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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Stanbic IBTC Bank PLC

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate annual financial statements of Stanbic IBTC Bank PLC ("the Company") and its subsidiaries (together, "the Group"), which comprise the consolidated and separate statements of financial position as at 31 December, 2018, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information, as set out on pages 1 to 132.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Company and its subsidiaries as at 31 December, 2018, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act, 2011 and the Banks and other Financial Institutions Act, Cap B3, Laws of the Federation of Nigeria, 2004 and relevant Central Bank of Nigeria (CBN) Guidelines and Circulars.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated and separate Financial Statements section* of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Nigeria and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Impairment allowance for loans and advances to customers

The Group's loans and advances to customers are categorised into personal and business banking loans to customers (retail loans) and corporate and transactional banking loans to customers (corporate loans). The determination of impairment on these loans and advances is inherently a significant and judgmental area for the Group as subjective assumptions are made over both the timing of recognition and the estimation of the size of the impairment allowance.

The Group adopted IFRS 9 *Financial Instruments* which became effective on 1 January 2018. The key change arising from the adoption of IFRS 9 is the significant difference in determining the impairment allowance which is now based on an Expected Credit Loss (ECL) model rather than an Incurred Loss model. The ECL methodology incorporates the expected future credit losses due to macro-economic variables unlike the incurred loss model where only past and present credit loss events were considered.

The Group applies a statistical ECL model to determine the impairment allowances for loans and advances. The Group's ECL model includes certain judgements and assumptions such as:

- the possibility of a loan becoming past due and subsequently defaulting, the credit conversion factors applied to off balance sheet exposures, the rate of recovery on the loans that are past due and in default, the market values and estimated time and cost to sell the collaterals;
- incorporation of forward looking information related to the expected outlook on the country's inflation rates, exchange rates and the Gross Domestic Product (GDP) rates used in determining the expected credit losses in the loans and advances portfolios; and
- risk rating allocated to the counterparties in the corporate and transactional banking category.

We focused on the impairment allowance for loans and advances to customers due to the significant judgements, estimates and assumptions made by management in determining the impairment allowance required.

How the matter was addressed in our audit

Our procedures included the following with respect of the impairment allowances as at 1 January 2018 and 31 December 2018:

- For both corporate and retail loans and advances, we evaluated the design, implementation and tested the operating effectiveness of controls over the accuracy of credit data which included historical default rates, cash and collateral recoveries, exposures at default and effective interest rates. The controls included management review and approval of loan parameters inputted into the model used in the loans and advances impairment process.

- For the corporate loans and advances, we evaluated the design, implementation and tested the operating effectiveness of controls relating to management's review of data inputted in the risk grading system as well as timing of reviews of risk grades allocated to counterparties.

- For both corporate and retail loans and advances, we assessed the appropriateness of the Group's determination of significant increase in credit risk and the resultant classification of loans into the various stages. For corporate and retail loans and advances which have shown a significant increase in credit risk, we evaluated the level of past due obligations using qualitative factors such as publicly available information about the obligors to determine whether the Group should recognize an impairment based on the losses expected to result from default events within a year or defined default events over the life of the facilities.

- With the assistance of our Financial Risk Management specialists, we:
    - assessed the appropriateness of the Group's ECL methodology by considering whether it reflects probability-weighted amounts that are determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions, as required by the newly adopted standard;
    - challenged the appropriateness of the modelling approach and the historical movement in the balances of facilities between default and non-default categories in determining the Probability of Default (PD) used in the ECL calculations;
    - evaluated the appropriateness of the data used in determining the Exposure at Default, including the contractual cash flow and credit conversion factor, outstanding loan balance, loan contractual repayment pattern and loan tenor;
    - tested the accuracy of the calculation of the Loss Given Default (LGD) used by the Group and also reviewed the valuation of the collaterals used in the ECL model;
    - challenged the appropriateness of management's forward looking assumptions comprising the inflation rates, exchange rates and GDP growth rates used in the ECL calculations using publicly available information from external sources;
    - tested the accuracy of the Group's impairment model by re-performing the calculations of impairment allowance for corporate and retail loans and advances.. For loans and advances which have shown a significant increase in credit risk, the recalculation was based on the amount which the Group may not recover throughout the life of the loans while for loans and advances that have not shown significant increase in credit risk, the recalculation was based on the losses expected to result from default events within a year.

- We assessed whether the transition adjustments to the opening balance of the retained earnings effective 1 January 2018 arising from the application of the newly adopted standard was appropriately determined in accordance with the requirements of the standards.

The Bank's accounting policy on impairment allowance for loans and advances, disclosure on judgement and estimate and relevant financial risk disclosures are shown in notes 4.3, 6.1 and 12.3 respectively.

Recoverability of deferred tax assets

The Group has recognised and unrecognised deferred tax assets which arose from historical tax losses, unutilised capital allowances and other deductible temporary differences. The recognition of deferred tax assets required the Group to perform an assessment of when and whether sufficient future taxable profits are likely to be generated by the Group to support the future recoverability of the deferred tax asset recognised.

We focused on this area due to the significant judgments and assumptions involved in the estimation of future taxable profits to determine the amount of the recognised and unrecognised deferred tax assets as at the reporting date.

How the matter was addressed in our audit

Our audit procedures in this area included the following:

- We challenged management's assessment of the recoverable amounts, including the timing and amount of the projected future taxable profits and the underlying assumptions in the Group's budgets and forecasts, using our knowledge of the business and the industry and the Group's historical performance.
- We re-computed management's calculation of deferred tax assets to determine whether the recognised amount of deferred tax assets is reasonable.
- We evaluated whether historical tax losses, unutilised capital allowance and other deductible temporary differences were determined in accordance with the relevant tax laws.

The Bank's accounting policy on deferred tax assets and other relevant disclosures are shown in notes 4.11, 6.5 and 15 respectively.

Valuation of Derivative Instruments

The Group's derivative instruments comprise foreign currency swaps and foreign exchange forward contracts, which are used to manage foreign exchange risk. Management uses complex valuation methodologies involving multiple inputs including discount rates, exchange rates and earning yields to estimate the fair value of these derivative instruments.

We focused on this area due to the significance and complexity in the valuation of these derivatives and the related estimation uncertainty.

How the matter was addressed in our audit

Our audit procedures in this area included the following:

- We evaluated the design, implementation and operating effectiveness of key controls over the inputs used in determining the Group's valuation of derivative instruments.
- We inspected derivative contract documents on a sample basis to obtain an understanding of the respective transactions.
- With the assistance of our Financial Risk Management specialists, we:
    - challenged the appropriateness of the methodology and assumptions used by management to assess whether the valuation model used by the Group was in line with acceptable market practice.
    - ascertained the accuracy of the fair value of derivative assets and liabilities by obtaining quoted rates of the inputs used in the valuation model for the market observable rates and compared these rates to the mark-to-market rates used by management.
    - For the non-observable input, we reviewed the reasonableness of the rates and other adjustments applied by management by independently deriving the input using alternative methodologies.
    - re-computed the fair value of the instruments using observable market rates.

The Bank's accounting policy on derivative instruments and relevant financial risk disclosures are shown in notes 4.3, 6.2, 10.6 and 27 respectively.

Information other than the Financial Statements and Audit Report thereon

The Directors are responsible for the other information which comprises the Directors' Report, Statement of Directors' Responsibilities, Corporate Governance Report, Report of the Audit Committee, Other National Disclosures but does not include the consolidated and separate annual financial statements and our audit report thereon.

Our opinion on the consolidated and separate 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 consolidated and separate annual financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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 the Directors for the Consolidated and Separate Financial Statements

The Directors are responsible for the preparation of consolidated and separate annual financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act, 2011 and the Banks and other Financial Institutions Act, Cap B3, Laws of the Federation of Nigeria, 2004 and relevant Central Bank of Nigeria (CBN) Guidelines and Circulars 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 consolidated and separate financial statements, the directors are responsible for assessing the Group and 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 Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and 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 directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and 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 consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and the Audit Committee 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 Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards

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

Report on Other Legal and Regulatory Requirements

Compliance with the requirements of Schedule 6 of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004

In our opinion, proper books of account have been kept by the Group, so far as appears from our examination of those books and the Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

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Compliance with Section 27 (2) of the Banks and the other Financial Institutions Act Cap B3, Laws of the Federation of Nigeria, 2004 and Central Bank of Nigeria circular BSD/1/2004

i. The Group paid penalties in respect of contravention of the Central Bank of Nigeria guidelines during the year ended 31 December 2018. Details of penalties paid are disclosed in note 38 to the financial statements.

ii. Related party transactions and balances are disclosed in note 36 to the financial statements in compliance with the Central Bank of Nigeria circular BSD/1/2004.

Kabir O. Okunlola
FRC/2012/ICAN/00000000428
For: KPMG Professional Services
Chartered Accountants
7 February 2019
Lagos, Nigeria

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
36/ICAN
0242322

STANBIC IBTC BANK PLC

Consolidated and separate statement of financial position at 31 December 2018

	Note	Group 31 Dec. 2018 N'million	Group 31 Dec. 2017 N'million	Bank 31 Dec. 2018 N'million	Bank 31 Dec. 2017 N'million
Assets					
Cash and cash equivalents	7	**451,666**	400,838	**451,666**	400,838
Pledged assets	8	**142,543**	43,240	**142,543**	43,240
Trading assets	9.1	**84,276**	151,479	**84,276**	151,479
Derivative assets	10.6	**30,286**	11,052	**30,286**	11,052
Financial investments	11	**357,574**	276,530	**357,456**	276,425
Loans and advances	12	**441,261**	381,323	**441,261**	381,323
Loans and advances to banks	12	**8,548**	9,234	**8,548**	9,234
Loans and advances to customers	12	**432,713**	372,089	**432,713**	372,089
Other assets	14	**64,687**	40,655	**64,516**	40,743
Investment in subsidiaries	13	**-**	-	**100**	100
Property and equipment	16	**18,004**	18,602	**18,001**	18,597
Intangible assets	17	**819**	605	**819**	605
Deferred tax assets	15	**8,398**	8,346	**8,321**	8,321
Total assets		**1,599,514**	1,332,670	**1,599,245**	1,332,723
Equity and liabilities					
Equity		**172,019**	138,700	**170,341**	137,899
Equity attributable to ordinary shareholders		**172,019**	138,700	**170,341**	137,899
Share capital	18	**1,875**	1,875	**1,875**	1,875
Share premium	18	**42,469**	42,469	**42,469**	42,469
Reserves		**127,675**	94,356	**125,997**	93,555
Liabilities		**1,427,495**	1,193,970	**1,428,904**	1,194,824
Trading liabilities	9.2	**125,684**	62,449	**125,684**	62,449
Derivative liabilities	10.6	**4,152**	2,592	**4,152**	2,592
Current tax liabilities	23	**3,217**	2,412	**2,866**	2,114
Deposits and current accounts	20	**999,745**	836,983	**999,981**	837,611
Deposits from banks	20	**160,272**	61,721	**160,272**	61,721
Deposits from customers	20	**839,473**	775,262	**839,709**	775,890
Other borrowings	21	**69,918**	74,892	**69,918**	74,892
Debts Securities Issued	22	**60,595**	29,046	**60,595**	29,046
Provisions	24	**8,980**	9,042	**8,980**	9,042
Other liabilities	25	**155,204**	176,554	**156,728**	177,078
Total equity and liabilities		**1,599,514**	1,332,670	**1,599,245**	1,332,723

Demola Sogunle
Chief Executive
FRC/2013/CIBN/00000001034
31 January 2019

Tosin Odutayo
Acting Head, Finance
FRC/2013/ICAN/00000001391
31 January 2019

Yinka Sanni
Director
FRC/2013/CISN/00000001072
31 January 2019

The accompanying notes on page 7 to 132 form an integral part of these financial statements.

STANBIC IBTC BANK PLC

Consolidated and separate statements of profit or loss
For the year ended 31 December 2018

For the twelve months ended	Note	Group 31-Dec-18 N'million	Group 31-Dec-17 N'million	Bank 31-Dec-18 N'million	Bank 31-Dec-17 N'million
Gross earnings		**169,273**	166,437	**169,207**	166,302
Net interest income		**71,705**	78,009	**71,691**	78,000
Interest income	30.1	**112,452**	116,438	**112,438**	116,433
Interest expense	30.2	**(40,747)**	(38,429)	**(40,747)**	(38,433)
Non-interest revenue		**55,447**	49,658	**55,395**	49,528
Net fee and commission revenue	30.3	**23,259**	20,310	**23,234**	20,255
Fee and commission revenue	30.3	**24,633**	20,651	**24,608**	20,596
Fee and commission expense	30.3	**(1,374)**	(341)	**(1,374)**	(341)
Trading revenue	30.4	**31,118**	28,692	**31,091**	28,617
Other revenue	30.5	**1,070**	656	**1,070**	656
Income before credit impairment charges		**127,152**	127,667	**127,086**	127,528
Net impairment write back/(loss) on financial assets	30.6	**2,988**	(25,577)	**2,988**	(25,577)
Income after credit impairment charges		**130,140**	102,090	**130,074**	101,951
Operating expenses		**(76,833)**	(71,745)	**(78,016)**	(72,577)
Staff costs	30.7	**(32,169)**	(28,296)	**(31,750)**	(27,805)
Other operating expenses	30.8	**(44,664)**	(43,449)	**(46,266)**	(44,772)
Profit before tax		**53,307**	30,345	**52,058**	29,374
Income tax	32.1	**(2,517)**	(1,503)	**(2,146)**	(1,218)
Profit for the period		**50,790**	28,842	**49,912**	28,156
Profit attributable to:					
Equity holders of the parent		**50,790**	28,842	**49,912**	28,156
Profit for the period		**50,790**	28,842	**49,912**	28,156
Earnings per share					
Basic earnings per ordinary share (kobo)	33	**1,354**	769	**1,331**	751
Diluted earnings per ordinary share (kobo)	33	**1,354**	769	**1,331**	751

The accompanying notes on page 7 to 132 form an integral part of these financial statements.