First Pension Custodian

RESILIENT

First Pension Custodian Nigeria Limited

Annual Report and Accounts 2016

PREMIUM BOARD LISTED

IN THIS REPORT

The term 'FBN Holdings Plc' or the 'Group' means FBNHoldings together with its subsidiaries, which includes First Pension Custodian Nigeria Limited. FBN Holdings Plc is a financial holding company incorporated in Nigeria on 14 October 2010. The Company was listed on the Nigerian Stock Exchange under the 'Other financial services' sector on 26 November 2012 and has issued and fully paid-up share capital as 35,895,292,792 ordinary shares of 50kobo each (₦17,947,646,396). In this report the abbreviations '₦mn', '₦bn' and '₦tn' represent millions, billions and trillions of naira respectively.

FBN Holdings Plc is structured along the following business groups, namely: Commercial Banking, Merchant Banking and Asset Management, Insurance and Others[1].

- The Commercial Banking business comprises First Bank of Nigeria Limited, FBNBank (UK) Limited, FBNBank DRC Limited, FBNBank Ghana Limited, FBNBank The Gambia Limited, FBNBank Guinea Limited, FBNBank Sierra Leone Limited, FBNBank Senegal Limited, First Pension Custodian Nigeria Limited and FBN Mortgages Limited[2]. First Bank of Nigeria Limited is the lead entity of the Commercial Banking business.

- The Merchant Banking and Asset Management business consists of FBN Merchant Bank and FBN Capital Limited. Subsidiaries of FBN Capital include: FBN Trustees Limited, FBN Capital Asset Management Limited, FBN Funds Limited and FBN Securities Limited.

- The Insurance business comprises FBN Insurance Limited, FBN General Insurance Limited and FBN Insurance Brokers Limited.

- Others: previously 'Other Financial Services', comprise, FBN Holdings Plc - the parent company and Rainbow Town Development Limited.

This report encompasses First Pension Custodian Nigeria Limited. Unless otherwise stated, the profit or loss statement analysis compares the 12 months to December 2016 to the corresponding 12 months of 2015, and the statement of financial position comparison relates to the corresponding position at 31 December 2015. Unless otherwise stated, all disclosed figures relate to continuing operations. Relevant terms that are used in this document but are not defined under applicable regulatory guidance or the International Financial Reporting Standards (IFRS) are explained in the glossary or abbreviation section of this report. This report is also available online at www.firstpensioncustodian.com/download/2016financialreport.

Shareholders will receive a compact disc (CD) containing the Annual Report and Accounts for FBN Holdings Plc, as well as information on outstanding dividend claims and a list of all our business locations. There will be an option to view a navigable PDF copy of the FBNHoldings report as well as PDFs of certain subsidiary reports at the download centre of the Investor Relations section of the FBNHoldings website. A CD will be available on request by contacting FBN Holdings Plc Investor Relations department, Samuel Asabia House, 35 Marina Street, Lagos.

Due to rounding, numbers presented throughout the report may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

[1] Previously 'Other Financial Services' comprise, FBN Holdings Plc - the parent company and Rainbow Town Development Limited, which has now been classified as a discontinued operation.

[2] FBN Mortgages Limited, now classified as a discontinued operation following the resolution of the Board of First Bank of Nigeria Limited to divest.

INTRODUCTION

We are one of the foremost pension custodians in the Nigerian pension industry. Our goal is to be the custodian of first choice by providing the best-quality custodial services and optimum protection of contributors' assets. Our Core values of integrity, excellence, teamwork and professionalism underpin everything we do.

OUR BUSINESS

OVERVIEW

First Pension Custodian Nigeria Limited (FPCNL) is one of the foremost pension custodians in the Nigerian pension industry with more than 10 years history. We are a wholly owned subsidiary of First Bank of Nigeria Limited, the principal bank subsidiary of FBN Holdings Plc. Our goal is to be the custodian of first choice by providing the best-quality custodial services and optimum protection of contributors' assets. Our core values of integrity, excellence, teamwork and professionalism underpin everything we do.

The principal activity of FPCNL as a pension fund custodian is the provision of custody services covering our assigned responsibilities under the Pension Reform Act 2004 (amended in 2014), in addition to our collection of global services. As at the end of December 2016, we had custodial relationships with 16 Pension Fund Administrators (PFAs), three Closed Pension Fund Administrators (CPFAs) and 15 banks and other financial institutions. We held about 35% market share during the year. To us, good performance is not just about profit, it is about running our business in the most sustainable way. More than 10 years after we commenced our operation, we continue to engage our employees, striving to exceed our customers' expectations and deliver value to our shareholders.

Under the Central Bank of Nigeria (CBN) license for money market and fixed income instruments, we hold non-pension assets on behalf of the Asset Management Corporation of Nigeria (AMCON) and non-proprietary assets for banks, asset managers and insurance companies.

We offer our clients a full spectrum of custodial services designed to meet their business needs.

Our services include, but are not limited to, the following:

- pension contributions collection from employers on behalf of the PFA for the benefit of contributors;
- investment transactions settlement;
- safekeeping of pension assets;
- corporate actions across all lines of assets classes;
- pension and benefit payments nationwide;
- portfolio valuations;
- cash management; and
- performance measurement and compliance monitoring

Our overriding priority is to be the leader in custodial services in Nigeria. This is driven by superior customer insight and cutting-edge relationship management. Understanding our customers informs everything we do. We focus on responding to our customers' various requirements and we offer bespoke solutions. This is achieved through the efficient use of information technology and dedicated staff, as well as through various initiatives aimed at developing value-added services. The elements of the brand are reflected in our vision and mission statement.

Our mission

To provide best-quality custodial services and optimum protection of contributors' assets

Our vision

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

Our values

Integrity, excellence, teamwork, professionalism

Our strategy

Supporting our customers to achieve their operational objectives while creating long-term sustainable value

Our strategic intent

To be the market leader through customer intimacy and value-added services using best-fit technology

FBN HOLDINGS PLC. (FBNHOLDINGS)

COMMERCIAL BANKING

First Bank of Nigeria Limited
- FBNBank (UK) Limited
- FBNBank DRC Limited
- FBNBank Ghana Limited
- FBNBank The Gambia Limited
- FBNBank Guinea Limited
- FBNBank Sierra Leone Limited
- FBNBank Senegal Limited
- First Pension Custodian Nigeria Limited
- FBN Mortgages Limited[2]

MERCHANT BANKING AND ASSET MANAGEMENT

FBN Merchant Bank Limited

FBN Capital Limited
- FBN Trustees Limited
- FBN Capital Asset Management Limited
- FBN Funds Limited
- FBN Securities Limited

INSURANCE

FBN Insurance Limited
- FBN General Insurance Limited

FBN Insurance Brokers Limited

[2] FBN Mortgages Limited, now classified as a discontinued operation following the resolution of the Board of First Bank of Nigeria Limited to divest.

PERFORMANCE HIGHLIGHTS

FINANCIAL HIGHLIGHTS

GROSS EARNINGS
₦5.55bn
▲ +12%
2015: ₦4.95bn

PROFIT BEFORE TAX
₦4.05bn
▲ +19%
2015: ₦3.41bn

ASSETS UNDER CUSTODY
₦2.59trn
▲ +23%
2015: ₦2.11trn

RETURN ON AVERAGE ASSETS
27.7%
▼ -1.5%*
2015: 29.2%

EARNINGS PER SHARE
141kobo
▲ +17%
2015: 121kobo

PROPOSED DIVIDEND PER SHARE
113kobo
▲ +16%
2015: 97kobo

* Decline was due to increase in average assets over the previous year, which was higher than the rate of increase in profitability.

NON-FINANCIAL HIGHLIGHTS

Our clients

The delivery of compelling customer experiences driven by deep insight and proactive relationship management is a strategic imperative. We continually embark on initiatives aimed at improving our customer experience. Opinions and feedback from clients are valuable source of information to improving our business and generating new solutions to meet our clients' evolving needs. Our customer satisfaction rating has continued to improve and we are actively working with clients to improve customer experience.

Our people

Our capability resides in the knowledge, expertise and relationships of our people. We are committed to properly training and developing our people to enable them grow and succeed, throughout their careers. We continually advise our employees on the need for work-life balance. This is the responsibility of every employee, however the company engenders this by leveraging on information technology to reduce manual processing and ultimately time spent in the office.

CHAIRMAN'S STATEMENT

Umar Yahaya, Chairman

"We have delivered on our key strategic priorities over the last three years, reshaping the company to effectively and efficiently serve our customers."

THE ECONOMY IN 2016

The outgoing year, 2016, has been a difficult year for the Nigerian economy. It is the year that had to reflect the full shock of a combined drastic fall in international crude oil prices as well as a drop in domestic crude production, events which led to the fall of the naira by 40-50% against other international currencies and run-away inflation. The private sector was similarly affected, with indices at the stock exchange, the manufacturing index and other statistics (except agriculture and telecommunications) reflecting the same profile.

The Company in 2016

Your Company is one of the few institutions that has risen to the challenges posed by the difficult operating environment. We made significant progress towards our strategic targets and our goal of being the custodian of first choice for our customers.

We recorded increased underlying profit, continued to improve the efficiency of the business and have taken steps to further reinforce a customer-focused culture. Considering the dynamism of the global economy, we are convinced that this focus provides the best prospect to build a strong and successful organisation that can deliver sustainable shareholder returns. We equally recognise that technology is transforming the way our customers interact with us, and our core processes and our competitive landscape are being substantially reshaped. In addressing these challenges, we believe that our customer focus and business model will continue to provide opportunities for competitive advantage.

We have delivered on our key strategic priorities over the last three years, reshaping the company to effectively and efficiently serve our customers, at the same time generating improvement in underlying profitability. I sincerely thank the members of the Board, management team and all staff of FPCNL for these achievements. In spite of the achievements, we recognise there are major changes in the operating environment as well as our own capabilities that we need to address in the next phase of our advancement to becoming the custodian of first choice for our customers and other stakeholders.

As a Board, we have spent much time discussing how we could take the business forward, recognising the impact that the evolving regulatory and competitive environment and customers' changing needs are having on the Nigerian pension industry. I am confident that our customer focus and cost-effective strategy is the right one in the current environment.

Governance

In the interest of good corporate governance, all directors are required to submit themselves for re-election on an annual basis.. To ensure the right balance of skills and experience on the Board, we also review the composition and diversity of backgrounds of its members every year.

Towards the end of 2016, we welcomed Dr. Remi Oni as a Non-Executive Director of the Company. He replaced UK Eke, MFR, who served as a Non-Executive Director for four years and stepped down in December 2016.

On behalf of the Board, we would like to thank UK Eke, MFR, for his tremendous contributions to the success of the organisation during his period on the Board. The appointment of Dr. Remi Oni brings a good balance of additional skills and experience to our Board.

For more details, please refer to the corporate governance section.

Regulation

The regulatory landscape in which we operate continues to evolve as a result of the volatile and challenging economic environment. The regulators have made good progress in ensuring the smooth running of the industry with great emphasis on protecting the pension contribution assets. Several draft guidelines, which may affect the way we do business were issued during the last year. There are expectations that these guidelines will be finalised in the coming year. We believe the strategy in place puts us in a strong position to adapt to these regulatory changes.

Looking ahead

We will face both opportunities and challenges in the coming year. As we begin 2017, people and succession planning will remain one of the Board’s priorities, alongside strategy and its execution. In the coming year, we will continue to work with the regulators, customers and stakeholders to continue to transform the pension industry through progressive initiatives.

The company’s business will continue to be conducted in a fair and transparent manner that conforms to high ethical standards. Concerted efforts will also be made to adapt to the changing landscape of the pension and macro-economic operating environment. I believe we are very well placed to make the most of the opportunities that exist.

On behalf of the Board, I would like to express my appreciation to our customers, shareholders, management and staff for their loyalty and contributions to the continued success of our business. In the coming year, I look forward to delivering on our commitments of being a customer-focused company underpinned by strong performance, ethics and people values.

Umar Yahaya
Chairman

...our customer focus and business model will continue to provide opportunities for competitive advantage

BUSINESS REVIEW

In this section, we set out a review of our financial performance during 2016 and the outlook for our business in the future.

CHIEF EXECUTIVE OFFICER'S REVIEW

Kunle Jinadu, Chief Executive Officer

"Our focus is on creating value for our customers, building new capabilities and investing in innovative service offerings to ensure our long-term sustainable, profitable growth."

The year 2016 presented numerous challenges with the tough macroeconomic conditions and difficult operating environment. The need to operate economically and efficiently, complying with new and existing regulations, meet competitive pressures, and take advantage of opportunities to grow in line with the company's strategic plan, were all pressure points.

Pension funds remained remarkably resilient in the face of turbulent markets.

Company's performance

This has been a good year for First Pension Custodian with strong financial performance despite the tough macroeconomic conditions and challenging operating environment. In 2016, further progress was made on our strategy to become the 'custodian of first choice'. Our operating platforms were enhanced to drive better service delivery and ensure we are adequately prepared for the future. By putting our core values – integrity, excellence, teamwork and professionalism – at the heart of everything we do, we are able to satisfy our customers' evolving needs through innovative service offerings. Our focus is on creating value for our customers, building new capabilities and investing in innovating service offerings to ensure our long-term sustainable, profitable growth.

We delivered a significant improvement in our financial performance with underlying profit increasing by 18.8% to ₦4.05bn compared to ₦3.41bn in 2015. The improvement was driven by increased revenue and lower operating costs.

Our strong performance in 2016 marks the culmination of three years of strategic delivery that has transformed the business for the benefit of our customers and other stakeholders.

For more details, please refer to the financial review section.

Strategy

The year 2016, marked the end of our three-year strategic plan. We moved very close to targets as enshrined in the strategic objectives outlined at the beginning of the strategic period in 2014: to deliver value and high quality experiences for customer; alongside strong and sustainable financial performance for our shareholders. While we could not boast that we achieved all that we set out in the three-year strategy period, we made substantial achievement in the targets for the year, providing strong evidence that our strategy was a success. In the final year, we were able to expand the impact of the performance and growth achieved in the previous two years.

As a customer-focused business, we are steadfast in our commitment to meeting our customers' evolving needs effectively through innovative service offerings, providing best value to our customers and stakeholders. During the year, we introduced the C-Pay payment platform with the capacity to send short message service (SMS) alert to pensioners as soon as the beneficiary's bank accounts are credited. We also achieved the implementation of the online Retirement Savings Account (RSA) pin upload, which enables customers to interact with us from their comfort zone. We continue to invest significantly in Information Technology with a focus on ensuring that our systems and processes are both robust and efficient and that our customers' experiences are improved through the end-to-end automation of key customer transactions. Technological improvements enhance the experience of our clients and can reduce costs. The investments required can be expensive in the short term, but will certainly generate rewards in the long-term.

Risk and compliance

Effective management of our risks and controls remains a priority. During the year, measures were put in place to improve our processes and to support our long-term growth aspirations. We have also ensured improvements in our risk management framework. As a growing industry, reformed to correct the ills of the past, the regulatory regime dictates the observance of a strong framework, failure of which attracts sanctions.

Chief Executive Officer's review

People

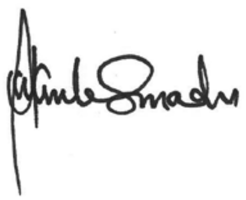
We recognise the strategic importance of employee engagement and the role that this plays in ensuring the continued delivery of our strategic priorities. We continued to engage our staff and support the requirements of the business through various developmental courses aimed at enhancing technical and managerial skills. We realise that for the company to remain relevant in the future, we have to remain modern, forward looking and adaptable. The company is geared towards entrenching a customer-focused culture and ensuring that our colleagues are committed to the strategic aim of creating the best experience for our customers.

Business outlook

Our good financial performance and strong strategic progress has positioned the company for future success. With a business model that engenders an effective response to macro-economic factors, we remain committed to delivering efficient services to our customers.

Thanks to the hard work and commitment of our colleagues, we commence the next three-year phase of our strategy from a position of strength. Together, we have delivered the strategic objectives we set out in 2014 resulting in a business that has been transformed. While we recognise the need to do more, this strong foundation gives us confidence in our ability to achieve the strategic objectives for the next three years, in spite of uncertainties in the political, regulatory, economic and competitive environment.

Going in to 2017, our focus will be to improve overall performance, efficiency and service offerings to our customers, while delivering sustainable returns to our shareholders.



Kunle Jinadu
Chief Executive Officer

OPERATING ENVIRONMENT

MACRO-ECONOMIC TREND

The Nigerian economy slipped into recession in the second quarter of 2016. Virtually all major economic sectors including manufacturing, construction, trade, transport, hospitality, finance, insurance, real estate and the public sector remain in recession till date. The economic crisis has continued unabated and inflation accelerated to the highest rate in more than a decade. Low oil prices and reduced production escalated by the spate of destruction of oil facilities and consequently the disruption to oil production, tightening monetary policy, persistent foreign exchange scarcity, a depreciating naira, low investor confidence, power shortages and elevated macro-economic imbalance impact the Nigeria economy.

Given that the Nigerian economy is largely import dependent and most manufacturing companies in the country depend on imported inputs, restricted access to foreign exchange has further affected capacity utilisation. The result has been un-abating increase in prices of goods, reduced opportunities for service providers, decline in sales and profits of companies for which companies have had to adopt the retrenchment of workers and, in some cases, salary cuts to stay afloat. The various challenges faced in both the public and private sectors have worsened the Nigerian unemployment crisis, with the attendant implications on pension contributions and ultimately, assets under custody.

Unemployment rate surged to 13.9% in the third quarter of 2016 from 9.9% in the corresponding period of preceding year, implying that the number of unemployed Nigerians increased to 11.2m people from 7.98m. The increasing unemployment rate confirms the fact that Nigeria is indeed in recession. Youth employment presents a grimmer picture, about 49.5% of the youth labour force is either unemployed or under-employed.

In reaction, government embarked on the partial liberalisation of fuel prices with a view to finally eliminate fuel subsidy as part of the unsustainable legacy practices. Government also succumbed to market pressures for a currency adjustment and flexible foreign exchange rate policy expected to end the issue of the gap in the two tiers of the forex market, with a window for critical transactions. The issue of default in salary payments has not abated and therefore the lack of fresh pension contributions are fast becoming a threat to the Contributory Pension Scheme.

Given the attendant negative effects of the weakness of the naira and oil sector, the economy can only slowly recover from 2016's recession.

Pension funds remained remarkably resilient in the face of turbulent markets. A quantitative financial analytics research indicates that pension funds continue to record slow but consistent growth although the stock market performance was quite poor during the year.

The resilience of pension funds hinges on their long bond/fixed income exposures, which underscores the virtues of diversification. Though the growth is slow but steady and it augurs well for investors because the key to successful retirement investing is in generating sustainable income while managing risk.

The reduction in oil prices and consequently, government revenue suggests a risk in government liquidity and hence its ability to meet its future financial obligations of pension contributions, funding of the retirement bond (redemption fund), account for payment of accrued portion of retirement benefits claims etc.

Regulation

The regulatory framework continued to evolve with various guidelines and circulars issued by the regulators for a stable and sustainable pension industry.

The National Pension Commission (PenCom) is at the advanced stage of unveiling its Micro Pension project, initiative that provides pension coverage to self-employed Nigerians. This initiative covers low, medium and high income earners, targeting mainly artisans and other forms of businesses in the informal sector. The scheme was developed to cover the gap created by the breakdown of family support and the need to prepare those in that category for old age retirement.

The Micro Pension project will operate under the same principle of the Contributory Pension Scheme, which currently only captures the public service and members of the organised private sector with a minimum of three employees. With the new initiative, individuals can now be part of the pension scheme.

Also, during the year 2016, PenCom released a circular on Domiciliation of Life Annuity with PFCs, mandating life insurance operators to transfer annuity funds in their kitty to Pension Fund Custodians (PFCs). The circular was issued to curb suspected unethical practices by some life insurers, a development which contradicts the intention of the pension reform law. It was gathered that some insurers were allowing retirees use their annuity fund as collateral for loans. The decision was taken to ensure that all pension funds are kept in the custody of the Pension Fund Custodians as specified by the law.

On the back of this, the Commission is currently finalising a review of the Investment Regulation to ensure a sustainable deployment of pension funds for infrastructure developments. There have been mixed reactions to the planned approval of this, hence this may explain the reason for the cautious delay by PenCom.

It is anticipated that the year 2017 will herald the definitive pronouncement of the government and necessary legislative support on the utilisation of the pension fund for infrastructure

Operating environment

development This process, if actualised, will bring about fast paced development of infrastructure and active bond market for pension fund on infrastructure.

There is also the possibility of growth in the pension industry through the participation by potential beneficiaries of the pension fund for infrastructure, who will be required to register their previously non-compliant organisations to deduct and remit pensions going forward.

Competition

Competition would remain intense, especially in the area of non-RSA businesses. Maintaining low cost of operations would present greater challenges based on the need to improve technology investment and new staff profile as directed by PenCom.

In the competitive market in which we operate, customers are benefiting from an increasing range of products and services. This has changed customer behaviour in terms of expectations from pension custodians and this trend is expected to continue. Based on this, we continue to engage our customers to identify their needs and how to fulfil them. Fundamentally, every customer has a choice and will select the provider that can most effectively fulfil their personal needs. Our customer focus strategy puts us in a position to respond to these market conditions and meet the ever-changing requirements of our customers.

Outlook

A brighter outlook is expected for the pension scheme in the coming year. It is estimated that pension assets will experience increased growth rate year-on-year. Going in to the future, it is envisaged that the pension industry landscape will witness a lot of changes that include:

- Opening of the transfer window allowing contributors' to move their retirement savings accounts between PFAs. The final guideline is still being awaited;
- Introduction of new products, services and strategies by the PFAs to target the unreached informal sector;
- Introduction of policies and guidelines by the National Pension Commission to provide the enabling environment to accelerate market coverage;
- Fierce competition with brand quality, innovation and quality service delivery being critical for the survival of most PFAs;
- Increased financial literacy and brand consciousness impacting choice of PFA, a demand for better quality service; and
- Application of analytic tools that allow the industry better understand contributor trends, a prerequisite for the multi-fund structure regime.

We will continue to be proactive in adapting to the operating environment.

OUR BUSINESS MODEL AND STRATEGY

OVERVIEW

Our strategy focuses on meeting the needs of our clients as well as delivering sustainable profitable growth and value to all our stakeholders.

Our business model

Our model is focused on building a sustainable business as a pension fund custodian, while simultaneously creating long-term value for our shareholders and supporting our customers to achieve their operational objectives. Our customers are at the heart of everything we do.

Our business model enables us to provide continuing and relevant services to our customers both pension and non-pension. This means providing pension custodian services that cover our assigned responsibilities under the Pension Reform Act 2014 in addition to our suite of global services. Also focusing on providing targeted services to our non-pension customers under the Central Bank of Nigeria (CBN) license for money market and fixed income instruments.

We create value for our customers through our distinctive strengths. Our competitive advantage arises from the scale and diversity of our businesses, the quality of our Group brand, our superior customer insight, high quality, committed colleagues and relationship focus. Our business can only achieve sustainable, profitable growth by employing the right people and with a performance-driven culture. We continue to build a talented workforce to ensure a more effective and efficient process to meet the ever-changing needs of our customers. Our inclusive workforce is committed to the highest standard of conduct and integrity.

We differentiate ourselves from competitors by our approach: our experienced and customer-focused professionals deliver high-quality services and are committed to helping our customers achieve their goals.

We are actively reviewing our operations to ensure that our business is sustainable and ready to move into the future.

Our strategy

OUR BUSINESS MODEL

Customer centric, low cost, profitable custodian

OUR AIM

'Custodian of first choice',
Sustainable shareholder returns

STRATEGIC PRIORITIES

Drive growth (Regain market share), Deliver better shareholder returns, Embed service excellence, Foster high-performance culture

In 2013, we launched our transformation programme by reviewing our strategy over a three-year period 2014 - 2016. The strategy was aimed at reshaping the company to achieve our vision of being the "custodian of first choice", generate sustainable returns and meet the needs of all our stakeholders. Our strategy remains on course.

FPCNL's strategic direction-setting was carried out within the context of FirstBank Group's aspirations and overall strategic objectives of market leadership in all key businesses. It has four overall aspirations: regain market share/market leadership, deliver better shareholder returns, embed service excellence and foster a culture of high-performance.

The management of the strategy was in three phases over the three year period:

- **2013 - 2014 Build a foundation:** during this period, the organisation would review the changes to come and maintain the short-term momentum.
- **2014 - 2015 Accelerate growth:** improved business performance, ratios and returns.
- **2015 - 2016 Expand impact:** sustain the momentum and become 'the custodian of first choice' for our clients and deliver better value to our other stakeholders.

Our business model and strategy

We have completed the three phases and already witnessing desired improvements. We have put in place structures to make our company more sustainable for the long-term.

In our bid to make FPCNL the 'custodian of first choice', the implementation of the strategy plan has been subject to various unforeseen internal and external developments. The operating environment was particularly challenging for the company in 2016. As we continue to execute our transformation plan, we have adjusted our strategy and the shape of our business. These steps are necessary to deliver the objective of improved performance and sustainable returns to our shareholders in a changed regulatory and economic environment.

We will continuously seek to deliver improved and sustainable returns by focusing on areas of competitive advantage. Underpinning these actions is a continuing focus on cost. In an extended low-growth macro-economic environment, cost will be the strategic battleground for operators. We remain committed to measurable cost containment, enabled in part by technology, and bolstered by improvement in income.

FOCUS FOR 2017

We will continue to build on our past success and strengths, invest in technology and process enhancements to ensure improved customer experience. We are committed to leading innovative product offerings to our customers by anticipating their needs and delivering effective service enabled by technology for greater efficiencies.

With these actions in mind, our 2017 targets are geared towards our commitment and journey towards our ultimate goal of becoming the 'custodian of first choice'.

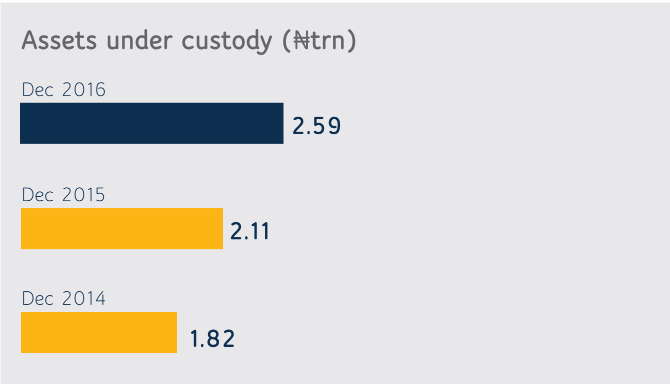
OUR PERFORMANCE

KEY PERFORMANCE INDICATORS (KPIs)

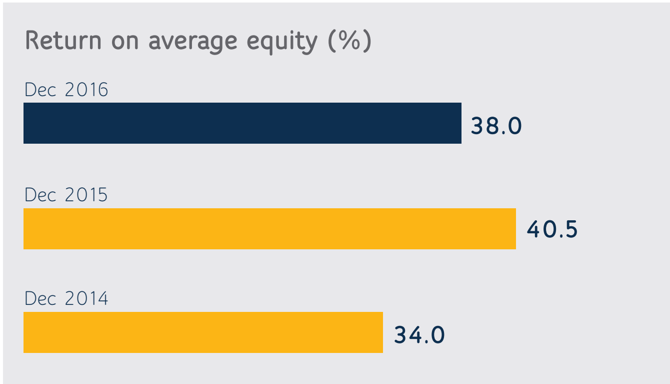
The Key Performance Indicators (KPIs) are used to measure the achievement of our strategic objectives, make operational and investment decisions and reward our employees, using both qualitative assessments and quantitative indicators. These KPIs focus on the company's financial growth and strength, cost management, delivery of sustainable returns, employee engagement and customer satisfaction.

Financial KPIs are indicators of the success of past initiatives, and also highlight areas for further improvement and allow us to make sure our actions culminate in sustainable long-term growth in shareholder value. Non-financial KPIs are often leading indicators of future financial performance. Improvements in these measures build our competitive advantage.

1. Drive growth-regain market leadership

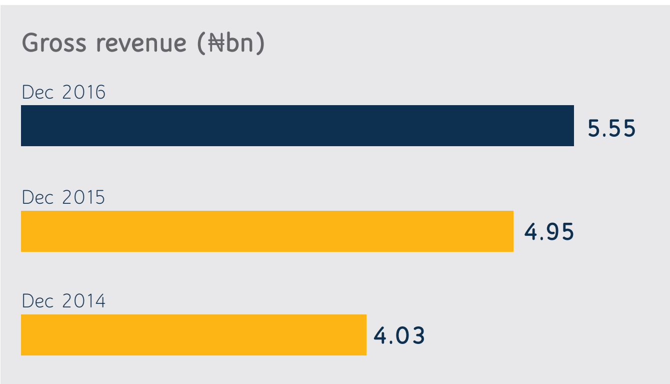


Total assets under custody increased by 22.7%, with pension assets contributing 78.4% at ₦2.03trillion. Assets under custody are key indicator of overall performance to our stakeholders and asset growth is a key strategic priority, in our bid for market sector leadership. We have measures in place to ensure continued growth.

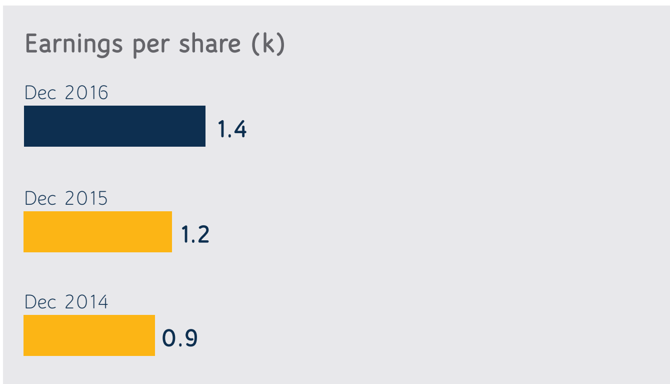


Return on average equity declined to 38% due to increase in average equity over the previous year, which was higher than the rate of increase in profitability. We will continue to drive profitability and make the best possible use of the capital invested.

2. Increase earnings and returns

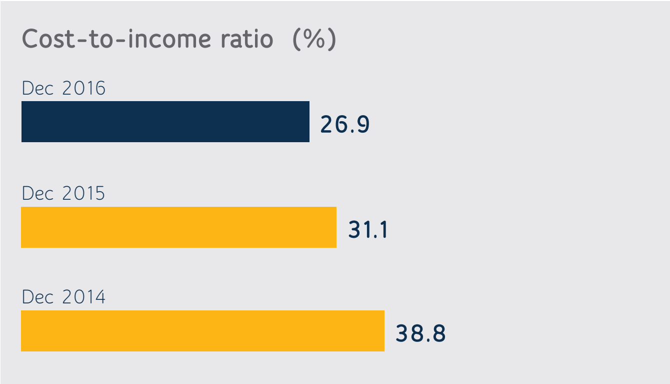


Revenue growth is an indication of our success in generating business, which recorded a growth of 12% in 2016. We will continue to grow our business to drive increased revenue and profit growth in line with our growth objectives.



Earnings per share increased during the year, a reflection of increased profitability.

Our performance



Our cost-to-income ratio improved to 26.9% in the current year. Operating expense is viewed as a key strategic battleground for operators in the coming years. Effective management and control of costs will be a strong competitive advantage.

> *"Our people are the engine that powers all that we do."*

NON-FINANCIAL KPIs

1. Customer satisfaction and service excellence

We aim to deepen our relationship with our customers and increase our customer base. This non-financial KPI is set to increase customer satisfaction with our products and services and to become 'the custodian of first choice'. We measure customer satisfaction through the quarterly/semi-annual performance scorecard. Recent reports showed that customer satisfaction levels continue to improve.

2. Employee engagement

Our aim is to continue to align the aspirations of our people with those of the company, encouraging a performance-oriented culture and a place where people love to work. Our people are the engine that powers all that we do. We excel when our people enjoy working at FPCNL. Our engagement index has helped us identify specific areas where we are performing well and areas where improvement is required. At FPCNL, we strive to find a nexus between the aspirations of the company and that of our people. A periodic survey of our organisation's relationship with employees reveal areas of strength and opportunities for improvements, which we tackle with commitment. This has engendered a performance-oriented environment, which our staff looks forward to return to.

FINANCIAL REVIEW

Bunmi Aderonmu, Chief Financial Officer

“The company delivered a strong profit performance in 2016 despite the challenging business environment and prevailing market conditions.”

OVERVIEW

The company delivered a strong profit of ₦5.55bn in 2016 despite the challenging business environment and prevailing market conditions. We remained focused on delivering better shareholder returns through key priorities set out at the beginning of the year, which includes, growth in assets under custody, improved revenue and cost efficiency. We made good progress against all our strategic priorities.

INCOME STATEMENT ANALYSIS

Gross earnings increased by 12.1% to ₦5.55bn (2015: ₦4.95bn) compared to the prior year, which resulted from a combination of increase in underlying assets and improved asset yield. Net custody fee income grew by 13.5% to ₦4.75bn (2015: ₦4.18bn) driven by growth in assets under custody by 22.7%. Interest income generated in 2016 increased by 4% to ₦0.79bn (2015: ₦0.76bn), which resulted from increase in total earning assets by 17.7%. Other income recorded an increase of 78.5% mainly from sundry income.

Operating expenses were ₦1.49bn for 2016, 2.86% lower than 2015 figure of ₦1.54bn, as a result of savings from strategic cost containment initiatives as a lever for driving incremental shareholder returns. Our operating expenses are primarily influenced by level of business activity, prevailing market conditions and compensation. We continue to invest to improve our IT infrastructure for increased operational efficiency and customer satisfaction. Appropriate levels of operational framework and systems remained in place to support the company’s business and safeguard assets.

The increase in gross earnings coupled with the drop in operating expenses resulted in a more favourable cost-to-income ratio of 26.9% (2015: 31.1%) compared to the prior year.

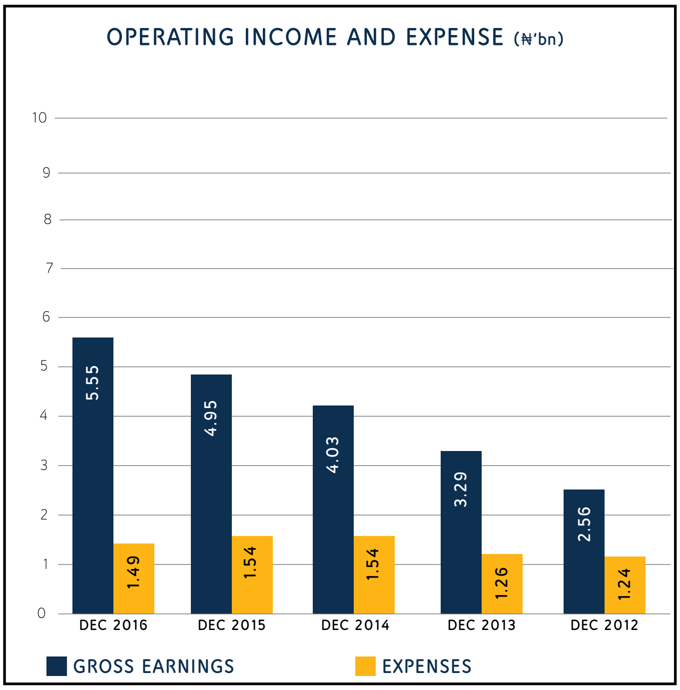
Consequently, the company’s underlying profit increased by 18.9% in the year to ₦4.05bn (2015: ₦3.41bn), reflecting the growth in income and boosted by the continued progress in our cost management initiatives. The profit after tax in 2016 is ₦2.83bn compared to ₦2.42bn reported in 2015.

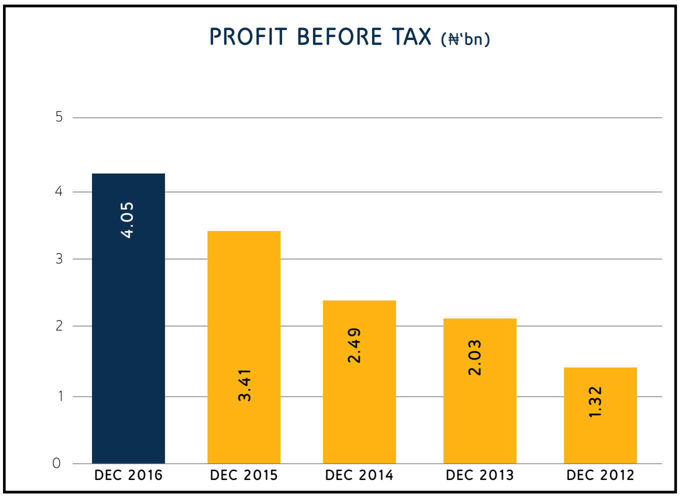
DIVIDEND

The Board of Directors is proposing a dividend of ₦1.13kobo per share, up from ₦0.97kobo in 2015.

EARNINGS PER SHARE

Basic earnings per share increased by 16.5% to ₦141.23kobo per share (2015: ₦120.84kobo). The weighted average number of shares in issue during the period was the same as the prior year at 2 billion units.

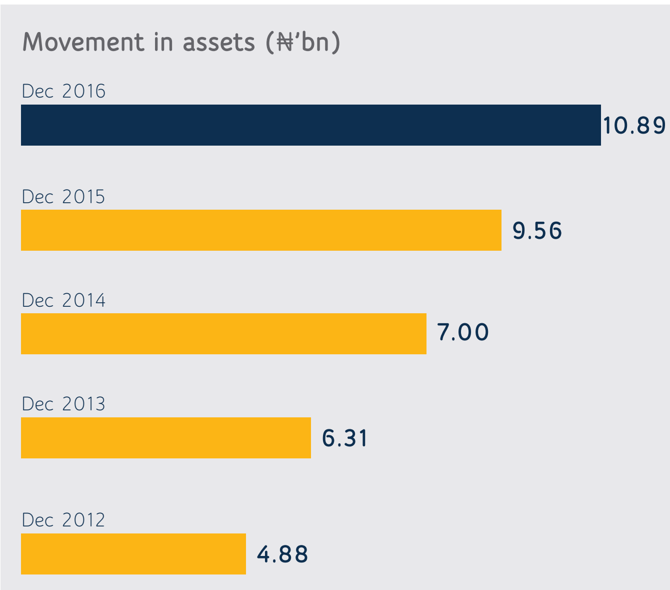




FINANCIAL POSITION ANALYSIS

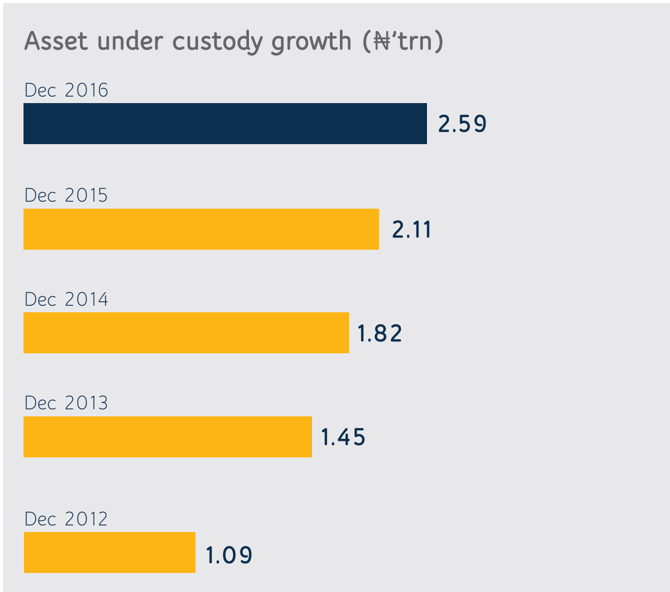
As of December 2016, total assets amounted to ₦10.9bn, an increase of 14.0% from December 2015. This increase was primarily due to increase in earning assets. Earnings assets increased by 17.7% to ₦8.86m (2015: ₦7.53bn) in 2016, driven mainly by increase of 17.7% in investible funds.

Total liabilities amounted to ₦2.54bn, a decrease of 16.3% from December 2015 figure of ₦3.03bn. This decrease was primarily due to a decrease in other liabilities, arising from final dividend payment of ₦0.90bn for 2015 financial year. Total shareholders' fund increased by 28.1% to ₦8.36bn (2015: ₦6.53bn) from good profit retention. One of our most important risk management disciplines is our ability to effectively manage our balance sheet, as we continue to operate a sustainable business model.



ASSETS UNDER CUSTODY (AUC)

Assets under custody comprise the pension and non-pension assets under custody. Total assets under custody recorded a growth of 22.7% to ₦2.59trn compared to prior year closing balance of ₦2.11trn. This was driven by average growth of 12.2% and 83.7% in pension and non-pension assets respectively, assisted largely by newly added volumes from fresh contributions and improved yield on investment.



OUTLOOK

In 2016, Nigeria faced its worst economic crisis in more than 20 years. However, the economy is expected to rebound in 2017 and predicted to grow by 0.6% in 2017, effectively lifting the country out of an officially declared recession. The recovery, however, will be fragile. Tight liquidity conditions, capital controls and further militant attacks could dampen growth prospects.

At First Pension, we will continue to respond to these challenges with our prudent approach to business. We will intensify our focus on cost efficiency and drive stronger returns. Our aim is to continue to operate an efficient business and build platforms for long-term sustainable growth.

> *"Our aim is to continue to operate an efficient business and build platforms for long-term sustainable growth."*

RELATIONSHIPS AND RESPONSIBILITY

At FPCNL, maintaining strong relationships with our stakeholders is crucial to achieving our goals. Doing business in a responsible and sustainable manner is integral to our business model and strategy. We believe in consistently building and nurturing mutually beneficial relationships, which enabled us to provide our clients and customers with the right services and empower our employees. Beyond workforce development, we are committed to being a good corporate citizen, particularly in the community where we operate.

Our actions and policies are focused at creating the best customer experience; empowering our people through capacity and talent management, creating value for our shareholders, working responsibly with our external stakeholders and supporting our community on various platforms. Our commitment to sustainability is not just about the activity, but also about how we run our business.

CUSTOMERS

In the competitive market in which we operate, customers' are more discerning and expectations have become more heightened, a trend which is expected to continue. Based on this, we continue to engage our clients on a regular basis to better understand their needs, expectations and pain points. Feedback received from these engagement sessions are used to design service improvement plans tailored to meet their requirements. During the year, we introduced the C-Pay payment platform with capabilities to send SMS alert to pensioners as soon as beneficiaries' bank accounts are credited. We also introduced the implementation of the online RSA pin upload, which enables customers to interact with us from their comfort zone.

PEOPLE

At FPCNL, we ensure that our company is an inclusive place to work, with every colleague treated fairly, with dignity and respect. We ensure that the skills and talents of our people are properly harnessed to achieve the strategic and business goals of the company.

To ensure that employees are adequately equipped to perform optimally on the job, regular training programmes are conducted based on identified training needs. We work to build a culture in which all employees can be themselves at work and progress solely on the basis of merit. We always aim to appoint the best people available into any role, attract talented people from diverse backgrounds and remain unbiased in the way we assess, select, appoint and promote them. Our culture is constantly evolving to make sure that all colleagues are empowered and inspired to do the right thing in the conduct of the company's business. We have regular dialogue with employees and keep them informed of changes to our business and our financial performance. Information is provided through both formal and informal channels with appropriate two-way feedback mechanism. We remain committed to investing in our people, providing the training and other support necessary to help us improve our performance and meet regulatory and customer expectations.

REGULATORS

We have and will continue to collaborate with the regulators to transform the pension industry through progressive initiatives. We build and enhance the relationship by ensuring all legal and compliance requirements are met, to minimise associated risks and safeguard contributors' assets.

> *“We work to build the culture in which all employees can be themselves at work and progress solely on the basis of merit.”*

GOVERNANCE

This section, introduced by the Chairman, contain details of the activities of the Board and its committees during the year, including reports from the various Board committees, and explains how the Board has addressed the Company's governance issues.

CHAIRMAN'S INTRODUCTION

"Board Focus for 2016:
- *Operational delivery*
- *Risk management*
- *Succession"*

Umar Yahaya, Chairman

Our Board is responsible for building a sustainable business that generates good returns for shareholders over the long-term by approving the strategic direction of the company's businesses. In our pursuit of greater long-term shareholder value, we maintain the highest standards of corporate governance, which are the foundation on which we manage risk and build the trust of all our stakeholders. The Board is equally responsible for shaping the culture, values and ethics of First Pension Custodian, both within the boardroom and across the organisation, by setting the tone from the top and establishing high standards of behaviour.

The Board sets direction and provides oversight and control, acting as an independent check to the Management team, whose responsibility it is to run the business.

During the year, the Board placed much focus on operational delivery, succession planning and risk management. The following pages provide insight into these activities alongside the Board's discussions and governance processes. We had a number of robust discussions throughout the year on our financial performance and progress against our targets. We have reflected, and will continue to openly debate the results of our evaluation and how we can better drive effectiveness and fitness of the board for the future.

Our governance framework is reviewed and benchmarked against best practices every year. It sets out the roles, accountabilities and expectations for our directors. Governance at FPCNL is seen as an important element of our Board environment, which feeds into how we do business. Our governance structure helps us test whether we are doing the right things in the right way, with the right checks and balances, and whether the right considerations underpin every decision we take. We continue to drive the agenda of diversity in its broadest sense across gender, experience, ethnicity and age.

At FPCNL, every employee is expected to live the company's values, be part of a culture that is open and challenging, yet remain cohesive and collaborative.

This report sets out our approach to governance in practice, the work of the Board during 2016 as well as reports from the Governance Committee, Audit, Risk & Compliance Committee and Finance & General Purpose Committee.

Strategy

The year 2016 marked the end of our three-year strategic plan. The Board spent considerable time in 2016 debating the strategic priorities for the business over the next three years. Having improved on our financial performance, the future focus will remain on continuously improving the customer experience. We will continue to review our processes and operations to become the 'custodian of first choice' for our customers and improve shareholders returns. As a Board, we are united in our commitment to this plan.

Monitoring risks

While the Board is responsible for monitoring risks organisation-wide, the Audit, Risk & Compliance Committee of the Board, plays a critical role in providing oversight management and ensuring that our risk profile are consistent with and support our strategy to deliver long-term sustainable success.

One of the areas of focus for the Board Audit Committee this year has been to encourage a new approach to assessing risk and control issues. The Audit Committee has played a key role in ensuring that the appropriate governance framework and challenges around risk and assurance is embedded throughout the business.

For more details on our risks and risk management processes, please refer to pages 46 - 48.

Chairman's introduction

Board composition and succession planning

This year has been particularly intensive for both the Board and the Governance Committee in relation to succession planning and identifying what skills are needed to support our strategy and business for the long-term. Board and senior management succession have been a regular feature of our Board and Committee discussions over the last two years, with development and continued assessment forming a key agenda item.

Following the resignation of UK Eke, MFR in December 2016, Dr. Remi Oni joined the Board as a Non-Executive Director. The appointment brings new skills and experience to the Board, positioning us in good stead for the year ahead. We approach the coming year with confidence in our leadership's ability to implement the actions from the 2016 Board Effectiveness Review and focus on the delivery of our strategic priorities.

Umar Yahaya
Chairman

LEADERSHIP

BOARD OF DIRECTORS

The Company is led by an effective and committed Board, which is made up of the Non-Executive Chairman, Chief Executive Officer and four Non-Executive Directors, one of whom is an Independent Director appointed as per the regulatory requirement. The Board sets direction and provides oversight and control, acting as an independent check and balance to the Management team, whose responsibility is to run the business. The Chairman has overall responsibility for the leadership of the Board and for ensuring its effectiveness while the Chief Executive Officer manages and leads the business. The Board meets regularly and has a formal schedule of matters specifically reserved for its decision.

The Board is collectively responsible for ensuring that proper corporate governance standards are maintained and the long-term success of the Company. It achieves this by setting the strategy and overseeing delivery against it, establishing the culture, values and standards of the company, ensuring effective risk management, monitoring financial performance and reporting and ensuring that appropriate and effective succession planning arrangements and remuneration policies are in place.

OUR BOARD

Umar Yahaya
Chairman

Appointed October 2014
Committee membership: N/A

Umar Yahaya has many years' experience at board and executive management level in commercial and investment banking. With his broad experience and analytical mind, he plays an active part in discussions at Board meetings. He has a BSc in Business Administration and a Master of Business Administration.

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

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

Kunle Jinadu
Chief Executive Officer

Appointed April 2013
Committee membership: BFGP

Kunle Jinadu brings extensive experience and knowledge of banking, finance and global custody business, which has been built over a period of over 30 years, both locally and internationally. His fresh insight and perspective, with his deep commitment to client services, bring significant value to all stakeholders. He has a BSc in Accounting. He is a Fellow of the Chartered Institute of Accountants and a Fellow of the Chartered Institute of Stockbrokers.

Board committee membership:
Finance & General Purpose Committee

External appointments:
Non-Executive Director – Tiddo Securities Limited

Former appointments:
Joined ANZ Grindlays Merchant Bank Limited in 1989, which became Stanbic Bank Nigeria Limited in 1993. He held various management positions, rising to the position of General Manager, Corporate Finance, and held other offices simultaneously, including Head, Global Custody and Managing Director/CEO of Stanbic Equities Limited. He took early retirement in 2003 to establish his private consulting company, where he played very prominent roles in the pension reform implementation.

Dr. Bayo Odeniyi
Independent Director

Appointed April 2009
Committee membership: BARAC (ch), BFGP, BGC

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

Board committee membership:
Audit, Risk & Compliance (ch), Finance & General Purpose, Governance

External appointments: None

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

Membership key

BARAC	Board Audit, Risk & Compliance Committee
BFGP	Board Finance & General Purpose Committee
BGC	Board Governance Committee
(ch)	Chairman

Leadership

Ijeoma Nwogwugwu

Non-Executive Director

Appointed April 2014
Committee membership: BARAC, BFGP

Ijeoma Nwogwugwu is a business leader with over 25 years' experience in the banking, media and public sector industries. She has the knowledge and experience to provide valuable insight and contribute as a Non-Executive Director. She has a BSc in Accounting and a postgraduate qualification in International Housing Finance.

Board committee membership:
Audit, Risk & Compliance, Finance & General Purpose (ch)

External appointments:
Editor and Director, Editorial, THISDAY Newspapers.

Former appointments:
Alternate Director, Nigerian Security Printing and Minting Company Limited; Director, Daily Times of Nigeria Plc, Member, Governing Board, National Hospital Abuja.

UK Eke, MFR

Non-Executive Director

Appointed April 2012,
Resigned w.e.f* December 2016
Committee membership: BFGP (ch), BGC

UK Eke, MFR, is a seasoned banker with deep financial services experience spanning diverse areas including risk management, consulting, taxation, process engineering, capital market operations and business assurance.

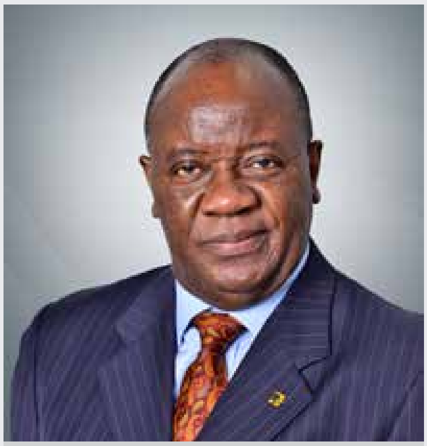
UK Eke, MFR, has over 30 years of professional experience and he brings his wealth of knowledge to the Boards of a number of institutions where he serves as Non-Executive Director.

UK Eke, MFR, is a Paul Harris Fellow of The Rotary Club International and a Member of the Institute of Management Consultants.

Board committee membership:
Finance & General Purpose (ch), Governance

External appointments:
Group Managing Director, FBN Holdings Plc, Non-Executive Director, FBN Bank (UK), Non-Executive Director, Financial Institutions Training Centre (FITC), Non-Executive Director, Nigerian Sovereign Wealth Fund.

Former appointments:
Executive Director Public Sector South, First Bank of Nigeria Limited, Executive Director, Diamond Bank, Non-Executive Director Diamond Bank du Benin, Diamond Capital & Financial Markets.



Dr. Philip Olufunwa

Non-Executive Director

Appointed July 2014
Committee membership: BGC (ch), BARAC

Dr. Philip Olufunwa has a Bachelor of Medicine and Bachelor of Surgery. He is a member of the Royal College of Obstetricians and Gynaecologists and a Fellow of the Royal Society of Medicine. He is a Member of the Institute of Directors, UK.

Board committee membership:
Governance Committee (ch), Audit, Risk & Compliance

External appointments:
Principal Partner, Westbourne Green Surgery

Former appointments:
Clinical Head for Gynecologists in Central London in 2009; Board member, Central London Health, 2006 to 2009; Principal Partner, Harrow Road Health Centre, London, 1996 to 2005; Director, Westminster Clinical Commissioning Group, National Health Service, 2010 to 2013.

*w.e.f - With effect from

Leadership

Dr. Remi Oni

Non-Executive Director

Appointed December 2016

Dr. Remi Oni is a seasoned banker with over 24 years' experience in Corporate Banking, Corporate Finance, Commercial Banking and Retail Banking. He brings to bear on the Board, practical skills set in the areas of deals origination and structuring, relationship management, business management and strategy.

He holds an MBA in Finance from the University of Ilorin, a Doctor of Veterinary Medicine (DVM), as well as Master of Science in Public Health and Preventive Medicine from Ahmadu Bello University, Zaria. He is an honorary member of the Chartered Institute of Bankers of Nigeria (CIBN), a member of the Equipment Leasing Association of Nigeria (ELAN) and the Nigerian Veterinary Medical Association (NVMA).

Board committee membership:
N/A

External appointments:
Executive Director, Corporate Banking, First Bank of Nigeria Limited.

Former appointments:
Executive Director, Corporate & Institutional Banking, Nigeria & West Africa; Standard Chartered Bank, Lagos, Nigeria; Executive Director/Head Origination & Client Coverage, Standard Chartered Bank Uganda Limited, Regional Head of Standard Chartered Bank, Network Clients, Africa; General Manager/Head Local Corporates, Wholesale Banking Group, Standard Chartered Bank Limited, Lagos, Nigeria; Head, Multinational & Other Corporate Group Banking SBU, Sterling Bank Plc; Head, Corporate Banking SBU, Magnum Trust Bank Plc, Nigeria; Head, Business Dept., Corporate Banking Group, Chartered Bank Nigeria Plc.

MANAGEMENT COMMITTEE

The Management Committee (MANCO) led by the Chief Executive Officer, comprises the top management staff of the Company. It is responsible for making day-to-day management and operational decisions necessary to safeguard the interests of the Company and to further the strategy, business objectives and targets established by the Board. The Management Committee identifies, analyses and makes recommendations on risk arising from day-to-day activities of the Company.

The Committee makes contributions to respective Board Committees and ensures that recommendations of the Board and Board Committees are effectively and efficiently implemented. The Committee meets formally at least once a month and informally as and when required.

The Committee recognises the importance of acting as a team and is totally aligned in our approach to do everything in the best interests of our customers and other stakeholders.

As at the date of this report, the Management Committee comprised of the following:

Kunle Jinadu
Managing Director/CEO

Bunmi Aderonmu
Chief Financial Officer

Akin Denton
Head, Trade Process & Settlement

Tunde Folayan
Head, Audit, Risk & Compliance

Wole Fanimokun
Head, Business Support

Muyiwa Fagbenro
Head, Information Technology

BOARD ROLES AND RESPONSIBILITIES

The Board of FPCNL is responsible for ensuring leadership through effective oversight and review for the long-term success of our business as a whole. The Board approves the strategic direction of the Company, scrutinises management's performance against agreed goals and objectives, and monitors performance reporting. Procedures are in place to help Board members satisfy themselves about the integrity of the company's financial information and to ensure that financial controls and systems of risk management are robust and sustainable. The work of the Board complements, enhances and supports the work of the Management Committee. The Board is responsible for ensuring that appropriate values, ethics and behaviours for the conduct of the Company are agreed and that appropriate procedures and training are in place to ensure that these are observed throughout the Company.

The Board and Board committees have, with the exception of certain matters which are reserved for them, delegated the day-to-day operational running of the Company to the Chief Executive Officer. The CEO is responsible to the Board and is able to delegate aspects of his own authority, as permitted, to members of the Management Committee. The terms of reference of the Board and its Committees are included in our Governance Framework. Each Committee reports to, and has its terms of reference approved by the Board and the minutes of Committee meetings are shared with the Board.

KEY ROLES AND RESPONSIBILITIES

There are clear divisions of responsibilities between the roles. The roles of the Chairman and other Board members are set out below.:

Chairman

- Leadership and management of the Board and its governance;
- Sets the Board meeting agendas to ensure that the Board devotes its time and attention to the right matters;
- Ensures that Directors receive accurate, timely and relevant information and keep them advised of key developments to enable the Board to operate effectively;
- Promoting a culture of openness and debate; and
- Ensure constructive relations between Executive and Non-Executive Directors.

Chief Executive Officer

- Responsible for the executive leadership and manages the day-to-day operations of the Company;
- Defining, creating and implementing strategy and objectives, supported by the Management Committee, which he chairs, the members of which are set out on page 25;
- Develop business strategies for Board approval and achieving timely and effective implementation whilst managing the risks;
- Lead corporate strategic direction to develop appropriate business strategies for Board consideration and approval;
- Developing proposals to present to the Board on all areas reserved for its attention;
- Develop policies for approval by the Board and ensuring implementation;
- To develop annual operating and capital plans for Board approval consistent with agreed strategies;
- To regularly update the Board on performance progress against agreed plans and KPIs;
- Maintain effective framework for internal controls and risks; and
- To ensure the Board has adequate access to accurate, timely and clear information for decision-making.

Non-Executive Director

- Bring independent and external dimension to the Board's activities;
- Effectively and constructively challenges management;
- Helps develop strategy and monitor its success within the risk appetite and control framework set by the Board;
- Promote the long-term success of the company for the benefit of its shareholders as a whole;
- Oversees risks and controls;
- Ensures that the company acts responsibly, having due regard to its reputation by doing the right thing, the right way, for all our stakeholders;
- Ensures the integrity of financial information and that financial controls and systems of risk management are robust and defensible;
- Provides remuneration and succession planning for Executive Directors.

Company Secretary

- Ensures that Board procedures are followed and reviewed regularly;
- Ensures that each Board member is made aware and provided with guidance as to their duties, responsibilities and powers;
- Ensures flow of information within the Board and its committees, between senior management and Non-Executive Directors;

Board roles and responsibilities

- Advises the Board through the Chairman on all governance matters and regulatory affairs;
- Administers the Company Secretariat in such manner to ensure that Company information is accessible to all qualified stakeholders; and
- Files all statutory returns as may be required under the laws governing the Company.

BOARD CHANGES

The successful delivery of our strategy starts with having a high-quality Board. Balance is an important requirement for the composition of the Board, not only in terms of the number of Executive and Non-Executive Directors, but also in terms of expertise and backgrounds.

In December 2016, we were delighted to appoint Dr. Remi Oni as a Non-Executive Director; he brings considerable experience and insight to the Board of FPCNL. His appointment was further to the resignation of UK Eke, MFR from the Board effective December 2016.

MAKING BOARD MEETINGS EFFECTIVE

The Board met quarterly throughout the year. In addition to the scheduled meetings, additional meetings were called to discuss extraordinary matters.

The Chairman sets the Board's agenda in line with its responsibilities as set out in matters reserved for the Board. The Board meets regularly to discuss matters on approving and reviewing the strategy of the company, governance and risk, annual budget, overseeing statutory and regulatory compliance. The Directors are given accurate, timely and clear information so that they can maintain full and effective control over strategic, financial, operational, compliance and governance issues. In addition, the Chairman meets with the Non-Executive Directors before each Board meeting to discuss the focus of the upcoming meeting as well as afterwards to share feedback and discuss the dynamics of the meeting.

The executive report on significant projects and events, including financial information and strategy progress reports. At each scheduled Board meeting, the Chairmen of the various committees report on their activities following the committee meetings. There is no strict rotation policy. Changes in committee assignments are made based on needs, directors' experience and availability. Afterwards, the Chief Executive Officer holds a short meeting with the Management Committee and shares the feedback from these meetings.

BOARD FOCUS IN 2016

In the course of 2016, the Board considered all relevant matters within its sphere of activity, but focused, in particular, on the following key issues as depicted below:

Strategy and planning

- Review of progress in implementing the Company's three-year strategic and operating plan which expired in 2016;
- Development of the next three-year strategic plan;
- Financial strategy including own fund investment; and
- Evaluate performance against balanced scorecard.

Governance and risks

- Internal governance processes, risk management, compliance and internal control, to guide against loss, avoid regulatory sanctions, ensure customer satisfaction and safeguard the Company's assets;
- Reviewed the progress against the 2015 Board Action Plan.

Board roles and responsibilities

Budget and performance oversight

- Periodically reviewed the Company's performance against the annual approved budget and Group expectations;
- Review the Company's performance vis-à-vis competition in terms of cost efficiency and robust growth; and
- Approved the 2017 budget.

Operating environment

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

Customers

- Review and monitoring of performance against the monthly/ quarterly key metrics of customer dashboard.

Leadership and employees

- Employee engagement and reward
- Succession and performance management.

BOARD FOCUS AREAS FOR 2017

During the year 2017, the Board action plan will focus on:

- Strategic plan for the next three-year period;
- Driving business performance against key performance indicators and link to strategic context; benchmarking against competition;
- Continual watch of the operating environment and regulatory update;
- Talent management and succession planning; and
- Progress against the actions from the 2016 Board and committee evaluation.

Progress against the action plans will be monitored through the year by the respective committee and the Board.

ATTENDANCE AT BOARD MEETINGS

There were seven meetings this year, four statutory meetings and three extraordinary meetings to discuss matters that could not wait until the next scheduled Board meeting. If, owing to exceptional circumstances a director is not able to attend a Board meeting, such director reserves the right to discuss with the Chairman, or can attend the meeting via conference call.

Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual director during the year to 31 December 2016.

NAME	ATTENDANCE
CHAIRMAN	
Umar Yahaya	7 of 7
EXECUTIVE	
Kunle Jinadu (MD/CEO)	7 of 7
NON – EXECUTIVE	
Dr. Bayo Odeniyi	6 of 7
UK Eke, MFR	5 of 7
Ijeoma Nwogwugwu	7 of 7
Dr. Philip Olufunwa	6 of 7

BOARD COMMITTEE REPORTS

The Board provides leadership and determines the strategic direction for the long-term success of the Company.

To assist in carrying out its function of ensuring independent oversight, the Board delegates certain responsibilities to its committees. Committees play key roles in supporting the Board. The Board receives the minutes of each of the committees' meetings. The powers and responsibilities of the committees are established in the applicable Committee Charter, which sets out the clear terms of reference of matters reserved for the Board's decision and of its committees. At committee meetings, items are discussed and, as appropriate, matters are endorsed, approved or recommended to the Board by the committee. Following meetings, the chairman of each committee provides the Board with a summary of the main decisions and discussion points so the non-committee members are kept up to date.

Board roles and responsibilities

BOARD GOVERNANCE COMMITTEE

Dr. Philip Olufunwa,
Chairman, Board Governance Committee

The role of the Governance Committee is to review and make recommendations to the Board on the appointment of directors, the structure of the Board and succession plans for executive and senior management. The importance of people as a driving force in sustaining a business over the long term through their expertise, innovation and commitment cannot be overemphasised. This is equally true of the Board, where it is crucially important that we have strong leaders able to make tough, strategic decisions while energising colleagues and galvanising them into action.

We continued to foster executive succession by engaging and mentoring senior management, in order to nurture high potential individuals and help build a stronger succession pipeline.

In 2016, we dedicated a significant amount of the committee's time to overseeing the succession planning process for the Chief Executive Officer. An external consultant was engaged to conduct an external search and also to oversee the consideration of potential internal candidates, who were benchmarked alongside the external shortlist. The process is expected to be concluded in the coming year.

I would like to thank my fellow committee members for their hardwork and support during 2016.

Key areas of focus in 2016

- The executive succession planning process focuses on the identification, development and readiness of successors to the CEO;
- Succession for key Board appointments, planning ahead to deal with upcoming retirements;
- Monitor the progress of actions arising from the 2015 annual Board effectiveness review process; and
- Continuous review of the Board's governance framework and make appropriate recommendations to the Board to ensure that they are consistent with best practice.

2017 focus areas

During the year, the Governance Committee will be focusing on the following matters:

- Talent management and succession planning focused on the identification, development and readiness of successors to the Chief Executive Officer;
- Feedback on the key issues identified in the 2016 Board appraisal report; and
- Approve the annual Board effectiveness review process and monitor the progress of any actions arising from the 2016 review.

Committee composition and meetings

During the year ended 2016, the Committee held five meetings and details of committee membership during the year and attendance at meetings are set out below.

Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual director during the year to 31 December 2016.

NAME	ATTENDANCE
CHAIRMAN	
Dr. Philip Olufunwa	5 of 5
NON-EXECUTIVE	
Dr. Bayo Odeniyi	5 of 5
UK Eke, MFR	4 of 5
IN ATTENDANCE	
Kunle Jinadu (MD/CEO)	5 of 5

Board roles and responsibilities

BOARD FINANCE & GENERAL PURPOSE COMMITTEE

UK Eke, MFR
Chairman, Board Finance & General Purpose Committee

The Board Finance and General Purpose Committee (BFGP) oversees the Company's financial strategy and structure with a view to recommending appropriate financial policies and measures to enhance the financial health of the Company. The Committee also has oversight for the effective execution of the overall strategy of the Company and makes recommendations to the Board on material staff welfare issues and provide direction on the alignment of Information Technology (IT) in driving the objectives of the business. The Committee reviews, and, if appropriate, recommends to the Board issues considered at the various meetings.

During the year, the committee received regular reports and updates on the company's financial performance, strategic plan, investment, information technology innovation and approved recommendations where appropriate.

In December 2016, after over four years as member and Chairman of this committee, I stepped down from the Board. I have no doubt the committee will continue to perform effectively and contribute to the overall success of the organisation.

I would like to express my heartfelt appreciation to my fellow committee members for their support and contributions over the years.

Key areas of focus in 2016

- Review of the implementation status of the strategic plan and 2016 approved plan;
- Reviewed the 2017 draft budget and strategic projections prepared by the management and made recommendations to the Board for approval;
- Reviewed updates and provided guidance on ongoing information technology projects; reviewed and provided guidance on strategic matters relating to technology and innovation;
- Considered and recommended to the Board for approval, the revised conditions of service and compensation of staff; and
- Reviewed and made recommendations to the Board on revised operational policies.

2017 focus areas

The following are key priorities for the Committee in 2017:

- Review and recommend approval of revalidated policy documents to the Board for approval;
- Staff welfare and conditions of service; and
- Ensure alignment between the Company's strategic objectives and operational/technology plans.

Committee composition and meetings

During 2016, there were five meetings of the committee. Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual director during the year to 31 December 2016.

NAME	ATTENDANCE
CHAIRMAN	
Uk Eke, MFR (Retired w.e.f. December 2016)	3 of 5
EXECUTIVE	
Kunle Jinadu (MD/CEO)	5 of 5
NON – EXECUTIVE	
Dr. Bayo Odeniyi	5 of 5
Ijeoma Nwogwugwu	4 of 5
IN ATTENDANCE	
Bunmi Aderonmu	5 of 5

Board roles and responsibilities

BOARD AUDIT, RISK & COMPLIANCE COMMITTEE

Dr. Bayo Odeniyi,
Chairman, Board Audit, Risk & Compliance Committee

Board Audit, Risk and Compliance Committee (BARAC) is the committee of the Board of Director of First Pension Custodian Nigeria Limited which provides oversight of the audit and financial reporting process, internal controls systems, risk management, compliance with laws and regulations and continuous monitoring of the activities of the Audit, Risk and Compliance department of the company. The committee reports to the Board of Directors on all these activities.

The committee met every quarter and assisted the Board in carrying out its accounting, auditing, financial reporting, risk management and compliance responsibilities, including oversight responsibility in relation to:

- Identification, assessment and management of the array of risks facing the company;
- Integrity of the financial statements and financial reporting process;
- Assessment of the independence and performance of the external and internal audit functions;
- Effectiveness of the system of internal controls, accounting and operating procedures; and
- Ensuring compliance with legal and regulatory requirements.

To achieve these, the committee performed the following functions:

- Advised and made recommendations to the Board and directed Management on matters pertaining to the internal audit, risk and compliance functions as the committee considered necessary and appropriate;
- Considered the effectiveness of risk management arrangements;
- Monitored the implementation of the approved Plans for Compliance, Internal Control and Internal Audit on a quarterly basis;
- Requested special reports from Internal Audit and Compliance as considered appropriate;
- Assessed the outcome of the audit process, having regard to findings, recommendations and management responses;
- Assured the independence of the audit, risk and compliance functions and the external auditors; and
- Assessed the implementation of agreed corrective actions by Management, having regard to follow-up on exceptions raised.

Committee Composition

The current composition of the Board Audit, Risk and Compliance Committee as at 31st December, 2016 is as stated below:

Dr. Bayo Odeniyi	-	Chairman
Ijeoma Nwogwugwu	-	Non-Executive Director
Dr. Philip Olufunwa	-	Non-Executive Director

The Head, Audit Risk and Compliance seats in attendance at each committee meeting.

Review of the year

During the year ended 2016, the committee held five meetings and approved company audited reports, plans and policies submitted by the Audit Risk and Compliance Department. All approved reports, plans and policies were in line with internal policies and regulatory requirements.

Board roles and responsibilities

Notable activities in 2016

The Pension Industry, like every other sector of the economy witnessed various events during the year under review, some of the notable events are:

1. The Nigerian Pension Industry Strategy Implementation roadmap retreat was held on January 21, 2016 with a keynote speech delivered by Honourable Minister of Power, Works and Housing in person of Babatunde Raji Fashola. The retreat focused on pension funds in relation to the following:

- positive real returns (on investment) and visible (measurable) impact on the economy.
- creating solutions to the binding constraints that Nigeria faces in developing 'bankable projects' in infrastructure and real estate that pension funds can invest in.
- lack of suitable investable vehicles with low risk profiles and sufficient comfort continues to hamper the drive to make visible economic impact.

2. The third edition of the World Pension Summit, 'Africa Special' was held in Abuja, Nigeria on September 27 and 28, 2016. The theme of the summit was 'Pension Innovations: The African Perspective' and the event was attended by African pension professionals as well as major stakeholders from around the globe. Discussions at the summit centred on specific African pension innovations, key scenarios, and scheme developments. There were presentations on global insights and best practices and these were shared and discussed by renowned international experts.

3. In November 2016, The National Pension Commission directed that custody of retiree life annuity with insurance companies be domiciled henceforth with Pension Fund Custodians (PFCs) as provided in Section 56 of the PRA 2014. The circular further advised all insurance companies currently providing life annuity under the Contributory Pension Scheme to open operational accounts and transfer assets in their possession/custody to the PFCs.

Key areas of focus in 2016

The Board Audit, Risk and Compliance Committee, in performing its task ensured:

- Integrity and completeness of the Company's financial reporting;
- Oversight of the independence and objectivity of the external auditors;
- Deepening engagement on governance controls, particularly risk management;
- Adequacy and effectiveness of internal audit functions; and
- Strict compliance to the Pension Reform Act 2014 as enacted on July 1, 2014.

Roles of the committee

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

The committee carried out its functions in line with the Board, Audit, Risk and Compliance Committee Charter within the framework of governance principles and practices established by the Board of Directors.

The committee is responsible for ensuring that the company complies with all the relevant policies and procedures, both from the regulator and by Board of Directors.

Financial reporting

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

Internal audit

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

Audit reports are prepared by the Audit, Risk and Compliance department of the company and submitted to the committee every quarter whilst the audit department of the parent company (FirstBank) performs an independent review of the activities of the company and also submits its report annually to the committee for consideration. The report highlights exceptions, control weaknesses observed and management responses to the issues. The committee ensured that the issues raised were resolved by management in a timely manner.

External audit

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

We are satisfied with the performance of our external auditors, Akintola Williams Deloitte, and confirm that the auditors are independent in issuing their opinion on the Company's financial statements.

Board roles and responsibilities

Internal controls, risk and compliance

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

The company has consistently improved its internal control system to ensure effective management of risks. The committee reviewed the effectiveness of the system of internal control through regular reports and reviews at Board meetings.

2017 focus areas

- Review and recommend plans, policies and programs of the Audit, Risk and Compliance department to the Board for approval;
- Review and approve Enterprise Risk Management framework to ensure alignment with regulation and effective risk management tool;
- Review Internal Audit, Control, Risks and Compliance reports every quarter and ensure timely resolution of issues raised; and
- Continue with the focus on trainings via formal and informal channels and information bulletins on issues that are relevant.

Committee composition and meetings

During 2016, there were five meetings of the committee and details of committee membership during the year and attendance at meetings are set out below.

Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual director during the year to 31 December 2016.

NAME	ATTENDANCE
CHAIRMAN	
Dr. Bayo Odeniyi	5 of 5
NON-EXECUTIVE	
Ijeoma Nwogwugwu	4 of 5
Dr. Philip Olufunwa	5 of 5
IN ATTENDANCE	
Kunle Jinadu (MD/CEO)	1 of 1
Tunde Folayan	5 of 5
Bunmi Aderonmu	1 of 1

EFFECTIVENESS

The Board comprises individuals with appropriate balance of skills and experience. The Board's annual evaluation provides an opportunity to consider ways of identifying greater efficiencies, maximise strengths and highlighting areas for further developments. The evaluation examines the progress made against our plans as well as individual and Board effectiveness. It ensures the Board remains focused and meet targets for future improvement.

BOARD COMPOSITION

As at December 2016, the Board had six members which include a Non-Executive Chairman, Chief Executive Officer and four Non-Executive Directors, one of whom is an independent director appointed as per the regulatory requirement. The size of the Board is within the optimal range set by the Board Charter.

During the year, Dr. Remi Oni was appointed to the Board as a Non-Executive Director, following the resignation of UK Eke, MFR in December 2016.

INDUCTION AND TRAINING

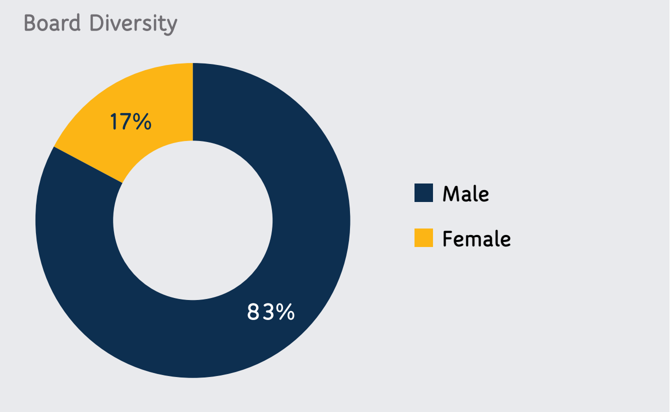
Following appointment, each director undergoes a comprehensive induction designed and organised by the Company Secretariat in consultation with the Chairman. The purpose of the induction programme is to provide directors with the information they need to become as effective as possible within the shortest practicable time after joining the Board. Typically, a new director will meet with the Executive and Senior Management, allowing an opportunity to familiarise themselves with the business.

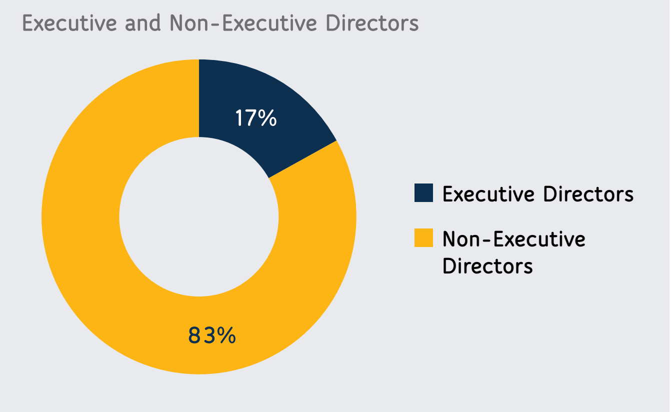
Members of the Board of Directors attended formal and informal sessions in the course of the financial year to enhance Board performance and deepen their knowledge in relation to the expectations and demands of their office. It is important to ensure that directors' skills and knowledge are refreshed and updated regularly to meet up with the changing operating environment. To strengthen the directors' knowledge and understanding of the Company, Board meetings regularly include updates and briefings on current and emerging issues in company's business and operating environment.

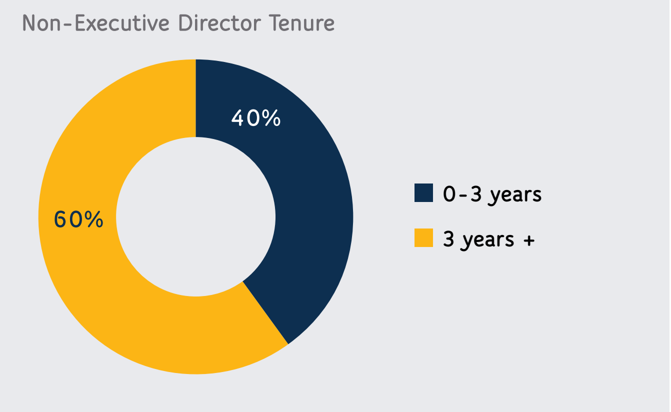
REMUNERATION

The remuneration of members of the Board of Directors is limited to a sitting allowance, directors' fees and other allowances. Total emoluments paid to the directors in 2016 were ₦158.67m, broken down as follows:

Description	Amount (₦'m)
Fees and sitting allowance	16.01
Executive compensation	56.71
Post-employment benefits	3.85
Other allowances	82.10
Total	**158.67**







Effectiveness

BOARD EVALUATION

Performance reviews of the Board and its standing committees are conducted annually and are carried out by an Independent Consultant. As a company, we recognise the importance of maintaining the highest standards of governance, hence the Board has invested significant amount of effort in understanding its effectiveness through externally facilitated reviews.

The evaluation was based on a number of key areas: Board structure and composition; governance; agenda, information, papers and resource; responsibilities; planning and performances; risk and control; competencies and roles; governance and regulatory compliance. The process for the review consisted of: administration of a survey to assess the effectiveness of the Board, its committees and individual directors and facilitate peer appraisal; one-on-one interview sessions with certain directors; feedback to the Board; and a recommended action plan.

Overall, the Board is considered strong, bringing a good balance and mix of expertise and experience and offering real diversity of views and perspectives. The Independent Consultant adjudged the performance of the Board, its Committees, the Chairman and each of the Directors continue to be effective in areas of governance and compliance. All Directors demonstrated commitment to their roles. However, in other areas performance was not considered to be as strong. Members are aware that there are several key areas which need to be addressed and potential changes that should be implemented to improve the Board's overall effectiveness.

TENURE OF DIRECTORS

The Board believes it is important to maintain an appropriate balance between length of service, independent judgment and an appropriate level of experience and skill. Non-Executive Directors are appointed for an initial term of three years, and can be re-elected for a maximum of two subsequent terms of three years each, subject to satisfactory performance. Hence, the maximum tenure of Non-Executive Directors is nine years, subject to a retirement age of 70 years.

Executive Directors are appointed for an initial term of three years and the contract can be renewed for another three years, subject to the performance of the director. As at year end, the average length of service of the current Non-Executive Directors is 4.7 years.

INDEPENDENCE OF DIRECTORS

The Board reviews the independence of its Non-Executive Directors as part of its annual Board Effectiveness Review. The Chairman is committed to ensuring the Board comprises Non-Executive Directors who objectively challenge management, balanced against the need to ensure continuity on the Board. All Non-Executive Directors have served fewer than nine years on the Board. The Board considers that all of the Non-Executive Directors bring strong independent oversight and continue to demonstrate independence. The Board is mindful of the need for suitable succession, and therefore maintains a clear framework of the time each Non-Executive Director has served the Company and the skillsets that each provides.

ACCESS TO INDEPENDENT PROFESSIONAL ADVICE

The Board has the power to obtain advice and assistance from independent or external professional advisors and experts as it deems necessary or appropriate to carry out its duties effectively, and to retain the same at the Company's expense, subject to the approval of the Chairman. An external consultant was also engaged for the annual Board evaluation process.

ACCOUNTABILITY

RISK MANAGEMENT PHILOSOPHY

Risks are managed at First Pension Custodian through the collective effort of all staff, the Audit, Risk & Compliance Department, Senior Management and the Board of Directors. The risk management philosophy and objectives of the Company is a reflection of the Company's vision and mission statements. This also guides various decisions of the Board and Management of the Company.

Adequate risk management remains the motivating factor in the company and the organisation's success is largely driven by how wisely it takes risks and how effectively it manages the risks. The company's vision and mission statement provide the basis for the risk management philosophy and objectives while the board sets the tone of the organisation's risk culture.

At First Pension Custodian Nigeria Limited, risk management approach is guided by an approved enterprise-wide risk management methodology and philosophy to ensure adequate and effective risk management. In addition, the methodology also provides regulatory principles that, together with the risk management approach, will continue to ensure optimum return on the parent Company's investment through the application of the following core principles:

- Sound risk management as the foundation of a long lasting financial institution;
- Holistic and integrated approach to risk management;
- Governance of risk management by well-defined policies which are clearly communicated across the Company;
- The Company's risk management governance structure shall be clearly defined;
- Risk-related issues are taken into consideration in all business decisions;
- Risks are reported openly and fully to the appropriate levels once they are identified;
- Risk management is a shared responsibility; and
- Integration of risk management activities within the Company and across its value chain.

Risk culture

- Board and management consciously promote a responsible approach to risk and ensure that the long-term survival and reputation of the Company are not endangered while expanding the Company's market share;
- Responsibility for risk management at FPCNL is fully vested in the Board of Directors, which delegates same to management;
- Unit heads are responsible for identifying and assessing risk within their respective business units;
- Company pays adequate attention to both quantifiable and unquantifiable risks; and
- Management promotes awareness of risk and risk management across the Company.

Risk appetite

Risk appetite is the maximum level of residual risk that the Company is prepared to accept. It is a core consideration in an enterprise risk management approach and a method to help guide organisations approach to risk management. The appropriate level of acceptable risk is contained in FPCNL's approved enterprise risk management framework.

The Company's risk appetite is governed by:

- Efficient operations, sound internal control and respect for law and regulations;
- Avoidance of loses due to frauds and operational lapses;
- Minimising exception reporting by auditors, regulators and external rating agencies;
- Averting adverse publicity in local and international press;
- Low frequent litigation;
- Avoidance of regulatory penalties and fines;
- Non-compromising its reputation through unethical, illegal and unprofessional conduct; and
- Zero appetite for association with disreputable elements.

Risk management oversight

The Board of Directors' effective oversight is critical to a sound risk management process. Accordingly, the Board of Directors has approved the overall policy and enterprise risk management framework of the Company in ensuring that management takes the steps necessary to identify, measure, monitor and control these risks.

Accountability

In ensuring strong risk management, the company adopts the three lines of defence model in managing risk which is operated as follows;

- Responsible officers in the 1st line of defence have direct responsibility for the management and control of risk in the company. These are staff in each business unit, core resource functions, Management and the Board of Directors, which is responsible for developing strong policies and high level oversight;
- The 2nd line of defence comprises of staff and officers responsible for the co-ordination of risk management in the company, these are; Internal Control and Risk unit, Compliance unit, Management Committee, the Chief Risk Officer and the various risk functions in the company; The internal control performs first-level and continuous independent verification/ testing of control measures put in place to manage all risk across the company; and
- The 3rd line of defence provides independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the risk management function and framework. This level shall involve the external and internal auditors who have the responsibility of auditing the risk management and control function to ensure that all units charged with risk management perform their roles effectively on a continuous basis. Internal audit shall also test the adequacy of internal controls and make appropriate recommendations where weaknesses are identified.

Relationship of the Risk Management Unit (RMU) with stakeholders

Other units provide relevant data to the RMU for risk identification, monitoring and reporting, after which the RMU provides a framework for managing such risks in line with agreed risk philosophy and appetites.

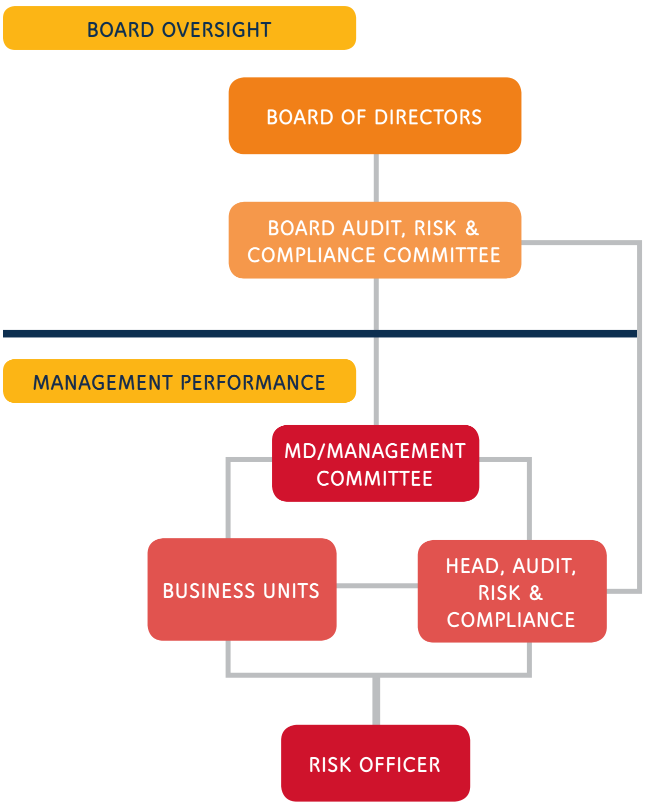
- Audit, Risk and Compliance shall:
  - set policies and define limits for other units in the Company;
  - perform company-wide risk monitoring and reporting;
  - co-ordinate activities to provide a holistic view of risks across the Company;
  - make recommendations with respect to reward/sanctions based on risk reports;
- Other units shall provide relevant data to Audit, Risk and Compliance for risk monitoring and reporting and identify potential risks in their line of business and Risk Management Unit shall provide a framework for managing such risks; and
- Information Technology support group shall provide relevant user support to the Audit, Risk and Compliance function in respect of the various audit, control and compliance monitoring software.

Accountability

Risk governance and structure

The risk governance structure provides the Board and management, through committees, with a platform to evaluate and deliberate on key risks faced by the Company and to assess the effectiveness of risk responses through the risk profiles received. The Board is ultimately responsible for the operations and financial soundness of the Company. In partial fulfilment of that responsibility, the Board approves the overall business strategy, which includes the overall risk policy and management of procedures. Management is responsible for overseeing the day-to-day management of the Company.

The FPCNL risk management governance framework is outlined in the diagram below:



Roles and responsibilities

BOARD OF DIRECTORS

The Board of Directors plays a vital role in ensuring that an effective ERM programme is in place. The key levers in this process are the (GPA) Governance, Policy and Assurance. In performing this role, the Board;

- Establishes an effective governance structure to oversee risk;
- Establishes mechanism to strengthen the risk management structure;
- Approves the Company's risk appetite annually and monitors the risk profile against this appetite;
- Ensures management takes steps necessary to monitor and control risks;
- Ensures management maintains an appropriate system of internal control and reviews its effectiveness;
- Ensures risk strategy reflects the Company's risk tolerance;
- Reviews and approves changes/amendments to the risk management framework;
- Reviews and approves risk management procedures and control for new products and activities;
- Ensures that the Company implements a sound methodology that facilitates the identification, measurement, monitoring and control of risk; and
- Ensures that detailed policies and procedures for risk exposure creation, management and recovery are in place.

Board Audit, Risk & Compliance Committee

The Board Risk Committee is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures and future risk strategy, including determination of risk appetite and tolerance. It is also responsible for promoting a risk awareness culture within the organisation. The Committee is made up of the Independent Director as the Chairman and two Non-Executive Directors. The Head, Audit Risk and Compliance sits at the Board Audit, Risk and Compliance Committee meetings.

Accountability

Management Committee (MANCO)

For all categories of risk, the Management Committee is responsible for formulating policies, monitoring implementation and reviewing risk reports for presentation to the Board and Board committees as well as implementing Board decisions across the Company.

To be more specific, the MANCO is responsible for:

- Implementing risk strategy approved by the Board of Directors;
- Establishing and maintaining an effective risk management environment in the Company;
- Developing policies and procedures for identifying, measuring and controlling risk;
- Providing appropriate resources to evaluate and control risk;
- Reviewing risk reports on a regular and timely basis; and
- Providing all reports required by the Board and its committees for the effective performance of risk management oversight functions.

Key risk indicators

FPCNL has a comprehensive Key Risk Indicator (KRI) in place which provides a veritable tool for early identification of increasing risk exposures and/or deviations concerning inherent risk of all business units. The KRI dashboard therefore represents a snapshot of risk events essential for the effective monitoring and control of risks, in conformity with the Company's risk appetite.

INTERNAL CONTROL

OVERVIEW

Internal Control in FPCNL refers to the overall operating framework of practices, systems, policies, organisational structures, management, philosophy, code of conduct, procedures and actions, which exists in the Company and is designed to ensure:

- Economy and efficiency of operation;
- Safeguarding of assets;
- Achievement of desired outcomes;
- Compliance with applicable laws and regulations including internal policies;
- Systematic and orderly recording of transactions;
- Provision of reasonable assurance that undesired events that could affect assets under custody will be prevented or detected and corrected; and
- Material errors or mistakes are identified and corrected timely.

The Company is committed to creating and maintaining a world-class internal control environment that is capable of sustaining its current leadership position in the pension industry.

Internal audit complements the work of internal control by evaluating the effectiveness of the controls and advises management accordingly.

Internal control strategy

Risk in FPCNL is managed principally by internal control. The company has in place internal control plan and programme approved by the Board of Directors.

Other devices used to manage risk include the transfer of risk to third parties, sharing risks, contingency planning and withdrawal from unacceptable risky activities. FPCNL operates in an environment that is continuously exposed to uncertainties and change. Such risks may prevent the institution from achieving its strategic business objectives. To effectively manage these risks, FPCNL has put in place internal control measures that cover all business units in the Company. These include:

- Verification and authentication of all client instructions by call-back confirmation and signature verification based on previously received mandates;
- Maker and checker control on all transactions captured on the applications;
- Independent review of all processed instructions by control and audit staff;
- Independent checks on all transactions by the compliance unit;
- Control of access to data and restricted areas;
- Effective back up and disaster recovery process;
- Account activity is sent to clients daily to aid regular monitoring of inflow and outflow into clients' accounts; and
- Reports that provide signal for possible breach.

Internal control policies

First Pension Custodian Nigeria Limited (FPCNL) is committed to ensuring that the organisation's valuable resources such as reputation and intellectual property is protected, hence the need to have an internal control policy to reduce exposure to operational risks as well as ensuring compliance to local laws, regulations and organisational policies.

The aim of the internal control program is to protect the organisation's assets against the danger of loss or misuse and to ensure that all transactions are properly authorised, thereby preventing fraud and errors.

Policy standards in FPCNL relating to internal controls include:

- Documentation of all transactions by business units and making the registers and/or files available for examination;
- Proper recording of transactions and other significant events;
- Only persons acting within the scope of authority are allowed to authorise and execute transactions;
- Clear segregation of duties;
- Access to resources and records are properly controlled and limited to only authorised personnel;
- An effective maker and checker (4-Eyes) process whereby no individual starts and concludes a transaction process;
- Expenditure limits set and controlled to ensure transparency in disbursement of Company funds; e.g. Company cheques are signed by two signatories and there are expenditure approval limits;
- A training plan that ensures all members of staff are trained annually; training is achieved locally, internationally and on the job, and improves staff skills, knowledge of the job and internal control requirements;
- Job rotation and leave policy that ensures that individuals observe annual leave days;
- Audit, Risk and Compliance personnel are precluded from getting involved in processes that could jeopardise their independence; and
- Constantly maintaining internal control awareness.

Accountability

Effectiveness of internal control

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

Effectiveness of internal control is ensured through periodic testing and review of the control systems.

Objectives of internal control

The key objectives of internal control in FPCNL include:

- Effectiveness and efficiency of operations;
- Safeguarding the assets;
- Supporting the company in meeting its essential business objectives;
- Ensuring reliability of financial reporting;
- Providing a reasonable assurance that undesirable events will be prevented or detected and corrected in line with international best practices;
- Compliance with applicable laws and regulations including FPCNL internal policies and procedures;
- Compliance with global best practice;
- Implementing recommendations of statutory/regulatory bodies and internal/external auditors following their examination exercises; and
- Ensuring end-to-end security of all critical system applications and adequate security of the company network.

Fraud management objectives

Risk management is crucial to fraud control, guiding the development of an effective fraud control plan and associated strategies and activities to minimise the opportunities for fraud to occur. Risk management provides a framework to identify, analyse, evaluate, and treat fraud risks. Some of the fraud management measures include:

- Prevent fraud occurrence or losses, and where prevention is not possible, prompt detection and mitigation. Efficient fraud loss mitigation measures, i.e., rapid escalation of fraud occurrence, insurance recovery and effective management of law enforcement agencies;
- Prevent a repeat of operational lapses and system defects that facilitate fraud incidents;
- Minimise other operational loss associated with fraud; and
- Automation of fraud preventive and detective measures.

Internal control environment

FPCNL's internal control environments extends to policies, plans, procedures, processes, systems, activities, functions, projects, initiatives and endeavours of all types, at all levels of the company. The control environment sets the tone of an organisation's influence on the control consciousness of the people. The control environment includes:

- Good compliance culture by board, management and staff;
- An ethical Board;
- Excellent understanding of the company's operations by staff ;
- Sound organisational structures;
- Good corporate governance;
- Good internal control systems;
- Excellent understanding of the company's operations by staff;
- Segregation of duties;
- An effective financial and management reporting system; and
- Strong regulatory environment.

Control activities

Control activities are integral part of the Company's day-to-day operations. The approved control structure ensures that control activities cut across every business area. The control activities include:

- Internal audit reports exposing control weaknesses are periodically presented to Management and Board Audit, Risk and Compliance;
- Transactions call over for early detection of errors;
- Company physical and financial assets are protected by policies;
- Deployment of application for monitoring of investment limit;
- Segregation of duties to deter any single officer to start and conclude transactions;
- All accounts are regularly reconciled and exception report generated for remediation; and
- Whistle blowing culture has been instituted among staff.

Accountability

Learning from internal control failure

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

- review the process to identify reasons for the deviation from approved procedures;
- check if other control weaknesses can be identified;
- communicate the control weaknesses discovered to all concerned;
- proffer and agree mitigating controls;
- document and approve a new procedure for the function; and
- update the procedural manual and communicate the new information to all concerned.

Compliance with external regulations

FPCNL is committed to complying with all relevant legislation and obligations. The Company has in place a compliance Risk Management framework approved by the Board of Directors which details its approach to identifying, assessing, measuring, monitoring and managing compliance risk across all its operations and processes.

This is designed essentially to drive its compliance with applicable laws, regulations, codes of conduct and standard of good practices as well as prevent regulatory penalties, financial or regulatory loss. The framework defines roles and responsibilities for the different parties involved in the compliance risk and management process, including Board of Directors, Board Committee, Management, Audit, Risk and Compliance and staff.

Whistle blowing

The Company 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 is a mechanism by which suspected breaches of the Company's internal policies, processes, procedures and unethical activities by all stakeholders (staff, clients, service providers, suppliers and pensioners) are reported for necessary action. The reputation of the Company is of utmost importance and all staff in the Company have a responsibility to protect the Company from any persons or acts that might jeopardise its reputation.

The platform for whistle blowing is accessible to all and some of the whistle blowing measures in FPCNL is highlighted below:

- FPCNL ensures adherence to the Whistle Blowing Guideline for pension operators issued by PenCom in line with its commitment to good corporate governance and transparency;
- The Whistle Blowing Guideline from PenCom is circulated periodically to staff and everyone is encouraged to follow its dictates;
- Internal Control, Audit and Compliance perform independent checks on all areas and report breaches discovered to management periodically and to the Board (during the quarterly Board meetings);
- Regulatory breaches of the Company and the PFA Clients discovered are reported in the monthly exception report sent to PenCom;
- Staff members are encouraged to report breaches noticed to the Chief Compliance Officer;
- Issues can also be reported under anonymity; and
- The Head, Audit, Risk &Compliance is responsible for monitoring and reporting on whistle blowing.

DIRECTORS' REPORT

The directors are pleased to present their report on the affairs of First Pension Custodian Nigeria Limited (the Company), together with the audited financial statements and auditors' report for the year ended 31 December 2016.

LEGAL FORM AND PRINCIPAL ACTIVITY

The Company was incorporated on 12 August 2005 and obtained the license to operate as a Pension Custodian on 7 December 2005.

The principal activity of the Company is to act as a custodian of pension fund assets in accordance with the Pension Reform Act 2004 (amended in 2014), or any amendment or re-enactment thereof for the time being in force.

OPERATING RESULTS

First Pension Custodian's profit for the year after taxation amounted to ₦2.83 billion (31 December 2015: ₦2.42 billion).

DIRECTORS AND THEIR INTERESTS

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

Umar Yahaya
Chairman

Kunle Jinadu
Managing Director/CEO

Dr. Bayo Odeniyi
Non-Executive Director

UK Eke, MFR
Non-Executive Director
(Resigned w.e.f. December 2016)

Ijeoma Nwogwugwu
Non-Executive Director

Dr. Philip Olufunwa
Non-Executive Director

Dr. Remi Oni
Non-Executive Director
(Appointed w.e.f. December 2016)

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

CHANGES ON THE BOARD

In the course of the year, U.K Eke, MFR, resigned from the Board having served as a Non-Executive Director for four years.

To fill the vacancy created on the Board, the Board appointed Dr. Remi Oni as a Non-Executive Director in December, 2016.

PROPERTY, PLANT AND EQUIPMENT

Information relating to changes in property, plant and equipment, is given in note 9 to the financial statements. In the director's opinion, the market value of the Company's properties is not less than the value shown in the financial statements.

PROPOSED DIVIDEND

The Board of Directors has recommended the payment of ₦1.13 dividend per ordinary share for the financial year ended 31 December, 2016. (2015: ₦0.97k). Withholding tax will be deducted at the time of payment.

HUMAN RESOURCES

- **Employment of disabled persons** – It is the policy of the Company that there should be no discrimination in considering applications for employment, including those from disabled persons. As at 31 December 2016, there was no disabled person in the employment of the Company.

- **Health, safety and welfare at work** – Health and safety regulations are in force within the premises of the Company. Fire prevention and fire-fighting equipment is installed in strategic locations within the Company's premises.

The Company operates both Group Personal Accident and the Workmen's Compensation Insurance cover for the benefit of its employees. It also operates a contributory pension scheme in line with the Pension Reform Act 2014, as well as a terminal gratuity scheme for its employees.

- **Employees' training and development** – The Company is committed to keeping employees fully informed as much as possible regarding the Company's performance and progress, and seeking their views wherever practicable on matters which particularly affect them as employees.

In accordance with the Company's policy of continuous development, employees of the Company attend both in-house and external courses. These are complemented by on-the-job training.

- **Diversity in employment** – The Company is committed to conducting business in a positive, professional manner by consistently ensuring equal employment opportunity.

Directors' report

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

Employees

	Gender Number			Gender %	
	Male	Female	Total	Male	Female
Employees	46	23	**69**	67	33

AUDITORS

The auditors, Messrs Akintola Williams Deloitte, have indicated their willingness to continue in office as auditors in accordance with Section 357(2) of the Companies and Allied Matters Act 2004. A resolution will be proposed at the Annual General Meeting to approve the appointment of the auditors and authorise the directors to determine their remuneration.

BY ORDER OF THE BOARD

Adewunmi Odebunmi
Company Secretary
FRC/2014/NBA/00000014065
35, Marina, Lagos

Board and top management staff

	Gender Number			Gender %	
	Male	Female	Total	Male	Female
Board members (Executive and Non-Executive)	5	1	**6**	83	17
Top management (Principal Manager – General Manager)	3	1	**4**	75	25
	8	2	**10**	80	20

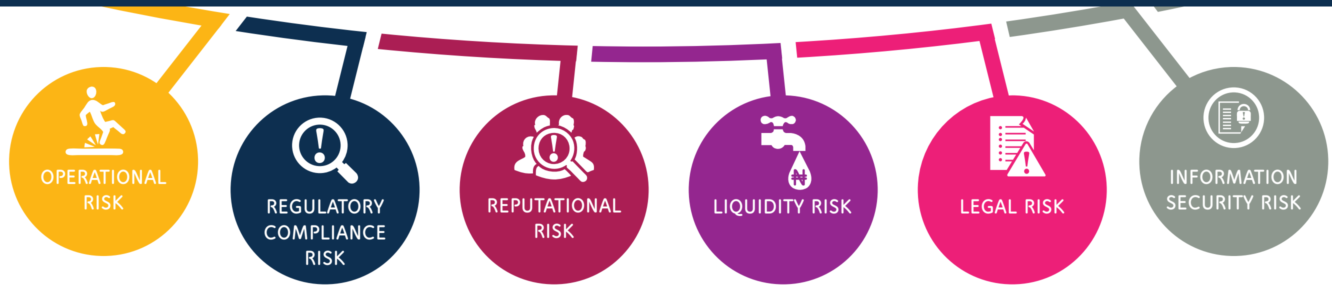
RISK FACTORS

Risk is at the heart of custody business. FPCNL attaches a great deal of importance to the proper identification and management of risks, which is a foundation for a long-lasting financial institution.

RISK MANAGEMENT

First Pension Custodian Nigeria Limited (FPCNL) considers effective risk management of utmost importance to her business operation. Consequently, the company has a strong risk culture and follows best practise in enterprise risk management. Risks are managed at FPCNL through a collective effort of all staff, senior management and the Board of directors. The company identifies and mitigates risks inherent in all material activities, processes, agreements and systems of the company by creating awareness among all members of staff on the need to be more diligent in the conduct of transactions. Appropriate steps are taken to control major operational risks before they adversely affect operations and hence the business. The major risks faced by the company are highlighted below:

MAJOR RISKS FACED BY FIRST PENSION CUSTODIAN



OPERATIONAL RISK

This is the risk of direct or indirect loss arising from inadequate or failed internal processes, people and systems (including IT and infrastructure) or from external events that impact the Company's ability to operate its ongoing business processes. Examples include: incorrect or delay in execution of a client instructions; wrong transfer of funds; inadequate reconciliation of accounts; and inappropriate follow-up on stock positions or corporate action entitlements etc.

Impact on business

The risk could result in huge financial loss, reputational damage and loss of clients/market share.

Mitigants

Operational risks are mitigated through the following measures:

- Clearly documented procedures and process flow for all business units;
- Established specific system of controls, policies and accountability;
- Segregation of duties;
- Maker-checker control process in place;
- Business continuity and disaster recovery policies and processes;
- Reviewed and approved control process;
- Compliance with regulatory requirements;
- Access controls to assets/data privacy;
- Adequacy of audit trails/evidences;
- Continuous improvement on service delivery to client;
- Adequate insurance cover for assets and staff;
- Enriched staff training;
- Regular job rotation; and
- Continuous improvement of company policy.

REGULATORY COMPLIANCE RISK

These are risks of impairment to the company arising from non-compliance with applicable laws, regulations/supervisory requirements, policies, code of conducts and standard of good practices. The risk includes transfer of pension funds for prohibited/unapproved investment, late submission of regulatory returns, payment without PenCom approval, and failure to deduct and remit tax as appropriate.

Impact on business

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

Mitigants

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

Risk management

The following processes are also adopted to mitigate the regulatory compliance risk:

- Appropriate positioning of compliance unit;
- Obligatory nature of regulatory/supervisory requirement;
- Prompt awareness on any changes/new rule;
- Continuous update of the rule books;
- Adequate monitoring of all rules affecting our business;
- Prompt regulatory awareness;
- Regular compliance training;
- Independent compliance checks of all transactions;
- Monitoring of timely submission of all regulatory returns; and
- Tracking of compliance breaches via infrastructural technology.

The Company adopts a culture of compliance, which is seen not only as a requirement of law, but also as a good business practice.

Responsibility

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

Compliance risk management is an independent core risk management activity undertaken by the Company's compliance unit, which is overseen by the Head of Audit, Risk and Compliance.

REPUTATIONAL RISK

This risk occurs when the company's reputation is damaged by one or more reputational events. The risk that an organisation's high standing among others, high esteem and honour may be affected.

FPCNL's reputation may suffer adversely through bad publicity arising from a negative perception from PFAs, PenCom, government agencies, pensioners, service providers or the public at large.

Continuous breach of regulatory rules, legislation or service-level agreements or providing a service that does not comply with industry standards could lead to bad publicity for the company. The reputational risk could also arise from failure to comply with social, environmental and ethical standards

Impact on business

Reputational damage exposes the company to loss of current and future customers, current and future business partners, key employees, public confidence, costly litigation and financial loss.

Mitigants

The Company identifies and mitigates this risk by:

- Creating awareness among all members of staff of the need to be more diligent in the conduct of transactions;
- Ensuring quality services to clients;
- Applying best practice in dealing with various stakeholders;
- Striving to maintain quality client services and business operation procedures that enable compliance with regulations in order to minimise the risk of a drop in the reputation of the Company;
- Control of official communication with shareholders, regulators, customers and general public;
- Restriction of communication to duly authorised individuals/units; and
- Review of all reports going to external parties.

LIQUIDITY RISK

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

FPCNL may face liquidity risk when there are no sufficient financial resources to meet obligations as they fall due, or having to meet financial obligation at excessive costs. This risk arises from mismatches in the timing of cash flows.

Impact on business

This could lead to the Company's inability to meet immediate financial obligations or insolvency and could eventually damage the reputation.

Mitigants

This include effective cash flow planning, having diversified sources of funding, and efficient asset and liability management.

LEGAL RISK

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

Impact on business

The risk can cause significant costs to the company, disrupt the operation of the company and reduce the earnings and capital of the company.

Mitigants

The company identifies and mitigates this risk by:

- Strict adherence to sound business practices;
- Avoidance of litigation against the company;
- Engagement of external counsel with proven competence in the prosecution of the company's claim against third parties;
- Continuous contract reviews are usual practice in FPCNL; and
- Ensuring that service level agreements (SLAs) are executed between the company and various service providers.

INFORMATION SECURITY RISK

This is a business risk related to the use of information assets. It is specifically a business risk associated with the use, ownership, operation, involvement, influence and adoption of information technology within an enterprise. This risk includes:

- Human or natural disaster affecting the company server;
- Unauthorised entry into the server room;
- Unauthorised access, use, disclosure, modification, recording or destruction of information assets;
- Alteration of economic data by unauthorised persons;
- Manipulation of electronic data by hackers;
- Virus attack on the company networks; and
- Sudden power outage.

Impact on business

The risk can expose the company to financial loss, customer dissatisfaction and regulatory breaches. It could compromise confidentiality, integrity or availability of information.

Mitigants

Information security control is built into our processes and procedures through the development of appropriate safeguards.

The company carries out continued risk evaluation through the use of proven risk assessment methodology which identifies key risk areas and prescribes controls necessary in reducing these risks to acceptable level.

We provide a disaster recovery site for either natural or man-made misadventure that may render existing buildings and/or infrastructures useless.

Regular awareness campaigns are used to drive information security and business continuity culture in the company.

Responsibility

This responsibility is shared by management and all staff through IT security awareness training programmes targeted at increasing staff awareness of information security.

CHIEF RISK OFFICER'S REPORT

"FPCNL attaches a great deal of importance to the proper identification and management of risks, which is a foundation for a long-lasting financial institution"

Tunde Folayan, Head, Audit, Risk and Compliance

INTRODUCTION

An organisation's success is largely driven by how wisely it takes risks and how effectively it manages the risks. Risk is therefore the uncertainty being faced in the successful implementation of strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of the organisation.

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

In the course of conducting the business operations, FPCNL is exposed to a variety of risks that require adequate risk management oversight and control. Throughout 2016, the company took an active approach to risk management and has continued to build on capability, ensuring that risks were appropriately addressed and well understood.

FPCNL attaches a great deal of importance to the proper identification and management of risks, which is a foundation for a long-lasting financial institution. The Company's strong enterprise risk management practice is the bedrock of its commitment to continually enhance the Company's value of strict adherence to the risk appetite as set by the Board while considering the wider interest of other stakeholders including contributors, pensioners and regulators.

The tone for a responsive and accountable risk management culture at FPCNL is set at the Board level and flows down through management to each employee of the Company. The Company continues to adopt a holistic and integrated approach to risk management by bringing all risks together under either one or a limited number of oversight functions.

The control procedures and systems established within the Company are designed to manage the risk of failure to meet business objectives. They can only provide reasonable and not absolute assurance against material misstatement or loss and focus on aligning the levels of risk-taking with the achievement of business objectives.

Material risks will only be retained where this is consistent with FPCNL's risk appetite framework and its philosophy towards risk-taking. The Company's current approach is to retain such risks where doing so contributes to value creation and the Company is able to withstand the impact of an adverse outcome, and has the necessary capabilities, expertise, processes and controls to appropriately manage the risk.

MAJOR EVENTS IN THE PENSION INDUSTRY

The pension industry in Nigeria witnessed various activities and challenges during 2016. The industry was not left out in the excruciating macro-economic challenges faced by the Nigerian economy, caused mainly by the decline in crude oil prices and dip experienced in the equity market worldwide.

The declining crude oil prices increased the supply gap in foreign exchange market thereby putting significant pressure on the Naira, hence the value of the naira remained low against other foreign currencies. This has caused some employers to either lay-off staff due to cut in production, especially with the oil exploration companies or the need to reduce overhead cost by others. Some state governments were unable to pay salaries and remittance of pension contribution. This trend has impacted the membership base negatively while the slump in the equity market has negative impact on the market value of pension fund assets. Some notable events that occurred in the industry include:

- The third edition of World Pension Summit 'Africa Special' was held in Abuja, Nigeria on September 27 and 28, 2016. The summit was attended by African pension professionals as well as major stakeholders from around the globe. Discussions at the summit centred on specific African pension innovations, key

Chief Risk Officer's report

scenarios, and scheme developments. There were presentations on global insights and best practices and these were shared and discussed by renowned international experts

- In March 2016, National Pension Commission requested operators' comments on the draft revised guidelines for Fund Accounting. The guidelines stated the general rules guiding minimum entries for Fund Accounting and specifies the minimum record of accounts to be maintained by Licensed Pension Fund Operators. The release of this guideline is being awaited.

- The bill for the Chartered Institute of Pension Practitioners has passed through the first reading at the House of Representatives

- The Commission vide circular PENCOM/INSP/CIR/TECH/16/17 of November 3, 2016 directed all Life Insurance Companies currently providing life annuity for retirees under the Contributory Pension Scheme (CPS) to open Operational Account jointly with a Pension Fund Custodian of their choice and transfer the corresponding assets in their possession/custody to the PFC within three months. The measure is to strengthen the Administration of Retirement Benefits under the Pension Reform Act (PRA) 2014.

Other circulars issued in 2016 to guide the operations of the pension business are:

1. **Recruitment of Top Management/Redeployment of Head of Department**
   The circular directed all operators to obtain the approval of the Commission before redeploying Heads of Departments and specified documents that should accompany the request for appointment of top management staff.

2. **Inclusion of Lagos State Bond as an Investible Instrument in the Pension Industry**
   Operators were informed via the circular that the Commission had issued a letter of no objection for inclusion of Lagos State ₦500 billion debt issuance programme as an investable instrument in the Pension Industry. Operators may wish to invest in the bond in accordance with the investment regulations issued by the commission.

3. **Valuation of Bonds**
   The circular aims at standardising the methodology for the computation and valuation of bonds.

The National Pension Commission (PenCom) had mandated risk management and reporting for all pension operators in Nigeria via its guidelines on Risk Management Framework for licensed pension operators. To this end, FPCNL fully identified and assessed the risks associated with major processes and activities in the year 2016.

RISK MANAGEMENT APPROACH

Risk management is implemented in accordance with policies approved by the Board of Directors and in line with PenCom guidelines and best practices. FPCNL's risk management process is organised along three lines of defence, each having a distinct role.

The organisation has properly streamlined duties between functions that:

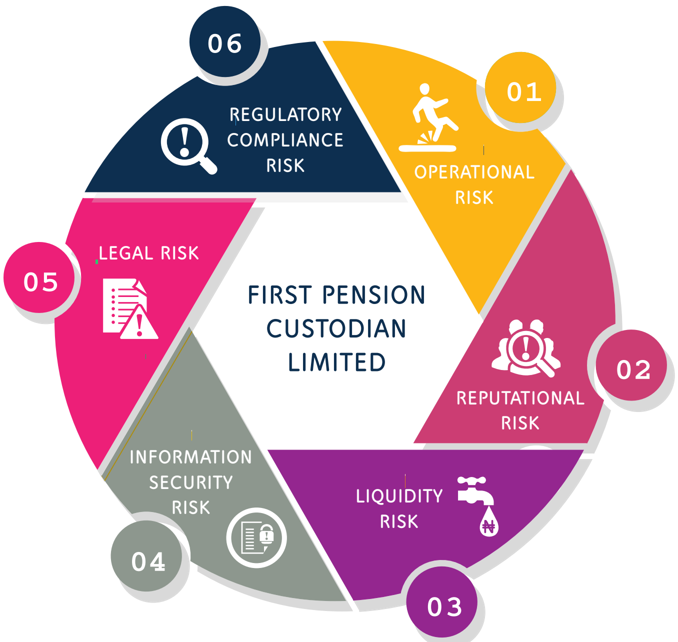
- Originates/own and manage the risk;
- Perform risk oversight and policy formulation; and
- Provides validation and independent assurance.

The three lines of defence are depicted in the diagram below:

Chief Risk Officer's report

Summary of key risks

The key risks to which the Company is exposed have been identified, measured, managed and categorised accordingly. Appropriate steps have been taken to control these major risks before they adversely affect operations and the business. The principal risks faced by the Company are defined as follows:



REGULATORY COMPLIANCE RISK MANAGEMENT

This is the risk associated with failure to comply with applicable laws, regulations, code of conduct and standards of good practice. Regulatory Compliance risk is a major risk in pension industry. FPCNL remains committed to complying fully with both the spirit and letter of all applicable laws and regulations and to always act with care and due diligence. The risk of non-compliance with legal and regulatory requirements ranges from potential financial loss arising from regulatory sanctions, loss of business, as well as damage to the Company's reputation.

Regulatory Compliance in FPCNL is managed by Audit, Risk and Compliance. The Company's approach to managing risk exposures is proactive and guided by the Board approved framework, policies and procedures. The Company identifies and mitigates these risks through continuous improvement in technology infrastructure, process revalidation and training of stakeholders to understand regulatory obligations and consequences of non-compliance. The Company has also put in place a robust rule book which is accessible to all staff.

The Compliance unit, under the leadership of the Head, Audit, Risk and Compliance, is well positioned to guide against the risk of failure to comply with applicable laws and regulations, regulatory policies, codes, policies, procedures and ethical standards which may result in regulatory sanctions and financial or reputational loss and ensures that statutory and regulatory requirements are adhered to and that breaches are promptly reported.

The department also organises compliance awareness training and periodically circulates PenCom regulations and circulars and Board approved internal policies.

Although the Board of Directors of FPCNL is ultimately accountable for compliance with all internal policies, and regulatory pronouncements, the primary responsibility of adhering to regulations and standards lies with all members of staff in the conduct of transactions and other activities to which relevant regulations relate.

OPERATIONAL RISK MANAGEMENT

FPCNL has an objective to manage and control operational risk and ensure that risk policies and procedures are functioning as directed. The company identifies and mitigates operational risks inherent in all material activities, processes, agreements and systems by creating awareness among all members of staff on the need to be more diligent in the conduct of transactions, ensuring quality services to the clients and applying best practice in dealing with various stakeholders. Appropriate steps are taken to control major operational risks before they adversely affect operations and hence the business. The steps include:

- Zero tolerance for regulatory infractions and penalties;
- The highest ethical standards at all times;
- Zero tolerance for fraud;
- Appropriate policies and processes at all times;
- Appropriate risk assessment and controls in exploiting new business opportunities; and
- Low tolerance for system downtimes and business disruptions.

The Company has an embedded robust operational risk management practice, culture and environment to engender the soundness of the institution. During 2016, the Company identified and managed different operational risks which included risks associated with contribution remittance and processing, incorrect execution of client instruction, inadequate reconciliation of, and follow up on stocks positions and corporate action entitlements, failed trade, errors in processing payments and transfers and other forms of risks that could cause losses.

Internal audit/control job functions are key to effective operational risk management. The internal audit unit provides an independent assessment and evaluation of the Company's operational risk and ensures that business units adhere to the operational risk policies. Internal control unit on the other hand, is accountable as part of its daily checks for monitoring control activities and ensuring compliance with set standards.

Chief Risk Officer's report

Key counter-measures put in place by the management of FPCNL include:

- enhanced staff training;
- issuance of appropriate and deterrent circulars;
- job rotation and segregation;
- continuous improvement of Company policy and processes;
- Implementation of whistleblowing policy to encourage staff to report unethical activities to the Chief Compliance Officer/ Head, Audit, Risk & Compliance, Board, and PenCom where necessary; and
- Risk transfer (insurance arrangement).

REPUTATIONAL RISK MANAGEMENT

This is the risk that an organisation's high standing among others, high esteem and honour may be affected. Reputational risk is a risk of corporate trust and can expose the company to loss of customers, financial loss, regulatory sanctions and costly litigation. The risk affects the Company's ability to establish new relationships or services and retention of existing relationships.

During the year under review, the Company strives to maintain quality client service/procedures and business operations that enable compliance with regulatory rules and legislation in order to minimise the risk of a decline in the reputation of the Company. The Company also promotes sound business ethics among its employees. The Company did not compromise its reputation through unethical, illegal and unprofessional conduct. Management creates awareness among all members of staff on need to be more diligent in the conduct of transactions, ensuring quality services to the clients and apply best practice in dealing with various stakeholders. Also, the Company has continued to maintain zero appetite for association with disreputable individuals and entities.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the Company does not have sufficient resources to meet its obligations when they fall due or will have to meet such obligations at an excessive cost. This usually occurs due to the inability to convert a security or asset to cash without a loss of capital and/or income in order to meet short term financial demand.

The adequacy of the Company's liquidity position is determined using the following factors:

- historical funding requirements;
- current liquidity position;
- present and future earnings capacity; and
- sources of funds.

FPCNL ensures that it maintains sufficient liquidity, including high liquid assets, to withstand a range of stress events and is able to settle its financial obligations. Most of the company's transactions are naira denominated hence the fluctuations in foreign exchange currencies did not have negative impact on the organisation. Also, cash flow planning and other liquidity management techniques were employed to mitigate this risk.

The Company's liquidity management process is managed by the Head, Safekeeping and Finance, under the direct supervision of the Managing Director in conjunction with the Management Committee. The Board Finance and General Purpose Committee and the Board of Directors have an oversight responsibility in this regard.

LEGAL RISK MANAGEMENT

Legal risk is the risk of real or threatened litigation against the Company. Legal risk can be of significant costs to the Company, disrupt its operation and reduce earnings and capital. The risk has enormous cost implications to the organisation. including the likelihood of affecting its reputation negatively.

The Company manages this risk by monitoring new legislations, raising awareness of same among employees, entrenching sound corporate governance and identifying significant legal risks as well as assessing their potential impact and establishing adequate mitigating controls.

In 2016, legal risk management was carried out through the proper management of various sources from which this risk could occur. Some of the controls adopted include:

- Service Level Agreements (SLAs) were executed between clients and various service providers;
- The SLAs were monitored to ensure compliance;
- Continuous review and monitoring of contingent liabilities reports; and
- Continuous contract review.

The level of awareness of the need to identify, mitigate and manage legal risks in our business activities and transactions continues to improve. Legal risk has been well managed and there has been no incidence of litigation directly involving the Company.

INFORMATION SECURITY RISK MANAGEMENT

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

In view of the importance of the Information Technology, FPCNL instituted a sound and robust IT Risk Management framework that provides confidence that information technology can deliver business value efficiently and securely, while providing high-quality assurance around data integrity, availability and confidentiality of its information assets.

Chief Risk Officer's report

One area of operational risk involves the use of information and communication technology (ICT) systems and other infrastructure in the conduct of business. In the case of a disaster, either natural or man-made which may render existing buildings and/or infrastructures inoperable, contingency plans are in place to mitigate such. To this end, the Company is able to run operations from a disaster recovery site located away from the vicinity of the main office. This alternative location is regularly tested and provides online replication of the main office transactions.

In addition to measures mentioned above, backup of data is done on tape and stored in an approved location away from the main office. These tapes are tested at intervals to confirm that backed up data is retrievable.

The Company's information security risk management framework therefore ensures that information assets are protected at all times. This responsibility is shared by management and all staff through programmes targeted at increasing staff knowledge and client protection.

Information security control is being built into all processes and procedures through the development of appropriate safeguards.

2017 FOCUS AREAS

The regulatory framework has continued to evolve with various guidelines and circulars issued by PenCom, some draft guidelines issued in 2015 and 2016 are expected to be finalised and issued for adoption between the first and second quarter of 2017 and expectedly, these would come with their respective risks. The strategic focus of the industry at widening the membership base has also engendered discussions around bringing the informal sector into the system, so also is the plan to open the transfer window.

Our focus for 2017 is to proactively prepare for major risks that may arise from these expected events. This, essentially will be, in addition to other activities, to enhance the risk function and improve risk awareness within the organisation. The key strategies that will be used are to:

- Review the existing Enterprise Risk Management framework in line with current operational process;
- Further review and update the Risk Register in line with PenCom expectations;
- Increase attention to training and equip staff with the skills necessary to perform effectively;
- Enhance the mobility programme to ensure staff rotation, thereby renewing motivation and avoiding risks associated with monotony of activities;
- Continue to emphasise the use of technology as a competitive tool;
- Review the internal control process, taking into consideration, various improvements and changes that has occurred at the business units; and
- Collaborate with other operators to drive full compliance by State Governments, such that all public and private sector employees in all states actively participate in CPS.

Managing Emerging Risk

Emerging risks are risks which do not currently exist but may emerge at some time in the future due to changes in the environment. Adequate control will be put in place to mitigate risks that may arise as a result of the industry initiatives that may be implemented in the coming year. Such initiatives include:

- Inclusion of employees in the informal sector, small and medium enterprise in the contributory pension scheme;
- Development and utilisation of suitable products for investment of pension funds in infrastructure and real estate; and
- Leverage third party to deliver centralised pension operational process.

CONCLUSION

Risk management guidelines are not prescriptive enough to stimulate a good governance model. As such the company remains committed to promoting a sound business environment and will continue to imbibe the culture of creating an enabling business environment through the development and implementation of a robust/sound enterprise risk management framework and enhanced risk culture across the organisation. The focus will be to maintain risks at acceptable levels and avoid dealings that are inimical to the system and industry at large. The risk matters in FPCNL is championed by the Head, Audit, Risk & Compliance with the support of management, while the Board of Directors provide an oversight function on risk related issues.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS

The Directors of First Pension Custodian Nigeria Limited are responsible for the preparation of the financial statements that give a true and fair view of the financial position of the Company as at 31 December 2016, and the results of its operations, cash flows and changes in equity for the year ended, in compliance with International Financial Reporting Standards ('IFRS') and in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011 and the Pension Reform Act, 2014.

In preparing the financial statements, the directors are responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- making an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Company;
- maintaining adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- maintaining statutory accounting records in compliance with the legislation of Nigeria and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- preventing and detecting fraud and other irregularities.

Going concern

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

The financial statements of the Company for the year ended 31 December 2016 were approved by Board of Directors on 22 February, 2017.

Signed on behalf of the Directors by:

Umar Yahaya
Chairman
FRC/2013/IODN/00000003223

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

AUDIT, RISK & COMPLIANCE COMMITTEE STATEMENT

In compliance with the provisions of Section 359(6) of the Companies and Allied Matters Act 2004, we have reviewed the Audit Report for the year ended 31 December 2016 and state as follows:

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

Dr. Bayo Odeniyi
Chairman, Audit, Risk & Compliance Committee
FRC/2015/VCN/00000011082
21 February, 2017

MEMBERS OF THE COMMITTEE

Ijeoma Nwogwugwu
Dr. Philip Olufunwa

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF FIRST PENSION CUSTODIAN NIGERIA LIMITED

Opinion

We have audited the accompanying financial statements of **FIRST PENSION CUSTODIAN NIGERIA LIMITED** which comprise the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flow for the year then ended, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of **FIRST PENSION CUSTODIAN NIGERIA LIMITED** as at 31 December 2016 and the financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards, the Companies and Allied Matters Act Cap C20 LFN 2004, PENCOM Act, and the Financial Reporting Council of Nigeria Act, 2011.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the requirements of the Institute of Chartered Accountants of Nigeria Professional Code of Conduct and Guide for Accountants (ICAN Code) and other independence requirements applicable to performing audits of financial statements in Nigeria. We have fulfilled our other ethical responsibilities in accordance with the ICAN Code and in accordance with other ethical requirements applicable to performing audits in Nigeria. The ICAN Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, Audit Committee's Report and Company Secretary's Report, which we obtained prior to the date of this auditor's. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act CAP C20 LFN 2004, Financial Reporting Council Act, 2011 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Entity's Financial Statements

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

Independent Auditor's report
To the Shareholders of First Pension Custodian Nigeria Limited

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the Company's financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on Other Legal and Regulatory Requirements

In accordance with the Sixth Schedule of Companies and Allied Matters Act CAP C20 LFC 2004 we expressly state that:

i) We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purpose of our audit.

ii) The company has kept proper books of account, so far as appears form our examination of those books.

iii) The Company's statements of financial position and its statements of profit or loss and other comprehensive income are in agreement with the books of account.

No contravention of the sections of the Pension Reform Act or PENCOM circulars and guidelines came to our knowledge during the year ended 31 December 2016.

For: Akintola Williams Deloitte
Chartered Accounts
Lagos, Nigeria
20 March, 2017

Engagement Partner: Joshua Ojo
FRC/2013/ICAN/00000000849

FINANCIAL STATEMENTS

Our financial statements for the year ended 31 December 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS).

STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 ₦'000	2015 ₦'000
Custody fees	4	**4,746,300**	4,181,933
Interest income	5	**787,843**	757,265
Other income	6	**14,954**	8,323
Total income		**5,549,097**	4,947,521
Personnel expenses	7.1	**302,587**	333,303
Depreciation and amortisation	7.2	**152,078**	116,285
Directors' emoluments	20a	**158,674**	157,693
Other operating expenses	7	**881,416**	931,470
Total operating expenses		**1,494,755**	1,538,751
Profit before income tax		**4,054,342**	3,408,770
Income tax expense	8	**(1,224,818)**	(991,981)
Profit for the year		**2,829,524**	2,416,789
Basic earnings per share (kobo)	26	**141**	121

The notes to the financial statements form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 ₦'000	2015 ₦'000
Profit for the year		**2,829,524**	2,416,789
OTHER COMPREHENSIVE INCOME			
Items that may subsequently be reclassified to profit or loss		-	-
Items that may not be subsequently reclassified to profit or loss		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		**2,829,524**	2,416,789

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	2016 ₦'000	2015 ₦'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**1,249,728**	1,130,266
Intangible assets	10	**5,883**	53,727
Deferred tax assets	11	**103,092**	111,323
		1,358,703	1,295,316
Current assets			
Loans and other receivables	12	**564,321**	589,899
Other assets	13	**128,168**	160,796
Investment securities	14	**8,756,662**	1,554,339
Cash and short-term funds	15a	**87,052**	5,958,086
		9,536,203	8,263,120
Total assets		**10,894,906**	9,558,436
EQUITY AND LIABILITIES			
Equity			
Share capital	16	**2,000,000**	2,000,000
Retained earnings		**6,358,893**	4,525,867
Total equity		**8,358,893**	6,525,867
Non-current liabilities			
Retirement benefit obligations	17	**-**	38,543
		-	38,543
Current liabilities			
Creditors and accruals	18	**746,933**	1,534,510
Income tax liabilities	8	**1,789,080**	1,459,516
		2,536,013	2,994,026
Total liabilities		**2,536,013**	3,032,569
Total equity and liabilities		**10,894,906**	9,558,436
Pension assets under custody	19.1	**2,035,542,499**	1,814,340,864
Non-pension assets under custody	19.2	**551,562,982**	299,954,655

These financial statements were approved by the Board of Directors on 22 February, 2017 and signed on its behalf by:

Umar Yahaya
Chairman
FRC/2013/IODN/00000003223

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

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital ₦'000	Other reserves ₦'000	Retained earnings ₦'000	Total equity ₦'000
Balance as at 1 January 2016	2,000,000	-	4,525,867	6,525,867
Profit for the year	-	-	2,829,524	2,829,524
Other comprehensive income or loss	-	-	-	-
Total comprehensive income or loss	2,000,000	-	7,355,391	9,355,391
Dividend paid	-	-	(996,498)	(996,498)
Total transactions with owners of the Company as at 31 December 2016	2,000,000	-	6,358,893	8,358,893
Balance as at 1 January 2015	2,000,000	-	3,399,011	5,399,011
Profit for the year	-	-	2,416,789	2,416,789
Other comprehensive income or loss	-	-	-	-
Total comprehensive income or loss	2,000,000	-	5,815,800	7,815,800
Dividend paid	-	-	(1,289,933)	(1,289,933)
Total transactions with owners of the Company as at 31 December 2016	2,000,000	-	4,525,867	6,525,867

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 ₦'000	2015 ₦'000
Profit for the year		**2,829,524**	2,416,789
Income tax charge		**1,224,818**	991,981
Profit before income tax		**4,054,342**	3,408,770
Adjustment for non-cash items			
Depreciation of property and equipment	9	**93,452**	62,100
Amortization of intangibles	10	**58,626**	54,185
Withholding tax credit applied on tax payment	8	**(5,595)**	0
(Gain)/loss on disposal of property and equipment		**(400)**	4,365
Allowances for doubtful accounts		**(1,059)**	(5,096)
Employee benefit liability		**(38,543)**	(52,039)
Changes in operating assets and liabilities			
Loans and other receivables		**26,631**	(82,885)
Other assets		**32,628**	(94,855)
Creditors and accruals		**(787,578)**	1,072,711
Cash generated from operations		**3,432,505**	4,367,256
Income taxes paid	8	**(881,428)**	(621,202)
Net cashflow generated/(used in) from operating activities		2,551,077	3,746,054
Cash flows from investing activities			
Acquisition of property, plant and equipment	9	**(212,908)**	(202,859)
Proceeds from sale of property, plant and equipment		**400**	200
Acquisition of intangibles	10	**(10,782)**	(9,940)
Sale/Purchase of investment securities	15	**(7,242,348)**	3,484,138
Net cash (used in) /generated from investing activities		**(7,465,638)**	**3,271,539**
Cash flows from financing activities			
Dividend paid		**(996,498)**	(1,289,933)
Net cash (used in)/generated from financing activities		**(996,498)**	(1,289,933)
Net increase/(decrease) in cash and cash equivalents		**(5,911,059)**	5,727,660
Increase in cash and cash equivalents		**(5,911,059)**	5,727,660
Cash and cash equivalents at start of year		**5,998,111**	270,451
Cash and cash equivalents at end of year	15	**87,052**	5,998,111

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1 GENERAL INFORMATION

First Pension Custodian Nigeria Limited ('the Company') was incorporated in Nigeria, as a limited liability company on 12 August 2005. It was granted its operating license on 7 December, 2005 to act as a Custodian of Pension Fund Assets in accordance with the Pension Reform Act 2004 (As amended in 2014), or any amendment or re-enactment thereof for the time being in force.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

Statement of compliance
The financial statements comprise the income statement, statement of other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and selected notes for the company.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB, and the interpretations of these standards, issued by the International Financial Reporting Interpretations Committee (IFRIC). The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied.

These financial statements comply with the Companies and Allied Matters Act of Nigeria and the Financial Reporting Council of Nigeria Act.

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

2.2 Changes in accounting policy and disclosures

Application of new and revised International Financial Reporting Standards (IFRSs)
New standards and amendments that are mandatorily effective for the year ended 31 December 2016

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

A number of standards, interpretations and amendments thereto, had been issued by the IASB which are effective but do not impact on these financial statements as summarised in the table below:

IFRS	EFFECTIVE DATE	SUBJECT OF STANDARD/AMENDMENT
IFRS 14 Regulatory Deferral Accounts	1 January 2016	IFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate- regulated activities. The Standard is available only to first-time adopters of IFRSs who recognised regulatory deferral account balances under their previous GAAP. IFRS 14 permits eligible first-time adopters of IFRSs to continue their previous GAAP rate-regulated accounting policies, with limited changes, and requires separate presentation of regulatory deferral account balances in the statement of financial position and statement of profit or loss and other comprehensive income. Disclosures are also required to identify the nature of, and risks associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances. This standard does not impact on the financial statements as the Company does not provide services subject to rate regulation.
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	Effective for annual periods beginning on or after 1 January 2016	The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 Income Taxes regarding recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

IFRS	EFFECTIVE DATE	SUBJECT OF STANDARD/AMENDMENT
Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)	Effective for annual periods beginning on or after 1 January 2016	The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances: a) when the intangible asset is expressed as a measure of revenue. For example, an entity could acquire a concession to explore and extract gold from a gold mine. The expiry of the contract might be based on a fixed amount of total revenue to be generated from the extraction and not be based on time or on the amount of gold extracted. Provided that the contract specifies a fixed total amount of revenue to be generated on which amortisation is to be determined, the revenue that is to be generated might be an appropriate basis for amortising the intangible asset; or b) when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. Based on the assessment, it was noted that none of its intangible assets or property, plant and equipment are being amortised or depreciated based on revenue
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	Effective for annual periods beginning on or after 1 January 2016	The amendments bring bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for in the same way as property, plant and equipment. For the purpose of bringing bearer plants from the scope of IAS 41 into the scope of IAS 16 and therefore enabling entities to measure them at cost subsequent to initial recognition or at revaluation, a definition of a 'bearer plant' is introduced into both standards. A bearer plant is defined as a living plant that: i. is used in the production or supply of agricultural produce; ii. is expected to bear produce for more than one period; and iii. has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. The scope sections of both standards are then amended to clarify that biological assets except for bearer plants are accounted for under IAS 41 while bearer plants are accounted for under IAS 16.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

IFRS	EFFECTIVE DATE	SUBJECT OF STANDARD/AMENDMENT
Equity Method in Separate Financial Statements (Amendments to IAS 27)	Effective for annual periods beginning on or after 1 January 2016	The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements at cost, in accordance with IFRS 9 Financial Instruments (or IAS 39 Financial Instruments: Recognition and Measurement for entities that have not yet adopted IFRS 9), or using the equity method as described in IAS 28 Investments in Associates and Joint Ventures. This standard does not impact the financial statements of the Company.
Disclosure Initiative (Amendments to IAS 1)	Effective for annual periods beginning on or after 1 January 2016	The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. Disclosure Initiative (Amendments to IAS 1) makes the following changes: i. Materiality: The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply. ii. Statement of financial position and statement of profit or loss and other comprehensive income: The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss. iii. Notes: The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

IFRS	EFFECTIVE DATE	SUBJECT OF STANDARD/AMENDMENT
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	Effective for annual periods beginning on or after 1 January 2016	The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. Investment Entities: The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value. It also states that a subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity. In addition, when applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries. In addition, an investment entity measuring all of its subsidiaries at fair value must provide the disclosures relating to investment entities as required by IFRS 12.This standard does not have impact on the operation of the company.

The above standards does not have impact on the operation of the company during the year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Annual Improvements to IFRSs 2012 - 2014 Cycle

(Effective for annual periods beginning on or after 1 January 2016, except as detailed below)

The Annual Improvements include amendments to a number of IFRSs, which have been summarised below.

STANDARD	SUBJECT OF AMENDMENT	DETAILS
IFRS 5 **Non-current Assets Held for Sale and Discontinued Operations**	Changes in methods of disposal.	The amendment introduces specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to hold for distribution to owners (or vice versa). The amendment clarifies that such a change is considered as a continuation of the original plan of disposal and hence the requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held- for-distribution accounting is discontinued.
IFRS 7 **Financial Instruments: Disclosures (with consequential amendments to IFRS 1)**	(i) Servicing contracts	The amendment provides additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.
IAS 19 **Employee Benefits**	Discount rate: regional market issue	The amendment clarifies that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The basis for conclusions to the amendment also clarifies that the depth of the market for high quality corporate bonds should be assessed at a currency level which is consistent with the currency in which the benefits are to be paid. For currencies for which there is no deep market in such high quality bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

2.3 New and revised IFRSs in issue that are not mandatorily effective (but allow early application) for the year ended 31 December 2016

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

i. IFRS 9 Financial Instruments;
ii. IFRS 15 Revenue from Contracts with Customers;
iii. Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
iv. IFRS 16 Leases
v. Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
vi. Amendments to IAS 7 Additional disclosure on changes in financing activities
vii. Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
viii. Amendments to IFRS 4 upon applying IFRS 9

2.3.1 IFRS 9 *Financial Instruments*

(Effective for annual periods beginning on or after 1 January 2018)

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) *will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.*

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value under IFRS 9. Specifically:

- a debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.

- a debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option.

- all other debt instruments must be measured at FVTPL.

- all equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Phase 2: Impairment methodology

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non- financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The work on macro hedging by the IASB is still at a preliminary stage - a discussion paper was issued in April 2014 to gather preliminary views and direction from constituents with a comment period which ended on 17 October 2014. The project is under redeliberation at the time of writing.

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in IFRS 9 at the same time, except for those relating to:

1. the presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, the requirements for which an entity may apply early without applying the other requirements in IFRS 9; and

2. hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

An entity may early apply the earlier versions of IFRS 9 instead of the 2014 version if the entity's date of initial application of IFRS 9 is before 1 February 2015. The date of initial application is the beginning of the reporting period when an entity first applies the requirements of IFRS 9.

IFRS 9 contains specific transitional provisions for i) classification and measurement of financial assets; ii) impairment of financial assets; and iii) hedge accounting. Please see IFRS 9 for details.

2.3.2 IFRS 15 *Revenue from Contracts with Customers*
(Effective for annual periods beginning on or after 1 January 2018)

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations upon its effective date:

- *IAS 18 Revenue;*
- *IAS 11 Construction Contracts;*
- *IFRIC 13 Customer Loyalty Programmes;*
- *IFRIC 15 Agreements for the Construction of Real Estate;*
- *IFRIC 18 Transfers of Assets from Customers; and*
- *SIC 31 Revenue-Barter Transactions Involving Advertising Services.*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

As suggested by the title of the new revenue Standard, IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or *IFRS 9 Financial Instruments,* if IFRS 9 is early adopted).

As mentioned above, the new revenue Standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The new revenue Standard introduces a five-step approach to revenue recognition and measurement:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Far more prescriptive guidance has been introduced by the new revenue standard:

- Whether or not a contract (or a combination of contracts) contains more than one promised good or service, and if so, when and how the promised goods or services should be unbundled.

- Whether the transaction price allocated to each performance obligation should be recognised as revenue over time or at a point in time. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, which is when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Unlike IAS 18, the new Standard does not include separate guidance for 'sales of goods' and 'provision of services'; rather, the new Standard requires entities to assess whether revenue should be recognised over time or a particular point in time regardless of whether revenue relates to 'sales of goods' or 'provision of services'.

- When the transaction price includes a variable consideration element, how it will affect the amount and timing of revenue to be recognised. The concept of variable consideration is broad; a transaction price is considered variable due to discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties and contingency arrangements. The new Standard introduces a high hurdle for variable consideration to be recognised as revenue – that is, only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

- When costs incurred to obtain a contract and costs to fulfil a contract can be recognised as an asset.

2.3.3 Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value.

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The amendments further clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Moreover, the amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries.

Lastly, clarification is also made that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by IFRS 12 Disclosures of Interests in Other Entities.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with earlier application permitted.

2.3.4 IFRS 16 *Leases*

IFRS 16 Leases was issued; it specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Effective date of this standard is 1 January 2018.

2.3.5 Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

IAS 12 Income Taxes was amended to clarify the following aspects: Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. The carrying amount of an asset does not limit the estimation of probable future taxable profits. Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Effective date of the amendment is 1 January, 2017

2.3.6 Amendments to IAS 7 *Additional disclosure on changes in financing activities*

IAS 7 was amended to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

2.3.7 Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

IFRS 2 was amended to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

Effective date is 1 January 2018

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2.4 Financial assets and liabilities

2.4.1 Financial assets

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

In 2016 and 2015, the Company had no available-for-sale financial assets but held to maturity investments.

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

Loans and receivables

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

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

(ii) those that the Company upon initial recognition designates as available for sale; or

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

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

2.4.2 Financial liabilities

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

Financial liabilities at amortised cost

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

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

2.4.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations.

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

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

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

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

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

2.4.4 Derecognition of financial assets

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

2.4.5 Reclassification of financial assets

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

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

2.4.6 Offsetting financial instruments

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

2.5 Cash and cash equivalents

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

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

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2.6 Revenue recognition

Custody fees

Custody fees represents fees earned by the company for holding pension fund assets on behalf of pension fund beneficiaries and their administrators. Fees are also earned from AMCON and Non Proprietary business lines in respect of Treasury bills, Bonds etc held on behalf of clients. Custody fee income is recognised on an accrual basis as the service is rendered and is stated net of tax.

Interest income

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

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

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

2.7 Impairment of financial assets

Assets carried at amortised cost

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

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - (i) adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or
  - (ii) national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

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

2.8 Impairment of non-financial assets

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

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

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

2.9 Property, plant and equipment

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

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

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

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

	Years
Computer hardware and equipment	3
Office equipment	5
Plant and machinery	5
Furniture & fittings	5
Motor vehicles	4

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

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

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

2.10 Intangible assets

Costs associated with maintaining computer software are recognised as an expense incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets. Subsequent expenditure on software assets is capitalised only if it increases the future economic benefits embodied in the specific assets to which it relates.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis over 3 years and are carried at cost less any accumulated amortisation. The carrying amount of capitalised computer software is reviewed annually and is written down when the carrying amount exceeds its recoverable amount.

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

2.11 Taxation

(a) Current income tax

Income tax payable/(receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense/(income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity.

(b) Deferred tax

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

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

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

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

2.12 Employee benefits

The Company has both defined contribution and benefit plans.

Defined contribution plan (Pension)

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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In line with the Pension Reform Act 2014, the Company pays contributions to a Pension Fund Administrator (PFA) on a mandatory or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The employee contributions are funded through payroll deductions while the Company's contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available while unpaid contributions are recognised as a liability.

Severance benefits
The Company has put in place a severance benefit package for its directors which was discontinued for Non-Executive Directors with effect from 29, February 2016 while that of the Executive Management continued. The severance benefits are calculated based on the number of years in service at specified amounts approved by the Board of directors.

2.13 Provisions, contingent liabilities and assets

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

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

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

2.14 Share capital

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

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

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

2.15 Assets under custody

These assets represents the value of the investments of pension fund beneficiaries/obligors, managed by their respective pension fund administrators/AMCON and held by the Company in its capacity as the custodian in compliance with the Pension Reform Act 2014/AMCON Act 2010. The company also keep under custody money market instruments on behalf of Banks and Discount houses in accordance with CBN directives. These assets include cash balances held with banks, investments in money market instruments, equities and real estate. These assets are not included in these financial statements, but reported as an off balance sheet item.

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

2.16 Comparatives

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

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

NOTES TO THE FINANCIAL STATEMENTS
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2.17 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Committee that makes strategic decisions. The Company has only one operating segment hence we are not doing segment reporting.

2.18 Going concern

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

3 FINANCIAL RISK MANAGEMENT

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

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

3.1 Credit Risk

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

	31 December 2016 ₦'000	31 December 2015 ₦'000
< 30days	388,845	364,323
30 - 90 days	40,891	121,254
91 - 180 days	36,882	53,195
> 180 days	77,664	32,569
Total	544,282	571,341

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3.1.1 Credit quality

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

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

3.2 Liquidity risk

The Company does not have any borrowings. Surplus cash held by the Company over and above balance required for working capital management are invested in interest bearing current accounts and short term deposits, choosing instruments with appropriate maturities. At the reporting date, the company held liquid cash assets of ₦8.8 billion which is expected to readily generate cash inflows for managing liquidity risk.

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

	Less than 3 months ₦'000	Between 3 months and 1 year ₦'000	Between 1 and 2 years ₦'000	Between 2and 5 years ₦'000
At 31 December 2016				
Accounts payable	136,608	-	-	-
At 31 December 2015				
Accounts payable	93,490	-	-	-

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3.3 Market risk

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

3.4 Foreign exchange risk

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

3.5 Interest rate risk

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

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

	Carrying amount ₦'000	Variable interest ₦'000	Fixed interest ₦'000	Non-interest bearing ₦'000
31 December 2016				
Assets				
Cash and short term funds	87,052	87,052	-	-
Investment securities	8,756,662	-	8,756,662	-
Staff Loans	20,103	-	20,103	-
Other assets	544,218	-	-	544,218
31 December 2015				
Assets				
Cash and short term funds	5,958,086	5,958,086	-	-
Investment securities	1,554,339	-	1,554,339	-
Staff Loans	19,681	-	19,681	-
Other assets	585,795	-	-	585,795
Liabilities				
The company has no borrowings.				

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3.6 Capital risk management

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

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

3.7 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value.

	At 31 December 2016		At 31 December2015	
	Carrying value ₦'000	Fair value ₦'000	Carrying value ₦'000	Fair value ₦'000
Financial assets				
Cash and short term funds	87,052	87,052	5,958,086	5,958,086
Investment securities (held to maturity)	8,756,662	8,756,662	1,554,339	1,554,339
Staff Loans	20,103	20,103	19,681	19,681
Other receivables	544,218	544,218	585,795	585,795
Financial liabilities				
Account payables	136,608	136,608	93,490	93,490

(b) Financial instruments measured at fair value

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

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4 CUSTODY FEES

	31 December 2016 ₦'000	31 December 2015 ₦'000
Custody fees	**4,746,300**	4,181,933

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

5 INTEREST INCOME

	2016 ₦'000	2015 ₦'000
Placements	**83,305**	62,196
Treasury bills	**697,609**	688,655
Current account	**2,788**	1,369
Others	**4,141**	5,045
Total	**787,843**	757,265

6 OTHER INCOME

	2016 ₦'000	2015 ₦'000
Admin/processing fees	**3,490**	4,332
Sundry income	**11,464**	3,991
Total	**14,954**	8,323

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7 OTHER OPERATING EXPENSES

	2016 ₦'000	2015 ₦'000
Auditors' remuneration	10,000	10,000
Passages, travel and medical	46,270	38,935
Corporate promotions and statutory fee	21,881	25,988
Maintenance	100,219	94,877
Bank and sundry charges	14,929	34,662
Training	34,636	35,795
Other losses	28,688	4,319
Loss on disposal of PPE	-	4,565
Donations & subscriptions	3,870	42,778
Postages, light and printing	22,898	18,703
Provision for doubtful receivables	-	15,371
Insurance premiums, rent and rates	46,303	38,096
Amortisation of prepaid employee benefit	2,109	2,717
Professional fees and other consultancy costs	31,560	56,600
Other expenses	477,510	473,950
Information technology levy	40,543	34,114
Total	881,416	931,470

7.1 Personnel expenses

	2016 ₦'000	2015 ₦'000
Staff costs (excluding executive directors)	302,587	333,303

See breakdown of staff costs at note 7.1c

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

7.1a The average number of persons, employed by the company during the year was as follows:

	31 December 2016 ₦'000	31 December 2015 ₦'000
Executive	1	1
Management	5	5
Non-management	63	66
Total	69	72

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

			31 December 2016 Number	31 December 2015 Number
₦300,000	-	₦2,000,000	52	53
₦2,000,001	-	₦2,800,000	3	5
₦2,800,001	-	₦3,500,000	6	4
₦3,500,001	-	₦4,000,000	3	3
₦4,000,001	-	₦5,500,000	-	2
₦5,500,001	-	and above	4	4
Total			68	71

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

	31 December 2016 ₦'000	31 December 2015 ₦'000
Wages and salaries	292,188	321,938
Defined contribution plan	10,399	11,365
Total	302,587	333,303

7.2 Depreciation and amortisation

	31 December 2016 ₦'000	31 December 2015 ₦'000
Depreciation (note 9)	93,452	62,100
Amortisation (note 10)	58,626	54,185
Total	152,078	116,285

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

8 INCOME TAX EXPENSE

	31 December 2016 ₦'000	31 December 2015 ₦'000
Corporate tax	1,136,534	965,920
Education tax	80,053	65,402
Current income tax - current year	1,216,587	1,031,322
Origination and reversal of temporary deferred tax differences	8,231	(39,341)
Total income tax expense	1,224,818	991,981
The movement in the current income tax payable balance is as follows:		
At 1 January	1,459,516	1,049,396
Tax paid	(881,428)	(621,202)
Withholding tax credit utilised	(5,595)	-
Income tax charge	1,216,587	1,031,322
At 31 December	1,789,080	1,459,516

Reconciliation of effective tax rate

	31 December 2016 ₦'000	31 December 2015 ₦'000
Profit before income tax	4,054,342	3,408,770
Tax using domestic rate of 30% (2015: 30%)	1,216,303	1,022,631
Non-deductible expenses	193,780	164,981
Education tax levy	80,053	65,402
Tax exempt income	(209,283)	(206,589)
Tax incentives	(56,035)	(54,444)
Income tax expense	1,224,818	991,981

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

9 PROPERTY, PLANT AND EQUIPMENT

Cost	Land ₦'000	Computer and Office equipment ₦'000	Leasehold Premises ₦'000	Computers-WIP ₦'000	Motor Vehicles ₦'000	Total ₦'000
Balance as at 1 January 2016	864,228	303,476	198,388	1,260	126,638	1,493,990
Additions		104,540	28,768		79,600	212,908
Disposals					(54,800)	(54,800)
Balance as at 31 December 2016	864,228	408,016	227,156	1,260	151,438	1,652,098
Depreciation and impairment losses						
Balance as at 1 January 2016	-	264,595	-	-	99,123	363,718
Depreciation for the year	-	41,469	29,135	-	22,848	93,452
Disposals	-	-	-	-	(54,800)	(54,800)
Balance as at 31 December 2016	-	306,064	29,135	-	67,171	402,370
Net book value						
At 31 December 2016	864,228	101,952	198,021	1,260	84,267	1,249,728
At 31 December 2015	864,228	38,875	198,388	1,260	27,515	1,130,266

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

10 INTANGIBLE ASSETS

	31 December 2016 ₦'000	31 December 2015 ₦'000
Computer software		
Cost		
At beginning of the year	266,508	256,568
Additions	10,782	9,940
At 31 December 2016	277,290	266,508
Accumulated amortisation		
At beginning of the year	212,781	158,596
Amortisation charge for the year	58,626	54,185
At 31 December 2016	271,407	212,781
Carrying amount at 31 December 2016	5,883	53,727

11 DEFERRED TAX ASSET

	31 December 2016 ₦'000	31 December 2015 ₦'000
At 1 January	111,323	71,981
Changes during the year: charge/(credit) to profit or loss	(8,231)	39,342
At 31 December	103,092	111,323

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

11.1 The deferred income tax (assets)/liabilities are attributable to the following items:

	31 December 2016 ₦'000	31 December 2015 ₦'000
Property, plant and equipment	38,250	12,189
Defined benefit obligations	(194)	(11,563)
Loans and other receivables	(4,948)	(6,477)
Creditors and accruals	(136,200)	(114,763)
Intangibles assets	0	9,291
At 31 December 2016	(103,092)	(111,323)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

12 LOANS AND RECEIVABLES

		31 December 2016 ₦'000	31 December 2015 ₦'000
Loans	12.1	**20,103**	19,681
Other receivables	12.2	**544,218**	570,218
Total		**564,321**	589,899

12.1 Loans

	31 December 2016 ₦'000	31 December 2015 ₦'000
Amortized cost		
Staff loans	**20,103**	19,681
Impairment allowance on loans	**-**	-
Total	**20,103**	19,681

12.2 Other receivables

	31 December 2016 ₦'000	31 December 2015 ₦'000
Custody fee receivable	**544,282**	571,341
Allowance for doubtful accounts	**(64)**	(1,123)
Total	**544,218**	570,218
The movement in allowance for doubtful account is as follows:		
At 1 January	**1,123**	6,219
Allowance written off	**(1,059)**	(5,096)
At 31 December	**64**	1,123

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

13 OTHER ASSETS

	31 December 2016 ₦'000	31 December 2015 ₦'000
Prepayments	128,168	145,219
Vat receivables from clients	-	15,296
Account receivables others	-	281
Total	128,168	160,796

13.1 Account receivables others

	31 December 2016 ₦'000	31 December 2015 ₦'000
Other receivables	14,084	15,652
Provision for other account receivables	(14,084)	(15,371)
Total	0	281
The movement in provision is as follows:		
At 1 January	(15,371)	-
(Allowance)/write off	1,287	(15,371)
At 31 December	(14,084)	(15,371)

14 INVESTMENT SECURITIES

	31 December 2016 ₦'000	31 December 2015 ₦'000
Treasury bills with maturity of less than 90 days	-	40,025
Treasury bills with maturity of more than 90 days	8,756,662	1,514,314
Total	8,756,662	1,554,339

Treasury bills represent short term instruments issued by the Central bank of the jurisdiction where the Company has operation. The fair value of treasury bills through profit and loss are determined with reference to quoted prices in active markets for identical assets. The estimated fair value of treasury bills at amortised costs represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

15 CASH AND CASH EQUIVALENTS

	31 December 2016 ₦'000	31 December 2015 ₦'000
Cash and bank balance	27,037	22,625
Short-term placements	60,015	5,935,461
Treasury bills (maturing within three months)	-	40,025
Total	87,052	5,998,111

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

15.a Cash and short term funds

	31 December 2016 ₦'000	31 December 2015 ₦'000
Cash and bank balance	27,037	22,625
Short-term placements	60,015	5,935,461
	87,052	5,958,086

16 SHARE CAPITAL

	31 December 2016 ₦'000	31 December 2015 ₦'000
Authorised		
2,000,000,000 ordinary shares of ₦1 each	2,000,000	2,000,000
Issued		
At 1 January	2,000,000	2,000,000
Issued during the year	-	-
At 31 December	2,000,000	2,000,000

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

17 RETIREMENT BENEFIT OBLIGATIONS

The amounts recognised in the statement of financial position arising from the company's obligation in respect of its defined benefit plan.

	31 December 2016 ₦'000	31 December 2015 ₦'000
Defined benefit obligation at end of the year	(129,527)	(226,125)
Fair value of plan assets at end of year	152,470	187,582
	22,943	(38,543)
Provision for severance benefits (Note 17.1)	0	38,543

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

The Directors severance benefit was discontinued for Non-Executive Directors with effect from 29, February 2016. The gratuity for Executive Management continued and at the end of the year, the actuarial valuation was done by Messrs. HR Nigeria Limited.

The Defined Benefit Obligation for the Executive Management as at 31 December, 2016 was ₦129m. However, the value of the corresponding planned asset (managed by FBN Capital) as at 31 December, 2016 was ₦152million thereby resulting in 'Funded' status of ₦23million positive position. Management has however established that the company does not have unconditional right to the refund of the money and as such, this was not recognised as an asset in the statements of financial position.

	31 December 2016 ₦'000	31 December 2015 ₦'000
As at 1 January 2016	**226,125**	165,036
Current service charge	**21,243**	43,399
Interest cost	**13,199**	24,584
Benefits paid	**(96,180)**	-
Actuarial (gains)/losses	**(33,902)**	(6,894)
Curtailment (gains)/losses	**(958)**	-
Pledged assets with FBN Capital (note 17.1)	**(152,470)**	(187,582)
As at 31 December 2016	**(22,943)**	**38,543**
Reconciliation of obligation		
At 1 January	**226,125**	165,036
Current service charge	**21,243**	43,399
Interest cost	**13,199**	24,584
Curtailment (gains)/losses	**(958)**	-
Benefits paid by fund	**(96,180)**	-
Actuarial (gain)/losses due to assumption	**(18,753)**	15,166
Actuarial (gain)/losses due to experience	**(15,149)**	(22,060)
At 31 December	**129,527**	226,125
Reconciliation of fair value of the plan		
Balance on 1 January	**187,582**	79,694
Interest income	**22,584**	11,783
Contributions to the scheme	**42,399**	85,342
Benefits paid	**(96,180)**	-
Actuarial gains	**(3,915)**	10,763
At 31 December	**152,470**	**187,582**
Funded status		
Defined benefit obligation at end of the year	**(129,527)**	(226,125)
Fair value of plan assets at end of year	**152,470**	187,582
	22,943	(38,543)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

The principal actuarial assumptions were as follows:

	2016	2015
Discount rate (p.a.)	15.8%	11%
Inflation rate (p.a.)	12%	9%
Future salary increase (p.a.)	0%	10%

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

Valuation Method

As required by IAS 19, we have adopted the Projected Unit Credit (PUC) method to establish the value of the accrued liabilities. In calculating the liabilities, the method:

- recognises the company service rendered by each member of the Board at the review date
- discounts the expected benefit payments to the review date.

The emerging total value (for each individual) is described by IAS 19 as the Defined Benefit Obligation.

Terminology	Description
Interest Cost:	Since our liability values are discounted, they will automatically increase by the discount rate over a period. The interest cost is the expected increase in liability values in the course of the review year.
Service Cost:	This is the value of benefits acquired by service rendered in the review year.
Net Periodic Benefit Cost:	The company benefit expense to be charged/recognised for the year
Defined Benefit Obligation (DBO):	This is the total value of leaving service benefits accrued as at the review date, as described above
Actuarial (gains)/losses:	Changes in Benefit Obligations or Fair Value of assets arising from change in actuarial valuation assumptions or actual experience deferring from expectation.
(Accrued)/Prepaid Benefit Cost:	This is the Net Benefit Cost recognised in the balance sheet

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

18 CREDITORS & ACCRUALS

	31 December 2016 ₦'000	31 December 2015 ₦'000
Accounts payable	136,608	93,490
Accrued others	52,566	65,087
Deferred income	11,112	5,421
Audit fee payable	10,000	10,000
Other provisions	496,104	389,465
Dividend payable	-	936,933
Information technology levy	40,543	34,114
	746,933	1,534,510

19 ASSETS UNDER CUSTODY

19.1 Pension assets under custody

	31 December 2016 ₦'000	31 December 2015 ₦'000
Bank balances	13,825,421	30,814,642
Treasury bills	341,411,465	158,976,804
Money market instruments	208,290,312	307,353,480
Bonds	1,148,203,025	986,108,653
Equities	170,710,179	179,802,920
Receivables	214,900	10,152
Mutual funds	18,573,495	15,797,069
Investment properties	133,438,806	134,658,526
Private equity	874,896	818,618
Total	2,035,542,499	1,814,340,864

19.2 Non-pension assets under custody

	31 December 2016 ₦'000	31 December 2015 ₦'000
Non-pension assets under custody	551,562,982	299,954,655

The non-pension assets under custody relates to the assets managed by the Company on behalf of Asset Management Corporation of Nigeria (AMCON) under an agreement signed between the Company and AMCON. The amount relates to financial assets obtained from obligors of delinquent credit facilities that were taken over from the banks. The company also keeps custody of Non Proprietary assets on behalf of banks and other financial institutions in accordance with CBN guidelines.

This is in line with its license to perform as Custodian for Money Market & Fixed Income Instruments, issued to it by the Central Bank of Nigeria. The agreement has obtained the consent of PenCom.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20 RELATED PARTIES

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

a Remuneration of key management personnel/directors

	31 December 2016 ₦'000	31 December 2015 ₦'000
Fees as directors	**16,008**	15,750
Executive compensation	**56,707**	51,029
Post-employment benefits	**3,856**	38,543
Other allowances	**82,103**	52,371
Total	**158,674**	157,693

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

	Number	Number
₦5,000,000 and above	**6**	6

c Due from related companies

This represents the balance due from related parties stated below as at year end.

Description	Nature of relationship	Nature of transaction	31 December 2016 ₦'000
First Bank of Nigeria Limited	Parent company	Treasury bills inv.	**7,519,237**
	Parent company	Short term placements	**60,015**
	Parent company	Bank balance	**27,037**
FBN Capital Limited	Co -subsidiary	Treasury bills inv.	**1,237,425**
	Co -subsidiary	Short term placements	**0**

The Company earned a total interest of ₦17.79m and ₦65.52m from First Bank of Nigeria Limited and FBN Capital Limited respectively in respect of placements.

Description	Nature of relationship	Nature of transaction	31 December 2015 ₦'000
First Bank of Nigeria Limited	Parent company	Treasury bills inv.	**1,052,528**
	Parent company	Short term placements	**5,679,443**
	Parent company	Bank balance and unpaid interest	**22,625**
FBN Capital Limited	Co -subsidiary	Treasury bills inv.	**541,837**
	Co -subsidiary	Short term placements	**210,000**

d Due to related companies

There were no amounts due to related parties at the year end (2015-Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

21 CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGEMENTS

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

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

Gratuity benefits

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

Tax

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

22 CONTINGENT LIABILITIES AND COMMITMENTS

The Company in its ordinary course of business was not involved in any suit as at year end (31 December 2015: Nil). The Directors of the Company are not aware of any pending or threatened claims or litigations, which may be material to the financial statements. There were no other contingent liabilities requiring disclosure in these financial statements.

23 CAPITAL COMMITMENTS

The company had no capital commitments as at 31 December 2016 (31 December 2015: Nil).

24 SUBSEQUENT EVENTS

There were no events subsequent to the financial position date which require adjustment to or disclosures in the financial statements.

25 CONTRAVENTIONS

There were no infractions during the year (2015: ₦22,000,000 penalty was paid).

26 EARNINGS/LOSS PER SHARE

Basic earnings or loss per share (EPS) is calculated by dividing the net profit/(loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the year:

	31 December 2016 ₦'000	31 December 2015 ₦'000
Number of shares (Units '000)	**2,000,000**	2,000,000
Profit after tax (Naira '000)	**2,829,524**	2,416,789
Basic EPS	**141**	121
Adjusted EPS	**141**	121

Adjusted Earnings per share is the same as Basic Earnings per share.

VALUE ADDED STATEMENT

	2016 ₦'000	%	2015 ₦'000	%
Gross earnings	**5,549,097**		4,947,521	
Bought in materials and services - local	**(1,040,090)**		(1,073,793)	
Provision for other receivables	**-**		(15,371)	
Value added	**4,509,007**	**100**	3,858,357	100
Distribution				
Employees				
Salaries and benefits	**302,587**	**7**	333,303	9
Government				
Taxation	**1,216,587**	**26**	1,031,322	26
Retained for future replacement of				
assets and expansion of business:				
Asset replacement (depreciation & amortisation)	**152,078**	**3**	116,285	3
Deferred taxation	**8,231**	**1**	(39,342)	(1)
Transfers to reserves	**2,829,524**	**63**	2,416,789	63
	4,509,007	**100**	3,858,357	100

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

FIVE-YEAR FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION

		As reported under IFRS			
	Dec-16 ₦'000	Dec-15 ₦'000	Dec-14 ₦'000	Dec-13 ₦'000	Dec-12 ₦'000
ASSETS					
Non-current assets					
Property, plant and equipment	**1,249,728**	1,130,266	994,072	1,049,23 6	136,573
Intangible assets	**5,883**	53,727	97,972	155,803	19,755
Deferred tax assets	**103,092**	111,323	71,981	116,868	39,736
	1,358,703	1,295,316	1,164,025	1,321,907	196,064
Current assets					
Loans and other receivables	**564,321**	589,899	501,920	421,928	332,951
Other assets	**128,168**	160,796	65,940	73,594	144,825
Investment securities	**8,756,662**	1,554,339	5,059,871	4,391,426	-
Cash & cash equivalents	**87,052**	5,958,086	209,032	102,945	4,207,619
	9,536,203	8,263,120	5,836,763	4,989,893	4,685,395
Total assets	**10,894,906**	9,558,436	7,000,788	6,311,800	4,881,459
EQUITY AND LIABILITIES					
Equity					
Share capital	**2,000,000**	2,000,000	2,000,000	2,000,000	2,000,000
Other reserves	**0**	-	-	(17,241)	(20,657)
Retained earnings	**6,358,893**	4,525,867	3,399,011	2,690,125	1,526,498
Total equity	**8,358,893**	6,525,867	5,399,011	4,672,884	3,505,841
Non-current liabilities					
Deferred tax liabilities		-	-	-	-
Retirement benefit obligations	**-**	38,543	90,582	343,266	368,278
	-	38,543	90,582	343,266	368,278
Current liabilities					
Creditors & accruals	**746,933**	1,534,510	461,799	480,281	295,907
Income tax liabilities	**1,789,080**	1,459,516	1,049,396	815,369	711,433
	2,536,013	2,994,026	1,511,195	1,295,650	1,007,340
Total liabilities	**2,536,013**	3,032,569	1,601,777	1,638,916	1,375,618
Total equity and liabilities	**10,894,906**	9,558,436	7,000,788	6,311,800	4,881,459
Pension assets under custody	**2,035,542,499**	1,814,340,864	1,514,882,901	1,353,076,127	1,043,766,847
Non-pension assets under custody	**551,562,982**	299,954,655	300,321,681	93,731,367	43,075,297

FIVE-YEAR FINANCIAL SUMMARY

INCOME STATEMENT

	Dec-16 ₦'000	Dec-15 ₦'000	Dec-14 ₦'000	Dec-13 ₦'000	Dec-12 ₦'000
Gross earnings	**5,549,097**	4,947,521	4,032,755	3,287,106	2,558,933
Profit before income tax	**4,054,342**	3,408,770	2,493,381	2,026,400	1,315,522
Income tax expense	**(1,224,818)**	(991,981)	(781,639)	(522,773)	(492,835)
Profit for the year	**2,829,524**	2,416,789	1,711,742	1,503,627	822,687
Per share data					
Earnings per share - basic (kobo)	**141**	121	86	75	41
Net (liabilities)/assets per share (Naira)	**4**	3	3	2	2

GLOSSARY OF RATIOS

RATIO		BASIS OF COMPUTATION
Cost to income ratio	=	$\frac{\text{Total cost}}{\text{Total income}}$
Earnings per share	=	$\frac{\text{Net profit for the year}}{\text{Number of average outstanding shares}}$
Gross margin	=	$\frac{\text{Profit before income tax}}{\text{Total income}}$
Return on average assets	=	$\frac{\text{Profit for the year}}{\text{Average total assets}} \times 100$
Return on average equity	=	$\frac{\text{Profit for the year}}{\text{Average total equity}} \times 100$
Basic earnings per share	=	$\frac{\text{Profit attributable to ordinary shareholders}}{\text{Weighted average number of shares}}$
Total market value of assets under custody	=	Market value of all investment options available to the fund

ABBREVIATIONS

AC	Audit Committee
AGM	Annual General Meeting
AMCON	Asset Management Corporation of Nigeria
BIC	Banque Internationale de Crédit SARL
CBN	Central Bank of Nigeria
CEO	Chief Executive Officer
CON	Commander of the Order of the Niger
CPFA	Closed Pension Fund Administrator
CSR	Corporate Social Responsibility
ED	Executive Director
FPCNL	First Pension Custodian Nigeria Limited
FX	Foreign Exchange
IBAM	Investment Banking and Asset Management
IFRS	International Financial Reporting Standards

IT	Information Technology
KPI	Key Performance Indicator
MBAM	Merchant Banking and Asset Management
MFR	Member of the Order of the Federal Republic
₦	Naira
OFR	Officer of the Order of the Federal Republic
PAT	Profit After Tax
PBT	Profit Before Income Tax
PFA	Pension Fund Administrator
PFC	Pension Fund Custodian
PenCom	National Pension Commission
PTADS	Pension Transition Arrangement departments
RSA	Retirement Savings Account

NOTES

NOTES

First Pension Custodian Nigeria Limited
6, Maduike Street, Off Raymond Njoku Street,
S. W. Ikoyi, P. O. Box 50024, Falomo, Lagos
Tel: +234 (1) 2777800-1

www.firstpensioncustodian.com/download/2016financialreport