APPROACH

However, organisations pay more attention to key or critical risks that affect the business based on the industry, nature of the business, people and technology among various factors.

Key risks identified with FPCNL's business are operational, regulatory compliance, liquidity, legal, reputational and information security risks. These key risks are shown in the diagram and also discussed in detail below:

## OPERATIONAL RISK

FPCNL has an objective to manage and control operational risk and ensure that risk policies and procedures are functioning as directed – also, that proactive steps are taken to mitigate risk before it occurs.

The Company identifies and mitigates operational risks inherent in all material activities, processes, agreements and systems by creating awareness among all members of staff of the need to be more diligent in the conduct of transactions, ensuring quality services to the clients and applying best practice in dealing with various stakeholders. Appropriate steps are taken to control major operational risks before they adversely affect operations and hence the business.

Operational risk is managed to prevent the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events that impact a company's ability to operate its ongoing business process.

The chief risk officer of FPCNL oversees and champions the development and implementation of short- and long-term strategies for comprehensive risk control/reduction for processes, products and projects, and reports all risk matters to the Board of Directors.

## REPUTATIONAL RISK

This is the risk that an organisation's high standing among others, high esteem and honour may be affected. Reputational risk is a risk of corporate trust and can expose the Company to loss of customers, financial loss, regulatory sanctions and costly litigation.

To avoid this type of risk, the Board ensures that only fit and proper persons are appointed to senior management positions of the Company. The Audit, Risk & Compliance department ensures that employees comply strictly with internal policies and regulatory requirements while discharging their duties. Management also creates awareness among all members of staff of the need to be more diligent in the conduct of transactions, ensuring quality services to the clients and applying best practice in dealing with various stakeholders.

## LIQUIDITY RISK

Liquidity risk is the risk that the Company is unable to meet its contractual financial obligations. FPCNL ensures that it maintains sufficient liquidity, including high liquid assets, to withstand a range of stressful events and be able to settle its financial obligations. Determination of the adequacy of the Company's liquidity position is carried out using historical funding requirements, current liquidity position, present and future earnings capacity and sources of funds.

## INFORMATION SECURITY RISK

The advancement of information technology (IT) has brought about rapid changes to the way businesses and operations are conducted in the pension industry. It is no longer a support function for pension fund companies but a key enabler for business strategies, including reaching out to and meeting customer needs.

In view of the importance of IT, FPCNL instituted a sound and robust IT risk management framework that provides the Board of Directors, senior management, regulators and other stakeholders with the confidence that IT can deliver business value efficiently and securely, while providing high-quality assurance around data integrity, availability and confidentiality.

We have invested significantly to prevent IT risks through increased IT security awareness, training programmes, enhanced controls around data access and strengthened monitoring of information flows.

We have established a disaster recovery site wherein we have a business continuity office to operate in the event of disaster at the main office building.

## LEGAL RISK

Legal risk is the risk of loss to an institution which is primarily caused by a defective and unenforceable transaction. The risk has enormous cost implications to the organisation and affects the reputation of the organisation as well.

We have significantly improved on our effort to identify, mitigate and manage legal risks in our business activities and transactions. Legal risk has been well managed and there has been no incident of litigation directly involving the Company.

## REGULATORY COMPLIANCE RISK

This is the risk associated with failure to comply with applicable laws, regulations, codes of conduct and standards of good practice. Regulatory compliance risk is a major risk in the pension industry. To this end, the Company has an approved Compliance Policy to ensure that all relevant internal policies, and statutory and regulatory directives are complied with at all times, and that exceptions are promptly identified, corrected and reported.

FPCNL continues to identify and mitigate these risks through continuous improvement in technology infrastructure, improved internal processes and training of stakeholders to understand regulatory obligations and implications of non-compliance.

## FOCUS IN 2014

Our priorities in 2014 are to enhance the risk function and improve on risk awareness within the organisation. Some key activities planned for 2014 are to:

- finalise the information security risk process;
- review the existing enterprise risk management framework in line with current operational process and incorporate information security;
- review the internal control process taking into consideration process changes that occurred as a result of the newly implemented T24 custody application; and
- review the risk register for adequacy in line with current trend and procedural changes.

Generally, we intend to firm up our risk management and control process in 2014.

## CONCLUSION

FPCNL has imbibed the culture of creating an enabling business environment through the development and implementation of sound enterprise risk management policies and procedures. The Head, Risk & Compliance department champions the risk matters in the organisation, fully supported by senior management, while the Board of Directors provides an oversight function on risk matters.

**Tunde Folayan**
Chief Risk Officer

# RESPONSIBILITY FOR ANNUAL FINANCIAL STATEMENTS

**The directors accept responsibility for the annual financial statements, which have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as adopted by the Financial Reporting Council of Nigeria Act (FRC), and in the manner required by the Companies and Allied Matters Act of Nigeria, the provisions of the Pension Reform Act of Nigeria and relevant National Pension Commission circulars.**

The directors are of the opinion that the financial statements give a true and fair view of the financial affairs of the Company 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.

The directors have made an assessment of the Company's ability to continue as a going concern, and have no reason to believe that the Company will not remain a going concern in the year ahead.

**Joseph Sanusi, CON**
Chairman
FRC/2013/CIBN/00000001934

**Kunle Jinadu**
Managing Director/CEO
FRC/2013/ICAN/00000002122

# AUDIT, RISK & COMPLIANCE COMMITTEE STATEMENT

In compliance with the provisions of Section 359(6) of the Companies and Allied Matters Act 1990, we have reviewed the Audit Report for the year ended 31 December 2013 and state as follows:

1. The scope and planning of the audit were adequate in our opinion.
2. The accounting and reporting policies of the Company are in accordance with statutory requirements and agreed ethical practices.
3. The internal control was being constantly and effectively monitored.
4. The external auditors' management report received satisfactory response from management.

**Muhammadu Ibrahim, OFR**
Chairman, Audit, Risk & Compliance Committee
FRC/2013/CIBN/00000002121

Members of the Committee

Bayo Odeniyi
Ijeoma Jidenma
Kunle Jinadu

# REPORT OF THE INDEPENDENT AUDITOR

Deloitte.

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of First Pension Custodian Nigeria Limited, which comprise the statement of financial position as at 31 December 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity, cash flow statement for the year ended 31 December 2013, a summary of significant accounting policies and other explanatory information set out on pages 44 to 70.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the Companies and Allied Matters Act, Cap C20, LFN 2004, the Financial Reporting Council of Nigeria Act No 6, 2011, the International Financial Reporting Standards and provisions of the Pension Reform Act 2004 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

## OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of First Pension Custodian Nigeria Limited as at 31 December 2013, and of the financial performance and cash flows for the year then ended 31 December 2013 in accordance with the Companies and Allied Matters Act, Cap C20, LFN 2004, the Financial Reporting Council of Nigeria Act No 6, 2011 and the International Financial Reporting Standards.

## CONTRAVENTIONS

The Company contravened certain rules and regulations of the National Pension Commission. Details of the contraventions have been included in note 25 to the financial statements.

Akintola Williams Deloitte
**Chartered Accountants**
Lagos, Nigeria
Engagement partner
David Achugamonu
FRC/2013/ICAN/00000000840
18 March 2014

# FINANCIAL STATEMENTS

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

p44
Statement of profit or loss

p45
Statement of comprehensive income

p48
Statement of cash flows

# STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2013

| | Note | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|---|
| Custody fees | 4 | **2,843,458** | 2,044,463 |
| Interest income | 5 | **425,220** | 513,963 |
| Other income | 6 | **18,428** | 507 |
| **Total income** | | **3,287,106** | 2,558,933 |
| | | | |
| Personnel expenses | 7.1 | **418,269** | 396,262 |
| Depreciation and amortisation | | **87,807** | 87,308 |
| Directors' emoluments | | **156,409** | 205,726 |
| Other operating expenses | | **598,221** | 554,115 |
| | | **1,260,706** | 1,243,411 |
| | | | |
| **Profit before income tax** | | **2,026,400** | 1,315,522 |
| | | | |
| Income tax expense | 8 | **(522,773)** | (492,835) |
| **Profit for the year** | | **1,503,627** | 822,687 |
| **Basic earnings per share (kobo)** | | **75** | 41 |

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

| | Note | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|---|
| **Profit for the year** | | **1,503,627** | 822,687 |
| OTHER COMPREHENSIVE INCOME | | | |
| Actuarial gains/(losses) on post employment obligations | 17 | 3,416 | 20,034 |
| Deferred tax relating to components of other comprehensive income | | (1,025) | (6,010) |
| **Other comprehensive income for the year, net of tax** | | **2,391** | 14,024 |
| | | | |
| **Total comprehensive income for the year** | | **1,506,018** | 836,711 |

# STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2013

| | Note | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **1,049,236** | 136,573 |
| Intangible assets | 9 | **155,803** | 19,755 |
| Deferred tax assets | 16 | **116,868** | 39,736 |
| | | **1,321,907** | 196,064 |
| **Current assets** | | | |
| Loans and other receivables | 10 | **421,928** | 332,951 |
| Other assets | 11 | **73,594** | 144,825 |
| Investment securities | 12 | **4,391,426** | - |
| Cash and short-term funds | 13 | **102,945** | 4,207,619 |
| | | **4,989,893** | 4,685,395 |
| **Total assets** | | **6,311,800** | 4,881,459 |
| EQUITY AND LIABILITIES | | | |
| **Equity** | | | |
| Share capital | 15 | **2,000,000** | 2,000,000 |
| Other reserves | | **(17,241)** | (20,657) |
| Retained earnings | | **2,690,125** | 1,526,498 |
| **Total equity** | | **4,672,884** | 3,505,841 |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | 17 | **343,266** | 368,278 |
| | | **343,266** | 368,278 |
| | | | |
| **Current liabilities** | | | |
| Creditors and accruals | 18 | **480,281** | 295,907 |
| Income tax liabilities | 8 | **815,369** | 711,433 |
| | | **1,295,650** | 1,007,340 |
| **Total liabilities** | | **1,638,916** | 1,375,618 |
| **Total equity and liabilities** | | **6,311,800** | 4,881,459 |
| **Pension assets under custody** | 19.1 | **1,353,076,127** | 1,043,766,847 |
| **Non-pension assets under custody** | 19.2 | **93,731,367** | 43,075,297 |

These financial statements were approved by the Board of Directors on 12 February 2014 and signed on its behalf by:

Joseph Sanusi, CON
Chairman
FRC/2013/CIBN/00000001934

Kunle Jinadu
MD/CEO
FRC/2013/ICAN/00000002122

Bunmi Aderonmu
Chief Financial Officer
FRC/2013/ICAN/00000001939

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

| | Share capital ₦'000 | Other reserves ₦'000 | Retained earnings ₦'000 | Total equity ₦'000 |
|---|---|---|---|---|
| **Balance as at 1 January 2013** | 2,000,000 | (20,657) | 1,526,498 | 3,505,841 |
| | | | | |
| Profit or loss for the year | - | - | 1,503,627 | 1,503,627 |
| Other comprehensive Income or loss | - | 3,416 | - | 3,416 |
| | | | | |
| **Total comprehensive income or loss** | - | 3,416 | 1,503,627 | 1,507,043 |
| | | | | |
| Dividend paid | - | - | (340,000) | (340,000) |
| | | | | |
| **Total transactions with owners of the Company as at 31 December 2013** | 2,000,000 | (17,241) | 2,690,125 | 4,672,884 |

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

| | Note | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | 1,503,627 | 822,687 |
| Income tax charge | 8 | 522,773 | 492,835 |
| Profit before income tax | | 2,026,400 | 1,315,522 |
| | | | |
| Adjustment for non-cash items: | | | |
| Depreciation of property and equipment | 14 | 71,620 | 68,022 |
| Amortisation of intangibles | 9 | 16,187 | 19,286 |
| Withholding tax credit applied on tax payment | 8 | (3,821) | 0 |
| Loss on disposal of property and equipment | | 17,571 | 122 |
| Retirement benefit gain | 17 | 3,416 | 20,034 |
| Employee benefit liability | | (25,012) | 86,970 |
| | | | |
| **Changes in operating assets and liabilities** | | | |
| Other receivables | | (88,977) | (138,757) |
| Prepayments | | 71,231 | (26,448) |
| Creditors and accruals | | 184,374 | 166,240 |
| | | | |
| Cash generated from operations | | 2,272,989 | 1,510,991 |
| Income taxes paid | 8 | (492,148) | (271,018) |
| **Net cash generated from operating activities** | | 1,780,841 | 1,239,973 |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | 14 | (1,012,577) | (31,072) |
| Proceeds from sale of property, plant and equipment | | 10,723 | 3,230 |
| Acquisition of intangibles | 9 | (152,235) | (14,574) |
| Purchase of investment securities | 12 | (4,121,202) | - |
| **Net cash used in investing activities** | | (5,275,291) | (42,416) |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividend paid | | (340,000) | - |
| **Net cash (used in)/generated from financing activities** | | (340,000) | - |
| **Net (decrease)/increase in cash and cash equivalents** | | (3,834,450) | 1,197,557 |
| | | | |
| Increase in cash and cash equivalents | | (3,834,450) | 1,197,557 |
| Cash and cash equivalents at start of year | | 4,207,619 | 3,010,062 |
| **Cash and cash equivalents at end of year** | 13.1 | 373,169 | 4,207,619 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

## 1 GENERAL INFORMATION

First Pension Custodian Nigeria Limited ('the Company') was incorporated in Nigeria, as a limited liability company on 12 August 2005. It was granted its operating licence on 7 December, 2005 to act as a Custodian of Pension Fund Assets in accordance with the Pension Reform Act 2004, or any amendment or re-enactment thereof for the time being in force.

First Pension Custodian Nigeria Limited ('the Company') is a wholly owned subsidiary of First Bank of Nigeria Limited. The ultimate parent company is FBN Holdings Plc.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied 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

The financial statements comprise the statement of profit or loss, statement of other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and selected notes for the Company.

The 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.

The financial statements have been prepared in accordance with the going concern principle under the historical cost convention.

### 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

#### NEW AND AMENDED STANDARDS ADOPTED

The following standards have been adopted by the Company for the first time for the financial year beginning on or after 1 January 2013.

i. **Amendment to IAS 1, 'Financial statement presentation'** regarding 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).

ii. **IAS 19, 'Employee benefits'** was revised in June 2011. The changes in the Company's accounting policies has been as follows: 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.

iii. **IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7**
The amendment requires an entity to disclose information about rights to set off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32.

iv. **IFRS 13 Fair Value Measurement**
The Company has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS are yet to apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Company has not made any new disclosures required by IFRS 13 for the 2012 comparative period. The application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

#### NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning after 1 January 2013.

i. IFRS 9, 'Financial instruments' (effective for periods beginning on or after 1 January 2015). This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

ii. The entity is yet to assess the full effect of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

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

iii. **Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting**

These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| Amendments to IFRS 9 and IFRS 7 | Mandatory Effective Date of IFRS 9 and Transition Disclosures |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities |

(1) Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

(2) Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

**Amendment to IFRS 10, IFRS 12 and IAS 27 Investment Entities**

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Company do not anticipate that the investment entities amendments will have any effect on the Company's consolidated financial statements as the Company is not an investment entity.

## 2.3 FOREIGN CURRENCY TRANSLATION

**(a) Functional and presentation currency**

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The financial statements are presented in thousands (naira), which is the Company's presentation currency.

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

## 2.4 FINANCIAL ASSETS AND LIABILITIES

### 2.4.1 FINANCIAL ASSETS

The Company classifies its financial assets in the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

In 2013 and 2012, the Company had no available-for-sale financial assets or held to maturity investments.

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

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

**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 the Company 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 the Company 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. Loans and receivables are reported in the statement of financial position as loans to staff or other assets and cash balances. Interest on loans is included in the profit or loss and is reported as 'Interest income'.

### 2.4.2 FINANCIAL LIABILITIES

The Company's holding in financial liabilities is in financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

(a) Financial liabilities at amortised cost

Financial liabilities at amortised cost include trade payables. Trade payables are initially recognised at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortised cost using the effective interest method.

The Company did not have any financial liabilities that meet the classification criteria at fair value through profit or loss and did not designate any financial liabilities as at fair value through profit or loss.

### 2.4.3 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.

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 Company, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

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

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

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

### 2.4.4 DERECOGNITION OF FINANCIAL ASSETS

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

### 2.4.5 RECLASSIFICATION OF FINANCIAL ASSETS

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

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively. The Company did not reclassify any of its financial assets

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

#### 2.4.6 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.

## 2.5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid assets with original maturities of three months or less.

For the purposes of statement of cash flows, cash and cash equivalents include cash and liquid investments with original maturities of three months or less.

## 2.6 REVENUE RECOGNITION

**Custody fees**

Custody fees represents fees earned by the Company for holding pension fund assets on behalf of pension fund beneficiaries and their administrators. Custody fee income is recognised on an accrual basis as the service is rendered and is stated net of tax.

**Interest income**

Interest income is recognised using the effective interest method. It includes interest income from cash and cash equivalents.

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

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

## 2.7 IMPAIRMENT OF FINANCIAL ASSETS

(a) Assets carried at amortised cost

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

Objective evidence that a financial asset is impaired includes observable data that comes to our attention about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

(i) adverse changes in the payment status of borrowers in the group (e.g., an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or

(ii) national or local economic conditions that correlate with defaults on the assets in the group (e.g., an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

## 2.8 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 either through sale or use. Additionally, assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which they have separately identifiable cash inflows (cash-generating units). The impairment test can also be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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

## 2.9 PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

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 the Company and the cost of the item can be measured reliably. The carrying amount of the replaced asset is derecognised. All other repair and maintenance costs are charged to other operating expenses during the financial year.

An asset is recognised when it is probable that economic benefits associated with the item flow to the Company and the cost item can be reliably measured. All repairs and maintenance costs are charged to other operating expenses in the financial period in which they occur.

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:

| | |
|---|---|
| Computer hardware and equipment | 33.33% |
| Office equipment | 20% |
| Plant and machinery | 20% |
| Furniture and fittings | 20% |
| Motor vehicles | 25% |

The useful life and residual value of each and individual assets are being reviewed annually.

Gains and losses on disposals are determined by comparing proceeds on disposals with carrying amount. These are included in 'other (losses)/gains - net' in the statement of profit or loss.

Payments in advance for items of property and equipment are included in 'Other assets' and upon delivery are reclassified as additions in the appropriate category of property and equipment.

## 2.10 INTANGIBLE ASSETS

Costs associated with maintaining computer software are recognised as an expense incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets. Subsequent expenditure on software assets is capitalised only if it increases the future economic benefits embodied in the specific assets 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. The carrying amount of capitalised computer software is reviewed annually and is written down when the carrying amount exceeds its recoverable amount.

Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired. The Company does not have any intangible assets with indefinite useful lives.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

## 2.11 TAXATION

### (a) Current income tax

Income tax payable/(receivable) 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 to the extent of 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.

### (b) Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities and provisions for pensions and other post-retirement benefits. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction.

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

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

## 2.12 EMPLOYEE BENEFITS

The Company has both defined contribution and benefit plans.

**Defined contribution plan (Pension)**

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.

In line with the Pension Reform Act 2004, the Company pays contributions to a Pension Fund Administrator (PFA) on a mandatory or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The employee contributions are funded through payroll deductions while the Company's contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available while unpaid contributions are recognised as a liability.

**Defined benefit plan (Gratuity Scheme)**

The Company operates a non-contributory, unfunded defined benefit service gratuity scheme. The level of benefit provided is dependent on one or more factors, such as years of service and compensation.

The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using 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 the terms of the related liability. Where there is no deep market in such bonds, the market rates on government bonds are used.

**Severance benefits**

The Company has put in place a severance benefit package for its directors. Directors are entitled to benefit from the scheme from their effective date of appointment. Severance benefits are calculated based on the number of years in service at specified amounts approved by the Board of Directors.

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

## 2.13 PROVISIONS, CONTINGENT LIABILITIES AND ASSETS

Provisions are liabilities that are uncertain in amount and timing. Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Where there 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.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

## 2.14 SHARE CAPITAL

**Dividends on ordinary shares**

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders.

Dividends for the year that are declared after the reporting date are dealt with in the subsequent events note.

Dividends proposed by the directors' but not yet approved by members are disclosed in the financial statements in accordance with the requirements of the Company and Allied Matters Act.

## 2.15 ASSETS UNDER CUSTODY

These assets represent the value of the investments of pension fund beneficiaries/obligors, managed by their respective pension fund administrators/AMCON and held by the Company in its capacity as the custodian in compliance with the Pension Reform Act 2004/AMCON Act 2010. These assets include cash balances held with banks, investments in money market instruments, equities and real estate. These assets are not included in these financial statements, but reported as an off balance sheet item.

Financial assets held under custody by the Company are accounted for in line with local statutory requirements.

## 2.16 COMPARATIVES

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

## 2.17 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Committee that makes strategic decisions. The Company has only one operating segment.

## 2.18 GOING CONCERN

The Management Committee (MANCO) has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast any significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

# 3 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by the Audit, Risk & Compliance department under policies approved by the Board of Directors. The Audit, Risk & Compliance department identifies and evaluates financial risks in close co-operation with all operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of non-derivative financial instruments and investment of excess liquidity.

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

## 3.1 CREDIT RISK

Credit risk is the risk of financial loss, should any of the Company's clients or counterparties fail to fulfil their contractual obligations to the Company. Credit risk arises mainly from cash and cash equivalents as well as from outstanding custody fees. For counterparty banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If funds are independently rated, these ratings are used. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. Custody fees are deducted directly from funds under management. Management does not expect any losses from non-performance by any fund under the Company's custody.

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| < 30 days | **254,518** | 189,355 |
| 30-90 days | **83,371** | 54,631 |
| 91-180 days | **31,425** | 69,075 |
| > 180 days | **30,260** | 3,966 |
| | **399,574** | 317,027 |

### 3.1.1 CREDIT QUALITY

Credit risk arises from deposits with banks as well as credit exposures to staff loans.

Loans and receivables held by the Company consist mainly of custody fee receivable and staff loans which are all classified as neither past due nor impaired. Custody fee payment is guaranteed, as all fees are debited from the fund at the end of each month after the amounts have been approved by the National Pension Commission, hence risk is minimised. All the amounts outstanding relate to unpaid months as at reporting date.

The maximum exposure to credit risk for deposits approximates the amount recognised on the balance sheet.

## 3.2 LIQUIDITY RISK

The Company does not have any borrowings. Surplus cash held by the Company over and above balance required for working capital management is invested in interest-bearing current accounts and short-term deposits, choosing instruments with appropriate maturities. At the reporting date, the Company held liquid cash assets of ₦4.5 billion which is expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| At 31 December 2013 | Less than 3 months ₦'000 | Between 3 months and 1 year ₦'000 | Between 1 and 2 years ₦'000 | Between 2 and 5 years ₦'000 |
|---|---|---|---|---|
| Accounts payable | **113,339** | - | - | - |

| At 31 December 2012 | Less than 3 months ₦'000 | Between 3 months and 1 year ₦'000 | Between 1 and 2 years ₦'000 | Between 2 and 5 years ₦'000 |
|---|---|---|---|---|
| Accounts payable | 16,229 | - | - | - |

## 3.3 MARKET RISK

The Company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices such as interest rates, equity prices and commodity prices. The Company is not exposed to equity price risk nor commodity price risk.

## 3.4 FOREIGN EXCHANGE RISK

The Company enters into most of its transactions in naira which is also the functional currency. The Company is therefore not exposed to any material foreign exchange risk.

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

## 3.5 INTEREST RATE RISK

The Company is exposed to cash flow interest rate risk, which is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rate risk. The Company takes on exposure to the effect of fluctuations in the prevailing levels of market interest on both its fair value and cash flow risks.

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

| 31 December 2013 | Carrying amount ₦'000 | Variable interest ₦'000 | Fixed interest ₦'000 | Non-interest-bearing ₦'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and short-term funds | 102,945 | 102,945 | - | - |
| Staff loans | 24,561 | - | 24,561 | - |
| Investment securities | 4,391,426 | - | 4,391,426 | - |
| Other assets | 1,792,868 | - | - | 1,792,868 |
| **Liabilities** | | | | |
| The Company has no borrowings. | | | | |

## 3.6 CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. As at the reporting date, the Company was nil geared i.e., had no borrowings nor overdraft.

The Company is in a highly regulated industry and is constantly under review by the National Pension Commission (PenCom).

## 3.7 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(a) Financial instruments not measured at fair value

| | At 31 December 2013 | | At 31 December 2012 | |
|---|---|---|---|---|
| | Carrying value ₦'000 | Fair value ₦'000 | Carrying value ₦'000 | Fair value ₦'000 |
| **Financial assets** | | | | |
| Cash and short-term funds | 102,945 | 102,945 | 4,207,619 | 4,207,619 |
| Staff loans | 24,561 | 24,561 | 29,742 | 29,742 |
| Investment securities (held to maturity) | 4,391,426 | 4,391,426 | - | - |
| Other receivables | 397,367 | 397,367 | 303,209 | 303,209 |
| **Financial liabilities** | | | | |
| Account payables | 113,339 | 113,339 | 16,229 | 16,229 |

(b) Financial instruments measured at fair value

IFRS 7 requires disclosures for all financial instruments measured at fair value. The Company does not have any financial instruments measured at fair value.

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

## 4 CUSTODY FEES

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Custody fees | 2,843,458 | 2,044,463 |

Custody fees represent income earned by the Company for performing the custodial service functions over the pension fund/non-pension assets on behalf of pension fund administrators/AMCON for the benefit of the contributors/obligors.

## 5 INTEREST INCOME

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Placements | 91,774 | 437,772 |
| Treasury bills | 323,338 | 67,962 |
| Current account | 1,497 | 1,308 |
| Staff loans | 8,611 | 6,921 |
| | 425,220 | 513,963 |

## 6 OTHER INCOME

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Exchange gain | - | 5 |
| Sundry income | 18,428 | 502 |
| | 18,428 | 507 |

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

## 7 OPERATING EXPENSES

| | Note | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|---|
| Personnel expense | 7.1 | 418,269 | 396,262 |
| Depreciation of property and equipment | | 71,620 | 68,022 |
| Amortisation of intangible asset | | 16,187 | 19,286 |
| Directors' emoluments | 20a | 156,409 | 205,726 |
| Auditors' remuneration | | 8,000 | 8,000 |
| Loss on disposal of PPE | | 17,571 | 122 |
| Donations and subscriptions | | 10,325 | 6,646 |
| Provision for doubtful receivables | | - | 12,818 |
| Insurance premiums, rent and rates | | 27,368 | 25,383 |
| Amortisation of prepaid employee benefit | | 3,766 | 4,038 |
| Professional fees and other consultancy costs | | 49,397 | 28,287 |
| Other operating expenses | | 461,530 | 455,665 |
| Information technology levy | | 20,264 | 13,156 |
| | | 1,260,706 | 1,243,411 |

### 7.1 PERSONAL EXPENSE

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Staff costs (excluding executive directors) | 418,269 | 396,262 |

See breakdown of staff costs at Note 7.1c.

(a) The average number of persons employed by the Company during the year was as follows:

| | 2013 Number | 2012 Number |
|---|---|---|
| Executive | 2 | 2 |
| Management | 5 | 5 |
| Non-management | 56 | 56 |
| | 63 | 63 |

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

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

| | 2013 Number | 2012 Number |
|---|---|---|
| ₦300,000 - ₦2,000,000 | 41 | 43 |
| ₦2,000,001 - ₦2,800,000 | 5 | 4 |
| ₦2,800,001 - ₦3,500,000 | 6 | 5 |
| ₦3,500,001 - ₦4,000,000 | 3 | 5 |
| ₦4,000,001 - ₦5,500,000 | 2 | - |
| ₦5,500,001 - and above | 4 | 4 |
| | 61 | 61 |

(c) Staff costs for the above persons (excluding executive directors):

| | Note | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|---|
| Wages and salaries | | 334,425 | 320,602 |
| Defined contribution plan | | 8,694 | 8,348 |
| Retirement benefit cost - Gratuity | 17 | 75,150 | 67,312 |
| | | 418,269 | 396,262 |

## 8 INCOME TAX EXPENSE

| | Note | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|---|
| Corporate tax | | 558,197 | 501,822 |
| Education tax | | 41,708 | 34,752 |
| Current income tax - current period | | 599,905 | 536,574 |
| Origination and reversal of temporary deferred tax differences | 16 | (77,132) | (43,739) |
| Total income tax expense | | 522,773 | 492,835 |

The movement in the current income tax payable balance is as follows:

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| At 1 January | 711,433 | 445,877 |
| Tax paid | (492,148) | (271,018) |
| Withholding tax credit utilised | (3,821) | - |
| Income tax charge | 599,905 | 536,574 |
| At 31 December | 815,369 | 711,433 |

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

### RECONCILIATION OF EFFECTIVE TAX RATE

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Profit before income tax | 2,026,400 | 1,315,522 |
| Tax using domestic rate of 30% (2012: 30%) | 607,920 | 394,657 |
| Non-deductible expenses | 114,703 | 147,006 |
| Education tax levy | 41,708 | 34,752 |
| Tax-exempt income | (97,001) | (20,389) |
| Tax incentives | (144,557) | (63,191) |
| Income tax expense | 522,773 | 492,835 |

## 9 INTANGIBLE ASSETS

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| **Computer software** | | |
| **Cost** | | |
| At 1 January | 104,333 | 89,759 |
| Additions | 152,235 | 14,574 |
| At 31 December | 256,568 | 104,333 |
| | | |
| **Accumulated amortisation** | | |
| At 1 January | 84,578 | 65,292 |
| Amortisation charge for the year | 16,187 | 19,286 |
| At 31 December | 100,765 | 84,578 |
| | | |
| Carrying amount | | |
| At 31 December | 155,803 | 19,755 |

## 10 LOANS AND RECEIVABLES

| | Note | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|---|
| Loans | 10.1 | 24,561 | 29,742 |
| Other receivables | 10.2 | 397,367 | 303,209 |
| | | 421,928 | 332,951 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

### 10.1 LOANS HELD AT AMORTISED COST

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Staff loans | 24,561 | 29,742 |

### 10.2 OTHER RECEIVABLES

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Custody fee receivable | 399,574 | 317,027 |
| Allowance for doubtful accounts | (2,207) | (13,818) |
| | 397,367 | 303,209 |

The movement in allowance for doubtful accounts is as follows:

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| At 1 January | 13,818 | 4,363 |
| Additions | - | 12,818 |
| Recoveries | (11,611) | - |
| Allowance written off | - | (3,363) |
| At 31 December | 2,207 | 13,818 |

## 11 OTHER ASSETS

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Prepayments | 31,674 | 87,911 |
| Others | 41,920 | 56,914 |
| | 73,594 | 144,825 |

## 12 INVESTMENT SECURITIES

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Treasury bills with maturity of less than 90 days | 270,224 | - |
| Treasury bills with maturity of more than 90 days | 4,121,202 | - |
| | 4,391,426 | - |

Treasury bills represent short-term instruments issued by the Central Bank of the jurisdiction where the Company has operation. The fair value of treasury bills through profit and loss are determined with reference to quoted prices in active markets for identical assets. The estimated fair value of treasury bills at amortised costs 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.

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

## 13 CASH AND SHORT-TERM FUNDS

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Cash and bank balance | 52,914 | 35,478 |
| Short-term placements | 50,031 | 4,172,141 |
| | 102,945 | 4,207,619 |

### 13.1 CASH AND CASH EQUIVALENTS

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Cash and bank balance | 52,914 | 35,478 |
| Short-term placements | 50,031 | 4,172,141 |
| Treasury bills (maturing within three months) | 270,224 | - |
| | 373,169 | 4,207,619 |

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

## 14 PROPERTY, PLANT AND EQUIPMENT

| | Land | Computer and office equipment | Motor vehicles | Work in progress | Total |
|---|---|---|---|---|---|
| COST | | | | | |
| At 1 January | - | 220,056 | 179,015 | - | 399,071 |
| Additions | 864,228 | 70,101 | 78,248 | - | 1,012,577 |
| Disposals | | (1,597) | (72,605) | - | (74,202) |
| At 31 December | 864,228 | 288,560 | 184,658 | - | 1,337,446 |
| DEPRECIATION AND IMPAIRMENT LOSSES | | | | | |
| At 1 January | - | 174,826 | 87,672 | - | 262,498 |
| Depreciation for the year | - | 26,466 | 45,154 | - | 71,620 |
| Disposals | - | (1,344) | (44,564) | - | (45,908) |
| At 31 December | | 199,948 | 88,262 | - | 288,210 |
| NET BOOK VALUE | | | | | |
| At 31 December 2013 | 864,228 | 88,612 | 96,396 | - | 1,049,236 |
| At 31 December 2012 | - | 45,230 | 91,343 | - | 136,573 |

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

## 15 SHARE CAPITAL

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| **Authorised** | | |
| 2,000,000,000 ordinary shares of ₦1 each | **2,000,000** | 2,000,000 |
| **Issued and fully paid** | **2,000,000** | 2,000,000 |

The issued ordinary shares comprise 2,000,000,000 ordinary shares of ₦1 each. The Company is a wholly owned subsidiary of First Bank of Nigeria Limited.

## 16 DEFERRED TAX

| | Note | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|---|
| **At 1 January** | | **(39,736)** | 4,003 |
| Changes during the year: | | | |
| - Charge/(credit) to statement of profit or loss | 8 | **(77,132)** | (43,739) |
| **At 31 December** | | **(116,868)** | (39,736) |

The directors have assessed the availability of taxable profit as at the reporting date and are of the opinion that it is appropriate to recognise the deferred tax asset as it is probable that taxable profit will be available against which the deferred taxation asset will be utilised.

### 16.1 THE DEFERRED INCOME TAX (ASSETS)/LIABILITIES ARE ATTRIBUTABLE TO THE FOLLOWING ITEMS:

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Property, plant and equipment | **59,898** | 26,150 |
| Defined benefit obligations | **(102,980)** | (62,041) |
| Loans and other receivables | **(662)** | (3,845) |
| Creditors and accruals | **(73,124)** | - |
| | **(116,868)** | (39,736) |
| Deferred tax arising from actuarial gain on post-employment obligations | **(1,025)** | (6,010) |

## 17 RETIREMENT BENEFIT OBLIGATIONS

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Provision for severance benefits | **168,796** | 161,476 |
| Gratuity benefits | **174,470** | 206,802 |
| | **343,266** | 368,278 |

The Company operates a non-contributory defined gratuity scheme whereby on separation, staff who have spent a minimum number of pre-defined years are paid a sum based on their qualifying emoluments and the number of years spent in the service of the Company. The plan is unfunded.

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

The movement in provision for gratuity over the year is as follows:

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| **At 1 January** | 206,802 | 159,524 |
| Current service charge | 50,601 | 48,343 |
| Interest cost | 24,549 | 18,969 |
| Benefits paid | (104,066) | |
| Actuarial (gains)/losses | (3,416) | (20,034) |
| **At 31 December** | 174,470 | 206,802 |

The amounts recognised in the income statement are as follows:

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Service costs | 50,601 | 48,343 |
| Interest cost | 24,549 | 18,969 |
| | 75,150 | 67,312 |

The principal actuarial assumptions were as follows:

| | 2013 | 2012 |
|---|---|---|
| Discount rate (p.a.) | 13.5% | 12% |
| Inflation rate (p.a.) | 9% | 11% |
| Future salary increase (p.a.) | 12% | 13% |

The rates of mortality assumed for employees are the rates published in the A67/70 Ultimate Tables, published jointly by the Institute and Faculty of Actuaries in the UK.

The provision for severance benefit for directors over the year is as follows:

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| | 168,796 | 161,476 |

The severance benefit obligation is calculated based on the number of years in service at a specified amount.

## 18 CREDITORS AND ACCRUALS

| | 2013 ₦'000 | 2012 ₦'000 |
|---|---|---|
| Accounts payable | 113,339 | 16,229 |
| Sundry creditors | 346,678 | 266,522 |
| Information technology levy | 20,264 | 13,156 |
| | 480,281 | 295,907 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

## 19 ASSETS UNDER CUSTODY

### 19.1 PENSION ASSETS UNDER CUSTODY

| | 2013<br>₦'000 | 2012<br>₦'000 |
|---|---|---|
| Bank balances | 17,289,657 | 27,530,467 |
| Treasury bills | 214,327,363 | 76,956,684 |
| Money market instruments | 230,873,543 | 191,424,277 |
| Bonds | 520,001,973 | 467,737,535 |
| Equities | 245,957,194 | 153,290,912 |
| Receivables | 15,152 | 315,983 |
| Mutual funds | 10,026,966 | 6,959,059 |
| Investment properties | 112,098,744 | 114,074,011 |
| Private equity | 2,485,535 | 5,477,919 |
| | 1,353,076,127 | 1,043,766,847 |

### 19.2 NON-PENSION ASSETS UNDER CUSTODY

| | 2013<br>₦'000 | 2012<br>₦'000 |
|---|---|---|
| Non-pension assets under custody | 93,731,367 | 43,075,297 |

The non-pension assets under custody relates to the assets managed by the Company on behalf of Asset Management Corporation of Nigeria (AMCON) under an agreement signed between the Company and AMCON. The amount relates to financial assets obtained from obligors to delinquent credit facilities that were taken over from the banks.

This is in line with its licence to perform as Custodian for Money Market & Fixed Income Instruments, issued to it by the Central Bank of Nigeria. The agreement has been endorsed by the National Pension Commission

## 20 RELATED PARTIES

The Company is a member of the FirstBank Group and is thus related to other subsidiaries of the Bank through common shareholdings or common directorships. The Company identifies its key management personnel as the Board of Directors. Balances arising from dealing with related parties are as follows:

(a) Remuneration of key management personnel/directors

| | 2013<br>₦'000 | 2012<br>₦'000 |
|---|---|---|
| Fees and sitting allowance | 19,275 | 17,990 |
| Executive compensation | 48,574 | 93,982 |
| Retirement benefit costs | 28,621 | 39,692 |
| Other director expenses | 59,939 | 54,062 |
| | 156,409 | 205,726 |

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

(b) The numbers of directors who received fees and other emoluments in the following ranges are:

| | 2013 Number | 2012 Number |
|---|---|---|
| ₦5,000,000 and above | 8 | 8 |
| | 8 | 8 |

(c) Due from related companies

This represents the balance due to related parties stated below as at year end:

| Description | Nature of relationship | Nature of transaction | 31 December 2013 ₦'000 |
|---|---|---|---|
| First Bank of Nigeria Ltd. | Parent company | Short-term placements | 50,031 |
| | Parent company | Bank balance and unpaid interest | 52,914 |

The Company earned a total interest of ₦3.69 million from First Bank of Nigeria Limited.

(d) Due to related companies

There were no amounts due to related parties at the year end (2012: Nil).

## 21 CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGEMENTS

The Company makes estimates and assumptions in determining the carrying amounts of certain assets and liabilities. The estimates and assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. The resulting estimates seldom equal the related actual results.

The key assumptions concerning the future, and other key sources of estimation uncertainty, are shown below:

### GRATUITY BENEFITS

Assumptions are made in the actuarial valuing of future defined gratuity obligations. The principal assumptions relate to the discount rate and rate of inflation. The assumed rate of inflation affects the rate at which salaries are expected to grow and subsequently the gratuity that employees receive on retirement. The discount rate is equal to the yield on high-quality corporate bonds that have a term to maturity approximating that of the related liability. As a result, there is uncertainty that these assumptions will continue in the future. Whilst changes in other assumptions would have an impact, the effect would not be as significant.

### TAX

Determining income tax provisions involves judgement on the tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Judgements have been made as to the probability of future taxable revenues being generated against which tax losses will be available for offset.

## 22 CONTINGENT LIABILITIES AND COMMITMENTS

The Company in its ordinary course of business was not involved in any suit as at year end (31 December 2012: Nil). The directors of the Company are not aware of any pending or threatened claims or litigations, which may be material to the financial statements. There were no other contingent liabilities requiring disclosure in these financial statements.

## 23 CAPITAL COMMITMENTS

The Company had no capital commitments as at 31 December 2013 (31 December 2012: Nil).

## 24 EVENTS AFTER THE REPORTING DATE

The Company has no adjusting events after the financial position date.

## 25 COMPLIANCE WITH REGULATORY BODIES

During the year, the Company paid a penalty of ₦1,000,000.00 to the National Pension Commission, resulting from operational error.

# VALUE ADDED STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

| | 2013 ₦'000 | % | 2012 ₦'000 | % |
|---|---|---|---|---|
| Gross earnings | 3,287,106 | | 2,558,933 | |
| Bought in materials and services - Local | (754,630) | | (747,023) | |
| Provision for other receivables | - | | (12,818) | |
| **Value added** | 2,532,476 | 100 | 1,799,092 | 100 |

## DISTRIBUTION

| | 2013 ₦'000 | % | 2012 ₦'000 | % |
|---|---|---|---|---|
| **Employees** | | | | |
| Salaries and benefits | 418,269 | 17 | 396,262 | 22 |
| **Government** | | | | |
| Taxation | 599,905 | 24 | 536,574 | 30 |
| **Retained for future replacement of assets and expansion of business:** | | | | |
| Asset replacement (depreciation and amortisation) | 87,807 | 3 | 87,308 | 5 |
| Deferred taxation | (77,132) | (3) | (43,739) | (2) |
| Transfers to reserves | 1,503,627 | 59 | 822,687 | 46 |
| | 2,532,476 | 100 | 1,799,092 | 100 |

Value added is the wealth created by the efforts of the Company and its employees and its allocation between employees, shareholders, government and re-investment for the creation of further wealth.

# FIVE-YEAR FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 2013

## STATEMENT OF FINANCIAL POSITION

| | As reported under IFRS | | | | As reported under NGAAP |
|---|---|---|---|---|---|
| | December 2013 ₦'000 | December 2012 ₦'000 | December 2011 ₦'000 | December 2010 ₦'000 | December 2009 ₦'000 |
| ASSETS | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | **1,049,236** | 136,573 | 176,875 | 98,754 | 124,720 |
| Intangible assets | **155,803** | 19,755 | 24,467 | 2,376 | 5,538 |
| Deferred tax assets | **116,868** | 39,736 | - | 40,572 | - |
| | **1,321,907** | 196,064 | 201,342 | 141,702 | 130,258 |
| **Current assets** | | | | | |
| Loans and other receivables | **421,928** | 332,951 | 194,194 | 134,741 | 111,260 |
| Other assets | **73,594** | 144,825 | 118,377 | 78,519 | 91,214 |
| Investment securities | **4,391,426** | - | - | - | - |
| Cash and cash short-term funds | **102,945** | 4,207,619 | 3,010,062 | 2,801,452 | 2,708,878 |
| | **4,989,893** | 4,685,395 | 3,322,633 | 3,014,712 | 2,911,352 |
| **Total assets** | **6,311,800** | 4,881,459 | 3,523,975 | 3,156,414 | 3,041,610 |
| EQUITY AND LIABILITIES | | | | | |
| **Equity** | | | | | |
| Share capital | **2,000,000** | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 |
| Other reserves | **(17,241)** | (20,657) | (40,691) | - | - |
| Retained earnings | **2,690,125** | 1,526,498 | 703,811 | 459,162 | 329,780 |
| **Total equity** | **4,672,884** | 3,505,841 | 2,663,120 | 2,459,162 | 2,329,780 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | **-** | - | 4,003 | - | 5,683 |
| Retirement benefit obligations | **343,266** | 368,278 | 281,308 | 188,937 | 56,361 |
| | **343,266** | 368,278 | 285,311 | 188,937 | 62,044 |
| **Current liabilities** | | | | | |
| Creditors and accruals | **480,281** | 295,907 | 129,667 | 129,362 | 295,459 |
| Income tax liabilities | **815,369** | 711,433 | 445,877 | 378,953 | 354,327 |
| | **1,295,650** | 1,007,340 | 575,544 | 508,315 | 649,786 |
| **Total liabilities** | **1,638,916** | 1,375,618 | 860,855 | 697,252 | 711,830 |
| **Total equity and liabilities** | **6,311,800** | 4,881,459 | 3,523,975 | 3,156,414 | 3,041,610 |
| **Pension assets under custody** | **1,353,076,127** | 1,043,766,847 | 802,367,627 | 681,003,586 | 496,035,796 |
| **Non-pension assets under custody** | **93,731,367** | 43,075,297 | 26,812,870 | - | - |

# FIVE-YEAR FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 2013

## STATEMENT OF PROFIT OR LOSS

| | As reported under IFRS | | | | As reported under NGAAP |
|---|---|---|---|---|---|
| | December 2013 ₦'000 | December 2012 ₦'000 | December 2011 ₦'000 | December 2010 ₦'000 | December 2009 ₦'000 |
| Gross earnings | 3,287,106 | 2,558,933 | 1,704,066 | 1,350,331 | 995,584 |
| Profit before income tax | 2,026,400 | 1,315,522 | 801,502 | 453,288 | 474,404 |
| Income tax expense | (522,773) | (492,835) | (316,242) | (157,938) | (130,796) |
| **Profit for the year** | 1,503,627 | 822,687 | 485,260 | 295,350 | 343,608 |
| **Per-share data** | | | | | |
| Earnings per share - basic (kobo) | 75 | 41 | 24 | 15 | 17 |
| Net (liabilities)/assets per share (naira) | 2 | 2 | 1 | 1 | 1 |

# GLOSSARY OF RATIOS

| Ratio | | Basis of computation |
|---|---|---|
| Cost income ratio | = | Total cost / Total income |
| Earnings per share | = | Net profit for the year / Number of average outstanding shares |
| Gross margin | = | Profit before income tax / Total income |
| Return on assets | = | Profit for the year / Total assets |
| Return on equity | = | Profit for the year / Shareholders' funds |
| Total market value of assets under custody | = | Market value of all investment options available to the fund |

# ABBREVIATIONS

| | |
|---|---|
| AC | Audit Committee |
| AGM | Annual General Meeting |
| AMCON | Asset Management Corporation of Nigeria |
| BIC | Banque Internationale de Crédit SARL |
| CBN | Central Bank of Nigeria |
| CEO | Chief Executive Officer |
| CON | Commander of the Order of the Niger |
| CPFA | Closed Pension Fund Administrator |
| CSR | Corporate social responsibility |
| ED | Executive Director |
| FPCNL | First Pension Custodian Nigeria Limited |
| FX | Foreign Exchange |
| IBAM | Investment Banking and Asset Management |
| IFRS | International Financial Reporting Standards |
| IT | Information Technology |
| KPI | Key Performance Indicator |
| ₦ | Naira |
| OFR | Officer of the Order of the Federal Republic |
| PAT | Profit after tax |
| PBT | Profit before income tax |
| PFA | Pension fund administrator |
| PFC | Pension fund custodian |
| PenCom | National Pension Commission |
| PTADS | Pension Transition Arrangement Departments |
| RSA | Retirement Savings Account |

First Pension Custodian

CONTACT DETAILS AND FEEDBACK

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www.firstpensioncustodian.com/download/2013financialreport