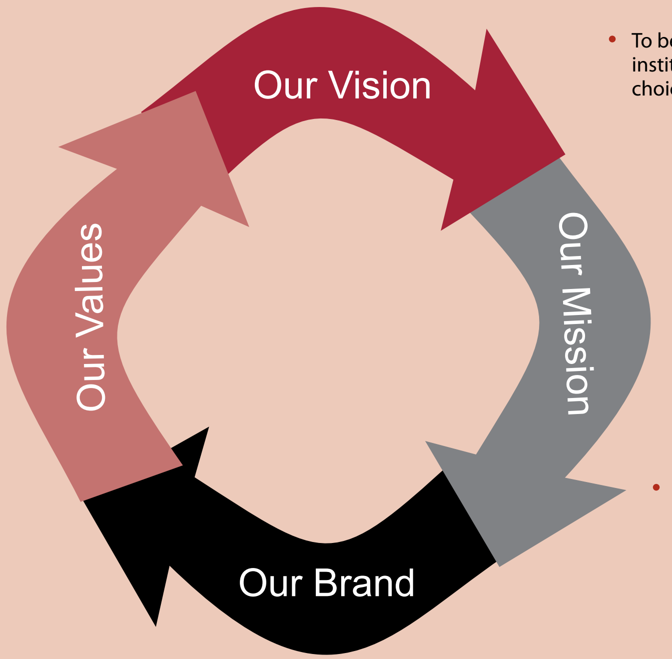
# VISION & MISSION

- Customer focus
- Integrity
- Teamwork
- Excellence




- To be the financial institution of choice

- We deliver solutions that enhance stakeholders' value

- One Customer

CONTENTS

# CORPORATE PROFILE

Sterling Bank Plc is a full-service national commercial bank. The Bank, formerly known as NAL Bank Plc, was incorporated in 1960 as Nigerian Acceptances Limited. In 1969, it became the first Nigerian Bank to be licensed as a merchant bank.

The Bank became a universal bank in 2001 to reflect its wide product/service offering. In 2005, NAL Bank merged with the erstwhile Indo-Nigerian Bank, Magnum Trust Bank, NBM Bank, and Trust Bank of Africa to form Sterling Bank Plc. Buoyed by a commitment to corporate governance principles the Bank has demonstrated resilience in the competitive landscape, while remaining true to its strong ethical leaning.

In 2011, Sterling Bank Plc acquired the franchise of the erstwhile Equitorial Trust Bank to emerge as a stronger institution and is now better positioned to offer a robust bouquet of products and services through a network of over 165 branches spread across major cities in Nigeria. The Bank is well poised to drive its customer-centric business focus, aptly captured by 'The one-customer bank' proposition, across a vibrant community of clients in the corporate, retail and commercial banking space.

Sterling Bank enjoys correspondent banking relationships with a number of reputable local and international banks.

# NOTICE OF ANNUAL GENERAL MEETING

*NOTICE IS HEREBY GIVEN that the 51st Annual General Meeting of Sterling Bank Plc will be held at Eko Hotel & Suites, Plot 23, Adetokunbo Ademola Street, Victoria Island, Lagos on Thursday, the 2nd day of May, 2013 at 11.00 a.m. to transact the following business:*

## ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the year ended 31st December, 2012, together with the Reports of the Directors, Auditors and the Audit Committee thereon.

2. To declare a Dividend.

3. To re-elect Directors.

4. To approve the remuneration of the Directors.

5. To authorize the Directors to fix the remuneration of the Auditors.

6. To elect members of the Audit Committee.

## SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions as Special Resolutions:

7. That the Memorandum and Articles of Association of the Company be and is hereby amended as follows:

i. By deleting the words "concessionaires" and "merchants" from Clause 3 (ff).

ii. By deleting the word "universal" from Clause 3 (oo)

iii. By deleting Article 76 (1)(a) and substituting the following as Article 76(1)(a):

"A shareholder holding not less than five per cent of the issued and paid-up shares of the Company shall be entitled to nominate in writing to the Board one Director for the shares held by him provided that the number of Directors nominated by a shareholder under this sub-clause shall be limited to one save for a financial institution or strategic investor with at least 10% shareholding which may be entitled to nominate a maximum of two Directors subject to the approval of the Board of Directors"

iv. By deleting Article 76(2) in its entirety.

8. "That subject to regulatory approval, the Directors be and are hereby authorized to issue up to 6,000,000,000 Ordinary shares of 50 kobo each from the Company's unissued share capital by way of Rights Issue, in such proportion, at such time, for such consideration and upon such terms and conditions as the Directors may deem fit, and in respect thereof, the Directors be and are hereby further authorized to appoint such advisers, professionals and parties that they may deem necessary".

# NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

## PROXY

A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Company. To be valid, a completed and duly stamped Proxy form must be deposited at the office of the Registrar, Sterling Registrars Limited, Akuro House (8th floor), 24 Campbell Street, Lagos not less than 48 hours prior to the time of the meeting.

Dated this 2nd day of April, 2013

BY ORDER OF THE BOARD

**Justina Lewa**
*Company Secretary*
20 Marina
Lagos

## NOTES

1. **Dividend**
   If approved, dividend warrants for the sum of 20 kobo for every share of 50 kobo will be posted on 3rd of May, 2013 to shareholders whose names are registered in the Register of Members at the close of business on 12th April, 2013, while shareholders who have provided relevant accounts will be credited same day.

2. **Closure of Register of Members**
   The Register of Members and Transfer Books of the Company will be closed from 15th to 19th April, 2013 (both dates inclusive), to enable the Registrar prepare for payment of dividend.

3. **Audit Committee**
   In accordance with section 359(5) of the Companies and Allied Matters Act, 2004, any shareholder may nominate a shareholder for appointment to the Audit Committee. Such nomination should be in writing and should reach the Company Secretary at least twenty-one (21) days before the Annual General Meeting.

# FINANCIAL HIGHLIGHTS

Our performance in 2012 reflects our continued focus on optimizing the full benefits of the business combination with Equitorial Trust Bank (ETB).

**Income Statement (N'bn)**

| Earnings | Net Operating Income | Profit before Tax | [1]Adjusted Profit before Tax |
|---|---|---|---|
| 68.9 | 39.5 | 7.5 | 7.5 |
| 44% ⇧ | 51% ⇧ | 33% ⇧ | 108% ⇧ |

**Balance Sheet (N'bn)**

| Total Assets | Loans and Advances | Customer Deposits | Shareholders' Equity |
|---|---|---|---|
| 580.2 | 229.4 | 463.7 | 46.6 |
| 15% ⇧ | 42% ⇧ | 18% ⇧ | 14% ⇧ |

**Financial Ratio**

| Non-Perfoming loan Ratio | Earnings per Share | Dividend per Share | Return on Average Equity |
|---|---|---|---|
| 3.8% | 44k | 20k | 15.9% |

[1] *Profit before tax adjusted for non-recurring income from sale of subsidiaries in 2011.*

# DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS

## DIRECTORS:

| | |
|---|---|
| Alhaji (Dr.) S.A Adegunwa, OFR | Chairman |
| Mr. Rajan Srinivasan (Indian) | Director |
| Alhaji Bashir M. Borodo, OON | Director |
| Mr. Yinka Adeola | Director |
| Mr. Yemi Idowu | Director |
| Mr. Rasheed Kolarinwa | Director |
| Ms Olufunmilola Osunsade | Director |
| Mr. Yemi Adeola | Managing Director/CEO |
| Mr. Lanre Adesanya | Executive Director |
| Mr. Devendra Puri (Indian) | Executive Director |
| Mr. Abubakar Sule | Executive Director |

## COMPANY SECRETARY:

Justina Lewa

## REGISTERED OFFICE:

20, Marina, Lagos
Tel: 2690380-8

## REGISTRATION NUMBER:

2392

## AUDITORS:

Ernst & Young
2A, Bayo Kuku Road,
Ikoyi,
Lagos.

## REGISTRARS:

Sterling Registrars Limited
Akuro House (8th floor),
24, Campbell Street,
Lagos.

## FINANCIAL ADVISERS:

Sterling Capital Markets Limited
Block 12, Plot 1B, Frajend Close,
Osborne Foreshore Estate,
Ikoyi, Lagos.

## STOCKBROKERS:

Nigerian Stockbrokers Limited
Akuro House (8th Floor),
24, Campbell Street,
Lagos.

# CHAIRMAN'S STATEMENT

*"Despite the relatively slow economic growth, Sterling Bank ended the year with a strong performance. This is a reflection of the resilience of the Bank's business strategy and the commitment of the leadership team to the vision."*

# CHAIRMAN'S STATEMENT

*Esteemed shareholders, it is with great pleasure that I welcome you, on behalf of the Board of Directors to the 51st Annual General Meeting (AGM) of your Bank. The Bank's performance scorecard for the year ended 31st December 2012 which with all sense of modesty I will say was impressive, will be presented to you in the course of this AGM.*

Despite the relatively slow economic growth, Sterling Bank ended the year with a strong performance. This is a reflection of the resilience of the Bank's business strategy and the commitment of the leadership team to the vision.

The merger of Sterling Bank with the erstwhile Equitorial Trust bank (ETB) has enhanced our market value in the Nigerian banking sector considerably. This has been accomplished mainly through increased synergies from the enlarged franchise and the embedment of our position as a relevant, dynamic and competitive Bank to meet the rapidly evolving needs of our customers.

## Operating Environment

During the last financial year, the global economic environment was filled with challenges. Financial and political uncertainties arising from the Eurozone debt debacle, US debt ceiling and slow growth in major economies weighed down economic recovery efforts and dampened investors' confidence globally. As a result, markets were volatile and Central Banks worldwide had to intervene with further quantitative easing leaving interest rates at historically low levels.

In Nigeria, the year began with the fuel subsidy logjam and the attendant economic losses. Amidst the tough economic climate, the nation's economy maintained a steady pace of GDP growth at 6%, peaking at an estimated 6.99% in the last quarter of 2012. This was underpinned by strong domestic demand and consumption, as the non-oil sector continued to drive growth. Notwithstanding the external uncertainties and floods that ravaged communities in close to 22 states of the country in 2012, we remain optimistic of a continued moderate expansion of the economy through 2013. Sustained private consumption and acceleration in investment activities will have a significant impact in the year ahead where multiplier effects from construction and infrastructure-related projects across the country are expected to benefit other business activities; providing some buffer against any external shocks.

Similarly, Nigerian financial institutions must increase their competitiveness and resilience to withstand the impact of external shocks. Growth and profitability without compromise in governance and enterprise risk management remains our driving force as we move towards ensuring the sustainability of the Bank's business.

## Gaining Traction in Integration/Divestment

The Bank has stayed on course and made significant progress, especially in its integration programmes following the successful merger with ETB at the end of the previous financial year.

We successfully consolidated the two banking systems into a single banking platform; allowing us to streamline our processes, maintenance and development costs, hardware and software as well as improve the time-to-market for developing our products and services. However, we are aware that there is still a lot to be done. To create sustainable value for all our stakeholders, we will continue to focus on improving efficiency across the board, drive synergies, pursue customer fulfilment, accelerate business momentum, maximize return on assets, and strengthen integrated risk and capital management systems.

With key milestones in our integration achieved, we harvested a number of positive values from the merger and also showed improved performance compared to the previous year – a reflection of the consolidated strength of the new entity.

## Divestment

You will recall that in my last address I had reported that we successfully divested our interest in non-core-banking subsidiaries in line with the requirements of the National banking license. In 2012 we made further progress, divesting our stakes in Safetrust Savings and Loans Limited and Opticom Nigeria Limited. The process of divestment from Nigeria Stockbrokers Limited is expected to be completed by mid-2013, while we await final approval from the CBN to retain our investment in Associated Discount House Limited (ADHL). Utmost care has been taken to optimize shareholder value by ensuring transparency and best practice in all processes in accordance with existing laws and regulations.

## Sustainability

In a bid to effectively achieve our strategic intent to be the financial institution of choice, the Board jointly agreed with Management during the 2012 strategy retreat, to revamp the retail business of the Bank, focusing primarily on the emerging consumer and micro, small and medium enterprises (MSMEs). To drive this, huge investments will be made towards research & development, technology upgrades, customer management software and channels deployment among others.

The Bank is fully committed to the sustainability of the financial and economic development of the nation. In line with the recent financial inclusion policy launched by the CBN, your bank will be taking banking services to the unbanked. Various channels including Agency Banking, Mobile Banking and third-party acquirers will be used to capture this segment of the market. We will seek to protect the environment and will operate in accordance with the CBN's newly approved sustainable banking principles and in consonance with other international best practices in corporate social responsibility.

In 2012, we embarked on entrepreneurship training programmes for SMEs in conjunction with Fate Foundation where over 200 entrepreneurs were trained. We also sponsored the football team and boat sail for Makoko, a small riverine community of fisherman in Yaba, Lagos to further drive our corporate social responsibility objectives.

During the period under review, we continued to generate public goodwill and awareness of the Bank through key donations to our local communities including the Nigerian Police, the Federal Road Safety Corps, the Lagos State Waste Management Authority, the Isaac Moghalu Foundation and the Chosen Orphanage & Care Centre.

## Business Outlook

The outlook for the global economy in 2013 remains uncertain, particularly in the face of the unresolved debt ceiling in the US and the persisting euro zone financial and economic crises. The International Monetary Fund (IMF) has predicted a slower growth of 3.5% in 2013, slightly down from an earlier projection of 3.6%. On the flip side, we expect increased manufacturing activity and consumer demand in China to boost growth in BRICS in 2013.

Amidst the global headwinds reverberating on the African continent, we remain cautiously optimistic of the region's economic growth prospects as well as Nigeria's, which is expected to be led mainly by domestic demand.
We will therefore continue to drive our growth strategies domestically, focusing on building long-term relationships and creating sustainable value for our customers, shareholders, employees and the community as a whole. With the support of our strong management team, committed workforce and loyal customers, I am confident that Sterling Bank will bring intrinsic value from within our communities to serve them better.

In order to successfully implement its medium to long term strategic objectives, Sterling Bank desires to raise additional capital in Q2 2013. The Bank proposes to do this by adopting the following approach:

**Phase I:**

- This Phase will involve raising Tier 1 Capital through a Rights Issue of N12 billion (US$75 million) and a Private Placement of N19.2 billion (US$120 million)
- The process commenced in the first quarter of 2013

**Phase II:**

- We plan to raise Tier 2 Capital (subordinated debt) of N25 billion (US$156 million) multi-currency
- The process will commence in the third quarter of 2013 and will be completed in the first quarter of 2014

## Dividend Payment

The Board has proposed a dividend of 20 kobo per share for 2012 subject to the approval of shareholders at this Annual General Meeting.

## Board Changes

During the year under review, the Board witnessed a few changes as Captain Harrison Kuti, Mr. Musibau Fashanu and Mr. Rajiv Pal Singh all retired on May 5 2012 after serving meritoriously. We wish them the very best in their respective future endeavors. Also, Mr. Rajan Srinavasan was appointed to the Board on May 5 2012.

## Appreciation

On behalf of the Board of Directors, I would like to thank our customers, business partners, and shareholders for their continued support, trust and confidence. My special appreciation goes to the entire staff and management team of the Bank for their passion, commitment, dedication and professionalism, without which all the great strides recorded would not have been possible.

My sincere thanks also go to the Central Bank of Nigeria, the Nigeria Deposit Insurance Corporation, The Nigerian Stock Exchange, Securities and Exchange Commisstion, the Ministry of Finance, government agencies and regulatory authorities for their invaluable assistance, continuous guidance and support.

Thank you.

**Alhaji (Dr) S.A Adegunwa, OFR**
*Chairman of the Board*

# MANAGING DIRECTOR'S REPORT

*"I am pleased to say that despite the challenges encountered, we successfully delivered on key milestones of our integration programme following the merger of Sterling Bank and the erstwhile Equitorial Trust Bank (ETB). As a result, not only were our integration plans on track, we were able to achieve early synergies from both banks beyond our initial targets."*

# MANAGING DIRECTOR'S REPORT

*Dear Shareholders, Customers and Business Partners, the financial year ending 31 December 2012 was a challenging but most rewarding year.*

Global growth remained subdued in 2012. Policy makers around the world had to deal with a number of significant negative issues, including the European sovereign debt and banking sector crisis which threatened to break up the euro zone. Central Banks in advanced economies injected liquidity into the financial system, helping to improve market sentiment and investor risk appetite. Aided by strong consumer demand, favourable mineral prices and an improving business climate, Nigeria, like most African economies fared much better than its Western counterparts.

I am pleased to say that despite the challenges encountered, we successfully delivered on key milestones of our integration programme following the merger of Sterling Bank and the erstwhile Equitorial Trust Bank (ETB). As a result, not only were our integration plans on track, we were also able to achieve early synergies from both banks beyond our initial targets. Today, as a testimony of our strategic focus and resilience, Sterling Bank has delivered strong financial results while maintaining strength in its capital position.

In my 2011 statement, I highlighted a number of challenges as well as opportunities driving our business goals for 2012. I am particularly delighted to share with you that in the fiscal year 2012, we achieved robust growth in our loan portfolio, improved profitability with a disciplined balance sheet and strengthened our operational and credit risk management framework; even as we continued to focus on key operating parameters.

These represent significant milestones as we move towards our long term vision of becoming the financial institution of choice in the industry.

## Performance Highlights

Your Bank has reached significant milestones since 2006. We have grown from a balance sheet size of N111 billion to N580.2 billion in 2012 despite a slowdown in economic activities arising from the global economic meltdown, security challenges, strikes, floods and a contraction in the oil sector.

Following our combination with the erstwhile ETB, we successfully migrated to a single banking platform, harmonized all products & services and went on to deliver a common Customer Day 1 across all customer touch points on April 1, 2012. Overall,

- The Bank's earnings rose by 44% to N68.9 billion; driven by 66% growth in interest income. Net operating income also rose by 51% on the back of a 43% improvement in net interest income. Non-interest income was boosted by growth in commissions & fees and trading income

- Profit from core operations rose by 108% to N7.5 billion from N3.6 billion in 2011 on the back of the enhanced capacity of the Bank following the business combination with ETB

- Customer deposits grew by 18% to N463.7 billion, reflecting progress in our retail deposit drive while net loans & advances rose by 42% to N229.4 billion due to increased penetration in the corporate banking space with NPL ratio down to 3.8% from 4.8% in 2011.

## Business Developments

The Bank continued to leverage on technological improvements to drive its business. Notably, the Mobile Banking application was successfully launched on the Apple and Windows platforms. Also, our banking application was integrated with a leading e-platform for business solutions to enable delivery of e-Banking and correspondent banking services to Micro-finance Banks, and ultimately drive global competitiveness of our card business.

In addition, to further increase our share of business in the Agricultural sector, your Bank launched the Sterling Tractor Finance Scheme to members of the Tractor Owners and Operators Association. The Bank also consummated a strategic partnership with the Lagos State Ministry of Agriculture & Cooperatives in the area of agricultural transformation.

We have partnered with several developmental organizations including an agreement with USAID MARKETS II and DFID-PROPCOM on financing crop-specific value chains and agricultural mechanization.

Having successfully completed the integration process, the Bank has re-launched itself in the market through increased branding and marketing communication to increase awareness in the public space. We are currently remodelling our branches nationwide to reflect our new retail banking philosophy. The Bank organized several customer fora, where the new Sterling Bank was presented to existing and potential customers of the combined entity.

## Customer Service

The Bank continued to improve on its relationship management as it remains focused on its customer-centric strategy. We achieved a top 10 position in the Retail, SME and Corporate segments in the KPMG 2012 Customer Satisfaction Survey. We remain committed to driving customer satisfaction across the Bank's major interfaces.

We also continued to deepen customer relationships and harness opportunities in a challenging operating environment. A major achievement for the Bank was receipt of the Citibank Performance Excellence Award, as the bank with the most improved state-of-the-art international electronic payment services platform, which meets stringent correspondent banking and processing criteria.

## Human Resources

We are building an excellent family environment through a number of initiatives. The Bank launched a Staff Equity Participation Scheme to enable employees become part-owners of the business and an Employee Co-operative Scheme to promote a savings and investment culture amongst staff.

Your Bank also commenced a leadership programme for entry-level staff and junior management staff to build a pool of experienced and high-performing individuals to build a financial institution of choice. An estimated 30% of our workforce was promoted in June 2012.

Our goal is to become the Employer of Choice and make Sterling Bank the most exciting organisation to work for. This can only happen if we redefine our performance measurement systems. We are on course to transforming the Bank into a service leader in the Industry through transparent monitoring and measurement systems.

## Looking Ahead

We expect global economic recovery to remain tentative in 2013 on the back of the on-going US debt ceiling debate and the euro-zone economic crisis. On the domestic front, macroeconomic conditions are a large driver of earnings growth and are becoming tougher, though more stable with the current estimation of GDP growth in 2013 placed at 7.67% by the National Bureau of Statistics (NBS).

Indeed, Sterling Bank's 2012 results underline our undoubted ability to execute key strategies. This was done as we deepened our reach in the industry, strengthened our technology infrastructure, and continued to build a sustainable and viable Bank.

Even so, we recognise that there is more work to be done. This year, we will continue to focus on the agenda we have set out across our various business lines. In particular, we will continue to streamline and standardize our processes, drive low-cost funding through our retail business, grow an efficient balance sheet, achieve double-digit revenue growth Y-o-Y and ensure a customer-centric approach in our entire interface with customers.

The Bank will drive its retail business in the coming year by implementing a robust strategy driven by six pillars as outlined below:


In summary, the Bank will:

- Revamp its retail strategy to focus on customer acquisition and low cost deposit mobilization
- Ensure effective use of alternative channels to serve our teeming retail customers
- Deploy a robust Customer Relationship Management Solution to aid understanding of customer behaviour and preferences for effective deployment of our array of products and services
- Ensure continuous automation and streamlining of processes to improve cost efficiency
- Conclude the remodelling of branch infrastructure and energy sources to reduce cost of doing business.

The Sterling Bank of today is stronger, more agile and more exciting. Given the passion and commitment of our people, we are optimistic about the future. Together, with our 2,700 colleagues across the country, we will continue to pursue growth in a disciplined and professional manner, in order to build on our ambition to be the financial Institution of choice.

Thank you.

**Yemi Adeola**
*Managing Director/Chief Executive Officer*

# STRATEGIC OBJECTIVES

The Bank's strategic objectives are broken down into medium and long term goals:

**Medium term**

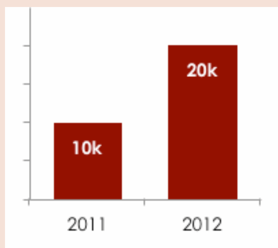
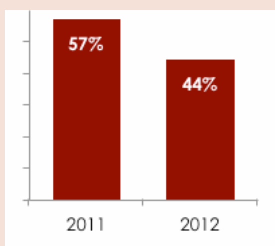
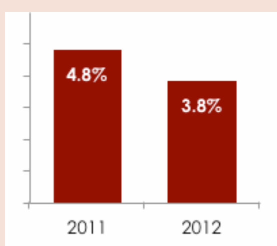
- 3-5% market share measured by assets
- Leading consumer banking franchise (bank of choice for customers in our target markets)
- Diverse retail funding base
- <3% in non-performing loans
- Diversified income streams with top quartile position in all our operating areas
- Double digit revenue growth Y-o-Y

**Long-term**

- Globally competitive financial services franchise
- Fully scaled business model with institutionalized processes beyond the stewardship of current owners and managers
- Systemically important operator materially impacting all our sectors of business participation
- Great place to work

## Key Performance Indicators

We measure progress towards our strategic objectives with the following key performance indicators (KPIs).

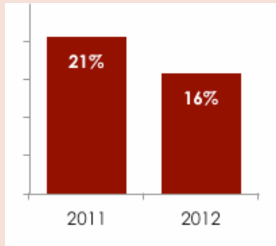
| Headline KPIs | | Achievement | Target Met |
|---|---|---|---|
| **Dividend per Share**<br><br>**Measure**<br>Total dividend divided by the number of outstanding shares<br><br>**Target Set**<br>10k |  | 20 k<br><br>Target exceeded<br><br>Dividend per share was driven by the enhanced performance achieved in 2012 | √ |
| **Earnings Growth**<br><br>**Measure**<br>Percentage increase in total income year-on-year<br><br>**Target Set**<br>62% |  | 44%<br><br>Revenue growth was driven by improvements in both interest income and fee-based income | On track |
| **Non-performing Loan Ratio (NPLR)**<br><br>**Measure**<br>The proportion of non-performing loans to total loans<br><br>**Target Set**<br><5% |  | 3.8%<br><br>Target achieved mainly due to internal loan recovery efforts and rigorous credit policies | √ |

| Headline KPIs | | Achievement | Target Met |
|---|---|---|---|

**Return on Average Equity**

**Measure**
Profit after tax divided by weighted average total equity

**Target Set**
15%




16%

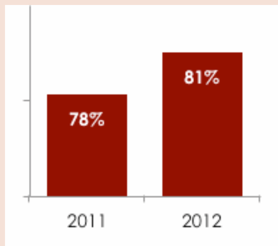
Return on average equity was competitive and consistent with target.

√

**Cost-to-income**

**Measure**
Total operating expenses divided by net operating income after impairment loss

**Target Set**
78%




81%

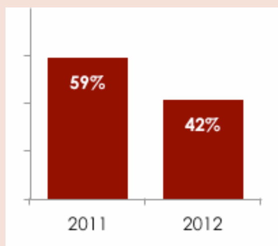
Target was not met due to inflationary pressures and one-off integration costs. We expect efficiency to improve as the full benefits of the business combination kick-in

X

**Loan Growth**

**Measure**
Percentage increase in net loans year-on-year

**Target Set**
58%




42%

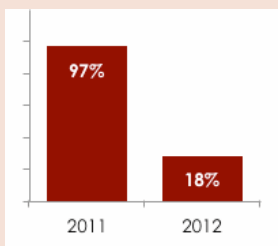
Growth in net loans on the back of increased penetration in the corporate banking space. Organic growth was 30% in 2011

On track

**Deposit Growth**

**Measure**
Percentage increase in customer deposits year-on-year

**Target Set**
19%




18%

Deposit growth was on track. Growth in 2011 was boosted by the business combination with organic growth at 21%.

On track

# PERFORMANCE REVIEW

## Analysis of the Bank's financial performance

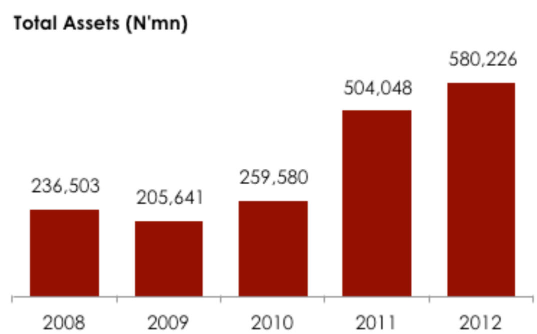
The Bank's 2012 results represent the first full year of operations after the business combination with ETB.

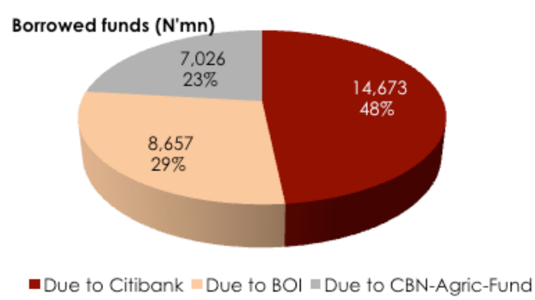
**Statement of Financial Position**

| | 2012 N' millions | % of Total | 2011 N' millions | % of Total | % Growth |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with Central Bank | 63,622 | 11% | 36,810 | 7% | 73% |
| Due from banks | 33,879 | 6% | 53,695 | 11% | -37% |
| Pledged assets | 57,412 | 10% | 49,700 | 10% | 16% |
| Loans and advances to customers | 229,421 | 40% | 162,063 | 32% | 42% |
| Investment in securities | 174,792 | 30% | 172,476 | 34% | 1% |
| Property, plant and equipment | 7,793 | 1% | 8,931 | 2% | -13% |
| Other assets | 13,307 | 2% | 20,373 | 4% | -35% |
| **Total Assets** | **580,226** | **100%** | **504,048** | **100%** | **15%** |
| **Liabilities** | | | | | |
| Deposits from Banks | 3,119 | 1% | 17,744 | 4% | -82% |
| Deposits from Customers | 463,726 | 80% | 392,050 | 78% | 18% |
| Other borrowed funds | 30,356 | 5% | 27,301 | 5% | 11% |
| Debt securities in issue | 4,564 | 1% | 4,562 | 1% | 0% |
| Other liabilities | 31,819 | 5% | 21,333 | 4% | 49% |
| **Total Liabilities** | **533,584** | **92%** | **462,991** | **92%** | **15%** |
| **Equity** | **46,642** | **8%** | **41,057** | **8%** | **14%** |
| **Total Liabilities and Equity** | **580,226** | **100%** | **504,048** | **100%** | **15%** |

Our balance sheet grew at a compound annual growth rate of 25% (CAGR: 2008-2012), while growth year-on-year was 15% to N580.2 billion (2011: N504.0 billion). Growth was driven largely by increase in customer deposits, which funded 80% of the balance sheet (2011: 78%).

Shareholders' funds rose 14% year-on-year on the back of profit accretion and accounted for 8% of funding, while borrowed funds rose 11% and funded 5% of balance sheet. Borrowed funds represent facilities from Citibank International Plc., Bank of Industry (under the CBN N200 billion intervention fund for refinancing/ restructuring of banks' existing loan portfolios to Nigerian SME/ Manufacturing Sector) and CBN in collaboration with the Federal Government (under the Commercial Agricultural Credit Scheme) to promote commercial agricultural enterprise in Nigeria.

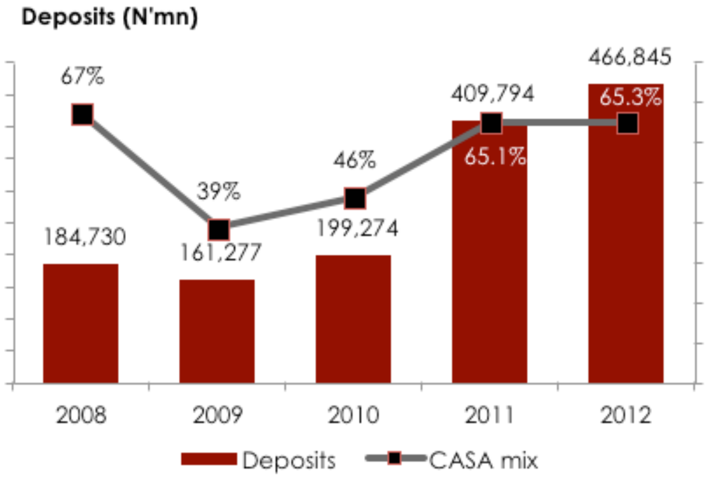


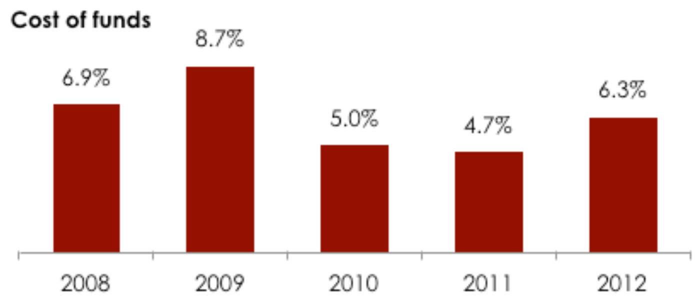



## Deposits

Total deposits grew at a compound annual growth rate of 26% (CAGR: 2008 – 2012) and 14% year-on-year to N466.8 billion (2011: N409.8 billion). Customer deposits accounted for 99% of total deposits, while deposit from banks accounted for less than 1% from 4% in 2011. This was in line with our deposit growth strategy. Deposit mix was skewed in favour of low-cost funds. Current and savings account (CASA) balances accounted for 65% of total deposits. CASA deposits benefited from an increase in active customer count and a number of initiatives targeted at the low-end customers. Current account balances rose 14% to N284.1 billion (2011: N248.5 billion), while savings account balances rose 12% to N20.7 billion (2011: N18.5 billion). The 27% increase in time deposits to N158.9 billion (2011: N125.1 billion) was off-set to a large extent by an 82% decline in interbank takings.

Funding costs were impacted by the tight monetary policy measures of the apex bank. During the period under review, the CBN retained the Monetary Policy Rate at 12% and increased cash reserve requirement (CRR) from 8% to 12%. Despite a 400 basis points increase in CRR, our cost of funds increased by 160 basis points to 6.3%. Through our revamped retail strategy focusing on customer acquisition, low cost deposit mobilization and effective use of alternative delivery channels, we expect funding costs to decline in the coming years

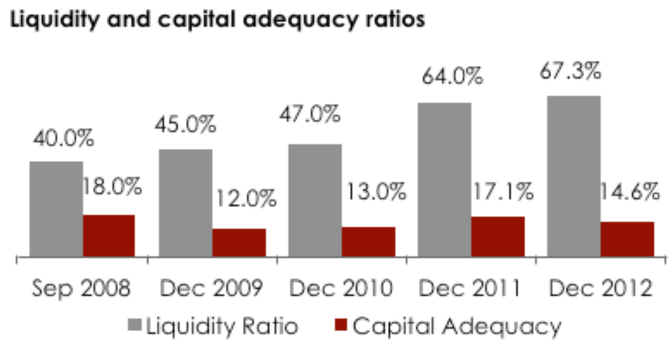



## Capital and Liquidity

| Capital Adequacy | 2012 N' millions | 2011 N' millions | % Growth |
|---|---|---|---|
| Tier 1 capital | 38,833 | 33,510 | 16% |
| Tier 2 capital | 6,075 | 9,079 | -33% |
| **Total regulatory capital** | **44,908** | **42,590** | 5% |
| Risk-weighted assets | 308,113 | 249,484 | 24% |
| Capital adequacy ratio | 14.6% | 17.1% | |
| Tier 1 capital ratio | 12.6% | 13.4% | |

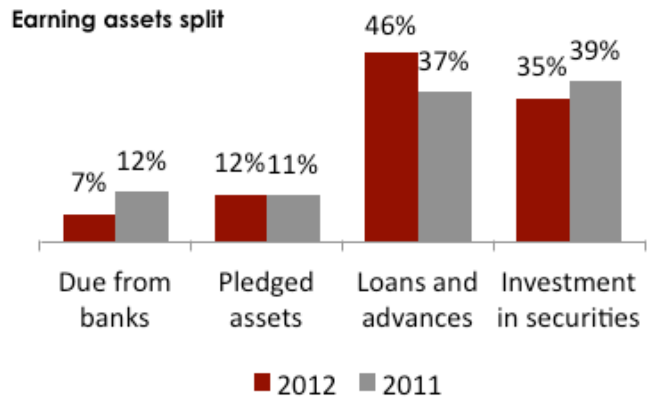
Our capital and liquidity ratios were above regulatory requirement. Total capital adequacy was 14.6% (2011: 17.1%) representing a 250 basis points decline, while tier 1 capital ratio declined 80 basis points to 12.6% resulting from growth in risk assets. Consequently, loan-to-deposit ratio rose by 820 basis points to 49.5%, while risk-weighted assets increased by 24% to N308.1 billion in 2012. Given that our capital adequacy ratio is below the internal benchmark of 15%, we plan to raise additional capital in 2013 through the issuance of both debt and equity instruments.

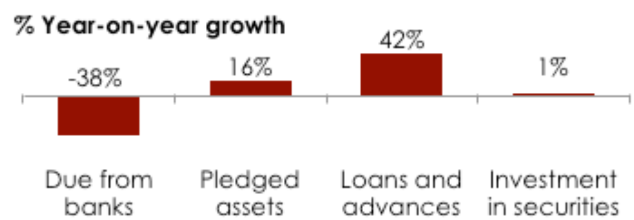



## Assets

Total assets were driven by earning assets, which grew at a compound annual growth rate of 25% (CAGR: 2008:2012) and 13% year-on-year to N495.5 billion (2011: N438.7 billion). These assets accounted for 85% of total assets (2011: 87%) and were mainly loans and advances (46%), interbank placements (7%), pledged assets (12%) and investment securities (35%). Investment securities were predominantly treasury bills and bonds of which 89% were held to maturity.

Cash and balances with the CBN increased by 77% to N63.6 billion. This was due to an increase in the mandatory reserve deposits with the CBN following the upward review of the cash reserve requirement. Our asset strategy was focused on improving yields by investing in higher yielding asset classes, hence the reduction in interbank placements to support growth in loans and advances.

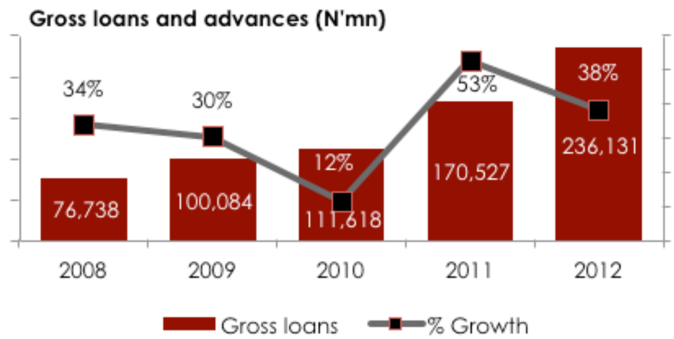


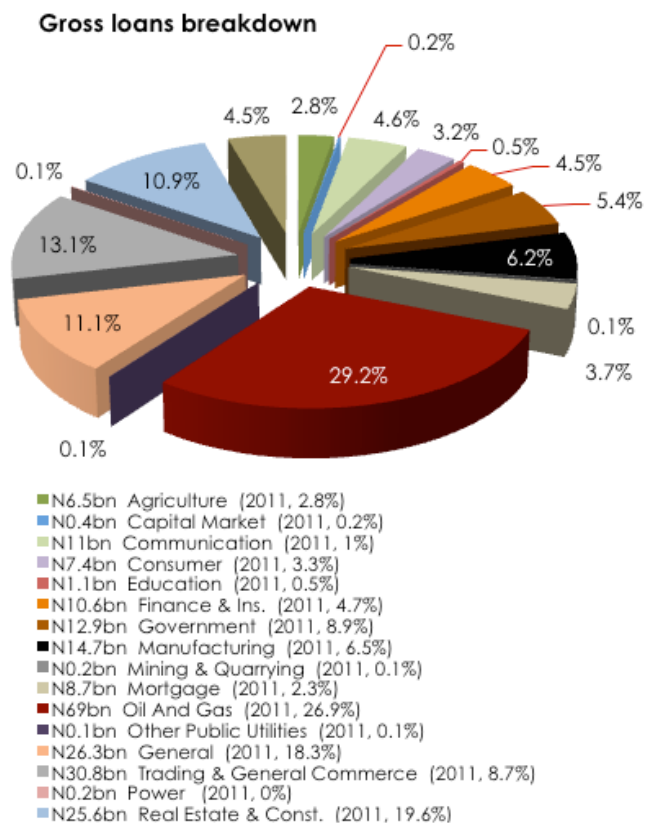



## Loans and Advances

We maintained a diversified loan book with significant exposures in growth sectors. Net loans and advances grew at a compound annual growth rate of 35% (CAGR: 2008-2012) and 42% year-on-year to N229.4 billion (2011: N162.1 billion), while gross loans rose by 38% to N136.1 billion. Loans to individuals accounted for 12% of gross loans, while loans to corporate entities and other organizations contributed 88%.

Growth was largely driven by exposures in the corporate banking space with focus on the communications and oil & gas sectors due to the relative significance of these sectors. The communications sector remained the fastest growing sector, while oil & gas remained the major source of foreign exchange earnings. Oil & gas exposures were diversified within the various sub-sectors made up of the upstream (31%), downstream (43%) and services (26%).



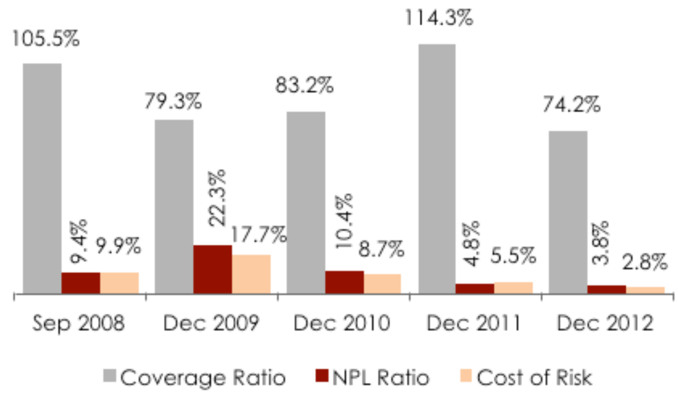



## Asset Quality

We achieved a 100 basis points improvement in asset quality with non-performing loan ratio down to 3.8% (2011: 4.8%). Improvement in asset quality was enhanced by loan recoveries and write-back of provisions no longer required. Coverage ratio (total provisions to non-performing loans) was 74%, while cost of risk (total provisions to gross loans) reduced to 2.8% from 5.5% in 2011.

Across the sectors, trading and general commerce recorded the highest impaired loans followed by individuals & professionals. This was due to the volatile nature of these portfolios, which are currently being restructured, while most are being recovered. However, our entire loan book was well secured: 47% (secured against real estate), 4% (cash), 3% (stock/shares), while 45% was otherwise secured.

**Asset Quality Indicators**




| Sector | Impaired | % of Total |
|---|---|---|
| Agriculture | 9,254 | 0.1% |
| Capital Market | 383,265 | 4.2% |
| Communication | 1,147,703 | 12.7% |
| Consumer | 371,957 | 4.1% |
| Education | 45,206 | 0.5% |
| Finance & Ins. | 61,548 | 0.7% |
| Government | 64,345 | 0.7% |
| Manufacturing | 99,506 | 1.1% |
| Oil and Gas | 778,405 | 8.6% |
| Other Public Utilities | 2,846 | 0.0% |
| Real Estate & Const. | 100,612 | 1.1% |
| Transportation | 108,378 | 1.2% |
| Others | 198,740 | 2.2% |
| Individuals & Professionals | 2,079,674 | 23.0% |
| Trading & Gen Commerce | 3,591,601 | 39.7% |
| Total | 9,043,041 | 100% |

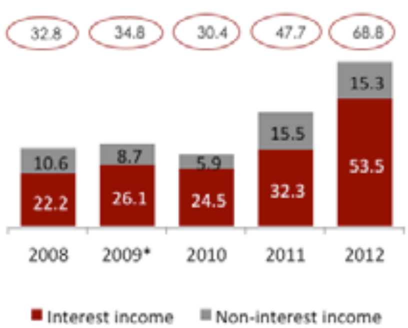
## Income Statement

The Bank achieved a marked improvement in gross earnings, which grew by 44% in 2012 to N68.9 billion. Net operating income also rose by 51% to N39.5 billion, while profit before tax (adjusted for income from sale of subsidiaries) rose by 108% to N7.5 billion demonstrating the underlying strength of our core business following the successful business combination with ETB.

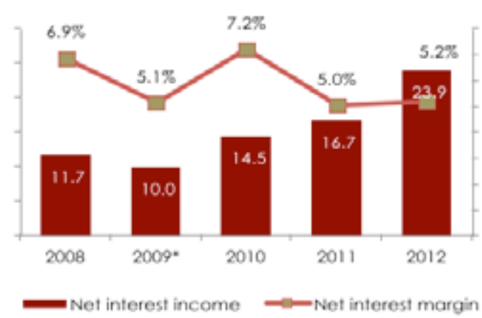
| Select Income Statement Items | 2012 N' millions | %. of Total | 2011 N' millions | % of Total | % Growth |
|---|---|---|---|---|---|
| Gross earnings | 68,857 | 100% | 47,741 | 100% | 44% |
| Net Interest income | 23,894 | 35% | 16,703 | 35% | 43% |
| Non-interest income | 15,315 | 22% | 13,423 | 28% | 14% |
| Operating Income | 39,209 | 57% | 30,125 | 63% | 30% |
| Net impairment charge | 243 | 0% | (6,034) | -13% | |
| Gain from sale of investment | - | | 2,042 | 4% | |
| Net Operating Income | 39,452 | 57% | 26,133 | 55% | 51% |
| Operating expenses | (31,952) | -46% | (20,493) | -43% | 56% |
| Profit before tax | 7,500 | 11% | 5,640 | 12% | 33% |
| Income Tax | (546) | -1% | 1,268 | 3% | |
| Profit after tax | 6,954 | 10% | 6,909 | 14% | 1% |

Interest income remained the major driver of earnings having recorded a 66% growth year-on-year to N53.5 billion and accounted for 78% of gross earnings. Growth was boosted by income from loans and advances and investment securities which rose by 110% and 20% respectively. Interest income also benefited from an improving asset mix in favour of higher yielding assets. Thus, yield on earning assets improved by 180 basis points to 11.5% which off-set the rise in funding costs leaving a 20 basis points increase in net interest margin.

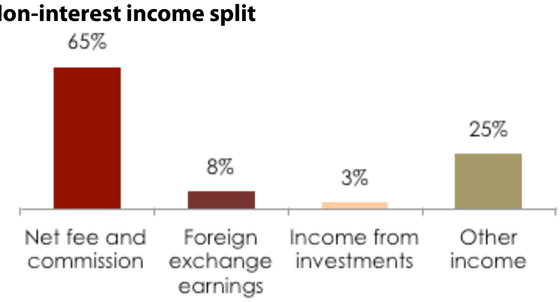
**Gross earnings split (N'bn)**



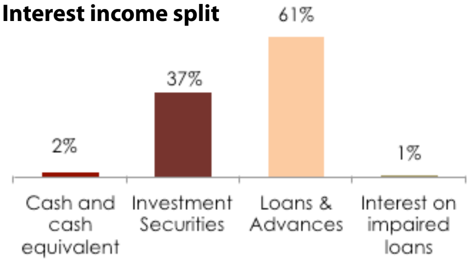

**Net interest income (N'bn) and margin %**




**Non-interest income split**




**Interest income split**

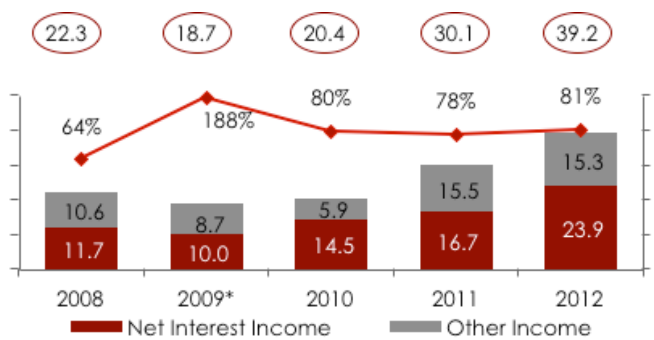


## Operating Efficiency

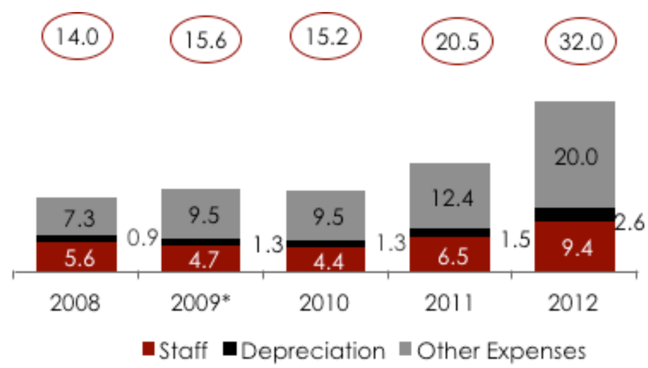
Operating income rose at a compound annual growth rate of 15% (CAGR: 2008-2012) and 30% year-on-year to N39.2 billion. Net operating income also rose by 51% due to positive allowances for risk assets of N243mn in 2012. Net interest income was the major growth driver and accounted for 61% of operating income, while non-interest income accounted for 39%. Non-interest income was positively impacted by a 14% growth in net fees and commission resulting from increased transaction volume.

Despite the growth in operating income, cost-to-income ratio (including allowances for risk assets) increased by 260 basis points to 81% (2011: 78.4%). Cost-to-income ratio (CIR) in 2011dropped as a result of the N2bn income from discontinued operations (sale of subsidiaries). Operating expenses rose by 56% to N32 billion partly on the back of inflationary pressures and due to one-off integration expenses with respect to branch optimization, systems upgrade, and brand standardization. We expect optimization of the full benefits of the business combination to kick-in from 2013

**Operating income split (N'bn) and cost-to-income (%)**




**Operating expenses split (N'bn)**



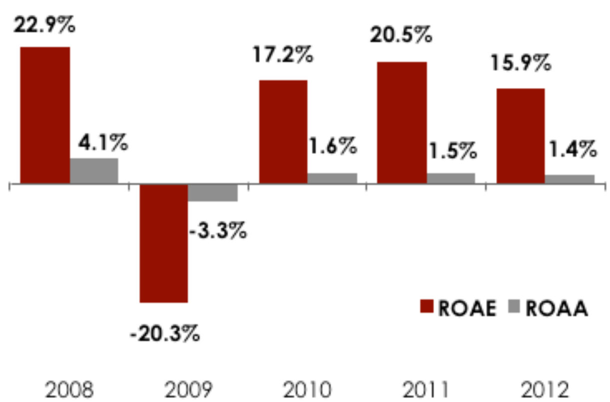
## Profitability

The Bank recorded steady improvements in profitability year-on-year. Profit before tax rose by 33%, while after tax profit was relatively stable. Profit from core operations rose by 108% to N7.5billion from N3.6billion in 2011reflecting the enhanced capacity of the Bank following the business combination with ETB. Return on average equity (ROAE) and return on average assets (ROAA) were competitive at 15.9% and 1.4% respectively. Earnings per share declined from 52k in 2011 to 44k due to additional shares issued with respect to the ETB acquisition (Sterling Bank paid by issuing common stock).

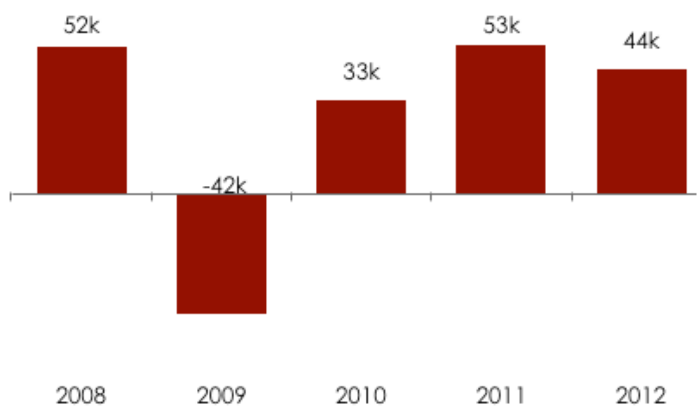
Finally, the Board of Directors has proposed a dividend of 20 kobo per share subject to the approval of shareholders at the Annual General Meeting. This doubles the amount paid in 2011 and represents a dividend pay-out ratio of 45% (2011: 19%).

**N'bn**


**Return on average equity and assets (%)**




**Earnings per share (kobo)**



# CORPORATE GOVERNANCE

In line with corporate governance guidelines issued by the Central Bank of Nigeria in April 2006, the Board had constituted the following committees:

## Board Composition and Committees

### Board Credit Committee

The Committee acts on behalf of the Board on credit matters and reports to the Board for approval/ ratification. The members are as follows:

| | | | Attendance | No. of Meetings |
|---|---|---|---|---|
| 1. | Mr. Yemi Idowu | Chairman | 6 | 6 |
| 2. | Mr. Rasheed Kolarinwa | Member | 6 | 6 |
| 3. | Alhaji Bashir M. Borodo, OON | Member | 5 | 6 |
| 4. | Mr. Yinka Adeola (Appointed 10/07/2012) | Member | 4 | 6 |
| 5. | Mr. Musibau Fashanu (Retired 15/05/2012) | Member | 1 | 6 |
| 6. | Mr. Yemi Adeola | Member | 6 | 6 |
| 7. | Captain Harrison Kuti (Retired 15/05/2012) | Member | 1 | 6 |
| 8. | Mr. Lanre Adesanya | Member | 5 | 6 |
| 9. | Mr. Davendra Nath Puri | Member | 6 | 6 |
| 10. | Mr. Abubakar Sule | Member | 6 | 6 |

### Board Finance and General Purpose Committee

The Committee acts on behalf of the Board on all matters relating to financial management and reports to the Board for approval/ratification. The members are as follows:

| | | | Attendance | No. of Meetings |
|---|---|---|---|---|
| 1. | Mr. Rasheed Kolarinwa | Chairman | 3 | 3 |
| 2. | Alhaji Bashir M. Borodo, OON | Member | 3 | 3 |
| 3. | Mr. Yinka Adeola | Member | 3 | 3 |
| 4. | Ms. Olufunmilola Osunsade | Member | 3 | 3 |
| 5. | Mr. Lanre Adesanya | Member | 3 | 3 |
| 6. | Mr. Yemi Adeola | Member | 3 | 3 |
| 7. | Mr. Abubakar Sule | Member | 3 | 3 |

### Board Establishment Committee

The Committee acts on behalf of the Board on all matters relating to the workforce. The members are as follows:

| | | | Attendance | No. of Meetings |
|---|---|---|---|---|
| 1. | Alhaji Bashir M. Borodo, OON | Chairman | 3 | 3 |
| 2. | Mr. Rasheed Kolarinwa | Member | 3 | 3 |
| 3. | Mr. Yemi Idowu | Member | 3 | 3 |
| 4. | Ms. Olufunmilola Osunsade | Member | 3 | 3 |
| 5. | Mr. Yemi Adeola | Member | 3 | 3 |
| 6. | Mr. Devendra Nath Puri | Member | 3 | 3 |
| 7. | Mr. Abubakar Sule | Member | 3 | 3 |

## Board Risk Management Committee

The Committee is responsible for evaluating and handling issues relating to risk management in the Bank. The members are as follows:

| | | | Attendance | No.ofMeetings |
|---|---|---|---|---|
| 1. | Mr. Yinka Adeola | Chairman | 4 | 4 |
| 2. | Captain Harrison Kuti (Retired 15/05/2012) | Member | 1 | 4 |
| 3. | Mr. Rasheed Kolarinwa | Member | 4 | 4 |
| 4. | Mr. Yemi Idowu (Appointed 05/09/2012) | Member | 2 | 4 |
| 5. | Ms. Olufunmilola Osunsade (Appointed 09/10/2012) | Member | 1 | 4 |
| 6. | Mr. Yemi Adeola | Member | 4 | 4 |
| 7. | Mr. Lanre Adesanya | Member | 4 | 4 |
| 8. | Mr. Devendra Nath Puri | Member | 4 | 4 |
| 9. | Mr. Musibau Fashanu (Retired 15/05/2012) | Member | 1 | 4 |

## Audit Committee

The Committee acts on behalf of the Board on all audit matters. Decisions and actions of the Committee are presented to the Board for approval/ ratification. The members are as follows:

| | | | Attendance | No.ofMeetings |
|---|---|---|---|---|
| 1. | Alhaji Mustapha Jinadu | Chairman | 5 | 5 |
| 2. | Mr. Idongesit Udoh | Member | 5 | 5 |
| 3. | Ms. Christie Vincent | Member | 5 | 5 |
| 4. | Mr. Yemi Idowu | Member | 5 | 5 |
| 5. | Mr. Yinka Adeola | Member | 5 | 5 |
| 6. | Alhaji Bashir M. Borodo, OON (Re-appointed 04/09/2012) | Member | 2 | 5 |
| 7. | Mr. Musibau Fashanu (Retired 15/05/2012) | Member | 1 | 5 |

## Board Meetings

Attendance at Board meetings for the year ended 31 December 2012 are as follows:

| Director | | Attendance | No of Meetings |
|---|---|---|---|
| 1. | Alhaji (Dr) S. A. Adegunwa, OFR | 4 | 4 |
| 2. | Mr. Yemi Adeola | 4 | 4 |
| 3. | Mr. Rajiv Pal Singh (Retired 15/05/2012) | 0 | 4 |
| 4. | Mr. Rajan Srinivasan (Appointed 15/05/2012) | 0 | 4 |
| 5. | Mr. Yemi Idowu | 4 | 4 |
| 6. | Captain Harrison Kuti (Retired 15/05/2012) | 2 | 4 |
| 7. | Alhaji Bashir M. Borodo, OON | 4 | 4 |
| 8. | Mr. Yinka Adeola | 4 | 4 |
| 9. | Mr. Lanre Adesanya | 4 | 4 |
| 10. | Mr. Devendra Nath Puri | 4 | 4 |
| 11. | Mr. Rasheed Kolarinwa | 4 | 4 |
| 12. | Mr. Musibau Fashanu (Retired 15/05/2012) | 1 | 4 |
| 13. | Mr. Abubakar Sule | 4 | 4 |
| 14. | Ms. Olufunmilola Osunsade | 4 | 4 |

## Management Committees

1. **Executive Committee (EXCO)**
   The Committee provides leadership to the management team and ensures the implementation of strategies approved by the Board. It deliberates and takes decisions on the effective and efficient management of the Bank.

2. **Assets and Liability Committee (ALCO)**
   The Committee ensures adequate liquidity and the management of interest rate risk within acceptable parameters. It also reviews the economic outlook and its impact on the Bank's strategies.

3. **Management Credit Committee (MCC)**
   The Committee approves new credit products and initiatives, minimum/prime lending rate and reviews the Credit Policy Manual. It approves exposures up to its maximum limit and the risk asset acceptance criteria.

4. **Management Performance Review Committee (MPR)**
   The Committee reviews the Bank's monthly performance on set targets and monitors budget achievement. It also assesses the efficiency of resource deployment in the Bank and re-appraises cost management initiatives.

5. **Criticised Assets Committee (CAC)**
   The Committee reviews the Bank's credit portfolio and collateral documentation. It reviews the non-performing loan and recovery strategies for bad loans.

6. **Computer Steering Committee (CSC)**
   The Committee establishes the overall technology priorities by identifying projects that support the Bank's business plan. It provides guidance in effectively utilizing technology resources to meet business and operational needs of the Bank.

7. **Management Risk Committee (MRC)**
   The Committee is responsible for planning, management and control of the Bank's overall risks. It includes setting the Bank's risk philosophy, risk appetite, risk limits and risk policies.

## Succession Planning

Sterling Bank Plc has a Succession Planning Policy which was approved by the Board of Directors in 2009. Succession Planning is aligned to the Bank's overall organisational development strategy. In line with this policy, a new Unit was set-up in the Human Resource Management Group to implement, amongst others, a Succession Plan for the Bank.

Successors were nominated based on experience, skills and competencies through an automated process by current role holders in conjunction with the Human Resource Management Group. Development initiatives have also been put in place to accelerate successors' readiness.

## Code of Ethics

Sterling Bank has a Code of Ethics that specifies acceptable behavior of its staff in the staff handbook. It is a requirement that all staff should sign a confirmation that they have read and understood the document upon employment.
The Bank also has a Sanctions Manual which provides sample offences/violation and prescribes measures to be adopted in various cases. The Head of Human Resource Management is responsible for the implementation and compliance to the "Code of Ethics".

## Whistle Blowing Process

The Bank is committed to the highest standards of openness, probity and accountability hence the need for an effective and efficient whistle blowing process as a key element of good corporate governance and risk management.

Whistle blowing process is a mechanism by which suspected breaches of the Bank's internal policies, processes, procedures and unethical activities by any stakeholder (staff, customers, suppliers and applicants) are reported for necessary actions.

It ensures a sound, clean and high degree of integrity and transparency in order to achieve efficiency and effectiveness in our operations.

The reputation of the Bank is of utmost importance and every staff of the Bank has a responsibility to protect the Bank from any persons or act that might jeopardize its reputation. Staff are encouraged to speak up when faced with information that would help protect the Bank's reputation.

An essential attribute of the process is the guarantee of confidentiality and protection of the whistle blower's identity and rights. It should be noted that the ultimate aim of this policy is to ensure efficient service to the customer, good corporate image and business continuity in an atmosphere compliant to best industry practice.

The Bank has a Whistle Blowing channel via the Bank's website, dedicated telephone hotlines and e-mail address in compliance with Section 6.1.12 of the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks in Nigeria Post Consolidation.

The Bank's Chief Compliance Officer is responsible for monitoring and reporting on whistle blowing.

# BOARD OF DIRECTORS

Alh.(DR).S.A Adegunwa, OFR
Chairman

Mr. Yemi Adeola
MD/CEO

Mr. Yemi Idowu
Director

Mr. Rasheed Kolarinwa
Director

Alh Bashir Borodo, OON
Director

Mr. Abubakar Sule
Executive Director

Mr. Yinka Adeola
Director

Mr. Lanre Adesanya
Executive Director

Mr. Devendra Puri
Executive Director

Ms. Olufunmilola Osunsade
Director

# REPORT OF THE DIRECTORS

The Directors have pleasure in presenting to the members their report together with the audited financial statements for the year ended 31 December, 2012.

## CORPORATE STRUCTURE AND BUSINESS

### Principal activity and business review

Sterling Bank Plc, (formerly known as NAL Bank Plc) was the pioneer merchant bank in Nigeria, established on 25 November 1960 as a private limited liability company and was converted to a public limited liability company in April, 1992.

Sterling Bank Plc is engaged in commercial banking with emphasis on retail banking, trade services, corporate and investment banking activities. It also provides wholesale banking services including the granting of loans and advances, letter of credit transactions, equipment leasing, money market operations, electronic banking products and other banking activities.

### Legal form

Following the consolidation reforms introduced and driven by the Central Bank of Nigeria in 2004, the Bank emerged from the consolidation of NAL Bank Plc, Indo-Nigerian Bank Limited, Magnum Trust Bank Plc, NBM Bank Limited and Trust Bank of Africa Limited. NAL Bank Plc as the surviving bank adopted a new name for the enlarged entity, 'Sterling Bank Plc'. The enlarged bank commenced post merger business operations on January 3, 2006 and the Bank's shares are currently quoted on the Nigerian Stock Exchange (NSE).

In October 2011, the Bank had a business combination with Equitorial Trust Bank Limited to re-position itself to better compete in the market space. The enlarged entity as at the integration period had an expanded branch network of 186 branches.

In compliance with the new CBN guidelines on the review of the Universal Banking model, the Bank divested from its four (4) subsidiaries and one associate company on 30 December 2011.

## OPERATING RESULTS

Highlights of the Bank's operating results for the year are as follows:

| | 2012<br>N'000 | 2011<br>N'000 |
|---|---|---|
| Gross Earnings | 68,856,815 | 47,740,667 |
| Profit before taxation | 7,499,651 | 5,640,306 |
| Taxation | (546,112) | 1,268,292 |
| Profit after taxation | 6,953,539 | 6,908,598 |
| Profit attributable to Equity holders | 6,953,539 | 6,908,598 |
| Appropriation: | | |
| Transfer to other regulatory reserve | 2,086,062 | 2,072,579 |
| Transfer to retained earnings | 4,867,477 | 4,836,019 |
| | 6,953,539 | 6,908,598 |
| Total non-performing loan as % of gross loan | 3.8% | 4.8% |
| Earnings per share (kobo) – Basic | 44k | 53k |
| Earnings per share (kobo) – Diluted | 44k | 53k |
| Dividend per share (kobo) – Proposed | 20k | 10k |

Directors who served during the year

The following Directors served during the year under review:

| Name | Designation | Date appointed /resigned | Interest represented |
|---|---|---|---|
| Alh. (Dr.) S. A. Adegunwa, OFR | Chairman | | Ess-ay Investments Limited |
| Mr. Yemi Adeola | Managing Director/CEO | | - |
| Mr. Lanre Adesanya | Executive Director | | - |
| Mr. Devendra Nath Puri (Indian) | Executive Director | | - |
| Mr. Abubakar Sule | Executive Director | | - |
| Mr. Rajiv Pal Singh (Indian) | Non-Executive Director | Retired 15/05/2012 | State Bank of India |
| Mr. Rajan Srinivasan (Indian) | Non-Executive Director | Appointed 15/05/2012 | State Bank of India |
| Capt. Harrison Kuti | Non-Executive Director | Retired 15/05/2012 | HAK Air Limited |
| Mr. Yemi Idowu | Non-Executive Director | | Eban Odan Industrial & Commercial Company<br>STB Building Society Limited<br>Eltees Properties<br>Rebounds Integrated Services Limited<br>L.A Kings Limited |
| Alh. Bashir Borodo, OON | Non-Executive Director | | Dantata Investment & Securities Company Limited |
| Mr. Yinka Adeola | Non-Executive Director | | Concept Features Limited<br>Alfanoma Nigeria Limited<br>Plural Limited<br>Reduvita Investment Limited<br>Quaker Intergrated Services Limited |
| Ms. Olufunmilola Osunsade | Non-Executive Director | | Dr. Mike Adenuga |
| Mr. Rasheed Kolarinwa | Independent Director | | - |
| Mr. Musibau Fashanu | Independent Director | Retired 15/05/2012 | - |

## Going concern

The Directors assess the Bank's future performance and financial position on an on-going basis and have no reason to believe that the Bank will not be a going concern in the year ahead. For this reason, these summarised annual financial statements are prepared on a going-concern basis.

## Directors' interests in shares

Interest of Directors in the issued share capital of the Bank as recorded in the Register of Members and/or as notified by them for the purpose of section 275 of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004 were as follows:

| | December 2012 Direct | December 2012 Indirect | December 2011 Direct | December 2011 Indirect |
|---|---|---|---|---|
| Alh.(DR).S.A Adegunwa, OFR | | 983,001,060 | | 945,074,538 |
| Mr. Rajan Srinivasan | - | 1,854,185,474 | - | 1,854,185,474 |
| Alh Bashir Borodo, OON | 22,401 | 204,685,534 | 22,401 | 204,685,534 |
| Mr. Yinka Adeola | 12,723,566 | 687,337,465 | 12,723,566 | 687,337,465 |
| Mr. Yemi Idowu | - | 934,875,259 | - | 937,313,460 |
| Mr.Yemi Adeola | 18,571,313 | - | 15,229,487 | - |
| Mr.Lanre Adesanya | 5,110,960 | - | 2,888,664 | - |
| Mr. Devendra Nath Puri | - | - | - | - |
| Mr. Abubakar Sule | 1,539,843 | - | - | - |
| Mr. Rasheed Kolarinwa | - | - | - | - |
| Ms. Olufunmilola Osunsade | - | 1,570,386,444 | - | 1,570,386,444 |

## Beneficial ownership

The Bank is owned by Nigerian citizens, corporate bodies and foreign investors.

## Analysis of shareholding

The range analysis of the distribution of the shares of the Bank as at 31 December, 2012 is as follows:

| Range of shares | | | Number of holders | % | Number of units | % |
|---|---|---|---|---|---|---|
| 1 | - | 1,000 | 32,493 | 36.73 | 14,748,238 | 0.09 |
| 1001 | - | 5,000 | 27,269 | 30.82 | 61,118,047 | 0.39 |
| 5,000 | - | 10,000 | 9,505 | 10.74 | 63,558,371 | 0.40 |
| 10,001 | - | 20,000 | 7,605 | 8.60 | 102,294,974 | 0.65 |
| 20,001 | - | 50,000 | 5,187 | 5.86 | 159,065,826 | 1.01 |
| 50,001 | - | 100,000 | 2,717 | 3.07 | 183,924,769 | 1.17 |
| 100,001 | - | 200,000 | 1,487 | 1.68 | 209,068,980 | 1.33 |
| 200,001 | - | 500,000 | 1,069 | 1.21 | 336,397,880 | 2.14 |
| 500,001 | - | 10,000,000 | 949 | 1.07 | 1,523,777,376 | 9.70 |
| Above 10,000,001 | | | 108 | 0.12 | 10,437,948,261 | 66.47 |
| Foreign shareholding | | | 85 | 0.10 | 2,611,961,709 | 16.63 |
| | | | 88,474 | 100.00 | 15,703,864,431 | 100.00 |

The following shareholders have shareholdings of 5% and above as at 31 December, 2012:

| | December 2012 % holding | December 2011 % holding |
|---|---|---|
| State Bank of India | 11.81 | 11.81 |
| Dr. Mike Adenuga | 7.12 | 7.12 |
| Ess-ay Investments Ltd | 6.26 | 6.02 |
| SNNL/Asset Management Corporation of Nigeria - Main | 10.00 | 10.00 |

## Donations

The Bank during the year donated a total sum of N117,760,000 (2011: N28,056,000) to various charitable organizations and educational institutions in the country details of which are shown below. No donation was made to any political organization.

| Details of Donation | Purpose | Amount (N'000) |
|---|---|---|
| Ogun State | Security Trust Fund | 25,000 |
| Lagos State | Lagos State Economic Summit | 20,000 |
| Fate Foundation | Youth Development Programme | 17,500 |
| Lagos State Waste Management Authority | Donation of Uniforms | 15,600 |
| Osun State Elementary School | Corporate Social Responsibility | 10,000 |
| South South | South South Economic Summit | 9,000 |
| Financial Reporting Council of Nigeria | Donation Towards IFRS Academy Building | 8,500 |
| Lagos State Transport Management Authority | Donation of Uniforms | 4,410 |
| Chartered Institute of Bankers of Nigeria | Corporate Social Responsibility | 3,000 |
| Birch Freeman High School Old Boys Association | Corporate Social Responsibility | 1,000 |
| Women In Management & Business | 11th Annual Conference | 1,000 |
| Oyo State | Children's Day Celebration | 1,000 |
| Indian Women Association | Corporate Social Responsibility | 750 |
| Nigeria Police Special Fraud Unit | Donation of Training Materials | 500 |
| Federal Road Safety Commission | FRSC Public Enlightenment Campaign | 250 |
| Suidde Agu Osoba Breast Cancer Foundation | Inaugural Annual Mandi's Cancer Aid Gala. | 250 |
| | | 117,760 |

Analysis of women employed by the Bank during the year ended 31 December 2012.

| DESCRIPTION | NUMBER | % TOTAL STAFF |
|---|---|---|
| Female new hire | 87 | 3.25 |
| Male new hire | 99 | 3.70 |
| Total new hire | 186 | 6.96 |
| Total staff | 2,672 | 100.00 |
| Female as at 31 December 2012 | 1,065 | 39.90 |
| Male as at 31 December 2012 | 1,607 | 60.10 |

Analysis of top management positions by gender as at December 2012

| GRADE | FEMALE | MALE | NUMBER |
|---|---|---|---|
| Senior Management (AGM –GM) | 10 | 27 | 37 |
| Middle Management (DM – SM) | 47 | 150 | 197 |
| TOTAL | 57 | 177 | 234 |

Analysis of executive and non executive positions by gender as at 31 December 2012

| GRADE | FEMALE | MALE | NUMBER |
|---|---|---|---|
| Executive Director | 0 | 3 | 3 |
| Managing Director | 0 | 1 | 1 |
| Non Executive Director | 1 | 6 | 7 |
| TOTAL | 1 | 10 | 11 |

## Acquisition of own shares
The Bank did not acquire any of its shares during the year ended 31 December 2012 (2011: Nil).

## Property, plant and equipment
Information relating to changes in tangible assets is given in note 23 to the financial statements.

## Employment and employees

### Employment of disabled persons:
The Bank has a non-discriminatory policy on recruitment. Applications would always be welcomed from suitably qualified disabled persons and are reviewed strictly on qualification. The Bank's policy is that the highest qualified and most experienced persons are recruited for appropriate job levels irrespective of an applicant's state of origin, ethnicity, religion or physical condition.

## Health, safety and welfare of employees:

Health and safety regulations are in force within the Bank's premises and employees are aware of existing regulations. The Bank provides subsidies to all levels of employees for medical expenses, transportation, housing, lunch etc.

## Employee involvement and training:

The Bank is committed to keeping employees fully informed as much as possible regarding the Bank's performance and progress and seeking their opinion where practicable on matters which particularly affect them as employees.

Training is carried out at various levels through both in-house and external courses. Incentive schemes designed to encourage the involvement of employees in the Bank's performance are implemented whenever appropriate.

## Events after the reporting date

There were no events after the reporting date which could have had a material effect on the state of affairs of the Bank as at 31 December, 2012 or the profit for the year ended on that date which have not been adequately provided for or disclosed.

## Auditors

Messrs Ernst & Young having indicated their willingness will continue in office as auditors of the Bank in accordance with Section 357(2) of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004. A resolution will be proposed at the Annual General Meeting to authorize the Directors to fix their remuneration.

BY ORDER OF THE BOARD:

**Justina Lewa**
*Company Secretary*
(FRC/2013/NBA/00000001255)
20 Marina, Lagos, Nigeria.
4 March 2013

# STATEMENT OF DIRECTORS RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2012

In accordance with the provisions of Sections 334 and 335 of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, and Sections 24 and 28 of the Banks and Other Financial Institutions Act, CAP B3 Laws of the Federation of Nigeria 2004, the Directors are responsible for the preparation of the annual financial statements which give a true and fair view of the state of affairs of the Bank, and of the financial performance for the year. The responsibilities include ensuring that:

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

(b) the Bank keeps accounting records which disclose with reasonable accuracy the financial position of the Bank and which ensure that the financial statements comply with the requirements of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, Banks and Other Financial Institutions Act, CAP B3 Laws of the Federation of Nigeria 2004, Revised Prudential Guidelines, International Financial Reporting Standards and relevant circulars issued by the Central Bank of Nigeria;

(c) the Bank has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable accounting standards have been followed; and

(d) it is appropriate for the financial statements to be prepared on a going concern basis unless it is presumed that the Bank will not continue in business.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with International Financial Reporting Standards, the requirements of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, Banks and Other Financial Institutions Act, CAP B3 Laws of the Federation of Nigeria 2004, Revised Prudential Guidelines, and relevant circulars issued by the Central Bank of Nigeria.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of the financial performance for the year.

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

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

Signed on behalf of the Directors by:

Alhaji (Dr) S.A. Adegunwa, OFR
Chairman
FRC/2013/IODN/00000001256
4 March 2013

Yemi Adeola
Managing Director/CEO
FRC/2013/CIBN/00000001257

# REPORT OF THE AUDIT COMMITTEE

## FOR THE YEAR ENDED 31 DECEMBER 2012
## TO THE MEMBERS OF STERLING BANK PLC:

In accordance with the provision of Section 359 (6) of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, the members of the Audit Committee of Sterling Bank Plc hereby report as follows:

- We have exercised our statutory functions under Section 359 (6) of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004 and acknowledge the co-operation of management and staff in the conduct of these responsibilities.

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

- We are satisfied that the Bank has complied with the provision of the Central Bank of Nigeria Circular BSD/1/2004 dated 18 February 2004 on "Disclosure of Directors' related credits in the financial statements of banks", we reviewed insider-related credits of the Bank and found them to be as analysed in the financial statements. The status of performance of these facilities is disclosed in note 39.

- We have deliberated with the External Auditors, who have confirmed that necessary co-operation was received from management in the course of their statutory audit and we are satisfied with the management's response to the External Auditor's recommendations on accounting and internal control matters and with the effectiveness of the Bank's system of accounting and internal control.

Alhaji Mustapha Jinadu
Chairman, Audit Committee — 18 February 2013
FRC/2013/ICRMNG/00000001516

Members of the Audit Committee are:

| | | |
|---|---|---|
| 1. | Alhaji Mustapha Jinadu | Chairman |
| 2. | Mr. Idongesit Udoh | Member |
| 3. | Ms. Christie Vincent | Member |
| 4. | Mr. Yemi Idowu | Member |
| 5. | Mr. Yinka Adeola | Member |
| 6. | Alhaji Bashir Borodo, OON | Member |

In attendance:
Justina Lewa — Secretary

J.K. RANDLE
INTERNATIONAL
Chartered Accountants
& Management Consultants

"X KPMG HOUSE"
One King Ologunkutere Street,
Park View, Ikoyi, Lagos,
P.O. Box 75429, Victoria Island, Lagos.
Tel: 234-1-8181381 Telefax: 234-1-2701137
E-mail: jkrandleco@21ctl.com, jkrandleintuk@gmail.com
Website: www.jkrandleandco.co.uk

## REPORT OF THE EXTERNAL CONSULTANTS ON THE 2012 APPRAISAL OF THE BOARD OF DIRECTORS OF STERLING BANK PLC

In conformity with regulatory requirements, the Board of Sterling Bank Plc. (Sterling) mandated the firm of J. K. Randle International to conduct the review of the performance of the Board of the Sterling for the year ended December 31, 2012. The exercise was guided by the provisions of the Central Bank of Nigeria Code of Good Corporate Governance and other recognised codes of Best Practice.

Following the merger between Sterling and the former Equitorial Trust Bank, the Board focused on a programme of integrating the acquired bank into the platform of the new Sterling. The integration was completed in a seamless manner during the year under review.

Board members understand their responsibilities in respect of the operations of the Board and their performance met with the CBN Code of Good Corporate Governance and Best Practice. Accordingly, frequency of meetings, level of attendance and formation of quorum at the Board and Committee levels met the minimum requirements. Meetings were effectively managed with focus on relevant and strategic issues affecting the Bank. All the members had equal opportunity and they contributed constructively to the deliberations of the Board. Management provided quality information while the Company Secretariat kept accurate records of the proceedings of the Board which facilitated decision making and monitoring. Decisions were arrived at based on consensus in a conducive environment. The operations of the Board followed due process and reflected transparency and a high degree of Board dynamics.

The Board performed to the full extent of its mandate which covered all the significant activities of Sterling Bank Plc., particularly Risk Management, supervision of the internal audit process, monitoring of the operating environment, responding proactively to emerging imperatives and monitoring the performance of Management as well as re-enforcing governance policies. The Board also performed other statutory responsibilities including rendering the accounts of the operations and activities of the Bank to the shareholders.

The Board participated in setting the goals and monitoring implementation thereof which improved its overall effectiveness. The performance of the Board is adjudged to be satisfactory.

Following the conclusion of the exercise, we advised the Board to re-consider the number of directors on the Board and address the vacancy created by the retirement of one of the Independent Directors in order to establish strategies that will bring the Bank's cost/income ratio down; and also ensure that new directors on the Board are taken through an induction course. Other recommendations include strengthening the risk management framework as well as the IT Infrastructure.

**Bashorun J. K. Randle, OFR**
**Chairman/Chief Executive**

**Dated April 04, 2013**

J K R

# INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF STERLING BANK PLC

FOR THE YEAR ENDED 31 DECEMBER 2012

## Report on the financial statements

We have audited the accompanying financial statements of Sterling Bank Plc, which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the provisions of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, the Banks and Other Financial Institutions Act, CAP B3, Laws of the Federation of Nigeria 2004, the Financial Reporting Council Act No. 6, 2011 and relevant Central Bank of Nigeria circulars and for such internal control as Directors determine is 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 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 Sterling Bank Plc as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, provisions of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, Banks and Other Financial Institutions Act, CAP B3 Laws of the Federation of Nigeria 2004, the Financial Reporting Council Act No. 6, 2011 and relevant Central Bank of Nigeria circulars and guidelines.

## Report on Other Legal and Regulatory Requirements

In accordance with the requirement of Schedule 6 of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004, we confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

ii) in our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books;

iii) the Bank's statements of financial position and comprehensive income are in agreement with the books of account.

## Report on Compliance with Banking Regulations

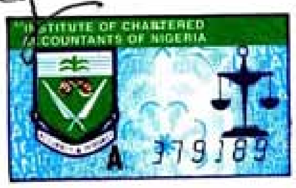
i. We confirm that our examination of the loans and advances was carried out in accordance with the Prudential Guidelines for licensed banks issued by the Central Bank of Nigeria.

ii. Related party transactions and balances are disclosed in Note 39 to the financial statements in compliance with the Central Bank of Nigeria circular BSD/1/2004.

iii. ATM consumer complaints are disclosed in Note 42 to the financial statements in compliance with the Central Bank of Nigeria circular FPR/DIR/CIR/01/020.

## Contraventions

As disclosed in Note 40, the Bank contravened certain provisions of Banks and Other Financial Institutions Act, CAP B3 Laws of the Federation of Nigeria 2004.




Lagos, Nigeria
FRCN/2013/ICAN/00000000702
5 March 2013

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# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

| | Notes | 2012<br>N'000 | 2011<br>N'000 |
|---|---|---|---|
| Interest income | 6 | 53,541,994 | 32,275,773 |
| Interest expense | 7 | (29,648,039) | (15,573,132) |
| **Net interest income** | | 23,893,955 | 16,702,641 |
| Fees and commission income | 8 | 9,957,659 | 6,441,793 |
| Net fee and commission | | 9,957,659 | 6,441,793 |
| Net trading income | 9 | 1,552,685 | 922,187 |
| Other operating income | 10 | 3,804,477 | 6,058,661 |
| **Operating income** | | 39,208,776 | 30,125,282 |
| Net impairment charges | 11 | 242,732 | (6,034,280) |
| Gain from sale of investment | 12 | - | 2,042,253 |
| **Net operating income after impairment loss** | | 39,451,508 | 26,133,255 |
| Personnel expenses | 13 | (9,392,577) | (6,567,658) |
| Depreciation and amortisation | | (2,567,870) | (1,524,837) |
| Other operating expenses | 14 | (19,991,410) | (12,400,454) |
| **Total expenses** | | (31,951,857) | (20,492,949) |
| Profit before income tax | | 7,499,651 | 5,640,306 |
| Income tax expense | 15(a) | (546,112) | 1,268,292 |
| Profit after tax | | 6,953,539 | 6,908,598 |
| **Profit for the year** | | 6,953,539 | 6,908,598 |
| Other comprehensive income | | | |
| Fair value loss on available for sale investments | 33a | 148,935 | (102,115) |
| Reclassification adjustments for gain included in the income statement | | 98,714 | - |
| Other comprehensive income for the year net of tax | | 247,649 | (102,115) |
| Profit attributable to: | | | |
| Equity holders of the Bank | | 6,953,539 | 6,908,598 |
| Total comprehensive income | | 7,201,188 | 6,806,483 |
| Earnings per share - basic (in kobo) | 16 | 44k | 53k |
| Earnings per share - diluted (in kobo) | 16 | 44k | 53k |

# STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2012

| | Notes | 31 December 2012 N'000 | 31 December 2011 N'000 | 1 January 2011 N'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances with Central Bank | 17 | 63,622,016 | 36,810,450 | 6,660,320 |
| Due from banks | 18 | 33,878,671 | 53,695,139 | 20,353,676 |
| Pledged assets | 19 | 57,412,053 | 49,700,219 | 27,210,544 |
| Loans and advances to Customers | 20 | 229,420,874 | 162,063,156 | 102,820,980 |
| Investments in equity accounted investee | | - | - | 1,852,872 |
| Investment in securities: | | | | |
| - Held for Trading | 21(a) | 1,998,860 | - | - |
| - Available for Sale | 21(b) | 16,857,561 | 3,233,254 | 7,355,288 |
| - Held to Maturity | 21(c) | 155,935,974 | 169,242,661 | 75,060,096 |
| Other assets | 22 | 6,132,005 | 13,258,260 | 9,548,675 |
| Property, plant and equipment | 23 | 7,793,316 | 8,930,814 | 4,267,455 |
| Intangible assets | 24 | 203,465 | 143,115 | 149,266 |
| Deferred tax assets | 25 | 6,971,145 | 6,971,145 | 5,414,110 |
| **TOTAL ASSETS** | | 580,225,940 | 504,048,213 | 260,693,282 |
| **LIABILITIES** | | | | |
| Deposits from Banks | 26 | 3,118,775 | 17,744,296 | 38,975,532 |
| Deposits from Customers | 27 | 463,726,325 | 392,049,881 | 160,964,394 |
| Current income tax liabilities | 15(b) | 803,422 | 677,926 | 368,489 |
| Other borrowed funds | 28 | 30,356,039 | 27,301,377 | 24,975,673 |
| Debt securities in issue | 29 | 4,563,612 | 4,562,000 | - |
| Other liabilities | 30 | 31,015,373 | 20,655,397 | 7,885,553 |
| **TOTAL LIABILITIES** | | 533,583,546 | 462,990,877 | 233,169,641 |
| **EQUITY** | | | | |
| Share capital | 31 | 7,851,931 | 7,851,931 | 6,281,545 |
| Share premium | 32 | 18,689,788 | 18,689,788 | 12,314,019 |
| Retained earnings | 33 | 6,019,078 | 2,780,714 | (2,055,305) |
| Other components of equity | 33 | 14,081,597 | 11,734,903 | 10,983,382 |
| Attributable to equity holders of the Bank | | 46,642,394 | 41,057,336 | 27,523,641 |
| **TOTAL LIABILITIES AND EQUITY** | | 580,225,940 | 504,048,213 | 260,693,282 |

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

**Abubakar Suleiman**
*Chief Financial Officer*
FRC/2013/CIBN/00000001275

**Yemi Adeola**
*MD/CEO*
FRC/2013/CIBN/00000001257

**Alhaji (Dr) S. A. Adegunwa, OFR**
*Chairman*
FRC/2013/IODN/00000001256

# STATEMENTS OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2012

| | Share capital N'000 | Share premium N'000 | Trans -lation reserve N'000 | Other regulatory reserves N'000 | Fair value reserves N'000 | Regula -tory risk reserves N'000 | Share capital reserve N'000 | SMIEIS reserve N'000 | Revalu- ation reserve N'000 | Retained earnings N'000 | Total N'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2012** | 7,851,931 | 18,689,788 | 45,744 | 5,790,947 | (98,714) | - | 5,276,423 | 234,503 | 486,000 | 2,780,714 | 41,057,337 |
| Comprehensive income for the year: | | | | | | | | | | | |
| Profit for the year | - | - | - | - | | - | - | | - | 6,953,539 | 6,953,539 |
| Transfer for the year | | | (45,744) | 2,086,062 | | 58,727 | | | | (2,144,789) | (45,744) |
| | | | | | | | | | | | - |
| **Other comprehensive income net of tax** | | | | | | | | | | | - |
| Net changes in fair value of AFS financial assets | - | - | - | - | 247,649 | - | - | - | - | | 247,649 |
| Total other comprehensive income for the year | - | - | - | - | 247,649 | - | - | - | - | - | 247,649 |
| **Total comprehensive income for the year** | 7,851,931 | 18,689,788 | - | 7,877,009 | 148,935 | 58,727 | 5,276,423 | 234,503 | 486,000 | 7,589,464 | 48,212,780 |
| **Transactions with equity holders, recorded directly in equity:** | | | | | | | | | | | |
| Dividends to equity holders | - | - | | - | - | - | - | | - | (1,570,386) | 1,570,386) |
| Total contribution and distributions to equity holders | - | - | - | - | - | - | - | - | - | (1,570,386) | (1,570,386) |
| **31 December 2012** | 7,851,931 | 18,689,788 | - | 7,877,009 | 148,935 | 58,727 | 5,276,423 | 234,503 | 486,000 | 6,019,078 | 46,642,394 |

# STATEMENTS OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2012

| | Share capital N'000 | Share premium N'000 | Trans -lation reserve N'000 | Other regulatory reserves N'000 | Fair value reserves N'000 | Regula -tory risk reserves N'000 | Share capital reserve N'000 | SMIEIS reserve N'000 | Other reserve N'000 | Retained earnings N'000 | Total N'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2011 | 6,281,545 | 12,314,019 | 45,744 | 3,718,368 | 3,401 | 1,218,943 | 5,276,423 | 234,503 | 486,000 | (2,055,305) | 27,523,641 |
| | | | | | | | | | | | - |
| **Total comprehensive income:** | | | | | | | | | | | |
| Profit and loss | - | - | - | - | - | - | | | | 6,908,598 | 6,908,598 |
| Transfer for the year | - | - | - | 2,072,579 | - | (1,218,943) | - | - | - | (2,072,579) | (1,218,943) |
| | | | | | | | | | | | - |
| **Other comprehensive income:** | | | | | | | | | | | |
| Fair value reserve (available-for-sale) financial assets net of income tax | - | - | - | | (102,115) | | | | | - | (102,115) |
| Total other comprehensive income for the year | - | - | - | - | (102,115) | - | - | - | - | - | (102,115) |
| **Total comprehensive income for the year** | 6,281,545 | 12,314,019 | 45,744 | 5,790,947 | (98,714) | - | 5,276,423 | 234,503 | 486,000 | 2,780,714 | 33,111,181 |
| **Transactions with owners, recorded directly in equity:** | | | | | | | | | | | |
| Arising from business combination | 1,570,386 | 6,375,769 | - | - | - | - | - | - | - | - | 7,946,155 |
| Total contribution and distributions to equity holders | 1,570,386 | 6,375,769 | - | - | - | - | - | - | - | - | 7,946,155 |
| **Balance at 31 December 2011** | 7,851,931 | 18,689,788 | 45,744 | 5,790,947 | (98,714) | - | 5,276,423 | 234,503 | 486,000 | 2,780,714 | 41,057,336 |

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

| | Notes | 2012 N'000 | 2011 N'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit after tax | | 6,953,539 | 6,908,598 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | 2,567,870 | 1,524,837 |
| Net impairment on investment securities | | 312,657 | (126,898) |
| Impairment loss on other assets | | (255,783) | 470,664 |
| Net impairment on loan | | (299,606) | 5,690,514 |
| Negative goodwill from business combination | | - | (553,845) |
| Profit on disposal of subsidiaries | | - | (2,042,253) |
| Gain on disposal of property and Equipment | | (110,841) | (76,884) |
| Loss on sale of Investment | | 4,073 | - |
| Income tax expense | | 546,112 | (1,268,292) |
| Dividend received | | (24,704) | (63,759) |
| Foreign exchange gain | | (1,120,680) | (427,332) |
| Net interest income | | (23,893,955) | (16,702,641) |
| Net gain on investment securities at fair value through profit or loss | | (18,690) | - |
| Net changes in other comprehensive income | | 349,764 | (105,516) |
| | | (14,990,244) | (6,772,807) |
| Change in pledged assets | | (7,711,834) | (22,489,675) |
| Change in loans and advances to customers | | (64,663,995) | (32,826,845) |
| Change in restricted balance with Central bank | | (24,398,863) | (11,557,769) |
| Change in other assets | | 6,789,743 | (4,494,782) |
| Change in deposits from banks | | (14,625,521) | (33,886,236) |
| Change in deposits from customers | | 71,676,444 | 84,645,487 |
| Change in other liabilities | | 10,660,228 | 263,035 |
| | | (37,263,982) | (27,119,592) |
| Interest received | | 51,664,406 | 31,406,451 |
| Interest paid | | (28,658,220) | (15,260,163) |
| Dividend received | | 24,704 | 63,759 |
| | | (14,233,090) | (10,909,544) |
| Income tax paid | | (345,619) | (194,469) |
| VAT paid | | (300,313) | (184,191) |
| **Net cash from operations** | | (14,879,023) | (11,288,204) |
| **Cash flows from investing activities** | | | |
| Net sale/ (purchase) of investment securities | | (2,629,137) | 23,459,469 |
| Acquisition of property, plant and equipment | | (3,194,986) | (1,443,299) |
| Proceeds from sales of property, plant and equipment | | 1,952,775 | 118,469 |
| Acquisition of intangible assets | | (137,669) | (15,690) |
| Proceeds from sale of subsidiaries | | - | 4,742,375 |
| Cash acquired from business combination | | - | 18,471,000 |
| Net cash (used in)/from investing activities | | (4,009,017) | 45,332,324 |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowing | | 4,530,525 | 3,382,064 |
| Repayment of long-term borrowing | | (1,475,863) | (1,056,360) |
| Issuance of debenture stock | | - | 4,562,000 |
| Dividends paid to equity holders | | (1,570,386) | - |
| Net cash (used in)/from financing activities | | 1,484,274 | 6,877,704 |
| Cash and cash equivalents at beginning of year | | 66,597,331 | 25,665,507 |
| Net increase in cash and cash equivalents | | (17,403,765) | 40,931,8234 |
| **Cash and cash equivalents at end of year** | 41 | 49,193,566 | 66,597,331 |

# STATEMENT OF PRUDENTIAL ADJUSTMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

The Regulatory Body, Central Bank of Nigeria stipulates that provisions recognized in the profit or loss account shall be determined based on the requirements of IFRS. The IFRS provisions should be compared with provisions determined under prudential guidelines and the expected impact/changes in general reserve should be treated as follows:

(i) Prudential Provisions is greater than IFRS provisions; transfer the difference from the general reserve to a non-distributable regulatory reserve.

(ii) Prudential Provisions is less than IFRS provisions; the excess charges resulting should be transferred from the regulatory reserve account to the general reserve to the extent of the non-distributable reserve previously recognized.

| | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|
| Prudential provision | 11,811,635 | 12,588,265 | 14,312,951 |
| **Total Prudential Provision** | 11,811,635 | 12,588,265 | 14,312,951 |
| **IFRS Provision** | | | |
| Specific impairment | 5,834,100 | 5,319,677 | 6,280,339 |
| Portfolio impairment | 876,298 | 4,084,444 | 2,182,062 |
| Provision for other asset | 1,848,300 | 1,511,788 | 1,038,966 |
| Provision for investment | 854,935 | 542,278 | 724,815 |
| Other provision | 2,339,275 | 2,594,952 | 2,867,775 |
| Cash and bank balance provision | - | 788,312 | - |
| | 11,752,908 | 14,841,451 | 13,094,007 |
| Difference in the impairments figures | 58,727 | (2,357,842) | 1,218,943 |
| Transfer to/(from) Regulatory Risk reserve | 58,727 | (1,218,943) | 1,218,943 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

## 1. Corporate information

The financial statements of Sterling Bank Plc (the "Bank") were authorised for issue in accordance with a resolution of the directors on 4 March 2013. The Bank is a public limited liability company incorporated and domiciled in Nigeria. The Bank shares are listed and traded on the floor of the Nigerian Stock Exchange. The registered office is located at Sterling Towers, 20 Marina, Lagos, Nigeria.

The Bank is principally engaged in investment, corporate, commercial and retail banking.

## 2. Accounting Policies

### 2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB). For all periods up to and including the year ended 31 December 2011, the Bank prepared its financial statements in accordance with local generally accepted accounting principles (Local GAAP). The financial statements for the year ended 31 December 2012 are the first the Bank has prepared in accordance with IFRS. Refer to Note 2.3 for information on how the Bank adopted IFRS.

The financial statements have been prepared on a historical cost basis, except for available-for sale investments, other financial assets and liabilities held for trading, as well as financial assets and liabilities designated at fair value through profit or loss, all of which have been measured at fair value. The financial statements are presented in Nigeria Naira and all values are rounded to the nearest thousand (N'000) except when otherwise indicated.

**(a) Statement of compliance**

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB.

**(b) Preparation of financial statements**

The Bank presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 38.

The amendment to IAS 1 requires that items presented within other comprehensive income be grouped separately into those items that will be recycled into profit or loss at a future point in time, and those items that will never be recycled.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

### 2.2 Summary of significant accounting policies

The following are the significant accounting policies applied by the Bank in preparing its financial statements:

### 2.2.1 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instruments but not future credit losses.

The calculation of the effective interest rate includes contractual fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

## 2.2 Summary of significant accounting policies - Continued

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and liabilities measured at amortised cost calculated on an effective interest rate basis.
- interest on available-for-sale investment securities calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net trading income from other financial instruments at fair value through profit and loss in the statement of comprehensive income.

### 2.2.2 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management and other fiduciary activity fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight- line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

### 2.2.3 Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, dividends and foreign exchange differences.

### 2.2.4 Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends on trading equities are reflected as a component of net trading income, net income from other financial instruments at fair value through profit and loss or other operating income based on the underlying classification of the equity investment. Dividend income on available-for-sale securities are recognised as a component of other operating income.

### 2.2.5 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

## 2.2 Summary of significant accounting policies - Continued

### 2.2.6 Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

**(i) Current tax**

Current tax is the expected tax payable on taxable income or loss for the year determined in accordance with the Companies Income Tax Act (CITA), using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

**(ii) Deferred Tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences:

- The initial recognition of goodwill;
- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects profit or loss;
- Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax bene fit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in profit or loss.

### 2.2.7 Financial assets and liabilities

Below is classes of items in the statement of financial position that are catogries under financial assets and liabilities.

**(i) Recognition**

The Bank initially recognises loans and advances, deposits, debt securities issued and liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit and loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

## 2.2 Summary of significant accounting policies - Continued

**(ii) Subsequent measurement**

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classification:

**1. Held-to-maturity**

Held-to-maturity investments are non-derivative assets with fixed determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity,

Held-to-maturity investments are carried at amortised cost, using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to- maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to- maturity for the current and the following two years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the bank's control that could not have been reasonably anticipated.

**2 Financial assets held at fair value through profit and loss**

This category has two sub-categories; financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as trading unless they are designated as hedges.
Financial assets may be designated at fair value through profit or loss when:

- The designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on different basis; or
- group of financial assets is managed and its performance evaluated on a fair value basis.

Subsequent to initial recognition, the fair values are remeasured at each reporting date. All gains and losses arising from changes therein are recognised in the profit or loss in 'net trading income' for trading assets, and in 'net income from other financial instruments carried at fair value' for financial assets designated at fair value through profit or loss at inception.

Interest earned and dividends received while holding trading assets at fair value through profit or loss are included in net trading income. Trading assets are not reclassified subsequent to their initial recognition.

**3 Available-for-sale**

Available-for-sale investments are non-derivative investments that were designated by the Bank as available-for-sale or are not classified as another category of financial assets, or strategic capital investments held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Unquoted equity securities whose fair value cannot reliably be measured were carried at cost. All other available-for-sale investments were carried at fair value.

## 2.2 Summary of significant accounting policies - Continued

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in the profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

**4 Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Loans and advances include loans granted to customers and corporate entities.

**(iii) Amortised cost measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

**(iv) Fair value measurement**

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration paid or received, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets.

Subsequent to initial recognition, the fair values of financial instruments are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is unlisted, the fair value is determined by using applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date from a financial asset with similar terms and conditions. Where pricing models are used, inputs are based on observable market indicators at the balance sheet date and profits or losses are only recognised to the extent that they relate to changes in factors that market participants will consider in a setting price.

## 2.2 Summary of significant accounting policies - Continued

### 2.2.8 Impairment of financial assets

**(i) Assets carried at amortised cost**

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

The following factors are considered in assessing objective evidence of impairment:

- whether the customer is more than 90 days past due;
- the Bank consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated material forgiveness of debt or postponement of scheduled payments; or
- there is an observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

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

If there is objective evidence that an impairment loss on a loan and receivable or a held-to-maturity asset has been incurred, 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 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.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process which considers asset type, industry, geographic location, collateral type, past-due status and other relevant factors).

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

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

To the extent a loan is irrecoverable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

## 2.2 Summary of significant accounting policies - Continued

**(ii) Available-for-sale financial assets**

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the balance sheet date, that have an impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is generally considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. Where an available-for-sale asset, which has been remeasured to fair value directly through equity, is impaired, the impairment loss is recognised in profit or loss. If any loss on the financial asset was previously recognised directly in equity as a reduction in fair value, the cumulative net loss that had been recognised in equity is transferred to profit or loss and is recognised as part of the impairment loss. The amount of the loss recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any previously recognised impairment loss.

If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in the income statement, where the instrument is a debt instrument, the impairment loss is reversed through profit or loss. An impairment loss in respect of an equity instrument classified as available-for-sale is not reversed through profit or loss but accounted for directly in equity.

**(iii) Offsetting**

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

**(iv) Sale and repurchase agreements**

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

Conversely, Cash collateral on securities borrowed and reverse repurchase agreements to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within money market placement reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in Net interest income and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within Financial liabilities held for trading and measured at fair value with any gains or losses included in Net trading income."

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

## 2.2 Summary of significant accounting policies - Continued

**(v) Derecognition of financial instruments**

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria.

Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Bank enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

## 2.2.9 Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with central banks, operating accounts with other banks, amount due from other banks and highly liquid financial assets with original maturities of three months or less from the acquisition date, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

## 2.2.10 Property, plant and equipment

**(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognised in other income/other expenses in profit or loss.

**(ii) Reclassification to investment property**

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

## 2.2 Summary of significant accounting policies - Continued

**(iii) Subsequent costs**

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

**(iv) Depreciation**

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

Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with IFRS 5. A non-current asset or disposal group is not depreciated while it is classified as held for sale.

The estimated useful lives for the current and comparative period are as follows:

| | |
|---|---|
| Leasehold improvements | 10 years |
| Leasehold properties | 50 years |
| Land | Over the lease period |
| Computer hardware & equipment | 3 years |
| Furniture, fittings & equipment | 5 years |
| Motor vehicles | 4 years |

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

**(v) De-recognition**

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

## 2.2.11 Intangible asset

**Software**

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is five years. Amortisation method, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

### 2.2.12 Leased assets

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases in terms of which the Bank transfers substantially all the risks and rewards incidental to ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and, except for investment property, the leased assets are not recognised in the Bank's statement of financial position. Investment property held under an operating lease is recognised in the Banks statement of financial position at its fair value.

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### 2.2.13 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets other than goodwill and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of goodwill is estimated at each reporting date. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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.

### 2.2.14 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

### 2.2.15 Financial guarantee contracts

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, which is the amount received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the amortised amount. Financial guarantees are included within other liabilities.

### 2.2.16 Employee Benefits

**a) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than 12 months after the end of the period in which the employees render the service are discounted to their present value at the reporting date.

The Bank operates a funded defined contribution retirement benefit scheme for its employees under the provisions of the Pension Reform Act 2004. The employer and the employee contributions are 7.5% each of the qualifying employee's salary. Obligations in respect of the Bank's contributions to the scheme are recognised as an expense in the profit or loss account on an annual basis.

**(b) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

### 2.2.17 Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are recognised as an expense in the period in which they are incurred, except to those that are directly attributable to the acquisition, construction or production of a qualifying asset which are capitalised as part of the cost of that asset.

The amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the Bank's borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period shall not exceed the amount of borrowing costs incurred during that period.

## 2.2.18 Contingencies

**(a) Contingent asset**

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

A contingent asset is disclosed when an inflow of economic benefit is probable. When the realisation of income is virtually certain, then the related asset is not contingent and its recognition is appropriate. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statement.

**(b) Contingent Liability**

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefit is remote. A provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable is recognised, except in the extremely rare circumstances where no reliable estimate can be made.

Contingent liabilities are assessed continually to determine whether an outflow of economic benefit has become probable.

## 2.2.19 Share capital and reserves

**(i) Share issue costs**

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

**(ii) Dividend on ordinary shares**

Dividends on the Bank's ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the Bank's shareholders.

**(iii) Treasury shares**

Where the Bank purchases its share capital, the consideration paid is deducted from the shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

## 2.2.20 Earnings per share

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

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

## 2.2.21 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it can earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

### 2.2.22 Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash–generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 Operating Segments.

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the income statement.

### 2.2.23 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in Net trading income. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

### 2.2.24 First-time adoption of IFRS

These financial statements, for the year ended 31 December 2012, are the first the Bank has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2011, the Bank prepared its financial statements in accordance with local generally accepted accounting principle (Local GAAP).

Accordingly, the Bank has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 December 2012, together with the comparative period data as at and for the year ended 31 December 2011, as described in the summary of significant accounting policies. In preparing these financial statements, the Bank's opening statement of financial position was prepared as at 1 January 2011, the Bank's date of transition to IFRS.

**Exemptions applied**
IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Bank has applied the following exemptions:
The Bank has applied the business Combinations exemption in IFRS 1. It has not restated business combination that took place prior to the 1 January 2011 transition date.

Freehold land and buildings were carried in the statement of financial position prepared in accordance with local GAAP. The Bank has elected to regard those values as deemed cost.

Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2011.

The Bank has applied the transitional provision in IFRIC 4 Determining whether an Arrangement Contains a Lease and has assessed all arrangements based upon the conditions in place as at the date of transition.

The Bank has designated unquoted equity instruments held at 1 January 2011 as available-for-sale investments.

**Estimates**
The estimates at 1 January 2011 and at 31 December, 2011 are consistent with those made for the same dates in accordance with local GAAP (after adjustments to reflect any differences in accounting policies) apart from the following items where application of Local GAAP did not require estimation:

Pensions and other post-employment benefits
Share-based payment transactions
Available-for-sale financial assets – unquoted equity shares

The estimates used by the Bank to present these amounts in accordance with IFRS reflect conditions at 1 January 2011, the date of transition to IFRS and as of 31 December, 2011.

## 2.3 Explanation of transition to IFRSs

### (a) Implementation of IFRSs

As stated in note 2.2 on significant accounting policies, these are the Bank's first financial statements prepared in accordance with IFRSs. The accounting policies set out in note 2.2 have been applied in preparing the financial statements for the period ended 31 December 2011 and in the preparation of an opening IFRS statement of financial position at 1 January 2011 (the Bank's date of transition). An explanation of how the transition from Nigerian GAAP to IFRSs has affected the Bank's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

**Reconciliation of equity**

| | | 31 December 2011 | Effect of transition to IFRS | | | 1 January 2011 | Effect of transition to IFRS | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Local GAAP | Reclassification | Re-measurement | IFRS | Local GAAP | Reclassification | Re-measurement | IFRS |
| | Notes | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 |
| **Assets** | | | | | | | | | |
| Cash and balances with Central Bank | | 36,022,138 | | - | 36,022,138 | 6,660,320 | | - | 6,660,320 |
| Due from other banks | b(vi) | 56,039,889 | (1,556,438) | - | 54,483,451 | 21,832,593 | (1,478,917) | | 20,353,676 |
| short term investments | b(i) | 20,219,002 | (20,219,002) | - | - | 6,023,587 | (6,023,587) | - | - |
| Pledged assets | b(ii) | - | 50,146,046 | (445,827) | 49,700,219 | - | 26,934,187 | 276,357 | 27,210,544 |
| Loans and advances to customers | b(iv & v) | 163,539,553 | 1,400,679 | (2,877,076) | 162,063,156 | 101,936,642 | 142,690 | 741,647 | 102,820,979 |
| Investments in equity accounted investee | b(iii) | - | - | - | - | 260,093 | 1,592,779 | 1,852,872 | |
| Investment securities | b(iii) | 194,785,083 | (24,167,443) | 1,858,274 | 172,475,914 | 99,061,242 | (15,609,700) | (1,036,157) | 82,415,385 |
| Property, plant and equipment | | 8,930,814 | - | - | 8,930,814 | 4,267,457 | - | - | 4,267,457 |
| Intangible assets | | 143,115 | - | - | 143,115 | 149,266 | - | - | 149,266 |
| Deferred tax assets | b(vii) | 6,232,710 | - | 738,435 | 6,971,145 | 4,759,491 | | 654,619 | 5,414,110 |
| Other assets | b(viii) | 18,515,433 | (5,958,883) | 701,709 | 13,258,259 | 14,628,832 | (5,557,452) | 477,295 | 9,548,675 |
| **Total assets** | | 504,427,737 | (355,041) | (24,485) | 504,048,211 | 259,579,523 | (0) | 1,113,761 | 260,693,282 |

## Reconciliation of equity

| | | 31 December 2011 | | | | 1 January 2011 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Effect of transition to IFRS | | | | Effect of transition to IFRS | | |
| | | Local GAAP N'000 | Reclassification N'000 | Re-measurement N'000 | IFRS N'000 | Local GAAP N'000 | Reclassification N'000 | Re-measurement N'000 | IFRS N'000 |
| **Liabilities** | | | | | | | | | |
| Deposits from banks | b(x) | 2,337,210 | 15,407,087 | - | 17,744,297 | - | 38,975,532 | - | 38,975,532 |
| Deposits from customers | b(x) | 406,515,735 | (14,465,854) | - | 392,049,881 | 199,274,284 | (38,309,891) | - | 160,964,393 |
| Current tax liabilities | | 677,926 | - | - | 677,926 | 368,489 | - | - | 368,489 |
| Other borrowed funds | b(xi) | 27,412,742 | 17,341 | (128,707) | 27,301,376 | 25,058,101 | 6,965 | (89,393) | 24,975,673 |
| Other liabilities | b(ix) | 21,969,009 | (1,313,615) | - | 20,655,394 | 8,558,162 | (672,607) | - | 7,885,555 |
| Debt securities issued | | 4,562,000 | - | - | 4,562,000 | - | - | - | - |
| **Total liabilities** | | 463,474,622 | (355,041) | (128,707) | 462,990,875 | 233,259,036 | (1) | (89,393) | 233,169,642 |
| **Equity** | | | | | | | | | |
| Share capital and share premium | | 26,541,719 | - | - | 26,541,719 | 18,595,564 | - | - | 18,595,564 |
| Retained earnings | b(xii) | 2,644,416 | - | 149,496 | 2,793,912 | (2,036,115) | - | (19,190) | (2,055,305) |
| Other reserves | b(xiii) | 11,766,980 | - | (45,276) | 11,721,704 | 9,761,038 | - | 1,222,344 | 10,983,382 |
| **Total equity attributable to owners of the Bank** | | 40,953,115 | - | 104,221 | 41,057,336 | 26,320,487 | - | 1,203,154 | 27,523,641 |
| **Total liabilities and equity** | | 504,427,737 | (355,041) | (24,486) | 504,048,211 | 259,579,523 | - | 1,113,761 | 260,693,282 |
| **Acceptances and guarantees** | | 78,673,415 | - | - | 78,673,415 | 48,908,173 | - | - | 48,908,173 |

**Reconciliation of comprehensive income for the period ended 31 December 2011**

| | Notes | Local GAAP N'000 | Effect of Transition to IFRS N'000 | IFRS N'000 |
|---|---|---|---|---|
| Interest income | | 30,171,154 | 2,104,619 | 32,275,773 |
| Interest expense | | (15,612,445) | 39,313 | (15,573,132) |
| **Net interest income** | c(i) | 14,558,709 | 2,143,932 | 16,702,641 |
| Fees and commission income | | 6,441,793 | - | 6,441,793 |
| Net trading income | c(ii) | 536,459 | 385,728 | 922,187 |
| Profit on disposal of subsidiaries | c(ix) | 2,042,253 | - | 2,042,253 |
| Other operating income | c(iii) | 5,981,777 | 76,884 | 6,058,661 |
| | | 15,002,282 | 462,612 | 15,464,894 |
| **Operating income** | | 29,560,991 | 2,606,544 | 32,167,535 |
| Net impairment loss on financial assets | c(iv) | (3,616,658) | (2,417,622) | (6,034,280) |
| Personnel expenses | (c(v) | (6,527,161) | (40,497) | (6,567,658) |
| Depreciation and amortization | | (1,524,837) | - | (1,524,837) |
| Other operating expenses | (c(vi) | (12,390,338) | (10,117) | (12,400,455) |
| | | 5,501,997 | 138,308 | 5,640,306 |
| Profit before income tax | | 5,501,997 | 138,308 | 5,640,306 |
| Income tax expense | c(vii) | 1,184,476 | 83,816 | 1,268,292 |
| Profit for the year | | 6,686,473 | 222,124 | 6,908,598 |
| Other comprehensive income, net of income tax | | | | |
| Foreign currency translation differences for foreign operations | | - | - | - |
| Fair value losses on available-for-sale investments | c(viii) | - | (102,115) | (102,115) |
| Other comprehensive income for the year | | - | (102,115) | (102,115) |
| Total comprehensive income/(loss) for the year | | 6,686,473 | 120,009 | 6,806,483 |

**Notes to the reconciliations:**

The Bank adopted IFRSs effective 1 January 2011. The key principle of IFRS 1 – First-time Adoption of International Financial Reporting Standards for reporting entities with adoption date subsequent to 1 January 2006 is a full retrospective application of IFRSs. However, this statement provides exemption from retrospective application in certain instances due to costs and practical considerations. The Bank's transitional elections in this regard are set out below:

**(b) Key impact analysis of IFRS on the financial position from 01 January 2011, date of transition, till 31 December 2011.**

**IAS 32, 39 and IFRS 7 financial instruments**

Under IFRSs, financial assets and liabilities are required to be classified as held for trading at fair value through profit or loss, fair value through equity, loans and receivables and held to maturity and other financial assets and liabilities. Financial instruments are measured based on their classification. Nigerian GAAP does not require such classification of financial instruments and measurement. The basis of valuation of individual instruments is provided in the accompanying statement of accounting policy.

**(i) Short-term investment:**

Under IFRS, investments are not classified as short-term. Therefore, short-term investments comprising of treasury bills; N12,932,270 (1 January 2011; N6,023,587) and Discounted Sovereign Debt Note; N7,286,732 (1 January 2011; Nil) totalling N20,219,002 have been reclassified to investment securities and are recognised at amortised cost in line with the Bank's intention and purposes.

| | 31 December 2011 N'000 | 1January 2011 N'000 |
|---|---|---|
| Pledged assets (note b(ii)) | (6,170,417) | (3,717,243) |
| Investment in securities (note b(iii)) | (14,048,585) | (2,306,344) |
| | (20,219,002) | (6,023,587) |

**(ii) Pledged Assets**

The Nigerian GAAP did not require separate classification of pledged assets and as such they were included in their respective classes under Nigerian GAAP. Under IFRS, IAS 39 requires that collateral provided should be classified separately from other assets when the counterparty has the right to sell or repledge the collateral.

| | 31 December 2011 N'000 | 1January 2011 N'000 |
|---|---|---|
| Pledged cash (note b(vi)) | 1,560,000 | 1,480,000 |
| Pledged treasury bills (note b(i)) | 6,170,417 | 3,717,243 |
| Pledged bonds (note b(iii)) | 42,415,629 | 21,736,944 |
| Reclassified adjustment | 50,146,046 | 26,934,187 |
| Impact equity | (445,827) | 276,357 |
| | 49,700,219 | 27,210,544 |

**(iii) Investment Securities**

**Available–for-sale insvestment securities**
Under Nigerian GAAP, the Bank accounted for investments in unquoted securities as financial instruments measured at cost. Under IFRS, the Bank has designated such investments as available-for-sale investments. IFRS requires available-for-sale investments to be measured at fair value.

At the date of transition to IFRS, the fair value of investment securities designated as available-for-sale is N3,233,254,829 (1 January 2011: N7,358,689) and the carrying amount under previous GAAP was N3,134,540,000 (1 January 2011: N7,355,288,000). The difference between the instruments fair value and Local GAAP carrying amount has been recognised as a separate component of equity, in the available-for-sale reserve.
The impact arising from the changes is summarised as follows:

| | 31 December 2011 N'000 | 1 January 2011 N'000 |
|---|---|---|
| Fair value gain on Available-for-sale investment securities. | 98,714 | 3,401 |
| Impact on equity (A) | 98,714 | 3,401 |

**Held-to-maturity investment securities**
Under Nigerian GAAP, the Bank accounted for investments in unquoted equity shares as financial instruments measured at cost. Under IFRS, the Bank has designated such investments as held-to-maturity investments. IFRS requires Held-to-maturity investment securities to be carried at amortised cost. The carrying amount of investment securities carried at amortised cost is N167,640,083,000 (1 January 2011: N76,099,654,000). The difference between the instruments amortised cost and Local GAAP carrying amount has impact on the equity.

| | 31 December 2011 N'000 | 1 January 2011 N'000 |
|---|---|---|
| Reclassified from interest receivables from other assets (note b(viii)) | 2,043,401 | 2,688,550 |
| Reclassification of premium and discount on bond from Other assets (note b(viii)) | 2,156,200 | 2,725,129 |
| Investments in equity accounted investee | - | (1,592,779) |
| Reclassified from Short-term investment – Treasury bills (note b(i)) | 14,048,585 | 2,306,344 |
| Reclassified to Pledged bonds (note b(ii)) | (42,415,629) | (21,736,944) |
| Total reclassification adjustment | (24,167,443) | (15,609,700) |
| Recognition of HTM bonds at amortised cost (B) | 1,759,560 | (1,039,558) |
| Total re-measurement adjustment (A+B) | 1,858,274 | (1,036,157) |

**(iv) Loans and advances**

**(a) Impairment of loans and advances:**
Under Nigerian GAAP, loans and advances were measured at costs net of impairment losses using an expected loss model. A specific risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. This provision is made for each account that is not performing in accordance with the terms

of the related facility. A general provision of at least 1% is made for all performing accounts to recognize losses in respect of risks inherent in any credit portfolio. Under IFRS, an impairment loss can only be accounted for if there is objective evidence that a loss has occurred after the initial recognition but before the balance sheet date. IFRS also allows for the creation of a credit impaired for incurred but not reported losses in order to provide latent losses in a portfolio of loans that have not yet been individually identified as impaired and the general reserve to be reversed. Generally, where the impairment for credit losses is lower than the level required by the regulatory authorities, the shortfall on impairment for credit losses is set aside in a regulatory risk reserve within total equity.

The difference in the measurement basis of impairment loss assessment between IFRS and Nigerian GAAP decreased the net assets of the Bank by N2billion and increased net assets of N1.2billion as at 31 December 2011 and 1 January 2011 respectively.

The impact arising from the change is summarised as follows:

| | 31 December 2011 N'000 | 1 January 2011 N'000 |
|---|---|---|
| Reversal of excess specific impairment | 244,675 | 3,401,004 |
| Additional collective impairment | (2,461,447) | (2,182,062) |
| (A) | (2,216,772) | 1,218,942 |

**(b) Fair value of staff loans**

Under IFRS, low-interest loans to employees are measured at fair value which is the present value of the anticipated future cash flows discounted using a market interest rate. Under Nigerian GAAP, low-interest loans to employees are measured at actual amount advanced to employees. The difference between the fair value of employee loans and the amount advanced has been recognised as prepaid employee benefit in other assets. This is amortised using effective interest rate (EIR) of the loan and amortised over the outstanding tenor of the loan.

The impact arising from the change is summarised as follows:

| | **31 December 2011 N'000** | **1 January 2011 N'000** |
|---|---|---|
| Prepaid employee benefit (B) | (660,304) | (477,295) |
| Total re-measurement amount (A+B) | (2,877,076) | 741,647 |

**(v) Amortised cost of loans and advance**

Under Nigerian GAAP, gross loans and advances are measured at cost using the contractual interest rate. IFRS requires financial instrument classified such as loans and receivables to be measured at amortised cost using effective interest rate which takes into consideration the originating fees and other transaction costs.

| | **31 December 2011 N'000** | **1 January 2011 N'000** |
|---|---|---|
| Recognition of loans at amortised cost | 1,400,679 | 142,690 |

**(vi) Explanation of material adjustments to due from other banks**

Under Nigerian GAAP, pledged cash are included in 'Due from other Banks'. But under IFRS, pledged assets are disclosed separately from the asset. The impact of this is the reclassification of pledged cash of N1.56billion and N1.48billion as at 31 December 2011 and 1 January 2011 respectively to pledged asset in note b(ii). There is a reclassification of N3.5million and N1.09m as at 31 December 2011 and 1 January 2010 respectively with respect to Interest receivable on money market placements which was recognised in Other Assets under Nigerian GAAP.

| | **31 December 2011 N'000** | **1 January 2011 N'000** |
|---|---|---|
| Reclassified to pledged assets (note b(ii)) | (1,560,000) | (1,480,000) |
| Interest receivable reclassified from other assets (note b(viii)) | 3,562 | 1,083 |
| | (1,556,438) | (1,478,917) |

**(vii) Deferred tax asset**

The impact of changes in deferred tax asset from the Nigerian GAAP to IFRS was mainly attributable to the impact of IFRS conversion adjustments on timing differences.

The impact arising from the change is summarised as follows:

| | 31 December 2011 N'000 | 1 January 2011 N'000 |
|---|---|---|
| Deferred tax on additional collective impairment charges | 738,435 | 654,619 |

**(viii) Explanation of material adjustments to other assets**

Under Nigerian GAAP, interest receivables were classified separately from the principal while premium on bonds were recognised under other assets as well. Under IFRS, the interest has been included in the capital amount. The fair value loss on the initial recognition of staff loans given at below market rate has been adjusted in other assets.

The net impact is as follows:

| | 31 December 2011 N'000 | 1 January 2011 N'000 |
|---|---|---|
| Reclassification of interest receivable to investment securities (note b(iii)) | (2,043,401) | (2,688,550) |
| Reclassification of Interest receivable to Due from other banks (note b(vi)) | (3,562) | (1,083) |
| Reclassification of interest receivable to loans | (1,755,720) | (142,690) |
| Reclassification of premium and discount on FGN bond | (2,156,200) | (2,725,129) |
| | (5,958,883) | (5,557,452) |
| Prepaid staff benefit | 701,709 | 477,295 |
| | (5,257,174) | (5,080,157) |

**(ix) Other Liabilities**

Under Nigerian GAAP, interest payable and unearned interest were presented as separate line in other liabilities and in adopting IFRS, it has been included in the capital amount. These changes do not have significant impact on the profit and loss or equity.

**(x) Deposit from banks and customers**

The impact of changes in deposits from banks and customers from the Nigerian GAAP to IFRS were mainly attributable to reclassification adjustment to properly distinguish deposits from banks from deposit from customers. These changes do not have significant impact on the profit and loss or equity.

**(xi) Borrowed funds**

Under Nigerian GAAP, borrowed funds are carried at cost. In adopting IFRS, these are carried at amortised cost. The impact of changes in borrowed funds from the Nigerian GAAP to IFRS were mainly attributable to conversion adjustment to properly state borrowed funds at amortised cost as against cost under Nigerian GAAP. Borrowed funds decreased from N27.4billion to N27.3billion (1 January 2011: N25billion to N24.9billion).

**(xii) Adjustment to Equity**

As a result of IFRS adoption, all impact due to remeasurements of various financial assets and liabilities accounted for adjustment to retained earnings.

**(xiii) Adjustment to other reserves**

Movement in other reserves was caused due to fair value gains or losses recognised on the available for sale financial instruments within other comprehensive income and changes in amount transferred to statutory reserve as a result of change in IFRS profit and local GAAP profit.

## (c) Explanation of material changes to income statement items

**(i) Interest income and expense**

Under IFRSs, interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Under Nigerian GAAP, interest income and expense are recognised in accordance with the terms of the related facility on an accrual basis.

In addition, interest initially suspended under the Nigerian GAAP, were classified as part of the loans and advances balance while under IFRS interest in suspense were de-recognised and thus, written back to interest income. The impact arising from the changes is summarised as follows:

| | 31 December 2011 N'000 |
|---|---|
| Reclassification of interest on impaired loans (note c(iv) | 200,850 |
| Reclassification of trading income on FGN bonds to net trading income (note c(ii) | (385,728) |
| Amortised cost adjustment on net interest income and expense and interest on impaired asset | 2,328,810 |
| | 2,143,932 |
| Impact on equity | 2,143,932 |

**(ii) Net trading income**

The impact arising from the change is summarised as follows:

| | |
|---|---|
| Reclassification of profit on trading investments | 385,728 |

**(iii) Other operating income**

The impact arising from the change is summarised as follows:

| | |
|---|---|
| Reclassification of profit on disposal of property and equity from other operating expenses | 76,884 |

**(iv) Net impairment loss on financial assets**

The impact arising from the change is summarised as follows:
Under Nigerian GAAP Loans and advances are stated net of allowance for doubtful accounts. Interest on impaired loans are suspended. Allowances are determined in accordance with the Central Bank of Nigeria's Prudential Guidelines for Licensed Banks for specific assessment of each customer's account as stated below:

| Period principal or interest has been outstanding | Classification | % of provision |
|---|---|---|
| 90 days but less than 180 days | Substandard | 10 |
| 180 days but less than 360 days | Doubtful | 50 |
| Over 360 days | Lost | 100 |

| | **31 December 2011 N'000** |
|---|---|
| Reclassification of Interest income on impaired loans (note c(i)) | (200,850) |
| Additional impairment charges on loans and advances | (2,216,772) |
| | (2,417,622) |
| | (2,417,622) |

**(v) Personnel expenses**

The impact arising from the change is summarised as follows:

| | |
|---|---|
| Amortisation of employee benefit | (40,497) |
| Impact on equity | (40,497) |

**(vi) Other operating expenses**

The impact arising from the change is summarised as follows:

| | |
|---|---|
| Reclassification of fair value loss on available-for-sale investment securities to fair value reserve | 66,767 |
| Reclassification of profit on disposal of property and equipment to other operating income | (76,884) |
| | (10,117) |
| Impact on equity | (10,117) |

**(vii) Income tax expense**

The impact arising from the change is summarised as follows:

| | |
|---|---|
| Tax effect on income statement adjustment | 83,816 |
| Impact on equity | 83,816 |

**(viii) Other comprehensive income**

Fair value (gain)/loss on available for sale financial instruments are recognised in other comprehensive income and disclosed in the statement of other comprehensive income. The sum of N102 million has been recognised in other comprehensive income as a net fair value gain on available for sale financial instrument.

**(ix) Exceptional and extra-ordinary income**

IFRS does not recognise the principles of exceptional and extra-ordinary income as defined under Nigerian GAAP. The Bank recognised exceptional and extra-ordinary income of N553million and N2.04billion arising from business combination and disposal of subsidiaries respectively. These were reclassified to other operating income with no effect on profit and loss or equity for the period.

## 3. Significant account judgements, estimates and assumptions

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.
These disclosures supplement the commentary on financial risk management (see note 38).

**(a) Key sources of estimation uncertainty**

(i) Allowances for credit losses
Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 2.2.8.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counter party's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Committee.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimate of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances are made.

(ii) Determining fair values: The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of techniques as described in accounting policy 2.2.28. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

**(b) Critical accounting judgements in applying the Bank's accounting policies**

Critical accounting judgements made in applying the Bank's accounting policies include:

(i) Valuation of financial instruments: the Bank's accounting policy on fair value measurements is discussed under note 2.2.8. The Bank measures fair values using the following fair value hierarchy that reflects the nature and process used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using inputs that are not based on observable market data, i.e., unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions

are required to reflect differences between the instruments. The table below analyses financial instruments measured at fair value into the fair value hierarchy at the end of the reporting period:

| **31 December 2012** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Investment securities | 17,755,382 | - | 1,101,039 | 18,856,421 |
| **31 December 2011** | | | | |
| Investment securities | 1,717,259 | - | 1,515,995 | 3,233,254 |
| **1 January 2011** | | | | |
| Investment securities | 4,204,576 | - | 5,003,584 | 9,208,160 |

(ii) Financial assets and liabilities classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

Details of the Bank's classification of financial assets and liabilities are given under the accounting policies in note 2.2.7.

(iii) Depreciation and carrying value of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated useful lives of items of property and equipment will have an impact on the carrying value of these items.

(iv) Determination of impairment of property, plant and equipment, and intangible assets, excluding goodwill

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. The Bank applies the impairment assessment to its separate cash generating units. This requires management to make significant judgements and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realisable values. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

## 4. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 31 December 2012, and have not been applied in preparing these financial statements. The Bank intends to adopt the standards below when they become effective.

(i) IFRS 9: Financial Instrument: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB is addressing impairment and hedge accounting. Exposure drafts have been issued. The completion of these projects is expected in 2012. The Bank is currently assessing the impact of both the first phase and the second phase on its financial statements.

(ii) IFRS 13: Fair Value Measurement

IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosure on fair value measurements. It is applicable for all assets and liabilities that require a fair value based on IFRS. Disclosures for fair values are extended. The Bank will assess whether this new standard has any impact on existing fair value policies and disclosures. IFRS 13 is effective for the annual periods beginning on or after 1 January 2013 with early adoption permitted. The Bank has not early adopted IFRS 13.

(iii) IAS 1: Presentation of Financial Statements

IAS 1 addresses changes in the presentation of other Comprehensive Income. The amended standard emphasizes that profit or loss and other comprehensive income should be grouped together, i.e. either as a single "statement of profit or loss and comprehensive income", or as a separate "statement of profit or loss" and a "statement of comprehensive income". The former option is the existing practice of the Bank. The Bank will assess if it will continue this practice or convert to the other option included in the amended IAS 1. This standard is applicable for annual periods beginning on or after 1 July 2012, with early adoption permitted.

(iv) IFRS 7: Financial Instruments: Disclosures

In October 2010 IFRS 7 Financial Instrument: Disclosures has been amended to enhance the disclosure requirements for offsetting financial assets and financial liabilities. This amendment is effective for periods beginning on or after 1 January 2013. The Bank expects no significant impact from the adoption of the amendments on its financial position or performance.

(v) IFRS10: Consolidated Financial Statements

IFRS 10 replaced all of the consolidation guidance of IAS 27: Consolidated and Separate Financial Statements and SIC 12: Consolidation-Specific Purpose Entities. Consolidation is required when there is control that is defined as a combination of power, exposure to variability in returns and a link between the two. IFRS 10 is effective for annual periods beginning on or after 1 January 2013. This standard is not applicable to the Bank.

(vi) IFRS11: Joint Venture Arrangements

IFRS 11 Overhauls the accounting for joint ventures and replaces IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities. It uses the principles of control in IFRS 10 in defining joint control and whether joint control exists may change. The standard is effective for annual periods beginning or after 1 January 2013.The new standard does not allow proportional consolidation of joint entities and no impact is expected as the Bank does not have joint arrangements.

(vii) IFRS12: Disclosures of Interest in Other Entities

IFRS 12 includes all of the disclosure requirements for subsidiaries, joint arrangements, associated and structured entities. Changes include the requirement to disclose the judgements made to determine whether it controls another entity. IFRS 12 is effective in annual period beginning on or after 1 January 2013. Early adoption of IFRS 10, 11 and 12 is permitted but is required to take place simultaneously. Only IFRS 12 can be early adopted without IFRS 10 and 11. IFRS 12 is not applicable to the Bank.

(viii) IAS 12 Income Taxes

The amendments to IAS 12 provides a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40; Investment Property. The amendment introduces a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. This standard is applicable for annual periods beginning on or after 1 January 2013, with early adoption permitted. This is not applicable to the Bank.

(viii) IAS 19: Employee Benefits

The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013. The adoption of these amendments will require the Bank to recognise :

- A service cost and a net interest income or expense in profit or loss
- The re-measurements of the pension assets and liabilities, i.e., actuarial gains and losses in the other comprehensive income.

Improvement to IFRSs
Amendments resulting from improvements to IFRSs to the following standards did not have a material impact on the accounting policies, financial position or performance of Sterling Bank Plc during this financial year.

- IAS 1: Presentation of Financial Statements
- IFRS 1: Low interest government loans
- IFRS 7: Financial Instrument: Disclosures
- IFRS 7: Off-setting of financial assets and liabilities
- IFRS 10 ,11,& 12: Transition guidance
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 20: Stripping costs
- IAS 27 Consolidated and Separate Financial Statements
- IAS 27: Consequential amendments
- IAS 28: Consequential amendments

## 5 Operating segments

Segment information is presented in respect of the Bank's strategic business units which represents the segment reporting format and is based on the Bank's management and reporting structure.

(a) All non-current assets are located in the country of domicile and revenues earned are within same country.

(b) Reportable segment
The Bank has three reportable segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Bank's management and internal reporting structure. For each of the strategic business units, the Executive Management Committee reviews internal management reports on a monthly basis.

The following summary describes the operations in each of the Bank's reportable segments:

- Corporate and retail banking provides banking solutions to commercial enterprises and individuals.
- Treasury conducts the Bank's financial advisory and securities trading activities.

All transactions between business segments are conducted on an arm's length basis, internal charges and transfer pricing adjustments are reflected in the performance of each business.

The activity of the segments are centrally financed, thus the cash flow for the entity is presented in the Statement of cash flow.

| (i) | 31 December 2012 | Retail Banking N'000 | Corporate Banking N'000 | Treasury N'000 | Total N'000 |
|---|---|---|---|---|---|
| | Interest and similar income | 22,038,120 | 12,628,454 | 18,875,420 | 53,541,994 |
| | Interest and similar expense | (18,941,848) | (3,835,584) | (6,870,607) | (29,648,039) |
| | Net interest income | 3,096,272 | 8,792,870 | 12,004,813 | 23,893,955 |
| | Net fees and commission income | 6,391,321 | 1,933,042 | 1,633,296 | 9,957,678 |
| | Depreciation of property & Equipment | (2,542,988) | (18,676) | (6,206) | (2,567,870) |
| | Segment profit (loss) | 672,033 | 5,862,164 | 965,455 | 7,499,651 |
| | Assets | | | | |
| | Capital expenditure | | | | |
| | Property, plant and equipment | 3,136,664 | 44,834 | 13,488 | 3,194,986 |
| | Other intangible assets | 137,669 | - | - | 137,669 |
| | Total Assets | 244,593,206 | 115,209,170 | 220,423,564 | 580,225,940 |
| | Total Liabilities | 429,097,726 | 86,582,121 | 17,903,700 | 533,583,546 |

| (ii) | 31 December 2011 | Retail Banking N'000 | Corporate Banking N'000 | Treasury N'000 | Total N'000 |
|---|---|---|---|---|---|
| | Interest and similar income | 18,668,293 | 5,835,223 | 7,772,257 | 32,275,773 |
| | Interest and similar expense | (7,864,435) | (1,196,342) | (6,512,355) | (15,573,132) |
| | Net interest income | 10,803,858 | 4,638,881 | 1,259,902 | 16,702,641 |
| | Net fees and commission income | 3,320,823 | 1,717,008 | 1,403,962 | 6,441,793 |
| | Depreciation of property & Equipment | 1,512,915 | 11,433 | 489 | 1,524,837 |
| | Segment profit (loss) | 2,235,810 | 1,545,192 | 1,859,304 | 5,640,306 |
| | Assets | | | | |
| | Capital expenditure | | | | |
| | Property, plant and equipment | 1,594,597 | 38,783 | - | 1,633,380 |
| | Other intangible assets | 15,690 | - | - | 15,690 |
| | Total Assets | 124,895,008 | 106,769,986 | 272,383,219 | 504,048,213 |
| | Total Liabilities | 357,399,070 | 75,495,005 | 30,096,802 | 462,990,877 |

| | | December-12 N'000 | December-11 N'000 |
|---|---|---|---|
| **6** | **Interest income** | | |
| | Cash and cash equivalent | 839,889 | 87,748 |
| | Loan and advances to customers | 32,729,465 | 15,544,423 |
| | Investment securities | 19,658,138 | 16,442,752 |
| | Interest on impaired loans | 314,502 | 200,850 |
| | | 53,541,994 | 32,275,773 |
| **7** | **Interest expense** | | |
| | Deposits from banks | 655,903 | 2,416,752 |
| | Deposits from customers | 26,822,634 | 11,169,972 |
| | Debt issued and other borrowed funds | 2,169,502 | 1,986,408 |
| | | 29,648,039 | 15,573,132 |
| **8** | **Fees and commission income** | | |
| | Facility management fees | 2,248,316 | 1,744,468 |
| | Commission on turnover | 3,770,748 | 1,417,044 |
| | Commissions and similar income | 2,336,291 | 1,515,811 |
| | Commission on letter of credit and Off Balance Sheet transactions | 1,165,070 | 947,200 |
| | Other fees and commission | 437,234 | 817,270 |
| | | 9,957,659 | 6,441,793 |

Credit related fees and commissions above excludes amounts included in determining effective interest rate on financial assets that are not at fair value through profit or loss.

| | | December-12 N'000 | December-11 N'000 |
|---|---|---|---|
| **9** | **Net trading income** | | |
| | Foreign exchange trading | 1,169,656 | 536,459 |
| | Bonds | 358,912 | 385,728 |
| | Treasury bills | 24,117 | - |
| | | 1,552,685 | 922,187 |
| **10** | **Other operating income** | | |
| | Rental income | 267,954 | 684,510 |
| | Other sundry income | 939,318 | 1,224,843 |
| | Foreign exchange gain/(loss) | (48,976) | (109,127) |
| | Advisory fees | - | 1,278,958 |
| | Negative goodwill arising from business combination | - | 553,845 |
| | Revaluation on Bond – Trading | 18,690 | - |
| | Dividends on available-for-sale equity securities | 24,704 | 63,759 |
| | Gains on disposal of property, plant and equipment | 110,841 | 76,884 |
| | Profit/loss on sale of investment | (4,073) | - |
| | Cash recoveries on previously written off accounts | 2,496,019 | 2,284,989 |
| | | 3,804,477 | 6,058,661 |

| | | December-12 N'000 | December-11 N'000 |
|---|---|---|---|
| **11** | **Net impairment** | | |
| (i) | Credit losses | | |
| | - Specific impairment allowance (note 20) | 4,260,231 | 11,095,713 |
| | - Collective impairment (note 20) | (3,208,146) | 1,902,382 |
| | Bad debt written off | 86,528 | 8,540,259 |
| | Allowances no longer required | (1,438,219) | (15,847,840) |
| | | (299,606) | 5,690,514 |
| ii) | Impairment charge/reversal on investment securities (note 21d) | 312,657 | (126,898) |
| | Impairment on other assets (note 22) | (255,783) | 470,664 |
| | | 56,874 | 343,766 |
| | | (242,732) | 6,034,280 |

## 12 Gain from sale of investment

| Name of subsidiary | Sales proceed | December-11 Cost of investment | Gain |
|---|---|---|---|
| Sterling Capital Market Limited | 1,378,000 | 1,346,312 | 31,688 |
| Sterling Asset Management and Trustees Limited | 1,431,875 | 1,100,000 | 331,875 |
| Sterling Registrars Limited | 1,200,000 | 11,310 | 1,188,690 |
| SBG Insurance Broker Limited | 300,000 | 10,000 | 290,000 |
| Crusader Sterling Pension Limited | 432,500 | 232,500 | 200,000 |
| | 4,742,375 | 2,700,122 | 2,042,253 |

| | | December-12 N'000 | December-11 N'000 |
|---|---|---|---|
| **13** | **Personnel expenses** | | |
| | Wages and salaries | 8,778,263 | 6,188,369 |
| | Defined contribution plan | 614,314 | 379,289 |
| | | 9,392,577 | 6,567,658 |
| **14** | **Other operating expenses** | | |
| | Other premises and equipment costs | 4,269,506 | 2,248,785 |
| | Audit fees | 120,000 | 80,000 |
| | Other Professional Fees | 900,179 | 381,047 |
| | AMCON surcharge (see note below) | 1,513,267 | 778,739 |
| | Contract Services | 1,367,394 | 671,136 |
| | Insurance Cost | 2,678,737 | 1,329,220 |
| | General and administrative expenses | 9,142,327 | 6,911,527 |
| | | 19,991,410 | 12,400,454 |

AMCON surcharge

This represents the Bank's contribution to a fund established by Asset Management Corporation of Nigeria (AMCON) for the year ended 31 December 2012. Effective 1 January 2011, the Bank is required to contribute an equivalent of 0.3% of its total assets as at the period preceding period end (31 December 2011) to AMCON's sinking fund in line with existing guidelines.

| | | December-12 N'000 | December-11 N'000 |
|---|---|---|---|
| **15** | **Income tax expense** | | |
| a. | Current period | | |
| | Income tax (note 15c) | 471,116 | 252,628 |
| | Education tax | - | - |
| | Capital gains tax | - | 1,867 |
| | Information Technology levy (note 15d) | 74,997 | 34,248 |
| | | 546,112 | 288,743 |
| | Deferred tax expense: | | |
| | Origination of temporary differences (note 25) | - | (1,557,035) |
| | Total income tax expense | 546,112 | (1,268,292) |

b. Current income tax liabilities

The movement on this account during the year was as follows:

| | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|
| Balance, beginning of the year | 677,926 | 368,489 | 393,405 |
| Acquired from business combination | - | 249,411 | - |
| Estimated charge for the year (see (a) above) | 471,116 | 254,495 | 150,917 |
| payments during the year | (345,619) | (194,469) | (175,833) |
| Balance, end of the year | 803,422 | 677,926 | 368,489 |

c. Reconciliation of total tax charge

The basis of the tax is 30% of N1,570,386,289 dividend paid to shareholders during the year for 2011 financial year. This is in compliance with Section 15A of Company Income Tax Act which states that where there is no taxable profit or total profit is less than the amount of dividend paid, the company shall be charged as if the dividend is the total profits of the company for the year of assessment to which the accounts , out of which dividend is declared relates.

d. The National Information Technology Agency Act (NITDA) 2007, stipulates that specified companies contribute 1% of their profit before taxation to National Information Development Agency. In line with the Act, the Bank has provided for Information technology levy at the specified rate.

e. The Provisions of the Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order, 2011 grants exemption to income from bonds and treasury bills from tax for a period of 10 years.

## 16 Earnings per share (basic and diluted)

The calculation of basic earnings per share as at 31 December 2012 was based on the profit attributable to ordinary shareholders of (N6,953,539,000) and weighted average number of ordinary shares outstanding of 15,703,863,000), calculated as follows:

| | | December-12 Unit('000) | December-11 Unit('000) | January-11 Unit('000) |
|---|---|---|---|---|
| a. | Issued ordinary shares as at 1 January | 15,703,863 | 12,563,090 | 12,563,090 |
| | Effect of share issued from acquisition | - | 523,462 | - |
| | Weighted average number of ordinary shares | 15,703,863 | 13,086,552 | 12,563,090 |
| b. | Profit for the year attributable to equity holders of the Bank | 6,953,539 | 6,908,598 | 4,159,303 |
| | Basic earnings per share | 44k | 53k | 33k |
| | Diluted earnings per share | 44k | 53k | 32k |

## 17 Cash and balances with Central Bank

| | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|
| Cash and foreign monies | 7,982,952 | 7,981,473 | 3,373,704 |
| Unrestricted balances with Central Bank of Nigeria | 7,331,943 | 4,920,719 | 1,938,127 |
| Deposits with the Central bank of Nigeria | 48,307,121 | 23,908,258 | 1,348,489 |
| | 63,622,016 | 36,810,450 | 6,660,320 |

Deposits with the Central Bank of Nigeria represent mandatory reserve deposits and are not available for use in the bank's day-to-day operations.

## 18 Due from banks

| | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|
| Balances held with local banks | 7,862,084 | 7,591,267 | 266,706 |
| Balances held with banks outside Nigeria | 16,817,941 | 28,038,622 | 16,855,837 |
| Money market placements | 9,198,646 | 18,853,562 | 3,231,133 |
| | 33,878,671 | 54,483,451 | 20,353,676 |
| Provision | - | (788,312) | - |
| | 33,878,671 | 53,695,139 | 20,353,676 |

## 19 Pledged Assets

| | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|
| Treasury bills (see note (a) below) | - | 5,793,818 | 3,715,044 |
| Government bonds (see note (b) below) | 47,662,159 | 42,346,401 | 22,015,500 |
| Other pledged assets (see note (c) below) | 9,749,894 | 1,560,000 | 1,480,000 |
| | 57,412,053 | 49,700,219 | 27,210,544 |

The Bank pledges assets that are on its statement of financial position in various day-to-day transactions that are conducted under the usual terms and conditions applying to such agreements.

a) Pledged for clearing activities, as collection bank for government taxes and Interswitch electronic card transactions
b) Pledged as security for long term loan from Citibank International, clearing activities with First Bank Plc and loan facility from Bank of Industry.
c) Included in other pledged assets are cash collateral for letters of credit and visa card through Zenith Bank Plc.

The deposits are not part of the fund used by the bank for day to day activities.

| | | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|---|
| **20** | **Loan and Advances to Customers** | | | |
| | Loans to individuals | 28,125,950 | 17,952,579 | 10,785,473 |
| | Loans to corporate entities and other organizations | 208,005,322 | 153,514,698 | 100,497,958 |
| | | 236,131,272 | 171,467,277 | 111,283,431 |
| | Less: | | | |
| | Specific impairment allowance (note 20(b)) | (5,834,100) | (5,319,677) | (6,280,389) |
| | Collective impairment allowance | (876,298) | (4,084,444) | (2,182,062) |
| | | 229,420,874 | 162,063,156 | 102,820,980 |
| (b) | Impairment allowance on loans and advances to customers | | | |
| | Specific impairment | | | |
| | Balance, beginning of year | 5,319,677 | 6,280,389 | 15,703,009 |
| | Arising from business combination | - | 8,065,724 | - |
| | Impairment loss for the year (note 11) | 4,260,231 | 11,095,713 | 1,915,635 |
| | Reversal for the year | (1,438,219) | (15,847,840) | (10,896,393) |
| | Write-offs | (2,307,589) | (4,274,310) | (441,862) |
| | Balance, end of year | 5,834,100 | 5,319,677 | 6,280,389 |
| (c) | Portfolio impairment | | | |
| | Balance, beginning of year | 4,084,444 | 2,182,062 | - |
| | Impairment loss for the year (note 11) | (3,208,146) | 1,902,382 | 2,182,062 |
| | Balance, end of year | 876,298 | 4,084,444 | 2,182,062 |

(d) Classification of loans and advances by category

| | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|
| 1. Individually Impaired | 7,016,811 | 8,227,240 | 11,639,976 |
| 2. Past due not Impaired | 2,026,231 | 5,213,792 | 3,624,438 |
| 3. Collectively Impaired | 227,088,230 | 158,026,245 | 96,019,017 |
| | 236,131,272 | 171,467,277 | 111,283,431 |

(e) Classification of loans and advances by rating
IFRS Rating

| | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|
| RR1-RR2 | 24,844,055 | 3,868,307 | 4,673,749 |
| RR3-RR4 | 194,625,552 | 106,657,982 | 81,461,019 |
| RR5-RR6 | 7,618,623 | 52,713,748 | 13,508,687 |
| RR7 | 5,559,775 | 950,715 | 1,191,319 |
| RR8 | 2,756,329 | 3,749,216 | 2,160,990 |
| RR9 | 726,937 | 3,527,309 | 8,287,667 |
| | 236,131,272 | 171,467,277 | 111,283,431 |

(f) Classification of loans and advances by security

| | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|
| 1. Cash | 10,577,683 | 296,059 | 203,064 |
| 2. Secured against real estate | 110,780,090 | 60,684,482 | 55,440,225 |
| 3. Stocks/Shares | 7,989,386 | 1,626,387 | 4,503,762 |
| 4. Otherwise secured | 106,784,113 | 108,860,349 | 51,136,379 |
| | 236,131,272 | 171,467,277 | 111,283,431 |

(g) Classification of loans and advances per performance

| IFRS Rating | INDIVIDUALLY IMPAIRED | PAST DUE NOT IMPAIRED | COLLECTIVELY IMPAIRED | TOTAL |
|---|---|---|---|---|
| RR1 | - | - | 17,621,599 | 17,621,599 |
| RR2 | - | - | 7,222,456 | 7,222,456 |
| RR3 | - | - | 169,921,453 | 169,921,453 |
| RR4 | - | - | 24,704,099 | 24,704,099 |
| RR5 | - | - | 5,676,623 | 5,676,623 |
| RR6 | - | - | 1,942,000 | 1,942,000 |
| RR7 | 4,617,619 | 942,156 | - | 5,559,775 |
| RR8 | 2,140,447 | 615,883 | - | 2,756,329 |
| RR9 | 258,745 | 468,192 | - | 726,937 |
| | 7,016,811 | 2,026,231 | 227,088,230 | 236,131,272 |

| | | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|---|
| (h) | Classification of loans and advances by sector | | | |
| | Agriculture | 6,507,541 | 4,847,881 | 550,619 |
| | Capital Market | 383,457 | 417,768 | 18,612,125 |
| | Communication | 10,950,572 | 1,662,486 | 2,757,105 |
| | Consumer | 7,441,600 | 5,723,061 | 1,927,796 |
| | Education | 1,063,187 | 866,633 | 12,982,475 |
| | Finance and Insurance | 10,589,873 | 8,055,538 | 2,297,713 |
| | Government | 12,866,447 | 15,296,910 | 37,629,322 |
| | Manufacturing | 14,728,288 | 11,118,355 | 4,583,257 |
| | Mining & Quarrying | 195,707 | 176,450 | 1,942,417 |
| | Mortgage | 8,654,983 | 3,941,451 | 45,267 |
| | Oil and Gas | 68,950,457 | 46,153,977 | 2,942,956 |
| | Other Public Utilities | 147,634 | 244,248 | 1,154,578 |
| | Others | 57,079,012 | 31,309,263 | 248,777 |
| | Power | 215,929 | - | - |
| | Real Estate & Construction | 25,643,222 | 33,634,017 | 2,421 |
| | Transportation | 10,713,360 | 8,019,239 | 23,606,602 |
| | | 236,131,272 | 171,467,277 | 111,283,431 |

## 21 Investment securities:

| | | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|---|
| (a) | Held for Trading (HFT) Government bond | 1,998,860 | - | - |
| b) | Available for Sale (AFS) | | | |
| | Government bonds | 8,979,265 | 1,717,259 | 4,204,576 |
| | Equity securities | 1,955,974 | 2,058,273 | 3,875,527 |
| | Euro bond | 4,604,456 | - | - |
| | | 15,539,695 | 3,775,532 | 8,080,103 |
| | Treasury bills | 2,172,801 | - | - |
| | Impairment on AFS (see (d) below) | (854,935) | (542,278) | (724,815) |
| | | 16,857,561 | 3,233,254 | 7,355,288 |

Fair value of unquoted equity securities has not been disclosed, their fair value cannot be measured reliably. These are investments in small and medium scale enterprises with a carrying cost of N1.9 billion (2011:N2.06billion). There is no similar investment that the price can be reliably benchmarked because there is no active market. These investments are recouped through redemption rather than disposal.

| | | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|---|
| (c) | Held to maturity (HTM) | | | |
| | Government bonds | 149,995,434 | 153,047,819 | 70,029,439 |
| | Corporate bonds | 2,125,929 | 2,137,817 | - |
| | Treasury bills | 3,814,611 | 6,770,581 | 5,030,657 |
| | Sovereign debt note | - | 7,286,444 | - |
| | | 155,935,974 | 169,242,661 | 75,060,096 |
| | Total Investment securities | 174,792,395 | 172,475,915 | 82,415,384 |

| | | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|---|
| (d) | Specific allowance for impairment on AFS | | | |
| | Balance, beginning of year | 542,278 | 724,815 | 683,851 |
| | Arising from Business Combination | - | 197,126 | - |
| | Charge for the year (note 11) | 312,657 | (126,898) | 40,964 |
| | Amounts written off | - | (252,765) | - |
| | | 854,935 | 542,278 | 724,815 |

## 22 Other Assets

| | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|
| Other assets comprise: | | | |
| Accounts receivable | 2,287,681 | 2,704,775 | 4,167,679 |
| Prepayments and other receivables | 4,839,039 | 11,237,217 | 6,150,831 |
| Employee Benefit | 657,986 | 605,372 | 144,340 |
| Stock of cheque books and admin | 195,599 | 222,684 | 124,791 |
| | 7,980,305 | 14,770,048 | 10,587,641 |
| Impairment on other assets | (1,848,300) | (1,511,788) | (1,038,966) |
| | 6,132,005 | 13,258,260 | 9,548,675 |
| Movement in impairment on other assets | | | |
| Balance, beginning of year | 1,511,788 | 1,038,966 | 1,306,510 |
| Arising from Business Combination | - | 1,250,899 | - |
| Impairment on other assets (note 11) | (255,783) | 470,664 | (267,544) |
| Reclassification/written off | 592,295 | (1,248,741) | - |
| Balance, end of year | 1,848,300 | 1,511,788 | 1,038,966 |

## 23 Property, plant and equipment

The movement on these accounts during the year was as follows:

| | | Leasehold Land and Building N'000 | Capital work-in-progress N'000 | Furniture, fittings and equipment N'000 | Computer equipment N'000 | Motor vehicles N'000 | Total N'000 |
|---|---|---|---|---|---|---|---|
| (a) | Cost | | | | | | |
| | Balance at 1 January 2011 | 3,234,256 | 156,023 | 3,628,999 | 2,673,554 | 2,003,983 | 11,696,815 |
| | Arising on combination | 2,858,255 | 1,528,417 | 4,220,905 | 3,007,497 | 2,225,586 | 13,840,660 |
| | Additions | 113,839 | 134,685 | 396,932 | 439,763 | 548,161 | 1,633,380 |
| | Reclassification | 135,382 | (141,104) | 5,465 | 257 | - | - |
| | Disposals | (51,329) | - | (27,000) | (2,661) | (284,295) | (365,285) |
| | Balance at 31 December 2011 | 6,290,403 | 1,678,021 | 8,225,301 | 6,118,410 | 4,493,435 | 26,805,570 |
| | Balance at 1 January 2012 | 6,290,403 | 1,678,021 | 8,225,301 | 6,118,410 | 4,493,435 | 26,805,570 |
| | Additions | 50,811 | 928,318 | 960,103 | 520,957 | 734,796 | 3,194,986 |
| | Reclassification | 425,821 | (2,232,664) | 958,342 | 815,647 | 32,854 | - |
| | Disposals | (292,139) | - | (736,760) | (836,372) | (1,063,947) | (2,929,218) |
| | Balance at 31 December 2012 | 6,474,898 | 373,674 | 9,406,986 | 6,618,643 | 4,197,138 | 27,071,338 |
| (b) | Depreciation and impairment losses | | | | | | |
| | Balance at 1 January 2011 | 993,825 | - | 2,605,294 | 2,391,296 | 1,438,944 | 7,429,360 |
| | Arising on combination | 1,822,763 | - | 2,788,940 | 2,822,433 | 1,907,353 | 9,341,489 |
| | Charge for the year | 182,696 | - | 550,668 | 302,130 | 392,115 | 1,427,609 |
| | Impairment losses | - | - | - | - | - | - |
| | Disposals | (38,767) | - | (26,999) | (2,661) | (255,273) | (323,700) |
| | Balance at 31 December 2011 | 2,960,517 | - | 5,917,903 | 5,513,198 | 3,483,139 | 17,874,757 |

| | Leasehold Land and Building N'000 | Capital work-in-progress N'000 | Furniture, fittings and equipment N'000 | Computer equipment N'000 | Motor vehicles N'000 | Total N'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2012 | 2,960,517 | - | 5,917,903 | 5,513,198 | 3,483,139 | 17,874,757 |
| Charge for the year | 377,828 | | 1,107,102 | 445,642 | 559,978 | 2,490,550 |
| Impairment losses | - | - | - | - | - | - |
| Disposals/Reclassification | (7,846) | | (79,637) | (66,537) | (933,263) | (1,087,284) |
| Balance at 31 December 2012 | 3,330,499 | - | 6,945,368 | 5,892,303 | 3,109,853 | 19,278,023 |
| Carrying amounts | | | | | | |
| Balance at 31 December 2012 | 3,144,399 | 373,674 | 2,461,618 | 726,340 | 1,087,285 | 7,793,316 |
| Balance at 31 December 2011 | 3,329,886 | 1,678,021 | 2,307,398 | 605,212 | 1,010,297 | 8,930,814 |
| Balance at 1 January 2011 | 2,240,431 | 156,023 | 1,023,704 | 282,258 | 565,039 | 4,267,455 |

The gross carrying amount of fully depreciated property, plant and equipment that is still in use is N13,649,207,174 (2011:N5,788,567,657)

## 24 Intangible assets

| | | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|---|
| | Purchased Software | | | |
| (a) | Cost | | | |
| | Beginning of year | 1,307,415 | 874,577 | 805,855 |
| | Arising on combination | - | 508,242 | - |
| | Additions | 137,669 | 15,690 | 62,063 |
| | Transfers | - | (91,094) | 6,659 |
| | Balance end of year | 1,445,084 | 1,307,415 | 874,577 |
| (b) | Amortisation and impairment losses | | | |
| | Beginning of year | 1,164,300 | 725,311 | 626,130 |
| | Arising on combination | - | 357,929 | - |
| | Amortisation for the year | 77,320 | 97,228 | 99,181 |
| | Impairment losses | - | - | - |
| | Transfers | - | (16,168) | - |
| | Balance end of year | 1,241,620 | 1,164,300 | 725,311 |
| | Carrying amounts | 203,465 | 143,115 | 149,266 |

## 25 Deferred tax assets

| December 2012 | Balance at 31 December 2011 N'000 | Recognised in profit or loss N'000 | Recognised in other comprehensive income N'000 | Balance at 31 December 2012 N'000 |
|---|---|---|---|---|
| Property, plant and equipment | 1,833,346 | - | - | 1,833,346 |
| Tax loss carry forward | 3,807,077 | - | - | 3,807,077 |
| Allowances for loan losses | 1,330,722 | | - | 1,330,722 |
| Net tax assets | 6,971,145 | - | - | 6,971,145 |

| December 2011 | Balance at 1 January 2011 N'000 | Recognised in profit or loss N'000 | Recognised in other comprehensive income N'000 | Balance at 31 December 2011 N'000 |
|---|---|---|---|---|
| Property, plant and equipment | (689,476) | 2,522,822 | - | 1,833,346 |
| Tax loss carry forward | 3,492,311 | 314,766 | - | 3,807,077 |
| Allowances for loan losses | 2,611,275 | (1,280,553) | - | 1,330,722 |
| Net tax assets | 5,414,110 | 1,557,035 | - | 6,971,145 |

There was a deferred tax asset of N3 billion credit but the bank elected not to recognise this.

| | | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|---|
| **26** | **Deposits from Banks** | | | |
| | Money Market | 3,118,775 | 17,744,296 | 38,975,532 |
| | | 3,118,775 | 17,744,296 | 38,975,532 |
| **27** | **Deposits from customers** | | | |
| | Current accounts | 284,103,953 | 248,465,306 | 82,841,085 |
| | Savings accounts | 20,698,460 | 18,463,549 | 9,600,178 |
| | Term deposits | 158,923,912 | 125,121,026 | 68,523,131 |
| | | 463,726,325 | 392,049,881 | 160,964,394 |
| **28** | **Other borrowed Funds** | | | |
| | Due to Citibank (See (i) below) | 14,672,844 | 14,717,642 | 14,041,222 |
| | Due to BOI (see (ii) below) | 8,657,020 | 9,878,090 | 10,934,451 |
| | Due to CBN-Agric-Fund (See (iii) below) | 7,026,175 | 2,495,650 | - |
| | Due to NEXIM | - | 209,995 | - |
| | | 30,356,039 | 27,301,377 | 24,975,673 |

i This represents the Naira equivalent of a USD95,000,000 facility granted to the Bank by Citibank International Plc payable in 4 years commencing October 2008 and interest is payable quarterly at a LIBOR plus a margin of 475 basis point. The facility was renegotiated to mature in September 2014 at a fixed rate of 7.5% annually. The loan is secured with pledged assets as indicated in Note 19.

ii This is a facility from Bank of Industry under Central Bank of Nigeria N200billion intervention fund for refinancing and restructuring of banks' existing loan portfolios to Nigeria SME/Manufacturing sector. The facility is administered at an all-in interest rate/charge of 7% per annum payable on quarterly basis. Specifically, the managing agent (BOI) shall be entitled to a 1% management fee and the Bank a 6% spread. Loans shall have a maximum tenor of 15 years and/or working capital facility of 1 year with provision for roll over.

iii This represents a facility granted by the Central Bank of Nigeria (CBN) in Ref DFD/PMO/GEN/001/273. This was granted in collaboration with the Federal Government of Nigeria (FGN) represented by the Federal Ministry of Agriculture and Water Resources (FMA &WR) by establishing a Commercial Agricultural Scheme (CACS) to promote commercial agricultural enterprise in Nigeria. All facilities approved by the participating banks under the scheme is for a maximum period of 7 years while overdraft facilities approved are for a period of 1 year. The loans are at all-in-interest rate of 9%.

Also included therein are facilities granted by the Bank, under The Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) scheme. This is an initiative of the Central Bank of Nigeria (CBN), the Bankers Committee (BC) and the Federal Ministry of Agriculture & Rural Development (FMA&RD). Facilities are approved by the participating Bank at commercial rate, and the Customer enjoys an interest rebate of 35% to 50% on the rate depending on the category of the project. NIRSAL also sells Credit Risk Guarantee, at a cost of 3% of the facility amount, to give coverage of 40%-75% of the facility amount depending on the category of the project.

| | | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|---|
| **29** | **Debt securities in issue** | | | |
| | Debt securities carried at amortised cost | 4,563,612 | 4,562,000 | - |

This represents N4.562billion (1 January 2011: Nil) 7 year 13% subordinated unsecured non-convertible debenture stock issued by the Bank and approved on 19 December 2011 and 30 December 2011 by the Central Bank of Nigeria and Securities Exchange Commission respectively. The Bank is obliged to pay the Trustee (Skye Bank Plc) interest semi-annually on the non convertible debenture stock due 2018 until all the entire stock have been redeemed.

| | | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|---|
| **30** | **Other liabilities** | | | |
| | Creditors and accruals | 2,615,062 | 2,052,328 | 214,032 |
| | Certified cheques | 10,602,333 | 9,499,811 | 1,462,674 |
| | Defined contribution obligations | 98,759 | 63,854 | 51,071 |
| | Customers' deposits for foreign trade | 13,066,151 | 2,027,256 | 2,243,481 |
| | Provisions | 2,339,275 | 2,594,952 | 135,971 |
| | Information Technology Levy | 74,997 | 74,452 | 36,518 |
| | Deposit for Debenture stock | - | - | 2,000,000 |
| | Other credit balances | 2,218,796 | 4,342,744 | 1,741,806 |
| | | 31,015,373 | 20,655,397 | 7,885,553 |

Included in the amount of provision are:

(i) Obligations to erstwhile ETB staff
(ii) AMCON provision of 0.3% of the total assets as mandated by CBN
(iii) Provision for litigations

| | | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|---|
| **31** | **Capital and reserves** | | | |
| | Share capital | | | |
| (a) | Authorised: | | | |
| | 24,000,000,000 Ordinary shares of 50k each | 12,000,000 | 12,000,000 | 12,000,000 |
| (b) | Issued and fully-paid: | | | |
| | 15.704 billion (2011: 15.704 billion) Ordinary shares of 50k each | 7,851,931 | 7,851,931 | 6,281,545 |

(i) Ordinary shareholding:
The holders of ordinary shares are entitled to receive dividend as declared from time to time and are entitled to vote at meeting of the Bank. All ordinary shares rank pari-passu with the same rights and benefits at meetings of the bank.

| | | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|---|
| (ii) | Movement in issued and fully paid share capital is as follows: | | | |
| | Balance at beginning of the year | 7,851,931 | 6,281,545 | 6,281,545 |
| | Arising from business combination | - | 1,570,386 | - |
| | Balance at the end of the year | 7,851,931 | 7,851,931 | 6,281,545 |
| (iii) | Movement in nominal share capital in numbers | | | |
| | Balance at beginning of the year | 15,703,863 | 12,563,090 | 12,563,090 |
| | Arising from business combination | - | 3,140,773 | - |
| | Balance at the end of the year | 15,703,863 | 15,703,863 | 12,563,090 |

| | | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|---|
| (iv) | Gross value of shares issued | - | 7,946,155 | - |
| | Transfer to issued and fully paid share capital (note 31 (ii)) | - | (1,570,386) | - |
| | Transfer to share premium (note 32) | - | (6,375,769) | - |
| | | - | - | - |

(c) Acquisition of Equtorial Trust Bank Limited

On 31 October 2011, the Bank acquired 100% of the voting shares of Equtorial Trust Bank Limited, an unlisted company based in Nigeria that specialises in banking. The Bank acquired Equtorial Trust Bank Limited to re-position itself to better compete in the market space.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Equtorial Trust Bank Limited as at the date of acquisition were:

| | ETB<br>N'000 |
|---|---|
| ASSETS | |
| Cash and balances with Central Bank of Nigeria | 15,287,000 |
| Treasury bills | 15,645,000 |
| Due from other banks | 14,186,000 |
| Loans and advances to customers | 27,357,000 |
| Investment securities | 97,875,000 |
| Other assets | 3,654,810 |
| Property, plant & equipment | 4,850,000 |
| | 178,854,810 |
| LIABILITIES | |
| Customer deposits | 146,440,000 |
| Due to other banks | 12,655,000 |
| Income tax payable | 266,000 |
| Other liabilities | 11,188,000 |
| Deferred tax liabilities | - |
| Retirement benefit obligations | 1,503,000 |
| | 172,052,000 |
| Net assets acquired | 6,802,810 |
| Adjustment : | |
| Receivable from escrow | 1,697,190 |
| Cost of combination | 8,500,000 |
| Cost of acquisition | 7,946,155 |
| Negative Goodwill arising from business combination | 553,845 |

| | | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|---|
| **32** | **Share premium** | | | |
| | Balance at beginning of the year | 18,689,788 | 12,314,019 | 12,314,019 |
| | Arising from business combination | - | 6,375,769 | - |
| | Balance at the end of the year | 18,689,788 | 18,689,788 | 12,314,019 |

## 33 Other regulatory reserves

The other regulatory reserves include movements in the statutory reserves. Nigerian banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by S.16(1) of the Banks and Other Financial Institution Act of Nigeria, an appropriation of 30% of profit after tax is made if the statutory reserve is less than paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid up share capital.

a Fair value reserve

The fair value reserve includes the net cumulative change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

b Regulatory risk reserve

The regulatory risk reserve warehouses the difference between the impairment on loans and advances computed based on the Central Bank of Nigeria Prudential Guidelines compared with the incurred loss model used in calculating the impairment under IFRSs.

c Other reserves

The other reserves includes movements in the Small and Medium Scale Industries Reserve (SMEEIS).

The SMEEIS reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside a portion of the profit after tax in a fund to be used to finance equity investment in qualifying small and medium scale enterprises. Under the terms of the guideline (amended by CBN letter dated 11 July 2006), the contributions will be 10% of profit after tax and shall continue after the first 5 years but banks' contributions shall thereafter reduce to 5% of profit after tax. However, this is no longer mandatory. In prior year, 10% of profit after taxation was transferred to SMEEIS reserves in accordance with Small and Medium Enterprise Equity Investment Scheme as revised in April 2005. The Bank has suspended further appropriation to SMEEIS (now known as Microcredit Fund) reserve account in line with the decision reached at the Banker's Committee meeting and approved by CBN.

d Retained earnings

Retained earnings are the carried forward recognised income net of expenses plus current period profit attributable to shareholders.

## 34 Contingencies

a Litigations and claims

There are litigations and claims against the Bank as at 31 December 2012 amounting to N2.2billion.

These claims arose in the normal course of business and are being contested by the Bank. The Directors, having sought advice of professional counsel, are of the opinion that no significant liability will crystalise from these claims. Provisions of N263million (2011:N226.66million) have been made in these financial statements on crystalised claims.

b Contingent liabilities and commitments

In common with other banks, the Bank conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. Contingent liabilities and commitments comprise performance bonds, acceptances, guarantees and letters of credit.

Nature of instruments:

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. These consist of financial guarantees and letters of credits. These obligations are not recognised on the statement of financial position because the risk has not crystallised.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

The following tables summarise the nominal principal amount of contingent liabilities and commitments with off- financial position risk:

| | December-12<br>N'000 | December-11<br>N'000 | January-11<br>N'000 |
|---|---|---|---|
| Bonds, guarantees and indemnities | 74,187,001 | 36,570,698 | 35,347,605 |
| Letters of credit | 47,003,744 | 42,086,995 | 13,531,899 |
| Others | 6,759,130 | 15,722 | 28,669 |
| | 127,949,875 | 78,673,415 | 48,908,173 |

Above balances represent contingent's liabilities for which the customers have not defaulted to give rise to the bank being liable to settle the counter party. As stated in note 2.2.15, any portion that is due for which the bank has become liable are recognised in the Other Liabilities note 30.

## 35 Related parties

Related party transactions Parties are considered to be related if one party has the ability to control the other party or exercise influence over the other party in making financial and operational decisions, or one other party controls both. The definition includes directors and key management personnel among others.

(i) Transactions with all related parties of the Bank

| | | **December-12**<br>**N'000** | **December-11**<br>**N'000** | **January-11**<br>**N'000** |
|---|---|---|---|---|
| | Loans and advances | | | |
| a | Secured loans and advances (note 39) | 16,161,676 | 11,795,228 | 2,210,269 |
| b | Contingent liabilities | 1,617,248 | 350 | 2 |

Transactions with key management personnel
Key management personnel have been defined as the executive directors and non-executive directors of the bank. Key management personnel and their close family members engaged in the following transactions with the bank during the year:

Loans and advances

| | December-12 N'000 | December-11 N'000 | January-11 N'000 |
|---|---|---|---|
| Secured loans and advances | 177,870 | 193,166 | 258,250 |
| Deposits liabilities | 40,484,319 | 43,623,924 | 54,244,604 |

| | | | |
|---|---|---|---|
| Key management personnel compensation for the year comprised: | | | |
| Directors' remuneration | | | |
| Fees as directors | 19,250 | 20,500 | 13,000 |
| Other emoluments | 32,542 | 42,847 | 26,309 |
| | 51,792 | 63,347 | 39,309 |
| Executive compensation | 125,057 | 83,567 | 80,767 |
| Pension contribution | 9,469 | 13,368 | 9,384 |
| | 134,526 | 96,935 | 90,151 |

Further disclosure of related parties' transaction is reflected in note 39 in compliance with Central Bank of Nigeria circular BSD/1/2004

## 36 Events after reporting date

There were no post balance sheet events which could have a material effect on the financial position of the Bank as at 31 December 2012 and profit attributable to equity holders on that date which have not been adequately adjusted for or disclosed.

## 37 Dividend payable

In respect of the current year, the Directors proposed that a dividend of 20 kobo per ordinary share will be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. Dividend to shareholders is now accounted for on the date of declaration as they do not meet criteria of present obligation in International Accounting Standard (IAS) 37. The proposed dividend is subject to withholding tax at the appropriate tax rate and is payable to shareholders whose names appear in the Register of Members at closure date. The gross dividend to be paid is N3,140,772,886.20.

## 38 Financial risk management

(a) Introduction and overview

Risks are inherent in the lending, trading and all other intermediation activities of the bank. In managing these risks, the bank has adopted an Enterprise Risk Management Philosophy of building a sound, safe and stable financial institution through the efficient management of risks. In achieving this, the bank has adopted a standard template and common methodology for risk identification, measurement, management and control.

## 38 Financial risk management - continued

The bank is exposed to Credit Risk, Liquidity Risk, and Market Risk; both in the trading book and banking book and Operational Risk among other risks. The bank has put in place approved policies, procedures and guidelines for identifying, measuring, management and control of these risks.

(b) Risk Management Structure

The responsibility for management of the total risk exposure of the bank rest with the Board, this responsibility is delegated to various committees of the Board.

The Board Risk Management Committee (BRMC) is saddled with the responsibility of managing the overall risk exposure of the bank. The committee reviews and recommends risk management policies and procedures for Board approval.

The Board Credit Committee (BCC) acts on behalf of the board of directors on all credit matters. It considers and approves lending exposures, treasury investments exposures, as well as other credit exposures that exceed the mandated approval limit of Management.

The Management Risk Committee (MRC) is responsible for the planning, management and control of the bank`s overall risks; including the determination of the bank`s risk philosophy, appetite, limits and policies.

The Management Credit committee (MCC) is saddled with the responsibility of credit policy articulation and credit approval that falls within the mandated approval limit. It reviews and recommends credit policy direction to the BCC.

The Assets and Liability/Market Risk Committee ensures that the bank has adequate liquidity to meet the funding need of the bank, and also manages the interest rate and foreign exchange risk of the bank. The committee also reviews the economic outlook and its likely impact on the bank`s current and future performance.

The Criticised Assets Committee (CAC) reviews the non-performing loans stock and recommends strategies for recovery of bad loans. The committee also review the bank`s loan portfolio and ensure the adequacy of collateral documentation. The Enterprise Risk Management Group is saddled with the responsibility of implementing and supervising all risk management policies, guidelines and Procedures.

The Internal Control Department monitors compliance with risk principles, polices and limits across the bank. Exceptions are reported on a daily basis, where necessary to management and appropriate action are taken to address the identified weaknesses. The Internal Audit Department as part of its annual audit programme, examines the adequacy and level of compliance with the procedures. Result of assessments, findings and recommendations are discussed with the relevant department and reports to the Board Audit Committee.

(c) Risk measurement and reporting systems

In measuring the risk exposure of the bank, particular emphasis is placed on the methodologies that estimate both expected and unexpected loss. Central to this; is the quantitative and qualitative assessment of credit risks through a rigorous internal ratings system. The bank also runs sensitivity analysis and stress testing to identify potential exposure under stress market situations.

Monitoring and controlling of risk is done by ensuring that limits established are strictly complied with and that such limit reflects both the quantitative and qualitative risk appetite of the bank. Particular emphasis is placed on the Risk Acceptance Criteria (RAC) set in identifying customers in the target industries. Furthermore, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

## 38 Financial risk management - continued

Risk Information compiled from all business activities of the bank is analysed and processed towards identifying and controlling risks on a timely basis. Risk reports are presented on a timely basis for informed management decision. The Management Risk Committee (MRC) and the Board Risk Management Committee (BRMC) which constitute the supervisory body are updated of the risk profile of the bank by way quarterly risk reports.

(d) Risk mitigation

The bank has in place a set of management actions to prevent or mitigate the impact on earnings of business risks. Business risk monitoring, through regular reports and oversight, results in corrective actions to plans and ensure reductions in exposures where necessary. Credit control and mitigation polices are also in place. Collateral policies are designed to ensure that the bank`s exposure is secured and to minimize the risk of credit losses to the bank in the event of decline in quality or delinquency of assets.

Guidelines for accepting credit collateral are well documented and articulated in the Credit Policy Guidelines (CPG). These include;

a. Acceptable collateral for each credit product.
b. Required documentation/perfection of collaterals.
c. Conditions for waiver of collateral requirement and approval of collateral waiver.
d. Acceptance of cash and other forms of collateral denominated in foreign currency.

Finally, master netting arrangements for credit facilities collateralised partly with deposits are settled by set-off based on underlying set-off agreement.

(e) Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, credit concentration limits are set and closely monitored along industries and sectors, geography, collaterals and products. The ultimate objective of managing credit portfolio concentration risk is to ensure proper diversification of the risk assets portfolio. Concentration limits are also in place to manage Investment Portfolio and customer deposit concentration in the management of liquidity risk.

(f) Risk management architecture

To achieve its risk management objectives, the Bank has a risk management framework that comprises the following elements:

- A risk management culture.
- A governance culture.
- Risk management policies.
- A review of risk decisions by independent professionals.
- Independent oversight by the Compliance Department.
- An independent assessment by the Internal Audit Department.

(g) Credit Risk Management

The Bank's credit risk management activities are based on certain fundamental principles.

The effectiveness of risk management process throughout the Bank is based on a simple formal governance structure with regular reporting processes within a well defined control environment.

## 38 Financial risk management - continued

The Bank's risk policy allows its personnel take initiatives and responsibility to proactively identify risks in delivering products and services to the market in a value-added manner.

The Bank's risk assets are managed to help provide the liquidity to meet deposit withdrawals, cover all expenses, and still earn sufficient profit to make returns which are competitive with other investments.

Credit risks are examined for all credit-related transactions including investments and trading transactions, in addition to loans and leases. Credit risks are examined and managed for unfunded loan commitments in addition to funded loans and leases.

Credit risks are managed such that loan quality and the bank's reputation are aligned with the Bank's objective of fairly conservative risk appetite, balanced against a desire for reasonable returns.

(h) Methodology for risk rating

The Bank maintains a two-dimensional internal credit rating system involving the determination of a borrower rating and facility rating for each exposure. Separate risk ratings are maintained for structured and unstructured, wholesale and retail customers. Consumer credit in the Bank is largely driven by standard credit product programmes and a credit scoring model.

Credit Scoring System

The Bank's credit scoring system operates by assigning values to various factors as indicated below. These values are weighted based upon their correlation to default predictions and the Bank's business objectives. They are added and averaged to determine a credit score for application. The scoring system either recommends for approval or decline, or refers the application for further analysis.

The risk rating methodology is based on the following fundamental analyses (financial analysis and non- financial analysis):

(i) Market Segment

Applications are scored according to market segment they belong as indicated below.

Upper Market
- Structured
- Unstructured

Middle
- Structured
- Unstructured
- Small Business/Individual

(ii) Facility, Type and Tenor

Applications are scored according to facility type as represented below:

- Less than or equal to 90 days
- Over 90 days but less than 180 days
- Over 180 days but less than 365 days
- Over 365 days

(iii) Sales Turnover

From experience the less the turnover, the riskier the business ventures. Businesses with higher turnover tend to have better capability to withstand occasional market storms.

## 38 Financial risk management - continued

(iv) Management

This index is critical to the survival of any business outfit. A proper diagnosis of the management is important for sound credit judgment.

Management

Upper Market

* Structured
  - Defined, stable and strong Management and Board.
  - Defined but weak Management and Board
  - Stable Management with Board instability
  - Stable Board with Management instability

* Unstructured

- Limited liability companies/sole/partnership with defined existing organisation structure and reliable financial information,
- Limited liability companies/sole/partnership without properly defined/existing organisation structure, but with reliable financial information.
- Limited liability companies/sole/partnership without properly defined/existing organisation structure and reliable financial information.
- Non-existing organisation structure without reliable financial information.

Middle Market

* Structured

• Defined, stable and strong Management and Board.
• Defined but weak Management and Board
• Stable Management with Board instability
• Stable Board with Management instability

* Unstructure

• Limited liability companies/sole/partnership with defined existing organisational structure and reliable financial information.
• Limited liability companies/sole/partnership without properly defined/existing organisation structure but with reliable financial information.
• Limited liability companies/sole/partnership without properly defined/existing organisation structure and reliable financial information.
• Non-existing organisation structure without reliable financial information.

* Small businesses

• Company with proven track record of ten years and above, managed by well-educated professionals and has reliable financial information.
• Company with proven track record of five years, managed by well-educated professionals and have reliable financial information,
• Company with minimal proven record of three-five years, managed by well-educated professionals and reliable financial information.
• Company with minimal track record of less than three years, managed by skilled and well- trained persons and with reliable financial information.
• Company with minimal track record of less than three years, no professionals and no reliable financials.
• Company without information and proven experience and no reliable financials.

## 38 Financial risk management - continued

(v) Collateral/Security

Collateral often referred to as credit risk mitigant, is an important means of adding assurance of recovery of the Bank's loan. The pledged collateral is properly documented and continuously reviewed as to its value and marketability.
Collaterals are reviewed and scored based on the following parameters:

- Whether secured or not secured
- If secured, what type of security
- Perfectible legal mortgage
- Equitable mortgage
- Chattel mortgages
- Location of security/collateral
- Loan to value ratio of collateral offered
- Marketability of security/collateral
- Whether collateral is a specialised asset or general purpose-type asset.
- Depreciating or appreciating value over time.

(vi) Character

Fundamental to every credit decision is the honesty and integrity of the individuals to whom the Bank lends directly or who manage the enterprises to which the Bank lends. Character is the single most important factor in the credit decision.

(vii) Capacity

The acceptance of a credit depends upon an objective evaluation of the customer's ability to repay the borrowed funds. To establish this, profitability and liquidity ratios are used as part of the assessment.

(viii) Capital

The borrower must provide capital for anticipated adversity. The index to determine capital should be leverage for overdraft, lease and term loan facilities. Customers who cannot provide financials are regarded as having zero leverage.

(ix) Cash Collaterised Facilities

Cash collaterised facilities are not to be subjected to this scoring method, unless the character of the customer is questionable, in which case, the application is rejected.

For cash collaterised facilities the key issue is the safety margin, which should not be less than 20%. This margin must not be cleaned up by accrued interest within the tenor of the facility. If a credit application satisfies these criteria the score shall remain 100.

(x) Pricing

The pricing of facilities is done to reflect the inherent risks for accepting the exposure by the Bank.

The average score computed often determine the minimum level of interest chargeable. This interest rate determined would be a guide. For the purposes of clarity, a prime rate is determined by Asset and Liability management Department and other rates are either above or below it.

Enterprise risk review

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk score to the financial business and the operational risks are an inevitable consequence of being in business.

## 38 Financial risk management - continued

The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by Enterprise Risk Management Group (ERM) within the policies approved by the Board of Directors. The ERM identify, evaluate and manage respective aspects of financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, market risk and operational risk. In addition, the Inspectorate Division is responsible for the independent review of risk management and the control environment. The most important types of risk are Credit risk, Liquidity risk, Market risk and Operational risk. Market risk includes currency risk, interest rate and other price risk.

(i) Credit risk

The Bank manages risk inherent in loans and advances, which is the risk that a counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk inherent in the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other instruments into the Bank's asset portfolio.

There is also credit risk in off-balance sheet financial instruments. The credit risk is managed by two departments - Credit Risk Assessment and Credit Administration Departments. They report to the Chief Risk Officer who in turn reports to the Executive Management and Board of Directors.

(ii) Credit risk measurement

Before a sound and prudent credit decision can be taken, the credit risk represented by the borrower or counterparty must be accurately assessed. This assessment is performed at the outset of the credit application process. Each application is analysed and assigned one of 9 (nine) grades using a credit rating system developed by the bank for all exposures to credit risk. As each grade corresponds to a borrower's or counterparty's probability of default, the credit risk can be determined for the bank.

(iii) Credit granting process

Credit granting decisions are based first and foremost on the results of the risk assessment. In addition, to the client's solvency, credit granting decisions are also influenced by factors such as available collateral, transaction compliance with policies and standards, procedures and the Bank's overall risk-adjusted returns objective. Each credit granting decision is made by authorities within the risk management teams and management who are independent of the business units and are at a reporting level commensurate with the size of the proposed credit transaction and the associated risk.

a) Loans and advances

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects the following components:

(i) the character and capacity of the client or counterparty to pay down on its contractual obligations;
(ii) current exposures to the counterparty and its likely future development;
(iii) credit history of the counterparty and ,
(iv) the likely recovery ratio in case of default obligations -using value of collateral and other ways out.

## 38 Financial risk management - continued

The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

The risk rating scale and the external rating equivalent is detailed below:

| Risk Rating | External Rating Equivalent | Score Range | Remarks |
|---|---|---|---|
| RR -1 | AAA TO AA- | 90-100 | Superior |
| RR -2 | A+ TO A- | 80-89.99 | Strong |
| RR -3 | BBB+ TO BB- | 70-79.99 | Good |
| RR -4 | BB+ TO BB- | 50-69.99 | Satisfactory |
| RR -5 | B+ TO B- | 40-49.99 | High risk |
| RR -6 | CCC+ TO CCC | 30-39.99 | Watch list |
| RR -7 | CC+ TO C | 20-29.99 | Substandard |
| RR -8 | D | 10-19.99 | Doubtful |
| RR -9 | D | <10 | Lost |

(b) Debt securities and other bills

For debt securities and other bills, external rating such as Agusto rating or their equivalents are used by Treasury department primarily to manage their liquidity risk exposures.

(iv) Credit Risk Control & Mitigation policy

The Bank manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to sectors and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or groups of borrowers (single obligor limits), and to geographical and sectoral segments. Such risks are monitored on a revolving basis. Limits on the level of credit risk by product, industry sector and by country are reviewed and approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off- balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

The Bank also sets internal credit approval limits for various levels in the credit process and are shown in the table below:

| Authority level | Approval limit (N) |
|---|---|
| Full Board | Above 1,000,000,000 |
| Board, Credit Committee | 1,000,000,000 |
| Management Credit Committee | 500,000,000 |
| Managing Director | 250,000,000 |
| Executive Director | 150,000,000 |

## 38 Financial risk management - continued

Approval limits are set by the Board of Directors and reviewed from time to time as the circumstances demand. Some other specific control and mitigation measures are outlined below:

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

i. Mortgages over residential properties;
ii. Charges over business assets such as premises inventory and accounts receivable;
iii. Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities as well as individuals are generally secured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as loss indicators are noticed for the relevant loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset- backed securities and similar instruments, which are secured by portfolios of financial instruments.

An estimate of the fair value of any collateral and other security enhancements held against loans and advances to customers and banks is shown below:

| | Loans and advances to customers | | |
|---|---|---|---|
| | **31 December 2012 N'000** | **31 December 2011 N'000** | **1 January 2011 N'000** |
| Against individually impaired | 444,700 | 179,519 | 3,846,499 |
| Against collectively impaired | 117,905,238 | 65,167,156 | 46,315,012 |
| Total | 118,349,938 | 65,346,675 | 50,161,511 |
| Against individually impaired: | | | |
| Cash | - | - | 100,000 |
| Secured against real estate | 444,700 | 41,700 | 358,415 |
| Debenture / otherwise Secured | - | 137,819 | 837,104 |
| Stocks/Shares | - | - | 2,550,980 |
| | 444,700 | 179,519 | 3,846,499 |
| Against collectively impaired: | | | |
| Cash | 4,821,384 | 345,296 | 330,360 |
| Secured against real estate | 90,196,109 | 40,512,274 | 25,448,162 |
| Debenture | 14,155,981 | 6,429,748 | 17,397,634 |
| Stocks/Shares | 7,764,164 | 2,226,941 | 3,003,769 |
| Otherwise secured | 967,600 | 15,652,896 | 135,086 |
| | 117,905,238 | 65,167,156 | 46,315,012 |

## 38 Financial risk management - continued

(b) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

(d) Credit concentration

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

| | **Loans and advances to customers** | | | **Investment securities** | | |
|---|---|---|---|---|---|---|
| | **31 December 2012 N'000** | **31 December 2011 N'000** | **1 January 2011 N'000** | **31 December 2012 N'000** | **31 December 2011 N'000** | **1 January 2011 N'000** |
| Carrying amount, net of allowance for impairment | 229,420,874 | 162,063,156 | 102,820,980 | 174,792,395 | 172,475,915 | 82,415,384 |
| Concentration by sector: | | | | | | |
| Corporate | - | - | - | 3,226,968 | 5,208,493 | 2,512,153 |
| Agriculture | 6,497,158 | 4,767,876 | 484,452 | - | - | - |
| Capital Market | 151,154 | 402,633 | 2,531,112 | - | - | - |
| Communication | 9,881,429 | 947,597 | 983,739 | - | - | - |
| Consumer | 7,236,579 | 5,440,789 | 1,927,796 | - | - | - |
| Education | 1,041,479 | 831,477 | 242,184 | - | - | - |
| Finance And Insurance | 10,532,386 | 7,823,783 | 4,345,314 | - | - | - |
| Government | 12,727,279 | 14,457,613 | 1,920,979 | 166,960,971 | 167,267,422 | 79,903,231 |
| Manufacturing | 14,681,217 | 10,760,733 | 12,748,087 | - | - | - |
| Mining & Quarrying | 192,153 | 175,071 | - | - | - | - |
| Mortgage | 8,625,922 | 3,769,628 | 2,297,713 | - | - | - |
| Oil & Gas | 68,469,726 | 45,044,044 | 17,213,683 | - | - | - |
| Other Public Utilities | 143,569 | 237,661 | 44,532 | - | - | - |
| Others | 52,785,813 | 26,625,227 | 18,727,054 | - | - | - |
| Power | 215,625 | 503,137 | 2,421 | - | - | - |
| Real Estate & Construction | 25,550,178 | 33,001,911 | 36,964,720 | - | - | - |
| Transportation | 10,689,208 | 7,273,975 | 2,387,193 | - | - | - |
| Euro Bond | - | - | - | 4,604,456 | - | - |
| | 229,420,874 | 162,063,156 | 102,820,980 | 174,792,395 | 172,475,915 | 82,415,384 |
| Concentration by location: | | | | | | |
| Nigeria | 229,420,874 | 162,063,156 | 102,820,980 | 174,792,395 | 172,475,915 | 82,415,384 |
| Rest of Africa | - | - | | | | |
| Europe | - | - | | | | |
| | 229,420,874 | 162,063,156 | 102,820,980 | 174,792,395 | 172,475,915 | 82,415,384 |

## 38 Financial risk management - continued

(v) Credit definitions

(i) Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These are loans and securities specifically impaired and are graded 7, 8 and 9 in the Bank's internal credit risk grading system.

(ii) Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and /or the stage of collection of amounts owed to the Bank.

(iii) Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

(iv) Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance, established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

(v) Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when Bank Management Credit Committee determines that the loans / securities are uncollectible. This decision is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions are generally based on a product specific past due status.

## 38 Financial risk management - continued

All loans and advances are categorised as either:

- Collectively impaired
- Past due but not impaired

The impairment allowance includes allowances against financial assets that have been individually impaired and those subject to collective impairment.

**Exposure to credit risk**

| | Loans and advances to customers | | | Collateral | | |
|---|---|---|---|---|---|---|
| | **31 December 2012 N'000** | **31 December 2011 N'000** | **1 January 2011 N'000** | **31 December 2012 N'000** | **31 December 2012 N'000** | **1 January 2011 N'000** |
| In thousands of Nigerian Naira | | | | | | |
| Carrying amount, net of allowance for impairment | 229,420,874 | 162,063,156 | 102,820,980 | | | |
| Assets at amortised cost: | | | | | | |
| Individually impaired | | | | | | |
| Grade 7: Impaired | 5,559,775 | 950,715 | 1,191,319 | 427,000 | | 1,264,466 |
| Grade 8: Impaired | 2,756,329 | 3,749,216 | 2,160,990 | 17,700 | 41,700 | 1,928,067 |
| Grade 9: Impaired | 726,937 | 3,527,309 | 8,287,667 | | 137,819 | 653,966 |
| Gross amount | 9,043,041 | 8,227,240 | 11,639,976 | 444,700 | 179,519 | 3,846,499 |
| Allowance for impairment | (5,834,100) | (5,319,677) | (6,280,389) | | - | - |
| Carrying amount, net of allowance for impairment | 3,208,942 | 2,907,563 | 5,359,587 | 444,700 | 179,519 | 3,846,499 |
| In thousands of Nigerian Naira | | | | | | |
| Collectively impaired: | | | | | | |
| Grade 1-4: Low-fair risk | 217,443,377 | 105,312,496 | 82,510,330 | 115,753,917 | 43,611,145 | 43,272,470 |
| Grade 5-6: Watch list | 7,618,623 | 52,713,748 | 13,508,687 | 784,803 | 21,553,012 | 3,040,390 |
| Past due but not impaired | - | - | | | | |
| Grade 7 | 942,156 | 340,609 | 776,077 | 171,519 | 3,000 | 2,153 |
| Grade 8 | 615,882 | 251,938 | 1,962,813 | 655,000 | | |
| Grade 9 | 468,192 | 4,621,245 | 885,548 | 540,000 | | |
| Gross amount | 227,088,230 | 163,240,036 | 99,643,455 | 117,905,238 | 65,167,156 | 46,315,012 |
| Allowance for impairment | (876,298) | (4,084,444) | (2,182,062) | | | |
| Carrying amount, net of allowance for impairment | 226,211,932 | 159,155,592 | 97,461,393 | 117,905,238 | 65,167,156 | 46,315,012 |
| Total carrying amount, net of allowance for impairment | 229,420,874 | 162,063,156 | 102,820,980 | 118,349,938 | 65,346,675 | 50,161,511 |

## 38 Financial risk management - continued

| | 31 December 2012 N'000 | 31 December 2011 N'000 | 1 January 2011 N'000 |
|---|---|---|---|
| Age analysis for financial assets that are past due but not impaired: | | | |
| Past due days | | | |
| 1 - 30 days | 1,415,090 | 4,622,589 | 3,213,455 |
| 31 - 60 days | - | 340,117 | 236,437 |
| Above 90 days | 611,141 | 251,086 | 174,546 |
| | 2,026,231 | 5,213,792 | 3,624,438 |

(e) Liquidity risk

Liquidity risk and funding management: The bank is exposed to two types of liquidity risk

(i) Market/Trading Liquidity Risk - inability to conduct transaction at current market price because of the size of the transaction, this type of liquidity risk comes to play when certain assets cannot be liquidated at short notice due to market illiquidity.

(ii) Funding Liquidity Risk - inability to access sufficient funds to meet payment obligations in a timely manner. The Management of Liquidity risk arising from funding and trading is very critical to the on- going viability of the bank. The Board approved Liquidity Risk Management policy framework and the contingency plan for liquidity risk under crises condition are the policy document in place for managing liquidity risk.

The Assets & Liability Committee (ALCO) is responsible for managing the liquidity of the bank, this function is delegated to the Asset & Liability Management (ALM) department that manage the day-to-day liquidity requirements of the bank and also act as secretariat to ALCO. Liquidity risk is assessed by comparing the expected outflows with expected inflows, and liquidity risk arises when there is a mismatch arising between the inflow and outflow, also when there is unexpected delay in repayment of loans(term liquidity risk) or un expectedly high payment outflow(withdrawal/call risk).

In line with the Liquidity risk management framework, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Net liquid assets consist of cash, short–term bank placements and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month.

Presented below is the process used in managing liquidity

a. Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in money markets to enable this to happen;

b. Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

c. Monitoring balance sheet liquidity ratios against internal and regulatory requirements (in conjunction with Financial and Regulatory Reporting Department).

## 38 Financial risk management - continued

The table below shows the undiscounted cash flows on the Bank's financial liabilities and on the basis of their earliest possible contractual maturity. The gross nominal inflow / (outflow) disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment.

| 31 December 2012 | Note | Carrying amount | Gross nominal inflow / (outflow) | Less than 3 month | 3 - 6 months | 6 - 12 months | 1 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| | | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 |
| Non-derivative assets: | | | | | | | | |
| Cash and balances with central bank | 17 | 63,622,016 | 63,622,016 | 15,314,992 | - | - | - | 48,307,024 |
| Due from banks | 18 | 33,878,671 | 33,878,671 | 24,680,025 | 9,198,646 | - | - | - |
| Pledged assets | 19 | 57,412,053 | 57,412,053 | - | 9,749,894 | 47,662,159 | - | - |
| Loans and advances to customers | 20 | 229,420,874 | 236,131,272 | - | 61,025,407 | 42,037,997 | 116,747,557 | 16,320,310 |
| Investment securities | 21 | 174,792,395 | 175,647,330 | - | 26,985,621 | 26,526,320 | 99,032,820 | 23,102,569 |
| | | 559,126,009 | 566,691,342 | 39,995,017 | 106,959,568 | 116,226,476 | 215,780,377 | 87,729,904 |
| Non-derivative liabilities | | | | | | | | |
| Deposits from banks | 26 | 3,118,775 | 3,118,775 | - | 3,118,775 | - | - | - |
| Deposits from customers | 27 | 463,726,325 | 463,726,325 | 284,191,474 | 118,341,025 | 60,777,515 | 316,834 | 99,477 |
| Other borrowed funds & Debt securities | 28 & 29 | 34,919,651 | 34,919,651 | - | 1,148,866 | 3,392,074 | 25,432,326 | 4,946,385 |
| Other liabilities - Customers' deposits for foreign trade | 30 | 13,066,151 | 13,066,151 | 1,440,023 | 11,626,128 | - | - | - |
| | | 514,830,902 | 514,830,902 | 285,631,497 | 134,234,794 | 64,169,589 | 25,749,160 | 5,045,862 |
| Gap (asset - liabilities) | | | | (245,636,480) | (33,985,623) | 52,056,887 | 190,031,217 | 79,830,246 |
| Cumulative liquidity gap | | | | (245,636,480) | (279,622,103) | (227,565,216) | (37,533,999) | 42,296,247 |

## 38 Financial risk management - continued

| 31 December 2011 | Note | Carrying amount | Gross nominal inflow / (outflow) | Less than 3 month | 3 - 6 months | 6 - 12 months | 1 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| | | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 |
| Cash and balances with central bank | 17 | 36,810,450 | 36,810,450 | 12,902,192 | | | | 23,908,258 |
| Due from banks | 18 | 53,695,139 | 54,483,451 | - | 54,483,451 | - | - | - |
| Pledged assets | 19 | 49,700,219 | 49,700,219 | - | - | 5,793,818 | 1,560,000 | 42,346,401 |
| Loans and advances to customers | 20 | 162,063,156 | 171,467,277 | 7,850,008 | 18,492,130 | 21,772,021 | 14,043,014 | 109,310,104 |
| Investment securities | 21 | 172,475,915 | 173,018,193 | - | - | 15,135,110 | 59,112,139 | 98,770,944 |
| | | 474,744,879 | 485,479,590 | 20,752,200 | 72,975,581 | 42,700,949 | 74,715,153 | 274,335,708 |
| Non-derivative liabilities | | | | | | | | |
| Deposits from banks | 26 | 17,744,296 | 17,744,296 | - | 17,744,296 | - | - | - |
| Deposits from customers | 27 | 392,049,881 | 392,049,881 | 231,483,674 | 30,353,725 | 44,478,392 | 85,301,913 | 432,177 |
| Other borrowed funds & Debt securities | 28 & 29 | 31,863,377 | 31,863,377 | - | - | - | 15,395,568 | 16,467,809 |
| Other liabilities - Customers' deposits for foreign trade | 30 | 2,027,256 | 2,027,256 | 36,094 | 1,991,162 | - | - | - |
| | | 443,684,810 | 443,684,810 | 231,519,768 | 50,089,183 | 44,478,392 | 100,697,481 | 16,899,986 |
| Gap (asset - liabilities) | | | | (211,555,880) | 13,482,277 | (1,777,443) | (25,982,328) | 256,893,446 |
| Cumulative liquidity gap | | | | (211,555,880) | (198,073,603) | (199,851,046) | (225,833,374) | 31,060,069 |

Items with more than 12 months are expected to be Non-current.

(f) Market risks

Market risk is the risk arising from adverse movements in underlying market factors such as interest rates, equities prices, commodity prices and exchange rates. Interest Rate Risk both in the banking book and trading book, and foreign exchange risk are the major market risks borne by the bank

Market Risks on the trading portfolio are extensively monitored and managed using the following tools; Counterparty Trading limits, Dealer limits, Net Open Position, Maturity Cap limits and Stop Loss Limits. While market risks on the non-trading position are managed and monitored using sensitivity analysis

f(i) Interest Rate Risk

Interest rate risk occurs when there is a mismatch between interest sensitive assets and liabilities. The major objective of interest rate risk management is to minimise reduction in net income and reduction in the banks economic value of equity resulting from changes in interest rates.

Interest rate risk is managed using static re-pricing gap cumulative analysis, by ensuring that a balanced re-pricing cumulative gap position is maintained in line with the limits set by the board. Re-pricing Gap reports are prepared to monitor level of compliance, in addition to testing the sensitivity of changes in interest rates to Net Interest Income, while duration analysis is used in measuring and managing interest rate risk in the trading book.

## 38 Financial risk management - continued

| | | Notes | Carrying amount N'000 | Less than 3 months N'000 | 6 months N'000 | 12 months N'000 | 5 years N'000 | More than 5 year N'000 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Reprising period | | |
| (a) | 31 December 2012 | | | | | | | |
| | Non-derivative assets: | | | | | | | |
| | Cash and balances with central bank | 17 | 63,622,016 | 15,314,992 | - | - | - | 48,307,024 |
| | Due from banks | 18 | 33,878,671 | 24,680,025 | 9,198,646 | - | - | - |
| | Pledged non trading assets | 19 | 57,412,053 | - | 9,749,894 | 47,662,159 | - | - |
| | Loans and advances to customers | 20 | 229,420,874 | - | 54,315,010 | 42,037,997 | 116,747,557 | 16,320,310 |
| | Investment securities | 21 | 174,792,395 | 1,998,860 | 26,985,621 | 26,526,320 | 99,032,820 | 20,248,774 |
| | | | 559,126,009 | 41,993,877 | 100,249,171 | 116,226,476 | 215,780,377 | 84,876,108 |
| | Non-derivative liabilities: | | | | | | | |
| | Deposits from banks | 26 | 3,118,775 | - | 3,118,775 | - | - | - |
| | Deposits from customers | 27 | 463,726,325 | 284,191,474 | 118,341,025 | 60,777,515 | 316,834 | 99,477 |
| | Other borrowed fund & Debt securities | 28 & 29 | 34,919,651 | - | 1,148,866 | 3,392,074 | 25,432,326 | 4,946,385 |
| | | | 501,764,751 | 284,191,474 | 122,608,666 | 64,169,589 | 25,749,160 | 5,045,862 |
| | Total interest sensitivity gap | | (57,361,258) | (242,197,597) | (22,359,495) | 52,056,887 | 190,031,217 | 79,830,246 |

| | | Notes | Carrying amount N'000 | Less than 3 months N'000 | 6 months N'000 | 12 months N'000 | 5 years N'000 | More than 5 year N'000 |
|---|---|---|---|---|---|---|---|---|
| | | | | | Reprising period | | | |
| | 31 December 2011 | | | | | | | |
| (b) | Non-derivative assets: | | | | | | | |
| | Cash and balances with central bank | 17 | 36,810,450 | 12,113,880 | - | - | - | 24,696,570 |
| | Due from banks | 18 | 53,695,139 | - | 53,695,139 | - | - | - |
| | Pledged non trading assets | 19 | 49,700,219 | - | - | 5,793,818 | 1,560,000 | 42,346,401 |
| | Loans and advances to customers | 20 | 162,063,156 | 7,850,008 | 9,088,009 | 21,772,021 | 14,043,014 | 109,310,104 |
| | Investment securities | 21 | 172,475,915 | - | - | 15,135,110 | 59,112,139 | 98,228,666 |
| | | | 474,744,879 | 19,963,888 | 62,783,148 | 42,700,949 | 74,715,153 | 274,581,741 |
| | Non-derivative liabilities: | | | | | | | |
| | Deposits from banks | 26 | 17,744,296 | - | 17,744,296 | - | - | - |
| | Deposits from customers | 27 | 392,049,881 | 231,483,674 | 30,353,725 | 44,478,392 | 85,301,913 | 432,177 |
| | Other borrowed funds & Debt securities | 28 & 29 | 31,863,377 | - | - | - | 15,395,568 | 16,467,809 |
| | | | 441,657,554 | 231,483,674 | 48,098,021 | 44,478,392 | 100,697,481 | 16,899,986 |
| | Total interest sensitivity gap | | 33,087,325 | (211,519,786) | 14,685,126 | (1,777,443) | (25,982,328) | 257,618,756 |

## 38 Financial risk management - continued

f(i) Interest Rate Risk - continued

The management of interest rate risk against interest rate gaps limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standards and non-standards interest rate scenarios.

Analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position was as follows:

The following table demonstrates the sensitivity to a reasonably possible change in interest rates for the gap between risk sensitive asset and risk sentive liability for the different maturities Gap of the Bank's earning assets and liability. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the gap position of the different maturities mismatch.

**RATE SENSITIVITY OF ASSETS AND LIABILITIES**

| AS AT 31 DEC. 2012 | On demand | Trading derivatives | Less than 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 |
| **Financial assets** | | | | | | | |
| Due from other Banks | - | - | 9,198,646 | - | - | - | 9,198,646 |
| Financial assets held for trading | - | - | 1,998,860 | - | - | - | 1,998,860 |
| Loans and advances to customer | 14,140,874 | - | 46,599,000 | 35,701,000 | 116,748,000 | 16,232,000 | 229,420,874 |
| Financial assets available for sale | - | - | - | 5,531,561 | 9,325,000 | 2,001,000 | 16,857,561 |
| Financial investment held to maturity. | - | - | 26,985,621 | 20,807,729 | 71,434,765 | 36,707,859 | 155,935,974 |
| **Total undiscounted financial assets ( A)** | **14,140,874** | **-** | **84,782,127** | **62,040,290** | **197,507,765** | **54,940,859** | **413,411,915** |
| **Financial Liabilities** | | | | | | | |
| Due to banks | - | - | 3,118,775 | - | - | - | 3,118,775 |
| Due to customers | 284,191,421 | - | 92,779,127 | 86,755,777 | - | - | 463,726,325 |
| Debt issued and other Borrowed funds | - | - | 1,569,771 | 1,387,811 | 18,741,437 | 13,220,632 | 34,919,651 |
| **Total undiscounted financial Liabilities ( B)** | **284,191,421** | **-** | **97,467,673** | **88,143,588** | **18,741,437** | **13,220,632** | **501,764,751** |
| **Net Undiscounted financial assets/ Liabilities** | **(270,050,547)** | **-** | **(12,685,546)** | **(26,103,298)** | **178,766,328** | **41,720,227** | **(88,352,836)** |

## 38 Financial risk management - continued

**INTEREST RATE SENSITIVITY ANALYSIS**

| | Increase /Decrease in bp | Net Gap Gap | Cumulative Gap | Sensitivity on Profit | Annualized Period |
|---|---|---|---|---|---|
| On Demand | +200bp | (270,050,547) | (270,050,547) | (458,716.00) | One Month |
| Less than 3 months | +200bp | (12,685,546) | (282,736,093) | (62,558.86) | Three month |
| 3-12 Months | +200bp | (26,103,298) | (308,839,391) | (522,065.96) | One Year |
| 1-5 Yrs | +200bp | 178,766,328 | (130,073,063) | 3,575,326.56 | |
| Over 5 Yrs | +200bp | 41,720,227 | (88,352,836) | 834,404.54 | |

**AS AT 31ST DEC. 2011**

| | On demand | Trading derivatives | Less than 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 |
| **Financial assets** | | | | | | | |
| Due from other Banks | - | - | 18,853,562 | - | - | - | 18,853,562 |
| Loans and advances to customer | 15,029,513 | - | 9,088,009 | 21,772,021 | 14,043,014 | 109,310,105 | 169,242,661 |
| Financial assets available for sale | - | - | - | | 1,717,259 | 1,515,995 | 3,233,254 |
| Financial investment held to maturity. | - | - | 5,104,332 | 21,404,234 | 155,702,165 | 35,172,150 | 217,382,880 |
| **Total undiscounted financial assets ( A)** | **15,029,513** | **-** | **33,045,901** | **43,176,255** | **171,462,438** | **145,998,250** | **408,712,357** |
| **Financial Liabilities** | | | | | | | |
| Due to banks | - | - | 17,744,296 | - | - | - | 17,744,296 |
| Due to customers | 231,483,674 | | 30,353,725 | 44,478,392 | 85,301,913 | 432,175 | 392,049,879 |
| Debt issued and other Borrowed funds | - | - | - | - | 14,717,641 | 17,145,736 | 31,863,377 |
| **Total undiscounted financial Liabilities ( B)** | **231,483,674** | **-** | **48,098,021** | **44,478,392** | **100,019,554** | **17,577,911** | **441,657,552** |
| **Net Undiscounted financial assets/ Liabilities** | **(216,454,161)** | **-** | **(15,052,119)** | **(1,302,137)** | **71,442,883** | **128,420,339** | **(32,945,196)** |

## 38 Financial risk management - continued

INTEREST RATE SENSITIVITY ANALYSIS

| | Increase/ Decrease in bp | Net Gap | Cumulative Gap | Sensitivity on Profit | Annualized Period |
|---|---|---|---|---|---|
| on Demand | +200bp | (216,454,161) | (216,454,161) | (367,675.56) | One Month |
| Less than 3 months | +200bp | (15,052,119) | (231,506,280) | (74,229.63) | Three month |
| 3-12 Months | +200bp | (1,302,137) | (232,808,417) | (26,042.74) | One Year |
| 1-5 Yrs | +200bp | 71,442,883 | (161,365,534) | 1,428,858 | |
| Over 5 Yrs | +200bp | 128,420,339 | (32,945,196) | 2,568,406.78 | |

(ii) Foreign currency risk

Foreign currency risk is the risk changes in foreign exchange rate would affect the value of the bank's assets and liabilities as well as off balance sheet items. This also includes positions in local currency that are indexed to foreign exchange rate. Financial Instruments that are exposed to this risk includes; foreign currency denominated loans and advances, foreign currency denominated securities, future cash flows in foreign currencies arising from foreign exchange transactions.

Exposures to currency risk are consistently monitored by limit structures for overnight and intraday spot and forward limits for dealers and the global position. The Net Open Position limited is strictly monitored to ensure strict compliance with regulatory requirements. In order to avoid risk of loss or breaches of the regulatory limits, daily monitoring and reporting of all foreign currency transactions is in place.

The following table demonstrates the sensitivity to a reasonably possible change in exchange rates for the gap between foreign currency denominated balance for the different currency gap of the Bank's assets and liability. The sensitivity of the income statement is the effect of the assumed changes in exchange rates on the gap position.

## 38 Financial risk management - continued

### (a) Foreign currency concentrations risk as at 31 December 2012

| | Naira N'000 | Dollar N'000 | GBP N'000 | Euro N'000 | others N'000 | Total N'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balance with central bank | 54,038,664 | 1,535,745 | 411,719 | 303,945 | - | 56,290,073 |
| add un-restricted balance. | 7,331,943 | - | - | - | - | 7,331,943 |
| Due from other Banks | 16,447,665 | 16,817,941 | 323,523 | 289,543 | - | 33,878,671 |
| Financial assets to maturity pledged as collateral | 47,662,159 | 9,749,894 | - | - | - | 57,412,053 |
| Financial assets held for trading | 1,998,860 | - | - | - | - | 1,998,860 |
| Loans and advances to customer | 161,044,299 | 68,376,575 | - | - | - | 229,420,874 |
| Financial assets available for sale | 16,857,561 | - | - | - | - | 16,857,561 |
| Financial investment held to maturity. | 150,568,974 | 5,367,000 | - | - | - | 155,935,974 |
| Other Assets | 18,826,702 | 1,892,972 | 188,366 | 191,892 | - | 21,099,931 |
| Total undiscounted financial assets | 474,776,827 | 103,740,126 | 923,608 | 785,380 | - | 580,225,940 |
| **Liabilities** | | | | | | |
| Due to banks | - | 3,118,775 | - | - | - | 3,118,775 |
| Due to customers | 390,410,815 | 71,915,377 | 763,355 | 636,778 | - | 463,726,325 |
| Debt issued and other Borrowed funds | 20,107,651 | 14,812,000 | - | - | - | 34,919,651 |
| Other financial Liabilities | 18,433,400 | 13,076,542 | 160,252 | 148,601 | - | 31,818,795 |
| Total undiscounted financial Liabilities | 428,951,866 | 102,922,693 | 923,607 | 785,379 | - | 533,583,546 |
| **Net Undiscounted financial assets/ Liabilities** | **45,824,961** | **817,433** | **-** | **-** | **-** | **46,642,394** |

**Sensitivity Analysis of Foreign Currency Balance Sheet**

| **Currency** | **Dollar N'000** | **GBP N'000** | **Euro N'000** | **Total N'000** |
|---|---|---|---|---|
| Net On Balance Sheet Position | 817,433 | - | - | - |
| Closing Exchange Rate(Naira/Currency) | 156 | 251 | 205 | |
| 1% Currency Depreciation(+)/Appreciation(-) | 157 | 254 | 207 | - |
| Net Effect on Profit & Capital | 1,273,315 | - | - | 1,273,315 |

## 38 Financial risk management - continued

**Foreign currency concentrations risk as at 31 December 2011**

| | Naira N'000 | Dollar N'000 | GBP N'000 | Euro N'000 | others N'000 | Total N'000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and balance with central bank | 35,499,456 | 692,814 | 196,380 | 421,800 | - | 36,810,450 |
| Add un-restricted balance | 4,920,719 | - | - | - | - | 4,920,719 |
| Due from other Banks | 41,705,348 | 11,084,778 | - | 905,010 | 3 | 53,695,139 |
| Financial assets to maturity pledged as collateral | 49,700,219 | - | - | - | - | 49,700,219 |
| Loans and advances to customer | 129,530,238 | 32,532,913 | 4 | - | - | 162,063,156 |
| Financial assets available for sale | 859,014 | 2,374,240 | - | - | - | 3,233,254 |
| Financial investment held to maturity. | 168,860,661 | 382,000 | - | - | - | 169,242,661 |
| Other Assets | 23,503,275 | - | 437,290 | 442,050 | - | 24,382,615 |
| **Total undiscounted financial assets** | **454,578,930** | **44,692,506** | **633,674** | **1,768,860** | **3** | **504,048,213** |
| **Financial Liabilities** | | | | | | |
| Due to banks | 17,744,296 | - | - | - | - | 17,744,296 |
| Due to customers | 363,067,130 | 28,642,246 | 307,920 | 32,585 | - | 392,049,881 |
| Debt issued and other Borrowed funds | 17,145,377 | 14,718,000 | - | - | - | 31,863,377 |
| Other financial Liabilities | 21,333,322 | - | - | - | - | 21,333,322 |
| **Total undiscounted financial Liabilities** | **419,290,126** | **43,360,246** | **307,920** | **32,585** | **-** | **462,990,877** |
| **Net Undiscounted financial assets/ Liabilities** | **35,288,804** | **3,706,500** | **325,754** | **1,736,275** | **3** | **41,057,336** |

**Sensitivity Analysis of Foreign Currency Balance Sheet**

| **Currency** | **Dollar N'000** | **GBP N'000** | **Euro N'000** | **Total N'000** |
|---|---|---|---|---|
| Net On Balance Sheet Position | 3,706,500 | 325,754 | 1,736,275 | - |
| Closing Exchange Rate(Naira/Currency) | 156 | 244 | 204 | - |
| 1% Currency Depreciation(+)/Appreciation(-) | 155 | 242 | 202 | - |
| Net Effect on Profit & Capital | 5,789,552 | 796,111 | 3,544,432 | 10,130,095 |

## 38 Financial risk management - continued

(g) Operational Risk Management

Operational Risk Management is defined as losses arising from inadequate or failed internal process, people, systems and external events. This includes legal risk but excludes reputational risk.

The key focus of the definition has to do with:

i. Process -- this involves the procedural ways and policies of doing things.
ii. People -- refers the Bank's staff .How losses can result from human errors; prevent losses that may arise from fraudulent staff and the need to train and retrain staff to have a very effective and efficient staff.
iii. Systems -- this involves IT systems, technology problems and how this can bring losses to the Bank if not proactive in managing it.
iv. External events -- these are losses that could arise from events such as armed robberies, system hijack, frauds, fire and natural disasters.

Tools employed by the Bank include:

i. Control & Risk Self Assessment (CRSA) - This is a disciplined review of the operational risks inherent in the activities of business units or support functions. Mitigation plans are drawn up for risk events and existing controls put in place to regularly assess for effectiveness.
ii. Internal Loss Data Base - This is used to gather past loss incidences; this is needed to analyse the trend of fraud/forgeries that have occurred in the Bank..
iii. Key Risk Indicators (KRIs) - These are measures and metrics that provide insight into potential operational losses and the vulnerabilities in the control environment of the Bank. They serve as early warning indicators and escalation triggers where tolerance thresholds have been exceeded.
iv. Business Continuity Management (BCM)/ Business Continuity Plan.
v. Process Mapping

The operational risk management function manages the cross divisional and cross regional operational risk in the Bank and ensures consistent application of the Bank's risk management strategy across the Bank. Day-to-day operational risk management lies with the Bank's business unit, while Operational Risk Management Unit ensures close monitoring and high awareness of operational risk in the Bank.

The Bank operates the Bottom-to-top approach in driving Operational Risk Management in the Bank. Hence, the activities of the department are monitored by the Head, Operational Risk Management who reports to the Chief Risk Officer who in turn reports to the Executive Management and Board Risk Management Committee (BRMC).

The Bank manages operational risk based on the Bank-wide framework that enables the Bank to determine its operational risk profile in comparison to the defined risk appetite and systematically identifies operational risk to defining risk mitigating measures.

Reports are sent monthly and quarterly to Management and other necessary departments in the Bank.

Quarterly Operational Risk Management Committee meetings are held with all stakeholders to discuss and approve controls for emerging risks in the Bank.

(h) Capital management

(i) Regulatory capital

The Bank's lead regulator, the Central Bank of Nigeria sets and monitors capital requirements for the Bank. The banking operations are directly supervised by the Central Bank of Nigeria. In implementing current capital requirements, Central Bank of Nigeria requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital.

Banking operations are categorised mainly as trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets.

(ii) Capital Adequacy Ratio

The capital adequacy ratio is the quotient of the capital base of the Bank and the Bank's risk weighted asset base. In accordance with Central Bank of Nigeria regulations, a minimum ratio of 10% is to be maintained.

## 38 Financial risk management - continued

| | Note | 31 December 2012 N'000 | 31 December 2011 N'000 | 1 January 2011 N'000 |
|---|---|---|---|---|
| **Tier 1 capital** | | | | |
| Ordinary share capital | 31 | 7,851,931 | 7,851,931 | 6,281,545 |
| Share premium | 32 | 18,689,788 | 18,689,788 | 12,314,019 |
| Retained earnings | 33 | 6,019,078 | 2,780,714 | (2,055,305) |
| Other reserves | 33 | 14,081,597 | 11,734,903 | 10,983,382 |
| | | 46,642,394 | 41,057,336 | 27,523,641 |
| Less: | | | | |
| Fair value reserve on available-for-sale securities | | (148,935) | 98,714 | (3,401) |
| Revaluation and translation reserve | | (486,000) | (531,744) | (531,744) |
| Deferred tax -asset | 25 | (6,971,145) | (6,971,145) | (5,414,110) |
| Intangible assets | 24 | (203,465) | (143,115) | (149,266) |
| | | 38,832,849 | 33,510,046 | 21,425,120 |
| Tier 2 capital | | | | |
| Fair value reserve for available for sale securities | | 148,935 | (98,714) | 3,401 |
| Revaluation and translation reserve | | 486,000 | 531,744 | 531,744 |
| Debt securities issued | 29 | 4,563,612 | 4,562,000 | - |
| Collective impairment | 20(b) | 876,298 | 4,084,444 | 2,182,062 |
| Total | | 6,074,845 | 9,079,474 | 2,717,207 |
| Total regulatory capital | | 44,907,694 | 42,589,519 | 24,142,328 |
| Risk-weighted assets | | 308,113,422 | 249,483,785 | 151,462,272 |
| Total tier 1 and tier 2 capital expressed as a percentage of risk-weighted assets | | 15% | 17% | 16% |

## 38 Financial risk management - continued

(iii) Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives.

(i) Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using inputs that are not based on observable market data, i.e., unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value into the fair value hierarchy at the end of the reporting period:

| **31 December 2012** | **Note** | **Level 1 N'000** | **Level 2 N'000** | **Level 3 N'000** | **Total N'000** |
|---|---|---|---|---|---|
| Investment securities | 21 | 17,755,382 | - | 1,101,039 | 18,856,421 |
| 31 December 2011 | | | | | |
| Investment securities | 21 | 1,717,259 | - | 1,515,995 | 3,233,254 |

**DISCLOSURE OF LEVEL THREE FAIR VALUE**

**Movements in level 3 financial instruments measured at fair value**

(A) The level of the fair value hierarchy of financial instruments is determined at the beginning of each reporting period. The following table shows a reconciliation of the opening and closing amounts of level 3 financial assets and liabilities which are recorded at fair value:

| | At 1 January 2012 | Total gains/ (losses) recorded in profit or loss | Total gains/ (losses) recorded in equity | Arising from Acquisition | Sales | Settlement | At 31 December 2012 |
|---|---|---|---|---|---|---|---|
| | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 |
| Financial Assets | | | | | | | |
| Investment Securities | 1,515,995 | (157,284) | - | - | (228,660) | (29,012) | 1,101,039 |
| Total Level 3 financial Assets | 1,515,995 | (157,284) | - | - | (228,660) | (29,012) | 1,101,039 |

| | At 1 January 2011 | Total gains/ (losses) recorded in profit or loss | Total gains/ (losses) recorded in equity | Arising from Acquisition | Sales | Settlement | At 31 December 2011 |
|---|---|---|---|---|---|---|---|
| | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 | N'000 |
| Financial Assets | | | | | | | |
| Acquisition | | | | | | | |
| Investment Securities | 3,150,712 | 1,506 | | 722,160 | (2,310,342) | (48,041) | 1,515,995 |
| Investments in equity accounted investee | 1,852,872 | - | - | - | (1,852,872) | - | - |
| Total Level 3 financial Assets | 5,003,584 | 1,506 | - | 722,160 | (4,163,214) | (48,041) | 1,515,995 |

(B) The following table shows total gains and losses recognised in profit or loss during the year relating to assets and liabilities held at the year ended:

| | December 2012 | | December 2011 | |
|---|---|---|---|---|
| | Other Sundry Income N'000 | Net Impairment Charges N'000 | Other Sundry Income N'000 | Net Impairment Charges N'000 |
| Investment Securities | 142,716 | (300,000) | 1,506 | - |
| | 142,716 | (300,000) | 1,506 | - |

## 38 Financial risk management - continued

(j) Financial assets and liabilities classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

Details of the Bank's classification of financial assets and liabilities are given in the accounting policies.

(k) Depreciation and carrying value of property and equipment

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated useful lives of items of property and equipment will have an impact on the carrying value of these items.

(l) Determination of impairment of property and equipment, and intangible assets, excluding goodwill

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. The Bank applies the impairment assessment to its separate cash generating units. This requires management to make significant judgements and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realisable values. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

## 39 Related party transactions

During the year, the Bank granted various credit facilities to related companies of Sterling Bank Plc at rates and terms comparable to other facilities in the Bank's portfolio. An aggregate of N16.2billion (2011: N11.8billion relating to the Directors only) was outstanding on these facilities at the end of the year. Details of these insider related credits are:

| NAME OF BORROWERS | RELATIONSHIP TO REPORTING INSTITUTION | NAME OF THE RELATED INTEREST | DATE GRANTED | DATE EXPIRY |
|---|---|---|---|---|
| TOUCHDOWN TRAVELS LTD | Brother to Director | Yinka Adeola | 12/27/12 | 1/15/13 |
| UTC NIGERIA PLC | Brother to Director | Yinka Adeola | 11/13/12 | 2/11/13 |
| CONOIL PLC | Director | Osunsade Olufunmilola | | |
| CONOIL PLC | Director | Osunsade Olufunmilola | | |
| CONOIL PLC | Director | Osunsade Olufunmilola | 12/28/12 | 6/20/13 |
| CONOIL PLC | Director | Osunsade Olufunmilola | | |
| ETERNA PLC | Bother to Director | Yinka Adeola | 10/16/12 | 1/14/13 |
| SAHEL BUREAU DE CHANGE LTD | Director | Osunsade Olufunmilola | 7/9/12 | 1/3/13 |
| FTA ASSOCIATES LIMITED | Director | Osunsade Olufunmilola | 11/2/12 | 5/2/13 |
| TOUCHPOINTS NIGERIA LIMITED | Sister to director | Yemi Idowu | 12/20/12 | 1/4/13 |
| AIRCOM NIG.LTD. | Director | Yemi Idowu | 9/28/12 | 9/25/13 |
| LEKKI SILVER TOUCH LTD | Director | Yemi Idowu | 9/28/12 | 9/28/13 |
| TOUCHDOWN TRAVELS LTD | Brother to Director | Yinka Adeola | 6/30/08 | 6/29/18 |
| UTC NIGERIA PLC | Brother to Director | Yinka Adeola | 7/30/10 | 7/29/15 |
| STAFF INVESTMENT TRUST SCHEME | Employees | Employees | | |
| BARA'ATU BASHIR BORODO | Son to Director | Alh. Bashir Borodo | 9/14/12 | 3/14/14 |

| | AMOUNT GRANTED (N'000) | OUTSTANDING CREDIT/ PERFORMING(N'000) | STATUS | PERFECTED SECURITY/NATURE | FACILITY TYPE |
|---|---|---|---|---|---|
| | 1,446,000 | 1,299,729 | PERFORMING | Equitable Mortgage | Overdraft |
| | 86,000 | 87,516 | DOUBTFUL | Legal Mortgage, Personal Guarantee | Overdraft |
| | - | 0 | PERFORMING | Negative pledge | Overdraft |
| | - | 980 | PERFORMING | Negative pledge | Overdraft |
| | 8,000,000 | 7,442,398 | PERFORMING | Negative pledge | Overdraft |
| | - | 5 | PERFORMING | Negative pledge | Overdraft |
| | 400,000 | 383,176 | PERFORMING | Mortgage Debenture on tank | Overdraft |
| | 44,000 | 38,073 | PERFORMING | Legal Mortgage, Personal Guarantee | Overdraft |
| | 40,000 | 33,654 | PERFORMING | Legal Mortgage | Overdraft |
| | 4,000 | 4,138 | PERFORMING | Legal Mortgage | Overdraft |
| | 900,000 | 798,781 | PERFORMING | Equitable Mortgage, | Overdraft |
| | 900,000 | 885,315 | PERFORMING | Legal Mortgage | Overdraft |
| | 100,000 | 81,192 | PERFORMING | Equitable Mortgage | Term loan |
| | 260,510 | 156,400 | DOUBTFUL | Legal Mortgage, Personal Guarantee | Term loan |
| | - | 437,992 | PERFORMING | Lien on entitlements/indemnity | Staff investment trust scheme |
| | 1,000 | 858 | PERFORMING | Personal Guarantee | Term loan |

## 39 Related party transactions – Continued

| NAME OF BORROWERS | RELATIONSHIP TO REPORTING INSTITUTION | NAME OF THE RELATED INTEREST | DATE GRANTED | DATE EXPIRY |
|---|---|---|---|---|
| TOUCHPOINTS NIGERIA LIMITED | Sister to director | Yemi Idowu | 12/30/11 | 12/30/13 |
| OSUNSADE OLUFUNMILOLA | Director | Osunsade Olufunmilola | 1/31/12 | 12/25/13 |
| ADEOLA RILWAN ADEDAYO | Brother to Director | Yinka Adeola | 6/29/11 | 7/1/13 |
| SUNCITY PROPERTIES LIMITED | Director | Yemi Idowu | 10/31/12 | 12/28/18 |
| SUNCITY PROPERTIES LIMITED | Director | Yemi Idowu | 9/27/12 | 12/31/18 |
| SUNCITY PROPERTIES LIMITED | Director | Yemi Idowu | 9/28/12 | 12/31/18 |
| SUNCITY PROPERTIES LIMITED | Director | Yemi Idowu | 7/4/12 | 1/4/19 |
| SUNCITY PROPERTIES LIMITED | Director | Yemi Idowu | 1/31/12 | 1/28/19 |
| SUNCITY PROPERTIES LIMITED | Director | Yemi Idowu | 2/2/12 | 1/28/19 |
| SUNCITY PROPERTIES LIMITED | Director | Yemi Idowu | 2/22/12 | 1/28/19 |
| SUNCITY PROPERTIES LIMITED | Director | Yemi Idowu | 8/29/12 | 1/28/19 |
| SUNCITY PROPERTIES LIMITED | Director | Yemi Idowu | 5/2/12 | 2/28/19 |
| Commercial Staff Loan | Employees | Employees | 7/30/10 | 7/29/15 |

| AMOUNT GRANTED (N'000) | OUTSTANDING CREDIT/ PERFORMING(N'000) | STATUS | PERFECTED SECURITY/NATURE | FACILITY TYPE |
|---|---|---|---|---|
| 3,038 | 1,694 | PERFORMING | Legal Mortgage | Term loan |
| 9,022 | 5,478 | PERFORMING | Post-dated Cheques | Overdraft |
| 50,000 | 14,472 | PERFORMING | Legal Mortgage, Personal Guarantee | Term loan |
| 200,000 | 200,000 | PERFORMING | Legal Mortgage | Term loan |
| 60,000 | 60,000 | PERFORMING | Legal Mortgage | Term loan |
| 35,000 | 35,000 | PERFORMING | Legal Mortgage | Term loan |
| 160,000 | 160,000 | PERFORMING | Legal Mortgage | Term loan |
| 200,000 | 200,000 | PERFORMING | Legal Mortgage | Term loan |
| 1,300,000 | 1,300,000 | PERFORMING | Legal Mortgage | Term loan |
| 361,000 | 361,000 | PERFORMING | Legal Mortgage | Term loan |
| 185,000 | 185,000 | PERFORMING | Legal Mortgage | Term loan |
| 1,200,000 | 1,200,000 | PERFORMING | Legal Mortgage | Term loan |
| 1,124,404 | 788,827 | PERFORMING | Lien on entitlements/indemnity | Term loan |
| 17,068,974 | 16,161,676 | | | |

## 40 Compliance with banking regulations

The Bank contravened some sections of Banks and Other Financial Institutions Act, CAP B3 Laws of the Federation of Nigeria 2004.

| Circular | Date of Circular | Nature of Contravention | Penalty N'000 |
| --- | --- | --- | --- |
| Regulation of the Scope of Banking Activities and Ancillary Matters No 3. | October 4, 2010 | Late submission of Universal Banking licence | 2,000 |
| TED/FEM/ETB/GEN/01/072 | April 18, 2012 | Failure to obtain Central Bank of Nigeria approval for waiver of late issuance of Certificate of Capital Importation's | 2,000 |
| TED/FEM/STL/GEN/01/072 | April 18, 2012 | Consummations of transactions with expired permits | 2,000 |
| BSD/DIR/CIR/07/VOL/01 and BSD/DIR/GE/CIR/V1/014 | January 23, 2007 and November 1, 2007 | Late rendition of daily report | 25 |
| | | | 6,025 |

## 41 Cash and cash equivalents

| | Dec. 2012 N'000 | Dec. 2011 N'000 | Jan 2011 N'000 |
| --- | --- | --- | --- |
| Cash and foreign monies | 7,982,952 | 7,981,473 | 3,373,704 |
| Unrestricted balances with Central Bank of Nigeria | 7,331,943 | 4,920,719 | 1,938,127 |
| Balances held with local banks | 7,862,084 | 6,802,955 | 266,706 |
| Balances held with banks outside Nigeria | 16,817,941 | 28,038,622 | 16,855,837 |
| Money market placements | 9,198,646 | 18,853,562 | 3,231,133 |
| | 49,193,566 | 66,597,331 | 25,665,507 |

## 42 Customer Complaints

In line with circular FPR/DIR/CIR/GEN/01/020, the returns on customer complaints for the year ended 31 December 2012 is as set out below:

| | 31 December 2012 N'000 | 31 December 2011 N'000 |
|---|---|---|
| Number of complaints received | 4,782 | 715 |
| Number of complaints resolved | 4,748 | 714 |
| Number of complaints not resolved but referred to the CBN for intervention | 34 | 1 |
| Total Disputed Amount | 948,673 | 360 |

# STATEMENT OF VALUE ADDED

## FOR THE YEAR ENDED 31 DECEMBER 2012

| | Dec. 2012 N'000 | % | Dec. 2011 N'000 | % |
|---|---|---|---|---|
| Gross earnings | 68,856,815 | | 45,698,414 | |
| Interest expense | (29,648,039) | | (15,573,131) | |
| | 39,208,776 | | 30,125,283 | |
| Net impairment | 242,732 | | (6,034,280) | |
| Bought-in-materials and services - local | (19,991,410) | | (10,358,203) | |
| Value added | 19,460,098 | 100 | 13,732,800 | 100 |
| Applied to pay: | | | | |
| Employee as wages, salaries and pensions | 9,392,577 | 48 | 6,567,658 | 48 |
| Government taxes | 546,112 | 3 | 288,743 | 2 |
| Retained in business: | | | | |
| Depreciation and amortisation | 2,567,870 | 13 | 1,524,837 | 10 |
| To pay proposed dividend | - | - | - | - |
| Profit for the year | 6,953,539 | 36 | 6,908,598 | 50 |
| Deferred taxation | - | - | (1,557,035) | (11) |
| | 19,460,098 | 100 | 13,732,800 | 100 |

# FIVE YEAR FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 2012

| | IFRS | | | LOCAL GAAP | |
|---|---|---|---|---|---|
| | 31 December | | | 30 September | |
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | N'000 | N'000 | N'000 | N'000 | N'000 |
| **ASSETS** | | | | | |
| Cash in hand and balances with CBN | 63,622,016 | 36,810,450 | 6,660,320 | 8,573,234 | 16,149,550 |
| Treasury bill | - | - | 6,023,587 | 9,607,738 | 21,378,831 |
| Due from other banks | 33,878,671 | 53,695,139 | 21,832,593 | 56,592,146 | 80,847,858 |
| Pledged Assets | 57,412,053 | 49,700,219 | - | - | - |
| Loans and advances to customers | 229,420,874 | 162,063156 | 93,312,070 | 78,140,098 | 65,787,520 |
| Other facilities | - | - | - | 350,000 | - |
| Advances under finance lease | - | - | 2,624,572 | 3,917,488 | 3,362,144 |
| Investment securities | - | - | 96,593,620 | 25,738,514 | 31,451,241 |
| Held for Trading | 1,998,860 | - | - | - | - |
| Available for Sale | 16,857,561 | 3,233,254 | - | - | - |
| Held for Maturity | 155,935,974 | 169,242,661 | - | - | - |
| Investment in subsidiaries | - | - | 2,467,622 | 2,467,622 | 1,550,405 |
| Investment in associates | - | - | 260,093 | 260,093 | 232,500 |
| Investment properties | - | - | - | 60,000 | 154,276 |
| Other assets | 6,132,005 | 13,258,260 | 14,628,832 | 10,762,879 | 9,207,117 |
| Property and equipment | 7,793,316 | 8,930,814 | 4,267,457 | 5,089,200 | 5,217,665 |
| Intangible asset | 203,465 | 143,115 | 149,266 | - | - |
| Deferred tax assets | 6,971,145 | 6,971,145 | 4,759,491 | 4,081,815 | 1,163,816 |
| **TOTAL ASSETS** | **580,225,940** | **504,048,213** | **259,579,523** | **205,640,827** | **236,502,923** |
| **LIABILITIES** | | | | | |
| Deposits from Banks | 3,118,775 | 17,744,296 | - | 150,000 | - |
| Deposits from Customers | 463,726,325 | 392,049,881 | 199,274,284 | 160,470,381 | 184,730,209 |
| Current income tax liabilities | 803,422 | 677,926 | 368,489 | 393,405 | 1,157,102 |
| Defined contribution obligations | - | - | 51,071 | 54,811 | 66,739 |
| Other facilities | - | - | - | 350,000 | - |
| Other borrowed funds | 30,356,039 | 27,301,377 | 25,058,101 | 14,201,550 | 11,073,200 |
| Debt Securities in issue | 4,563,612 | 4,562,000 | - | - | - |
| Other liabilities | 31,015,373 | 20,655,397 | 8,507,091 | 7,878,686 | 9,236,795 |
| **TOTAL LIABILITIES** | **533,583,546** | **462,990,877** | **233,259,036** | **183,498,833** | **206,264,045** |
| **NET ASSETS** | **46,642,394** | **41,057,336** | **26,320,487** | **22,141,994** | **30,238,878** |

# FIVE YEAR FINANCIAL SUMMARY CONT'D

## FOR THE YEAR ENDED 31 DECEMBER 2012

| | IFRS 31 December | | LOCAL GAAP | | 30 September |
|---|---|---|---|---|---|
| | 2012<br>N'000 | 2011<br>N'000 | 2010<br>N'000 | 2009<br>N'000 | 2008<br>N'000 |
| **EQUITY** | | | | | |
| Share capital | 7,851,931 | 7,851,931 | 6,281,545 | 6,281,545 | 6,281,545 |
| Share premium | 18,689,788 | 18,689,788 | 12,314,019 | 12,314,019 | 12,314,019 |
| Retained earnings | 6,019,078 | 2,780,714 | 2,448,500 | (1,729,993) | 6,366,891 |
| Other components of Equity | 14,081,597 | 11,734,903 | 5,276,423 | 5,276,423 | 5,276,423 |
| **Attributable to equity holders of the bank** | **46,642,394** | **41,057,336** | **26,320,487** | **22,141,994** | **30,238,878** |
| Other Commitments and Contingents | | | 48,908,173 | 25,198,318 | 91,180,933 |

| | IFRS 31 December | | LOCAL GAAP | | 30 September |
|---|---|---|---|---|---|
| | 2012<br>12 months<br>N'000 | 2011<br>12 months<br>N'000 | 2010<br>12 months<br>N'000 | 2009<br>15 months<br>N'000 | 2008<br>12 months<br>N'000 |
| **PROFIT AND LOSS ACCOUNT** | | | | | |
| Gross earnings | 68,856,815 | 47,740,667 | 30,386,957 | 43,464,716 | 32,777,845 |
| Profit/(loss) before taxation | 7,499,651 | 5,640,306 | 3,688,251 | (9,072,908) | 7,789,724 |
| Taxation | (546,112) | 1,268,292 | 490,242 | 2,412,502 | (1,266,571) |
| Profit/(loss) after taxation | 6,953,539 | 6,908,598 | 4,178,493 | (6,660,406) | 6,523,153 |

# SHARE CAPITAL HISTORY

| | Ordinary Shares | | | | |
|---|---|---|---|---|---|
| | Authorised | | Issued and fully paid | | Consideration |
| Date | Increase ₦ | Cumulative ₦ | Increase ₦ | Cumulative ₦ | |
| 1960 | - | 500,000 | - | 500,000 | Cash |
| 1970 | 1,000,000 | 1,500,000 | 1,000,000 | 1,500,000 | Scrip |
| 1973 | 1,000,000 | 2,500,000 | - | 1,500,000 | - |
| 1974 | - | 2,500,000 | 625,000 | 2,125,000 | Scrip |
| 1975 | - | 2,500,000 | 375,000 | 2,500,000 | Scrip |
| 1979 | 2,500,000 | 5,000,000 | 1,000,000 | 3,500,000 | Scrip |
| 1982 | 2,500,000 | 7,500,000 | 1,400,000 | 4,900,000 | Scrip |
| 1983 | - | 7,500,000 | 2,450,000 | 7,350,000 | Cash |
| 1984 | 3,000,000 | 10,500,000 | 3,150,000 | 10,500,000 | Scrip |
| 1985 | 4,500,000 | 15,000,000 | - | 10,500,000 | - |
| 1988 | 5,000,000 | 20,000,000 | 5,250,000 | 15,750,000 | Scrip |
| 1989 | 30,000,000 | 50,000,000 | 15,750,000 | 31,500,000 | Scrip |
| 1991 | 50,000,000 | 100,000,000 | 31,500,000 | 63,000,000 | Scrip |
| 1992 | - | 100,000,000 | - | 63,000,000 | - |
| 1994 | - | 100,000,000 | 31,500,000 | 94,500,000 | Scrip |
| 1996 | 50,000,000 | 150,000,000 | 47,250,000 | 141,750,000 | Scrip |
| 1997 | 450,000,000 | 600,000,000 | - | 141,750,000 | Scrip |
| 1998 | - | 600,000,000 | 212,625,000 | 354,375,000 | Scrip |
| 1999 | - | 600,000,000 | 177,188,000 | 531,563,000 | Scrip |
| 2001 | 400,000,000 | 1,000,000,000 | 132,890,125 | 664,453,125 | Scrip |
| 2003 | 500,000,000 | 1,500,000,000 | 132,890,125 | 797,343,750 | Scrip |
| 2003 | - | 1,500,000,000 | 34,344,239 | 831,687,989 | Cash |
| 2004 | 1,000,000,000 | 2,500,000,000 | 171,229,880 | 1,002,917,869 | Scrip |
| 2004 | - | 2,500,000,000 | 240,375,737 | 1,243,293,605 | Cash |
| 2004 | 2,000,000,000 | 4,500,000,000 | 621,646,803 | 1,864,940,408 | Scrip |
| 2005 | 5,500,000,000 | 10,000,000,000 | 522,045,592 | 2,386,986,000 | Cash |
| 2006 | - | 10,000,000,000 | 2,889,437,825 | 5,276,423,825 | Merger |
| 2008 | 2,000,000,000 | 12,000,000,000 | 6,658,513,143 | 11,934,936,968 | Merger Adjustment |
| 2008 | - | 12,000,000,000 | - | 6,281,545,772 | Reconstruction |
| 2011 | - | 12,000,000,000 | 1,570,386,444 | 7,851,932,216 | Merger |

# SENIOR EXECUTIVES

| S/NO. | NAME | GRADE | POSITION |
|---|---|---|---|
| 1 | ADEOLA YEMI | Managing Director & CEO | Managing Director & Chief Executive Officer |
| 2 | ADESANYA OLANREWAJU | Executive Director | Executive Director, South |
| 3 | PURI DEVENDRA NATH | Executive Director | Executive Director, Lagos |
| 4 | SULE ABUBAKAR | Executive Director | Executive Director, North & Corporate Banking |
| 5 | LAWAL MUDATHIR OMOKAYODE | General Manager | Regional Business Executive, Lagos Island 2 |
| 6 | SULEIMAN ABUBAKAR | General Manager | Chief Financial Officer |
| 7 | ODUBIYI YEMI | General Manager | Chief Operating Officer |
| 8 | ADEOLA TUNDE | Deputy General Manager | Regional Business Executive, Lagos Mainland 2 |
| 9 | BABAJIDE ABAYOMI | Deputy General Manager | Group Head, Information Technology |
| 10 | ADEGUN ADEGBOYEGA ADELANI | Deputy General Manager | Business Executive, Corporate Banking - Team 2 |
| 11 | LEWA JUSTINA AKPOABUGO | Deputy General Manager | Company Secretary & Legal Adviser |
| 12 | PAUL POLSON MOONJELY | Deputy General Manager | Group Head, Enterprise Risk Management |
| 13 | BAKARE MOJISOLA | Deputy General Manager | Business Executive, Corporate Banking - Team 1 |
| 14 | PAUL-TAIWO ADEOYE | Deputy General Manager | Business Executive, Corporate Banking - Team 3 |
| 15 | AMOO FATAI | Deputy General Manager | Group Head, E-Business |
| 16 | JOHN JAPHET | Deputy General Manager | Regional Business Executive, Abuja |
| 17 | KUPONIYI ADEFOLAHAN KIKELOMO | Assistant General Manager | Head, Retail Loans |
| 18 | EGBARIN OBIAJULU | Assistant General Manager | Regional Business Executive, Lagos Mainland 1 |
| 19 | ADEBAYO AYODELE ADEMOLA | Assistant General Manager | Regional Business Executive, South West |
| 20 | OBE ENIOLA | Assistant General Manager | Regional Business Executive, Lagos Mainland 3 |
| 21 | ADEROJU ABIODUN | Assistant General Manager | Chief Inspector |
| 22 | UBOSI ISIOMA ADA | Assistant General Manager | Regional Business Executive, Lagos Island 1 |
| 23 | DAHUNSI TITILAYO OMOSOLA | Assistant General Manager | Group Head, Internal Control |
| 24 | OLAMBIWONNU ADEBIMPE | Assistant General Manager | Group Head, Financial & Performance Management |
| 25 | OSHEKU CYRIL | Assistant General Manager | Group Head, Channel Operations |
| 26 | IMAJI OJONIMI FRIDAY | Assistant General Manager | Special Assistant to the MD&CEO |
| 27 | ATILOLA SHINA, BASHIRU | Assistant General Manager | Group Head, Corporate Development |
| 28 | AKINNAWONU MOSES | Assistant General Manager | Group Head, Trade Services |
| 29 | ANAKO SEGUN | Assistant General Manager | Information Technology |
| 30 | ABOYEJI RASAQ | Assistant General Manager | Head, Retail Channels |
| 31 | OSA-EDOKPOLOR DONALD | Assistant General Manager | Head, Third Party Acquirers |
| 32 | MOWARIN JULIE | Assistant General Manager | Regional Business Executive, South South 1 |
| 33 | EKPENISI EMMANUEL | Assistant General Manager | Regional Business Executive, South South 2 |
| 34 | OSHINOWO ADEWALE | Assistant General Manager | Group Head, Recovery |
| 35 | OKAFOR SAM | Assistant General Manager | Regional Business Executive, Lagos Mainland 4 |
| 36 | ADEYEMI KOREDE | Assistant General Manager | Corporate Banking |
| 37 | YERIMA ABBAS | Assistant General Manager | Regional Business Executive, North East |
| 38 | AYODEJI FREDRICK | Assistant General Manager | Regional Business Executive, South East 1 |
| 39 | OSUNDINA ADEJOKE | Assistant General Manager | Group Head, Credit Administration |
| 40 | AWOSANYA IRENE OLUBUKOLA | Assistant General Manager | Group Head, Agric Finance |
| 41 | ISMAIL LOOKMAN OLADIMEJI | Assistant General Manager | Group Head, Treasury & Financial Institutions |
| 42 | MAHMUD HASSAN ABDULKARIM | Assistant General Manager | Regional Business Executive, North Central |
| 43 | YAU ABDULHADI MASANAWA | Assistant General Manager | Regional Business Executive, North West |

# BRANCH NETWORK

| S/N | BRANCH NAME | STATE | BRANCH ADDRESS |
|---|---|---|---|
| 1 | Aba | Abia | 127, Nnamdi Azikiwe Road, Aba |
| 2 | Umuahia | Abia | 2, Library Avenue, Opposite Michela Okpara Auditorium, Umuahia |
| 3 | Aba | Abia | Plot 3, Eziukwu Road, Aba |
| 4 | CBD Abuja | Abuja | Gateway Plaza, Plot 208, Zakariyaha Mai-Malari Street off Herbert Macaulay Way, CBD |
| 5 | Wuye | Abuja | Plot 1135, Gidado Idris Street, Finance Junction by Eterna Oil Filling Station, Wuye |
| 6 | Abuja Garki | Abuja | Plot 21/11, Emeka Anyaoku Street, Area II Garki |
| 7 | Abuja Main | Abuja | Plot 603, Kashim Ibrahim Way, Wuse 2 |
| 8 | Kado | Abuja | Conoil Premises, Kado |
| 9 | Utako | Abuja | Conoil Station, Utako |
| 10 | Ladoke Akintola | Abuja | 36, Samuel Ladoke Akintola Boulevard Garki 2, Abuja |
| 11 | Mamman Kontagora Close | Abuja | Plot 450, Kontagora Close, Off Tafawa Balewa Way, Area 3, Garki |
| 12 | National Asembly | Abuja | National Assembly Complex, Abuja |
| 13 | Seda Close (Area 8) Garki | Abuja | Plot 700 Sheda Close, Off Tafawa Balewa Way Area 8, Garki |
| 14 | Sterling Boulevard | Abuja | Plot 990, Sterling Boulevard, Central Business District , Wuse 2 |
| 15 | Wuse II | Abuja | 5 Adetokunbo Ademola Crescent, Wuse 2 |
| 16 | Jimeta | Adamawa | Atiku Abubakar Way, Beside Sabru House, Jimeta, Yola |
| 17 | Uyo | Akwa Ibom | Plot 15, Block 1, Abak Road Est, Uyo |
| 18 | Uyo | Akwa Ibom | 52, Oron Road, Uyo |
| 19 | Onitsha B/Head | Anambra | 45, Uga Street, Bridge Head Onitsha |
| 20 | Awka | Anambra | 140, Zik Avenue, Awka |
| 21 | Bridge Head | Anambra | 34, Port Harcourt Road, Fegge, Onitsha, (Bridgehead) |
| 22 | New Market I | Anambra | 24, New Market Road, Onitsha |
| 23 | Onitsha Main | Anambra | 23, Nottidge Street, Onitsha |
| 24 | Bauchi | Bauchi | Yakubun Bauchi Road Beside Central Bank of Nigeria, Bauchi |
| 25 | Yenagoa 2 | Bayelsa | Mbiama Road, Yenegoa |
| 26 | Yenagoa | Bayelsa | 268, Mbiama/Yenagoa Road,Yenagoa |
| 27 | Makurdi | Benue | 7, New Bridge Street, Makurdi |
| 28 | Maiduguri | Borno | 39, Sir Kashim Ibrahim Road Opposite Ramat Shopping Complex |
| 29 | Calabar | Cross River | 105 Murtala Mohammed Highway, Calabar |
| 30 | Asaba | Delta | 290, Nnebisi Road, Asaba |
| 31 | Effurun | Delta | 71, Effurun Sapele Road, Effurum |
| 32 | Enerhen Rd | Delta | 8, Effurum-Sapele Road, Warri |
| 33 | Warri | Delta | 75, Warri/Sapele Road, Warri |
| 34 | Warri | Delta | Odibo Housing Estate, Opposite Urhobo College, Warri-Sapele Road |
| 35 | Asaba | Delta | Umuagu Quarters Nnebisi Road, Asaba |
| 36 | Adesuwa Rd | Edo | 5, Adesuwa Street, Benin City |
| 37 | Benin Main | Edo | 58, Mission Road, Benin |
| 38 | Benin Sapele | Edo | 56/58 Sapele Road, Benin |
| 39 | Ikpoba Hill | Edo | 40B, Ohovbe Quarters Ikpoba Hill, Benin City |
| 40 | Okada | Edo | Igbinedion University, Okada |
| 41 | Benin City | Edo | 49A, Akpakpavwa Road, Benin |
| 42 | Okpara Avenue | Enugu | Plot 49, Okpara Avenue, Enugu |
| 43 | Enugu | Enugu | 2A, Market Road, Ogui, Enugu |
| 44 | Owerri | Imo | 71, Douglas Road, Owerri |
| 45 | Dutse | Jigawa | Kiyawa Road, Opposite Oando Filling Station, Dutse |

## BRANCH NETWORK CONT'D

| S/N | BRANCH NAME | STATE | BRANCH ADDRESS |
|---|---|---|---|
| 46 | Kaduna | Kaduna | Conoil Premises, 2602, Ahmadu Bello Way |
| 47 | Kaduna III | Kaduna | C2, Independence Way |
| 48 | Kaduna Refinery | Kaduna | KM, 16, Kachia Road, KRPC Staff Co-operative Commercial Plaza, Kaduna Refinery |
| 49 | Ali Akilu Road | Kaduna | 9, Ali Akilu Road |
| 50 | Kachia Road | Kaduna | 236, Kachia Road, Kaduna South LGA |
| 51 | Lagos Street | Kano | 12, Sani Abacha Way (formerly Lagos Street) |
| 52 | BUK | Kano | Bayero University |
| 53 | Kano- Niger Street | Kano | Gidan Goldie, 2B, Niger Street |
| 54 | Kano-Unity Road Fage | Kano | 20, Unity Road |
| 55 | Kofan Ruwa Branch | Kano | Aminu Dantata Estate, Kofan Ruwa Market |
| 56 | MM Way | Kano | 110, Murtala Mohammed Way |
| 57 | Katsina | Katsina | 3 IBB Way, Kofar Kaura |
| 58 | Ilorin | Kwara | Plot 240, Ibrahim Taiwo Road, Ilorin |
| 59 | Ilorin | Kwara | 11, Murtala Mohammed Way, Ilorin |
| 60 | Alakoro | Lagos | 109c Alakoro Street, Oke Arin |
| 61 | Enu-Owa | Lagos | 99, Enu Owa Street, Idumota |
| 62 | Ereko | Lagos | 3/5 Lawrence Lane, Ereko |
| 63 | Idumota | Lagos | 62, Dosunmu Street, Idumota |
| 64 | 47 Marina | Lagos | 47 Marina, Lagos |
| 65 | Oke-Arin | Lagos | 18, Issa Williams Street, Oke Arin |
| 66 | Sandgrouse | Lagos | 33, Hawley Street, Lafiaji |
| 67 | Broad Street | Lagos | Bookshop House, 50/52, Broad Street |
| 68 | Head Office Branch | Lagos | Sterling Towers, 20 Marina |
| 69 | Idumagbo | Lagos | 24, Idumagbo Avenue |
| 70 | John Street | Lagos | 47, John St., Oke Arin Shopping Complex |
| 71 | Lewis | Lagos | 198, Igbosere Road, Lagos Island |
| 72 | 67 Marina | Lagos | Old, Niger House 163/165, Broad Street |
| 73 | Martins | Lagos | 41/43, Martins Street, Lagos Island |
| 74 | Sura | Lagos | Block 11, Suite 3, Sura Shopping Complex Simpson Street |
| 75 | Ikoyi | Lagos | 114, Awolowo Road, Ikoyi |
| 76 | Retail | Lagos | 65B, Adeola Odeku Street, Victoria Island |
| 77 | Saka Tinubu | Lagos | 50, Saka Tinubu, Victoria Island |
| 78 | Corporate | Lagos | Plot 1092 Adeola Odeku Street, Victoria Island |
| 79 | Ademola Adetokunbo I | Lagos | 34 Adetokunbo Ademola Street, victoria Island |
| 80 | Ademola Adetokunbo II | Lagos | Plot 1703 Adetokunbo Ademola Street, Victoria Island |
| 81 | Adeola Hopewell | Lagos | 42, Adeola Hopewell Street, Victoria Island |
| 82 | Adeola Odeku | Lagos | Plot 300, Adeola Odeku, Victoria Island |
| 83 | Ikota | Lagos | Shop 14/15, Block F, Ikota Shopping Complex |
| 84 | Ikoyi | Lagos | 228A, Awolowo Road, Ikoyi |
| 85 | Lekki | Lagos | Bakky Plaza, by Agungi Bus Stop, Lekki-Epe Expressway |
| 86 | Alaba Cash | Lagos | 50/51, International Market, Alaba |
| 87 | Alaba Main | Lagos | 6, Alaba International Market Road, Alaba |
| 88 | Wharf Road | Lagos | 7, Wharf Road, Apapa |
| 89 | Trade Fair | Lagos | Executive Plaza, Joint Centre for Commerce, TFC, Badagry |
| 90 | Berger | Lagos | 250, Kirikiri Road, Berger, Olodi Apapa |
| 91 | Coker | Lagos | Fedson Plaza, Odunade B/S, Lagos Badagry Expressway |

| S/N | BRANCH NAME | STATE | BRANCH ADDRESS |
|---|---|---|---|
| 92 | Commercial Road | Lagos | 17, Commercial Road, Apapa |
| 93 | Creek Road | Lagos | 26, Creek Road, Apapa |
| 94 | Ibru Jetty | Lagos | 31, Kudaisi Street, Warehouse B/Stop, Ibafon, Apapa |
| 95 | LASU | Lagos | Lagos State University, Ojo |
| 96 | Nnewi Building | Lagos | Nnewi Building, 1-3 Creek Road, Apapa, |
| 97 | Tin Can | Lagos | Tin Can Road, Tin Can Island Port, Apapa |
| 98 | Mobil Road | Lagos | 66, Mobil Road, Ajegunle |
| 99 | Aviation Centre | Lagos | Opposite Aero Contractors, Local Airport, Ikeja |
| 100 | Demurin | Lagos | 131/133, Demurin Street, Ketu |
| 101 | Ikeja GRA | Lagos | Conoil Station, Opp. General Hospital, Ikeja GRA |
| 102 | Ikeja Main | Lagos | 91, Allen Avenue, Ikeja |
| 103 | Allen | Lagos | 51, Allen Avenue, Ikeja |
| 104 | Ketu | Lagos | 548, Ikorodu Road, Ketu |
| 105 | Opebi | Lagos | 2B, Opebi Road, Ikeja |
| 106 | Aromire | Lagos | 9, Aromire Street, Ikeja |
| 107 | Awolowo Way | Lagos | 104, Obafemi Awolowo Way, Ikeja |
| 108 | Ikorodu | Lagos | 43 Lagos Road, Ikorodu |
| 109 | Ilupeju | Lagos | Akintola Williams, Delliote Building 226, Ikorodu Road, |
| 110 | Opebi I | Lagos | Adebola House, 38, Opebi Road |
| 111 | Opebi II | Lagos | 68 Opebi Road, Ikeja |
| 112 | Ogudu | Lagos | 28, Ogudu Road, Ojota |
| 113 | Fadeyi | Lagos | 96, Ikorodu Road, Fadeyi, |
| 114 | Oba Akran | Lagos | 142, Oba Akran Road, Poatson building, Oba Akran Avenue |
| 115 | Ogba | Lagos | 36, Ijaiye Road, Ogba |
| 116 | Dopemu 1 | Lagos | 3/4, Bayo Ayeni Street, Aluminium Village, Dopemu |
| 117 | Dopemu | Lagos | 32, Shasha Road, Dopemu, Agege |
| 118 | Idimu | Lagos | 294, Idimu Road, Isheri, Idimu |
| 119 | Ifako | Lagos | 102, Iju Ifako Road |
| 120 | Ipaja | Lagos | 109, Lagos Abeokuta Expressway, Iyana Ipaja |
| 121 | Ejigbo | Lagos | NNPC Depot, Ejigbo |
| 122 | Airport Rd | Lagos | Airport Road , Ikeja |
| 123 | Mushin | Lagos | 122, Agege Motor Road, Mushin |
| 124 | Okota | Lagos | 101, Okota Road, Isolo |
| 125 | Adeniran Ogunsanya | Lagos | 74, Adeniran Ogunsanya Street, Surulere |
| 126 | Daleko | Lagos | Plot 8, Block E, Daleko Market, Apapa Oshodi Expressway |
| 127 | Iddo | Lagos | Railway Terminus, Ebute Metta |
| 128 | Matori | Lagos | 26, Fatai Atere Way, Matori Ind. Estate, Matori |
| 129 | Matori Cash | Lagos | 1/5 Jimade Close, Matori |
| 130 | Ojuwoye | Lagos | 9, Dada Iyalode Street,Ojuwoye, Mushin |
| 131 | Oshodi | Lagos | Oshodi Isolo Local Government Secretariat, Oyetayo St, Oshodi |
| 132 | Surulere | Lagos | 141, Ogunlana Drive, Surulere |
| 133 | Willoughby | Lagos | 28, Willoughby Street, Ebute-Metta |
| 134 | Yaba | Lagos | 260/262 Herbert Macaulay Road, Yaba |
| 135 | Ire-akari | Lagos | 58, Ire- Akari Estate, Isolo |
| 136 | Minna | Niger | FMB Building, Bosso Road, Minna |
| 137 | Ijebu Ode | Ogun | Ibadan Road, Ijebu Ode |

## BRANCH NETWORK CONT'D

| S/N | BRANCH NAME | STATE | BRANCH ADDRESS |
|---|---|---|---|
| 138 | Ota2 | Ogun | 120, Idiroko Road, Ota |
| 139 | Abeokuta | Ogun | OPIC Round About, Oke-Ilewo, Abeokuta |
| 140 | Ota1 | Ogun | 64, Idiroko Road, Ota |
| 141 | Akure | Ondo | 142, Oyemekun Road Akure |
| 142 | Ore | Ondo | 82, Ondo Road, Ore |
| 143 | Bowen | Osun | Bowen University, Iwo |
| 144 | Oshogbo | Osun | Onward Estate, Along Oshogbo Gbongan Raod, Oshogbo |
| 145 | Apata | Oyo | 529, old Abeokuta Road, Apata Ganga, Ibadan |
| 146 | Challenge | Oyo | 97, Lagos Road, Challenge, Ibadan |
| 147 | Ibadan Main | Oyo | 36, New Court Road, Gbagi Road, Ibadan |
| 148 | Ibadan Secretariat | Oyo | Oyo State Govt Secretariat Complex, Ibadan |
| 149 | Iwo Rd | Oyo | 49A, Iwo Road, Ibadan |
| 150 | Jericho | Oyo | 1, Magazine Road, Jericho, Ibadan |
| 151 | Oke Ado | Oyo | 2, Ososami road, Oke Ado Ibadan |
| 152 | Dugbe | Oyo | 3, Obafemi Awolowo Road, J Allen ,Dugbe, Ibadan |
| 153 | Jos | Plateau | 13, Jingiri Road, Opp Leventis Motors, Jos |
| 154 | Jos | Plateau | 32 Rwang Pam Street, Off Tafawa Balewa/Ahmadu Bello Way, Jos |
| 155 | Jos Terminus | Plateau | 1, Ahmadu Bello Way, Jos |
| 156 | PH-Ogbunabali | Rivers | 2A, Aguma Street, Ogbunabali, Port Harcourt |
| 157 | PH-Aggrey Rd | Rivers | 14, Aggrey Road, Port Harcourt |
| 158 | PH-Ordinance | Rivers | Plot 115, Trans Amadi Industrial Layout, Port Harcourt |
| 159 | PH-Main | Rivers | 204A, Aba Road, Rumuola, Port Harcourt |
| 160 | PH-Trans Amadi | Rivers | Plot 17C, Access Road, Trans Amadi Industrial Layout, Port Harcourt |
| 161 | GRA | Rivers | Plot 142 (36B), Woji Road, GRA Phase 11, Port Harcourt |
| 162 | Olu obasanjo | Rivers | 4B, Olu Obasanjo Road, Port Harcourt |
| 163 | Trans- Amadi I | Rivers | Plot 13, Trans Amadi Industrial Layout, Port Harcourt |
| 164 | Trans Amadi II | Rivers | Plot A-A1, Trans Amadi Ind. Layout, Port Harcourt |
| 165 | UPTH | Rivers | University of Port Harcourt Teaching Hospital |
| 166 | PH Refinery | Rivers | NNPC Refinery, Pot-Harcourt |
| 167 | Sokoto | Sokoto | 14, Sani Abacha Way |
| 168 | Gusau | Zamfara | Zaria Road, Gusau |

# CORPORATE SOCIAL RESPONSIBILITY

*At Sterling Bank, Corporate Social Responsibility (CSR) finds expression in more ways than one. It encompasses much more than social outreach programmes; forming an integral part of the way we run and conduct the business.*

The Bank is focused on building a sustainable business while driving profitability and ethical economic growth that is environmentally responsible and socially relevant. We are committed to running the business in a responsible manner, conducting business with a conscience - caring for the community, the environment and all stakeholders.

In line with these objectives, the Bank undertook several initiatives in 2012 with specific focus on community development, the environment, education, security and charitable donations.

Community development: The Bank's commitment to enhancing productivity and supporting the less-privileged communities is renowned; having been on for some years. One notable community that benefited from Sterling Bank's community engagement in the course of the year is the Makoko community.
The Bank provided quality boat sails to the community in support of their major source of livelihood, Fishing. Also, the Bank provided quality kits for the community's local football team to promote sports development in the community.

## CORPORATE SOCIAL RESPONSIBILITY CONT'D

**Environment:** The bank continued its support for the entrenchment of a safe and healthy environment by kitting all the street sweepers in Lagos State in furtherance of its unrelenting support for the Lagos State Waste Management Authority (LAWMA), a partnership that commenced more than 4 years ago.

A median is also being maintained by the bank in an environment where we have both our business and our customers' businesses co-existing.

**Charitable donations:** Characteristic of the caring nature of the Bank, Sterling bank's staff took charitable donations a notch higher as they participated actively in providing relief items for flood victims around the country where the bank's branches are located. The relief items provided ranged from food items to clothing and building materials which were received by both the flood victims and government representatives nationwide.

LAGOS STATE

RIVERS STATE

EDO STATE

# CORPORATE SOCIAL RESPONSIBILITY CONT'D


KWARA STATE

NIGER STATE

BENUE STATE


OYO STATE

## Child Care and Chosen Orphanage Center (Lagos State)


**Education:** The Bank supported organisations committed to educating the youths and women on entrepreneurship and leadership development. Notable among such institutions were the Women in Business and Management (WIMBIZ) and the Isaac Moghalu Foundation amongst others.

**Security:** The security of lives and property remain vital for the continued existence of any entity, be it corporate or individual. Sterling Bank continues to support the Security Trust Funds set-up in states where it operates in addition to providing support for several security formations and detachments responsible for the protection of lives and properties. The Bank made donations to such institutions such as the Nigerian Army, the Nigerian Police Force and the Federal Road Safety Corps in the course of the year in a bid to ensure a secure and enabling environment for the Bank and the society in which it operates.

Sterling Bank

Sterling Registrars

To:

The Registrar
Sterling Registrars Limited
8th Floor, Knight Frank Building,
24, Campbell Street, Lagos
Tel: 01-2806987-8, 2805538
info@sterlingregistrar.com
www.sterlingregistrar.com

## MANDATE FOR DIVIDEND PAYMENT TO BANK (E-DIVIDEND)

I/We hereby request that from now on, all my/our dividends due or which may become due in the books of:
NAME OF COMPANY: STERLING BANK PLC

Be paid directly to my/our Bank with below details.

Shareholder's Full Name: ---------------------------------------------------------------------------

Bank Name:------------------------------------------------------------------------------------------

Account Number (NUBAN):----------------------------------------------------------------------

Bank Address:--------------------------------------------------------------------------------------

Email:-----------------------------------------------------------------------------------------------

Mobile Phone No:-----------------------------------------------------------------------------------

Signature:-----------------------------------------------------------------------------------------------

Joint holders
Signature: (1)------------------------------------ (2)------------------------------------------------------

If corporate
Authorised signature: (1)------------------------------ (2)---------------------------------------------

Company Seal:
NB: Company seal required for corporate bodies.

Authorised Signature and Stamp of Bankers:---------------------------------------------------

Sterling Bank

SterlingRegistrars

To:

The Registar:
Sterling Registrars Limited
8th Floor, Knight Frank Building,
24, Campbell Street, Lagos
Tel: 01-2806987-8, 2805538
info@sterlingregistrar.com
www.sterlingregistrar.com

## E-BONUS/OFFER/RIGHTS

Please credit my/our account at Central Securities Clearing Systems Limited (CSCS) with all subsequent allotments and bonuses due to me/us in the books of:
NAME OF COMPANY: STERLING BANK PLC

Personal Data

Surname:---------------------------------------------------------------------------------
Other Names:-------------------------------------------------------------------------
Address:----------------------------------------------------------------------------------

Mobile Phone No.:-------------------------------------------------------------------
Email:-------------------------------------------------------------------------------------
Shareholder's Signature:
(1)-----------------------------------------------------------------------------------------
(2)-----------------------------------------------------------------------------------------
Corporate Seal/Stamp (for Corporate Shareholders)

CSCS Details

Stockbroker:--------------------------------------------------------------------------
Clearing House Number: C------------------------------------------
Authorized Signatures & Stamp of Stockbroker:----------------------------
-----------------------------------------------------------------------------------------------

Please attach a copy of your CSCS statement as evidence of opening the CSCS account

Sterling Bank

Sterling Registrars

To:

The Registrar:
Sterling Registrars Limited
8th Floor, Knight Frank Building,
24, Campbell Street, Lagos
Tel: 01-2806987-8, 2805538
info@sterlingregistrar.com
www.sterlingregistrar.com

## CHANGE OF ADDRESS FORM

I/We hereby request to change my address in the books of

NAME OF COMPANY: STERLING BANK PLC

OLD ADDRESS:-------------------------------------------------------------------
---------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------

NEW ADDRESS:-----------------------------------------------------------------
---------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------------------

Account No.:--------------------------------------------------------------------------

Shareholder Full names:-------------------------------------------------------------------

Email:---------------------------------------------------------------------------------------------

Mobile Phone No:----------------------------------------------------------------------------

Shareholder's Signature:
(1)---------------------------------------------------------------------------------------
(2)---------------------------------------------------------------------------------------

Corporate Seal/Stamp (for Corporate Shareholders)

# PROXY FORM

Sterling Bank

I/WE, ……………………………………………..…………………………….. of ……………………………………………………………………….. being a member of Sterling Bank Plc hereby appoint…………………………………or failing him Alhaji (Dr) S. Adebola Adegunwa, OFR or failing him Mr. Yemi Adeola to act as my proxy, to vote for me and on my behalf at the Annual General Meeting of the Bank to be held on Thursday, 2nd May, 2013 at 11.00 a.m and at every adjournment thereof.

As Witness under my hand this………………..day of……………………2013

………………………………

Signed

| S/N | ORDINARY BUSINESS | FOR | AGAINST |
|---|---|---|---|
| 1. | To approve Audited Financial Statements | | |
| 2. | To declare a Dividend | | |
| 3. | To re-elect Directors | | |
| 4. | To approve the remuneration of Directors | | |
| 5. | To authorize the Directors to fix the remuneration of the Auditors | | |
| 6. | To elect members of the Audit Committee | | |
| | **SPECIAL BUSINESS** | | |
| 7. | To approve the amendment of the Memorandum & Articles of Association | | |
| 8. | To issue additional shares by way of Rights Issue | | |

*Please indicate with an 'X' in the appropriate square how you wish your votes to be cast on the resolutions set out above. Unless otherwise instructed, the proxy will vote or abstain from voting at his discretion.*

# ADMISSION CARD

Sterling Bank

Please admit the shareholder named on this card or his duly appointed proxy to the Annual General Meeting of the Company to be held on Thursday, the 2nd day of May, 2013 at Eko Hotel & Suites, Adetokunbo Ademola Street, Victoria Island, Lagos at 11.00a.m.

This admission card must be produced by the Shareholder in order to obtain entrance to the Annual General Meeting.

Name of Shareholder

Name of Shareholder

Signature

Address of Shareholder

Registrars
Sterling Registrars Limited
Akuro House (8th Floor)
24, Campbell Street
Lagos

# NOTES

# NOTES