FBN Holdings Plc

Financial Statements for the year ended 31 December 2012

FBN Holdings Plc
Index to the consolidated financial statements
for the year ended 31 December 2012

Note		Page	Note		Page
	Director's report	2			
	Director's Responsibility	7	5	Segment information	61
	Report of the Independent Auditors	8	6	Significant accounting judgements,estimates and assumptions	63
	Consolidated Income statement	10	7	Interest income	65
	Statement of comprehensive income	11	8	Interest expense	65
			9	Impairment charge for credit losses	65
	Statement of financial position	12	10	Fee and commission income	65
	Consolidated statement of changes in equity	13	11	Net Insurance premium	66
			12	Foreign exchange income	66
	Company statement of changes in equity	14	13	Net gains/(loss) on investment securities	66
	Cash flow statements	15	14	Net gains/(loss) on FVTPL investments	66
	Notes to the consolidated financial statements	16	15	Other operating income	66
			16	Insurance claims	66
1	General information	16	17	Operating expenses	67
2	Summary of significant accounting policies	16	18	Taxation	67
			19	Loss on sale of loan to AMCON	68
2.1	Basis of preparation	16	20	Earnings per share	69
2.2	New standards and amendments	17	21	Cash and cash balances with central bank	69
2.3	Consolidation	18	22	Cash and cash equivalent	69
2.4	Common control transactions	19	23	Loans and advances to banks	70
2.5	Foreign currency translations	19	24	Loans and advances to customers	70
2.6	Income taxation	20	25	Financial assets at fair value through profit or loss	72
2.7	Inventories	20	26	Investment securities	73
2.8	Financial assets and liabilities	20	27	Asset pledged as collateral	74
2.9	Reclassification of financial assets	23	28	Acquisition of subsidiary	75
2.10	Classes of financial instrument	23	29	Transactions with non controlling interests	76
2.11	Offsetting financial instruments	23	30	Assets held for sale	76
2.12	Revenue recognition	24	31	Investment in associates	77
2.13	Impairment of financial assets	24	32	Investment properties	78
2.14	Impairment of non-financial assets	25	33	Inventory	78
2.15	Collateral	26	34	Property,plants and equipment	79
2.16	Investment properties	26	35	Intangible assets	80
2.17	Leases	26	36	Deferred tax	81
2.18	Property,plants and equipments	27	37	Other assets	83
2.19	Intangible assets	27	38	Deposits from banks	83
2.20	Insurance contracts and investment contracts	28	39	Deposits from customers	83
2.21	Life Insurance contracts	29	40	Financial liabilities at fair value through profit or loss	84
2.22	Employee benefits	29	41	Borrowings	84
2.23	Provisions	29	42	Liability on investment contracts	85
2.24	Cash and cash equivalents	29	43	Retirement benefit obligations	85
2.25	Share capital	30	44	Other liabilities	88
2.26	Earnings per share	30	45	Share capital	88
2.27	Issued debt and equity securities	30	46	Share premium and reserves	88
2.28	Fiduciary activities	30	47	Reconcilliation of profit before tax to cash generated from operations	89
2.29	Discontinued operations	30	48	Contingent liabilities and commitments	90
3	Financial risk management	31	49	Related party transactions	90
3.1	Introduction and overview	31	50	Employees	92
3.2	Credit risk	31	51	Directors emoluments	92
3.3	Liquidity risk	41	52	Events after statement of financial position date	93
3.4	Market risk	45	53	Principal subssidiary undertakings	93
3.5	Management of Insurance risk	52	54	Disposal of subsidiary	95
3.6	Equity risk	55	55	Condensed results of consolidated entities	95
3.7	Fair value of financial assets and liabilities	55	56	Transition to IFRS	97
3.8	Measurement basis of financial assets and liabilities	58	57	Statement of value added	105
4	Capital management	59	58	Five year financial summary	107

INCOME STATEMENT

	Note	GROUP 31 December 2012 N 'm	GROUP 31 December 2011 N 'm	COMPANY 31 December 2012 N 'm
Interest income	7	287,274	212,975	1
Interest expense	8	(62,082)	(36,784)	-
Net interest income		**225,192**	**176,191**	**1**
Impairment charge for credit losses	9	(12,299)	(38,011)	-
Net interest income after impairment charge for credit losses		**212,893**	**138,180**	**1**
Insurance premium revenue	11	1,664	1,295	-
Insurance premium revenue ceded to reinsurers	11	(120)	(31)	-
Net insurance premium revenue	11	1,544	1,264	-
Fee and commission income	10	59,964	47,584	-
Foreign exchange income	12	2,448	7,497	-
Net gains/(losses) on investment securities	13	1,039	670	-
Dividend income		541	4,400	-
Net gains/(losses) from financial assets at fair value through profit or loss	14	1,760	(996)	-
Gain/(loss) on sale of subsidiary	54	288	-	-
Loss on sale of assets to AMCON	19	-	(15,501)	-
Other operating income	15	5,487	417	-
Insurance claims	16	(498)	(81)	-
Operating expenses	17	(192,171)	(146,064)	(820)
Operating profit		**93,295**	**37,370**	**(819)**
Share of profit / (loss) of associates	31	(594)	(1,507)	-
Profit before tax		92,701	35,863	(819)
Income tax expense	18	(17,031)	(17,227)	-
PROFIT FOR THE YEAR		**75,670**	**18,636**	**(819)**
Profit attributable to:				
Owners of the parent		75,890	19,520	(819)
Non-controlling interests		(220)	(884)	-
		75,670	**18,636**	**(819)**
Earnings per share for profit attributable to owners of the parent				
Basic/diluted earnings per share:	20	2.33	0.60	(0.03)

STATEMENT OF COMPREHENSIVE INCOME

	Note	GROUP 31 December 2012 N 'm	GROUP 31 December 2011 N 'm	COMPANY 2012 N 'm
PROFIT FOR THE YEAR		**75,670**	**18,636**	(819)
Other comprehensive income:				
Exchange difference on translation of foreign operations		1,062	606	-
Net gains on available-for-sale financial assets				
-Unrealised net gains arising during the period, before tax		17,747	(38,509)	(138)
-Net reclassification adjustments for realised net gains or losses, before tax		2,015	-	-
Actuarial gains/(losses) on defined benefit pension scheme	43	(571)	(3,042)	-
Income tax relating to components of other comprehensive income		140	913	-
Other comprehensive income for the year, net of tax		**20,393**	**(40,032)**	**(138)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**96,063**	**(21,395)**	**(957)**
Total comprehensive income attributable to:				
Owners of the parent		96,283	(20,511)	(957)
Non-controlling interests		(220)	(884)	-
		96,063	**(21,395)**	**(957)**

STATEMENT OF FINANCIAL POSITION

	Note	GROUP 31 December 2012 N 'millions	GROUP 31 December 2011 N 'millions	GROUP 1 January 2011 N 'millions	COMPANY 31 December 2012 N 'millions
ASSETS					
Cash and balances with central banks	21	300,531	199,228	75,517	-
Loans and advances to banks	23	411,429	462,856	575,467	-
Loans and advances to customers	24	1,541,687	1,252,462	1,160,293	-
Financial assets at fair value through profit or loss	25	3,611	5,964	16,636	-
Investment securities	26				
-Available-for-sale investments		369,397	356,933	222,822	2,307
-Held to maturity investments		337,278	337,336	31,886	2,450
-Loans and receivables		-	-		11,014
Asset pledged as collateral	27	50,109	72,129	122,009	-
Inventory	33	21,676	25,609	23,081	-
Investments in subsidiaries	53	-	-	-	243,065
Investments in associates accounted for using the equity method	31	6,321	7,489	8,996	11,875
Other assets	37	40,000	62,272	39,282	236
Investment properties	32	4,003	4,055	2,440	-
Intangible assets	35	3,522	1,008	494	-
Property, plant and equipment	34	75,386	65,874	63,634	30
Deferred tax	36	8,201	6,954	12,274	-
Asset classified as held for sale	30	12,978	-	-	-
Total assets		**3,186,129**	**2,860,169**	**2,354,831**	**270,977**
LIABILITIES					
Deposits from banks	38	88,187	183,500	148,352	-
Deposits from customers	39	2,400,860	1,951,321	1,447,600	-
Financial liabilities at fair value through profit or loss	40	1,796	2,857	1,639	-
Liability on investment contracts	42	12,321	49,440	76,446	-
Liability on insurance contracts		2,127	825	-	-
Borrowings	41	76,168	104,473	126,350	-
Retirement benefit obligations	43	19,380	15,081	11,426	-
Current income tax liability	18	23,228	24,254	20,052	-
Deferred tax	36	222	1,067	901	-
Other liabilities	44	120,157	158,771	120,470	1,084
Liabilities classified as held for sale	30	2,836	-	-	-
Total liabilities		**2,747,282**	**2,491,589**	**1,953,236**	**1,084**
EQUITY					
Share capital	45	16,316	16,316	16,316	16,316
Share premium	46	254,524	254,524	254,524	254,524
Retained earnings		73,367	41,587	47,304	(819)
Other reserves					
Statutory reserve	46	43,347	32,144	28,508	-
SSI Reserve	46	6,076	6,076	6,309	-
AFS Fair value reserve	46	26,272	8,525	47,033	(138)
Contingency Reserve	46	50	13	-	-
Statutory credit reserve	46	16,101	9,766	28,220	-
Treasury share reserve	46	(1,422)	(1,941)	(27,767)	-
Capital reserve					10
Foreign currency translation reserve	46	1,668	606	-	-
		436,299	367,616	400,447	269,893
Non-controlling interest		2,548	964	1,148	
Total equity		**438,847**	**368,580**	**401,595**	**269,893**
Total equity and liabilities		**3,186,129**	**2,860,169**	**2,354,831**	**270,977**

The financial statements on pages 10 to 104 were approved by the Board of Directors on 15 March 2013 and signed on its behalf by:

Dr Oba Otudeko	**Bello Maccido**
Chairman	Chief Executive Officer

FBN Holdings Plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent												
	Share capital	**Share premium**	**Retained earnings**	**Statutory reserve**	**SSI reserve**	**AFS Fair value reserve**	**Contingency reserve**	**Statutory credit reserve**	**Treasury share reserve**	**FCTR**	**Total**	**Non-controlling interest**	**Total equity**
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
Balance at 1 January 2011	16,316	254,524	47,304	28,508	6,309	47,033	-	28,220	(27,767)	-	400,447	1,148	401,595
Profit for the year	-	-	19,520	-	-	-	-	-	-	-	19,520	(884)	18,636
Other comprehensive income													-
Foreign currency translation differences,net of tax	-	-	-	-	-	-	-	-	-	606	606	-	606
Tax effects on revaluation of financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value movements on available for sale financial assets						(38,509)					(38,509)		(38,509)
Actuarial gains/(losses) on defined benefit pension scheme	-	-	(2,129)	-	-	-	-	-	-	-	(2,129)	-	(2,129)
Share of OCI of associates, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	17,391	-	-	(38,509)	-	-	-	606	(20,512)	(884)	(21,396)
Transactions with owners											-		-
Issue of new shares											-	700	700
Disposal of treasury shares			(18,335)						25,826		7,491	-	7,491
Transfer to statutory credit reserve			18,454					(18,454)			-	-	-
SMEEIS reserves written off					(233)						(233)	-	(233)
Dividends	-	-	(19,580)	-	-	-	-	-	-	-	(19,580)	-	(19,580)
Transfer from retained earnings	-	-	(3,649)	3,636		-	13	-	-	-	1	-	1
Total transactions with Owners	-	-	(23,109)	3,636	(233)	-	13	(18,454)	25,826	-	(12,321)	700	(11,621)
At 31 December 2011	16,316	254,524	41,586	32,144	6,076	8,525	13	9,766	(1,941)	606	367,616	964	368,580
Profit for the year	-	-	75,890	-	-	-	-	-	-	-	75,890	(220)	75,670
Other comprehensive income											-	-	-
Foreign currency translation differences,net of tax	-	-	-	-	-	-	-	-	-	1,062	1,062	-	1,062
Tax effects on revaluation of financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value movements on available for sale financial assets						17,747					17,747	-	17,747
Actuarial gains/(losses) on defined benefit pension scheme	-	-	(431)	-	-	-	-	-	-	-	(431)	-	(431)
Share of OCI of associates, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	75,460	-	-	17,747	-	-	-	1,062	94,269	(220)	94,049
Transactions with owners					-	-	-	-	-		-		-
Dividends	-	-	(26,105)		-	-	-	-	-		(26,105)		(26,105)
Exchange difference					-	-	-	-	-		-		-
Disposal of treasury shares			-						519		519	-	519
Additional investment											-	518	518
Acqusiition of subsidiary					-	-	-	-	-	-	-	1,286	1,286
Transfer from retained earnings	-	-	(37)		-	-	37	-	-	-	-	-	-
Transfer between reserves	-	-	(17,538)	11,203	-	-	-	6,335	-	-	-	-	-
Transfer resulting from Business Restructuring		-	-	-	-	-	-		-		-	-	-
Total transactions with Owners	-	-	(43,680)	11,203	-	-	37	6,335	519	-	(25,586)	1,804	(23,782)
At 31 December 2012	16,316	254,524	73,367	43,347	6,076	26,272	50	16,101	(1,422)	1,668	436,299	2,547	438,846

FBN HOLDINGS PLC
COMPANY STATEMENT OF CHANGES IN EQUITY

	SHARE CAPITAL	SHARE PREMIUM	RETAINED EARNINGS	CAPITAL RESERVE	AFS FAIR VALUE RESERVE	TOTAL EQUITY
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Opening Balance	-	-	-	-	-	-
Transfer arising from business restructuring				10		10
Profit/(Loss) for the period	-	-	(819)	-	-	(819)
Other comprehensive income						
Fair value movements on equity financial assets	-	-	-	-	(227)	(227)
Total comprehensive income for the period	**-**	**-**	**(819)**	**10**	**(227)**	**(1,036)**
Transactions with owners						
Issue of shares	16,316	254,524				**270,840**
Total transactions with Owners	**16,316**	**254,524**	**-**	**-**	**-**	**270,840**
At 31 December 2012	**16,316**	**254,524**	**(819)**	**10**	**(227)**	**269,804**

CONSOLIDATED STATEMENT OF CASHFLOWS

	Note	GROUP 31 December 2012 N 'millions	2011 N 'millions
Operating activities			
Cash flow (used in)/generated from operations	47	(156,354)	285,288
Income taxes paid	18	(22,439)	(6,614)
Interest received		308,821	221,439
Interest paid		(65,502)	(43,669)
Purchase of investment securities		(50,647)	(361,998)
Proceeds from the sale of investment securities		23,595	14,014
Gratuity payment to staff	43	(15,263)	(4,915)
Net cash flow (used in)/generated from operations		22,211	103,545
Investing activities			
Cash and cash equivalent acquired from subsidiary	28	11,463	-
Net cash flow on disposal of subsidiary		(30,619)	-
Dividends received		541	3,925
Purchase of investment property	32	(30)	(1,563)
Purchase of property, plant and equipment	23	(18,663)	(11,529)
Purchase of intangible assets	35	(1,570)	(1,712)
Proceeds on disposal of property, plant and equipment		2,875	209
Net cash (used in)/generated from investing activities		(36,003)	(10,670)
Financing activities			
Proceeds from sale of treasury shares		-	7,497
Dividend paid		(26,105)	(19,579)
Proceeds from new borrowings		58,459	18,671
Repayment of borrowings		(85,806)	(40,529)
Net cash (used in)/generated from financing activities		(53,452)	(33,940)
Increase in cash and cash equivalents	22	(67,244)	58,935
Cash and cash equivalents at start of year	22	708,992	650,714
Effect of exchange rate fluctuations on cash held		(175)	(657)
Cash and cash equivalents at end of year		641,573	708,992

1 General information

These financial statements are the consolidated financial statements of First Bank Nigeria Holdings Plc, a company incorporated in Nigeria and its subsidiaries (hereafter referred to as 'the Group').

FBN Holdings Plc was incorporated in Nigeria, as a limited liability company, on 14 October 2010, to act as the ultimate holding company for the FBN Group in compliance with CBN Guidelines. The company was converted to a Public Liability Company on 13 August 2012.

At incorporation, the company issued 10 shares held by FBN Trustees and FBN capital Limited. As part of the group restructuring which occured during the period, the company issued 32,632,084,355 shares to the shareholders of FBN Nigeria Plc, the former parent company of the group to acquire its issued share capital, assets, liabilities, and business. The shares were issued in a one for one share exchange for the 32,632,084,345 ordinary shares in Firstbank held by Firstbank shareholders (other than the FBN Holdings and the FBN Holdings Nominee).

Upon conclusion of the scheme of arrangement, First Trustees and FBN capital Limited relinquished the shares they held in FBN Holdings. Thus, the relative rights of the former shareholders were not altered by the restructuring.

IFRS does not explicitly specify the accounting treatment of a group restructuring/re-organisation but provides guidance on the choices available in accounting for such transactions. This restructuring has been accounted for using the merger method of accounting.

Although FBN Holdings Plc commenced operations on 30 November 2012, the accounting information has been prepared as if the Group had always been in existence in its current form and prior period comparatives presented accordingly, this also includes the notes relating to the transition to IFRS. All intra-group transactions are eliminated as part of the consolidation process.

Transfer of entities between group entities/ subsidiaries were at the pre-restructuring/organisation carrying amounts of assets and liabilities with no fair value uplifts as there was no substantive economic change in the entities.

The principal activities of the Group is mainly the provision of commercial banking services, investment banking services, insurance business services and provision and other financial services. corporate banking.

The consolidated financial statements for the year ended 31 December 2012 were approved for issue by the Board of Directors on 15 March 2013.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The Group’s consolidated financial statements for the year 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. Additional information required by national regulations is included where appropriate.

These are the first annual financial statements of the Group prepared in accordance with IFRS and IFRS 1, First-time Adoption of IFRS has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cashflows of the Group is provided in note 53.

The financial statements comprise the income statement, statement of comprehensive income, statement of financial position, the consolidated statement of changes in equity, cash flow statement and the related notes.

The financial statements have been prepared in accordance with the going concern principle under the historical cost convention, as modified by available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise its judgement in the process of applying the Group’s accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The Directors believe that the underlying assumptions are appropriate and that the Group’s financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

No prior period comapratives have been presented for the company's accounting information as it commenced operations on 30 November 2012.

2.2 New standards, interpretations and amendments to existing standards that are not yet effective

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 January 2012.

(i) Amendment to IAS 19, 'Employee benefits' (effective for periods beginning on or after 1 January 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

(ii) Amendment to IAS 32, 'Financial instruments:

Presentation', on asset and liability offsetting' (effective for periods beginning on or after 1 January 2014).
This amendment clarifies some of the requirements for offsetting financial assets and liabilities on the date of the statement of financial position. The Group is yet to assess the full effect of IAS 32 and intends to adopt IAS 32 no later than the accounting period beginning on or after 1 January 2014.

(iii) IFRS 10, 'Consolidated financial statements' (effective for periods beginning on or after 1 January 2013).
The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the
accounting requirements for the preparation of consolidated financial statements.

The Group is yet to assess the full effect of IFRS 10 and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

(iv) IFRS 11, 'Joint arrangements' effective for periods beginning on or after 1 January 2013).
IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement
rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures.
Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venturer has rights to the net assets of the arrangement and therefore
equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.The Group is yet to assess the full effect of IFRS 11 and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.

(v) IFRS 12, 'Disclosures of interests in other entities'(effective for periods beginning on or after 1 January 2013).
IFRS 12 includes the disclosure requirements for all forms of interests in other entities,including joint arrangements,associates, special purpose vehicles and other off balance sheet vehicles.

The Group is yet to assess the full effect of IFRS 12 and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

(vi) IFRS 13, 'Fair value measurement' (effective for periods beginning on or after 1 January 2013).
IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

(vii) IAS 27 (revised 2011), 'Separate financial statements'(effective for periods beginning on or after 1 January 2013).

IAS 27 (revised 2011) includes the requirements relating to separate financial statements

The Group is yet to assess the full effect of IAS 27 and intends to adopt IAS 27 no later than the accounting period beginning on or after 1 January 2013 but this is not expected to have a material impact on the Group's operations.

(viii) IAS 28 (revised 2011),'Associates and joint ventures' (effective for periods beginning on or after 1 January 2013).
IAS 28 (revised 2011) includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 11.

The Group is yet to assess the full effect of IAS 28 and intends to adopt IAS 28 no later than the accounting period beginning on or after 1 January 2013.

(ix) IFRS 9, 'Financial Instruments' (effective for periods beginnning on or after 1 January 2015)
This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.
The Group is yet to assess the full effect of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

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

2.3 Consolidation

The financial statements of the consolidated subsidiaries used to prepare the consolidated financial statements were prepared as of the parent company's reporting date. The consolidation principles are unchanged as against the previous year.

(a) Business combinations

(i) *Acquisitions on or after 1 January 2011*
For acquisitions on or after 1 January 2011, the Group measures goodwill at the acqusition date as the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and the liabilities assumed, all measured as of the acquisition date.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) *Acquisitions prior to 1 January 2011*
As part of its transition to IFRSs,the Group did not elect to restate any business combinations that occurred on or before its transition date of 1 January 2011. In respect of acquisitions prior to 1 January 2011, goodwill represents the amount recognised under the Group's previous accounting framework (NGAAP).

(b) *Acquisitions of non-controlling interests*
Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders. Therefore, no goodwill is recognised as a result of such transactions.

(c) Subsidiaries
The consolidated financial statements incorporates the financial statements of the company and all its subsidiaries where it is determined that there is a capacity to control.
Control means the power to govern, directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities. All the facts of a particular situation are considered when determining whether control exists.
Control is usually present when an entity has:

• power over more than one-half of the voting rights of the other entity;
• power to govern the financial and operating policies of the other entity;
• power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
• power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date that control ceases. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (transactions with owners). Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Group.

In its separate accounts, the company accounts for its investment in subsidiaries at cost.

Inter-company transactions, balances and unrealised gains on transactions between companies within the Group are eliminated on consolidation. Unrealised losses are also eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. Consistent accounting policies are used throughout the Group for the purposes of consolidation.

(d) Associates
An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over these policies. Significant influence is generally demonstrated by the Group holding in excess of 20%, but less than 50%, of the voting

The Group's share of results of the associate entity is included in the consolidated income statement. Investments in associates are carried in the statement of financial position at cost plus the Group's share of post-acquisition changes in the net assets of the associate. Investments in associates are reviewed for any indication of impairment at least at each reporting date.The carrying amount of the investment is tested for impairment, where there is an indication that the investment may be impaired. When the Group's share of losses or other reductions in equity in an associate equals or exceeds the recorded interest, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the entity.

The excess of the cost of an acquisition over the Group's share of the fair value of the identifiable net assets acquired is recorded as goodwill. Goodwill is included in the carrying amount of the investment and assessed for impairment as part of the investment. A gain on acquisition is recognised immediately in profit or loss if there is an excess of the Group's share of the fair value of the identifiable net assets acquired over the cost of the acquisition.

2.3 Consolidation

(d) Associates continued

The Group's share of the results of associates is based on financial statements made up to a date not earlier than three months before the balance sheet date, adjusted to conform with the accounting policies of the Group. Unrealised gains and losses on transactions are eliminated to the extent of the Group's interest in the investee. Losses may provide evidence of impairment of the asset transferred in which case appropriate provision is made for impairment.

In the seperate financial statements of the Company, investments in associates are stated at cost less accumulated impairment losses, if any.

(e) Special purpose entities (SPEs)

SPEs are entities that are created to accomplish a narrow and well-defined objective . The financial statement of the SPE are included in the consolidated financial statement where on the substance of the relationship with the group and the SPE's risk and reward, the group concludes that it controls the SPE.

2.4 Common control transactions

A business combination involving entities or businesses under common control is excluded

from the scope of IFRS 3: Business Combinations. The exemption is applicable where the combining entities or businesses are controlled by the same party both before and after the combination. Where such transactions occur, the Group, in accordance with IAS 8, uses its judgement in developing and applying an accounting policy that is relevant and reliable. In making this judgement, the Directors consider the requirements of IFRS dealing with similar and related issues and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework. The Directors also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS Framework or any other IFRS or interpretation.

Accordingly the Group applies the guidance as set out in IFRS 3R on common control transactions. The assets and liabilities of the business transferred are measured at their existing book value in the consolidated financial statements of the parent, as measured under IFRS.

The Group incorporates the results of the acquired businesses only from the date on which the business combination occurs.

On transition to IFRS, the Group elected the cummulative translative difference exemption and brought forward a nil opening balance on the foreign currency translation reserve arising from the retranslation of foreign operations, which is shown as a separate item in equity.

2.5 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').
The consolidated financial statements are presented in Naira millions, which is the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions ,that are transaction denominated, are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured.

Monetary items denominated in foreign currencies are retranslated at the rate prevailing on the statement of financial position date. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement.

Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition;non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial instruments held at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on

non-monetary financial instruments measured at fair value through other comprehensive income are included in the fair value reserve in other comprehensive income.Non-monetary items that are measured under the historical cost basis are not retranslated.

(c) Foreign operations

The results and financial position of all the group entities which have functional currency different from the Group's presentation currency, are translated into the Group's presentation currency as follows:
• assets and liabilities of each foreign operation are translated at the rates of exchange ruling at the reporting date;
• income and expenses of each foreign operation are translated at the average exchange rate for the period, unless this average is not a reasonable approximation of the rate prevailing on transaction date, in which case income and expenses are translated at the exchange rate ruling at transaction date; and
• all resulting exchange differences are recognised in other comprehensive income and are classified as equity and recognised in the foreign currency translation reserve.

2.6 Income 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 (for example, current tax on equity instruments for which the entity has elected to present gains and losses in other comprehensive income).

(b) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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 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.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.7 Inventories

The Group recognises Property as inventory under the following circumstances:

(i) property purchased for the specific purpose of resale.

property constructed for the specific purpose of resale (work in progress under the scope of IAS 18, 'Revenue')

(ii) property transferred from investment property to inventories. This is permitted when the Group commences the property's development with a view to sale.

They are valued at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, labour and production overheads which have been incurred in bringing the inventories and work in progress to their present location and condition.Cost is determined using weighted average cost. Net realisable value represents the estimated selling price less estimated costs to completion and costs to be incurred in marketing, selling and distribution.

2.8 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the statement of financial position and measured in accordance with their assigned category

2.8.1 *Financial assets*

The Group allocates financial assets to 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. The Directors determine the classification of its financial instruments at initial recognition.

(a) *Financial assets at fair value through profit and loss*

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.
A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial assets held for trading consist of debt instruments, including money-market paper, traded corporate and bank loans, and equity instruments, as well as financial assets with embedded derivatives.

2.8.1 *Financial assets continued*

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement and are reported as 'Net gains/(losses) on financial instruments at fair value through profit or loss'. Interest income and expense and dividend income and expenses on financial assets at fair value through profit or loss are included in 'Net interest income' or 'Dividend income', respectively. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

(b) *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 Group 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 Group 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 and advances to banks or customers or as investment securities. Interest on loans is included in the income statement and is reported as 'Interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement as 'impairment charge for credit losses'.
Receivables arising out of Insurance arrangements are also classified in this category and reviewed for impairment in line with IAS 39.

(c) *Held-to-maturity financial assets*

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

(i) those that the Group upon initial recognition designates as at fair value through profit or loss;

(ii) those that the Group designates as available for sale; and

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

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the income statement and reported as 'Interest income'. In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the income statement as 'Net gains/(losses) on investment securities'.

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

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates,

exchange rates or equity prices or that are not classified as loans and receivables,held to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement in 'Other operating income' when the Group's right to receive payment is established.

(e) *Recognition*

The Group uses settlement date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

2.8.2 **Financial liabilities**

The Group's holding in financial liabilities is in financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value), financial liabilities at amortised cost and hedging derivatives. Financial liabilites are derecognised when extinguished.

2.8.2 Financial liabilities continued

(a) *Financial liabilities at fair value through profit and loss*

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Group as at fair value through profit or loss upon

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller.

Those financial instruments are recognised in the statement of financial position as 'Financial liabilites held for trading'.

Gains and losses arising from changes in fair value of financial liabilities classified held for trading are included in the income statement and are reported as 'Net gains/ (losses) on financial instruments at fair value through profit or loss'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'.

(b) *Other liabilities measured at amortised cost*

Financial liabilities that are not classified at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

2.8.3 Derivative financial instruments

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset where there is a legal right of offset of the recognised amounts and the parties intend to settle the cash flows on a net basis, or realise the asset and settle the liability simultaneously

2.8.4 Embedded derivatives

Hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is bifurcated and measured at fair value with gains and losses being recognised in the income statement.

2.8.5 Determiination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations.
This includes listed equity securities and quoted debt instruments on major exchanges (for example, NSE) and broker quotes from Bloomberg and Reuters.
A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

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

The Group uses widely recognised valuation models for determining fair values of non standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market, unlisted securities (including those with embedded derivatives) and other instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.
The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 3.

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 Group 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

2.8.5 Determiination of fair value continued

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.

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

2.8.6 De-recognition of financial instruments

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2.9 Reclassification of financial assets

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

The group may reclassify a financial instrument when its intentions and the characteristics of the financial instrument changes.

2. 10 Classes of financial instrument

The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

2. 10 Classes of financial instrument

Category	Class	Subclasses		
Financial assets	Financial assets at fair value through profit or loss	Financial assets held for trading	Debt securities	
			Equity securities	
			Derivatives – non-hedging	
		Financial assets designated at fair value through profit and loss	Debt securities	
			Equity securities	
			Loans and advances to banks	
			Loans and advances to customers	
	Loans and receivables	Loans and advances to banks		
		Loans and advances to customers	Loans to individuals (retail)	Overdrafts
				Credit cards
				Term loans
				Mortgages
			Loans to corporate entities	Large corporate customers
				SMEs
				Others
		Investment securities – debt instruments		Listed
				Unlisted
	Held-to-maturity investments	Investment securities – debt securities		Listed
				Unlisted
	Available-for-sale financial assets	Investment securities – debt securities		Listed
		Investment securities – equity securities		Listed
				Unlisted
Financial liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities held for trading (Derivatives – Non Hedging only)		
		Designated at fair value through profit and loss – Debt securities in issue		
	Financial liabilities at amortised cost	Deposits from banks		
		Deposits from customers	Retail customers	
			Large corporate customers	
			SMEs	
		Debt securities in issue		
		Convertible bonds		
		Subordinated debt		
Off-balance sheet financial instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

2. 11 Offsetting financial instruments

Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.
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. 12 Revenue recognition

(a) Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts

the expected 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 instrument. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating effective interest, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

Fees, including those for early redemption, are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Cash flows arising from the direct and incremental costs of issuing financial instruments are also taken into account in the calculation. Where it is not possible to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective interest is calculated by reference to the payments or receipts specified in the contract, and the full contractual term.

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

(b) Fees and commission income

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction from a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts.The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

2. 12 Revenue recognition

(c) Dividend income

Dividends are recognised in the income statement in "Dividend income" when the entity's right to receive payment is established.

2.13 Impairment of financial assets

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

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

· significant financial difficulty of the issuer or obligor;

· a breach of contract, such as a default or delinquency in interest or principal payments;

· the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

· it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

· the disappearance of an active market for that financial asset because of financial difficulties;

· observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(i) adverse changes in the payment status of borrowers in the portfolio;

(ii) national or local economic conditions that

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

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

2.13 Impairment of financial assets continued

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

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

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

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised using the effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is uncollectable, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the Income Statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Income Statement.

Equity securities acquired in exchange for loans in order to achieve an orderly realisation are accounted for as a disposal of the loan and an acquisition of equity securities. Where control is obtained over an entity as a result of the transaction, the entity is consolidated. Any further impairment of the assets or business acquired is treated as an impairment of the relevant asset or business and not as an impairment of the original instrument.

2.13 Impairment of financial assets continued

The amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and recognised in the Income Statement.

In the case of available for sale equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. Where such evidence exists, the cumulative gain or loss that has been previously recognised directly in equity is removed from equity and recognised in the Income Statement. Reversals of impairment of equity shares are not recognised in the Income Statement, increases in the fair value of equity shares after impairment are recognised directly in equity.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as all other financial assets above. Reversals of impairment of debt instruments are recognised in the Income Statement.

2. 14 Impairment of non-financial assets

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

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. An impairment loss in respect of goodwill is not reversed.

2. 15 Collateral

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

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

2. 16 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the consolidated group, are classified as investment properties. Investment properties comprise residential buildings constructed with the aim of leasing out to tenants or for selling. Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost was incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at depreciated cost. Investment properties are normally depreciated using the straight-line method.The fair values of investment properties are disclosed in the Notes to the financial statements.

The fair value reflects market conditions at the date of the statement of financial position and is obtained from professional third party valuators contracted to perform valuations on behalf of the Group. The fair value does not reflect future capital expenditure that will improve or enhance the property.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be

2. 16 Investment properties continued

measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in other operating income in the income statement.

2.17 Leases

Leases are divided into finance leases and operating leases.

(a) *The group is the lessee*

(i) *Operating lease*

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

(ii) Finance lease

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

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

(b) *The group is the lessor*

(i) *Operating lease*

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

2.17 Leases continued

(ii) *Finance lease*

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

2. 18 Property, Plant and Equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment used by the parent or its subsidiaries is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land included in leasehold land and buildings 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:

Asset class	Depreciation rate
Motor vehicles	25%
Office equipment	20%
Furniture and fittings	20%
Computer hardware and equipment	33 1/3%
Plant and machinery	20%
Freehold buildings	2%
Leasehold buildings	2% for leases of 50 years and above and over expected useful life for under 50 years

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review on an annual basis to take account of any change in circumstances.

2. 18 Property, Plant and Equipment continued

When deciding on depreciation rates and methods, the principal factors the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets.

When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful economic life.

No depreciation is provided on freehold land, although, in common with all long-lived assets, it is subject to impairment testing, if deemed appropriate.

Construction cost and improvements in respect of offices is carried at cost as capital work in progress. On completion of construction or improvements, the related amounts are transferred to the appropriate category of property and equipment.

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

2. 19 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiary and associated entities, and represents the excess of the cost of acquisition, over the fair value of the Group's share of the assets acquired, and the liabilities and contingent liabilities assumed on the date of the acquisition.

For the purpose of calculating goodwill, fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value.

This discounting is either performed using market rates or by using risk-free rates and risk-adjusted expected future cash flows. Goodwill is initially recognised as an asset at cost and subsequently measured at cost less accumulated impairment losses, if any. Goodwill which is recognised as an asset is reviewed at least annually for impairment. Any impairment loss is immediately recognised in profit or loss.

2. 19 Intangible assets

(a) Goodwill continued

For the purpose of impairment testing, goodwill is allocated to each cash-generating unit that is expected to derive benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill on acquisitions of associates is included in the amount of the investment.

Gains and losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold.

(b) Computer software

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

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

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

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

2. 19 Intangible assets

(c) Impairment of tangible and intangible assets excluding goodwill

At each reporting date, or more frequently where events or changes in circumstances dictate, tangible and intangible assets, are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's or the cash-generating unit's net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent

Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

The carrying values of tangible and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a tangible or intangible asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the tangible or intangible asset's recoverable amount. The carrying amount of the tangible or intangible asset will only be increased up to the amount that it would have been had the original impairment not been recognised. For the purpose of conducting impairment reviews, cash-generating units are the lowest level at which the Directors monitor the return on investment on assets.

2. 20 Insurance contracts and investment contracts

The Group offers wealth management, term assurance, annuity, property and payment protection insurance products to customers that take the form of long-term insurance contracts. The Group classifies its wealth management and other products as insurance contracts where these transfer significant insurance risk, generally where the benefits payable on the occurrence of an insured event are more significant than the benefits that would be payable if the insured event does not occur. Contracts that do not contain significant insurance risk or discretionary participation features are classified as investment contracts. Financial assets and liabilities relating to investment contracts are classified and measured as appropriate under IAS 39 'Financial Instruments; Recognition and Measurement'.

2. 21 Life insurance contracts

These contracts insure events associated with human life (for example, death or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Claims and surrenders are accounted for when notified. Maturities on the policy maturity date and regular withdrawals are accounted for when due. A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised, based on the expected discounted value of the benefit payments and directly related administration costs, less the expected discounted value of the benefit payments and directly related administration costs, less the expected discounted value of the future premiums that would be required to meet the benefits and other expenses. The calculation of the liability contains assumptions regarding mortality, maintenance expenses and investment income. Liabilities under unit-linked life insurance contracts (such as endowment policies) in addition reflect the value of assets held
within unitised investment pools.

2. 22 Employee benefits

The Group has both defined benefit and defined contribution plans

(a) *Defined contribution plan*

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

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Defined benefit plan*

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

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

2. 22 Employee benefits continued

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

2. 23 Provisions

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

When a leasehold property ceases to be used in the business or a demonstrable commitment has been made to cease to use a property where the costs exceed the benefits of the property, provision is made, where the unavoidable costs of the future obligations relating to the lease are expected to exceed anticipated rental income and other benefits.

The net costs are discounted using market rates of interest to reflect the long-term nature of the cash flows.

Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features. The provision raised is normally utilised within nine months.

Provision is made for undrawn loan commitments and similar facilities if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced.

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.

2.24 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 investments with original maturities of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents include cash and non-restricted balances with central banks.

2.25 Share capital

(a) *Share issue costs*

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) *Dividends on ordinary shares*

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

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

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

(c) *Treasury shares*

Where the company or other members of the Group purchase the company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

d. *Statutory credit reserve*

In compliance with the Prudential Guidelines for licensed Banks, the Group assesses qualifying financial assets using the guidance under the Prudential Guidelines. The guidelines apply apply objective and subjective criteria towards providing for losses in risk assets. Assets are classed as performing or non-performing. Non-performing assets are further classed as Substandard, Doubtful or Lost with attendants provision as per the table below based on objective criteria.

Classification	Percentage	Basis
Substandard	10%	Interest and/or principal overdue by 90 days but less than 180 days
Doubtful	50%	Interest and/or principal overdue by 180 days but less than 365 days
Lost	100%	Interest and/or principal overdue by more than 365 days

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

The results of the application of Prudential Guidelines and the impairment determined for these assets under IAS 39 are compared. The IAS 39 determined impairment charge is always included in the income statement.

2.25 Share capital

d. *Statutory credit reserve continued*

Where the Prudential Guidelines provision is greater, the difference is appropriated from Retained Earnings and included in a non-distributable reserve "Statutory credit reserve". Where the IAS 39 impairment is greater, no appropriation is made and the amount of the IAS 39 impairment is recognised in Statement of

Following an examination, the regulator may also require more amounts be set aside on risk and other assets. Such additional amounts are recognised as a appropriation from retained earnings to statutory risk reserve.

2. 26 Earnings per share

The Group presents basic basic earnings per share for its ordinary shares. Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders of the company by the weighted average number of shares outstanding during the period.

2.27 Issued debt and equity securities

Issued financial instruments or their components are classified as liabilities where the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares. Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the company. The components of issued financial instruments that contain both liability and\ equity elements are accounted for separately with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component.

2. 28 Fiduciary activities

The Group acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2. 29 Discontinued operations

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

3. Financial risk management

3.1 Introduction and overview

The Group defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group's risk management directorate (the Directorate) under policies approved by the Board of Directors. The Risk Management Directorate provides central oversight of risk management across the Company and its subsidiaries to ensure that the full spectrum of risks facing the Bank and the Group are properly identified, measured, monitored and controlled to minimise adverse outcomes. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal control is responsible for the independent review of risk management and the control environment, while internal audit has the responsibility of auditing the risk management function to ensure that all units charged with risk management perform their roles effectively on a continuous basis. Internal audit also tests the adequacy of the internal controls and make appropriate recommendations where weaknesses are identified with the view of strengthening the Group's risk management framework.

The risks arising from financial instruments to which the Group is exposed are financial risks, which includes credit risk, liquidity risk and market risk (discussed in subsequent sections)

The key elements of the risk management philosophy are the following:
• The Group considers sound risk management to be the foundation of a long-lasting financial institution.
• The Group continues to adopt a holistic and integrated approach to risk management and, therefore, brings all risks together under one or a limited number of oversight functions.
• Risk officers are empowered to perform their duties professionally and independently without undue interference.
• Risk management is governed by well-defined policies that are clearly communicated across the Group.
• Risk management is a shared responsibility. Therefore, the Group aims to build a shared perspective on risks that is grounded in consensus.
• The Group's risk management governance structure is clearly defined.
• There is a clear segregation of duties between market-facing business units and risk management functions.
• Risk-related issues are taken into consideration in all business decisions. The Group shall continue to strive to maintain a conservative balance between risk and revenue considerations.
*Risk officers work as allies and thought partners to other stakeholders within and outside the Group and are guided in the exercise of their powers by a deep sense of responsibility, professionalism and respect for other parties; and
• Risks are reported openly and fully to the appropriate levels once they are identified.
• Risk officers work as allies and thought partners to other stakeholders within and outside the Group, and are guided in the exercise of their powers by a deep sense of responsibility, professionalism and respect for other parties.
• All subsidiaries are guided by the principles enshrined in the risk management policies of the Group.

3.2 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk the single largest risk for the Group and arises mainly from the activities of the commercial banking segment and to a much lesser extent in the other segments within the Group. These activities include the commercial and consumer loans and advances and loan commitments arising from lending activities, and can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

The credit risk management and control are centralised in a credit risk management team, which reports to the Commercial Banking Business's Chief Risk Officer (CRO) regularly.

3.2.1 Credit risk measurement

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, as well as other loans and receivables, the Group reflects the following components:

• The character and capacity to pay of the client or counterparty on its contractual obligations;
• Current exposures to the counterparty and its likely future development;
• Credit history of the counterparty; and
• The likely recovery ratio in case of default obligations – value of collateral and other ways out. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are reviewed and upgraded when necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

Obligor Risk Rating (ORR system)

The obligor risk rating grids have a minimum of ten risk buckets to provide a pre-set, objective basis for making credit decisions, with one additional bucket specifically included to categorise obligor in default. Each risk bucket may be denoted alphabetically and by range of scores as follows:

Description	Rating bucket		Range of scores		Grade
Extremely low risk	AAA	1	1.00-1.99	90 - 100%	Investment
very low risk	AA	2	2.00-2.99	80 - 89%	
Low risk	A	3	3.00-3.99	70 - 79%	
Low risk	BBB	4	4.00-4.99	60 - 69%	
Acceptable - moderately high risk	BB	5	5.00-5.99	50 - 59%	Non - investment
High risk	B	6	6.00-6.99	40 - 49%	
very high risk	CCC	7	7.00-7.99	30 - 39%	
Extremely high risk	CC	8	8.00-8.99	10 - 29%	
High likelihood of default	C	9	9.00-9.99	0 - 9%	
Default risk	D	10	10		Default

Collateral Risk Rating (CRR)/Facility Risk Rating (FRR)

• The Commercial banking subgroup does not lend to non investment grade obligors, on an unsecured basis, except as specified under a product programme. The Facility Risk Rating (FRR) is different from the Obligor Risk Rating (ORR) to the extent of the perceived value of collateral/enhancement provided.

• The Collateral Risk Rating grid indicates the acceptable collateral types rated 1–8 from best to worst in order of liquidity.

Collateral risk rating	Collateral type
1	Cash/Treasury bills
2	Marketable securities, guarantee/receivables of investment grade banks and corporates
3	Enforceable Lien on fast moving inventory in bonded warehouses
4	Legal mortgage on residential business real estate in prime locations A and B
5	Legal mortgage or debeture on business premise, factory assets or commercial real estates in locations A and B
6	Equitable mortgages on real estate in any location
7	Letters of comfort or awareness, guarantee of non-investment grade banks and corporates
8	Hypothecation, negative pledge, personal guarantee, clean

3.2.2 Risk limit control and mitigation policies

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

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and counterparty are set by the Board of Directors on the recommendation of the Executive Director/Chief Risk Officer.

Portfolio limits

The process of setting the limits is as follows:

• The Group engages in a detailed portfolio plan annually. In drawing up the plan, the Group reviews the macro-economic factors, identifies the growth sectors of the economy and conducts a risk rating of the sectors to determine its acceptable target market industries and exception. The Group’s target loan portfolio is then distributed across acceptable target market industries, strategic business units and approved product programmes.
• Aggregate large exposure limit of not more than 400% of the companys shareholders’ funds.
• Public sector exposure limit of not more than 10% (including contingent liability) of the First Bank of Nigeris Limited ’s loan portfolio.

3.2.2 Risk limit control and mitigation policies

Portfolio limits continued

• Industry/economic sector limits are imposed on the Group's lending portfolio, in line with the following policies:
– The Group's target market is companies operating in industries rated 'BB' or better unless on an exception basis.
– The Group would not have more than 25% of its portfolio in any group of positively correlated industries in terms of risk (e.g., oil exploration and oil service, tyre manufacturing and tyre distribution, etc.).
– The Group would strive to limit its exposure to any single industry to not more than 20% of its loan portfolio and such industry must be rated 'BBB' or better.
– No more than 15% of the Group's portfolio would be in any industry rated 'BB' or worse.
-No more than 10% of the Group's portfolio in any single industry rated 'B' or worse

Geographical limits

Presently, the Group's exposure to counterparties domiciled outside Nigeria are taken by its banking subsidiaries in the United Kingdom and Congo, which operate within country limits defined by their Boards of Directors. However, the Group has a fully developed country risk rating system that could be employed, should the need arise. In such eventuality, limits will be graduated on country risk rating.

Single obligor limits

• Limits are imposed on loans to individual borrowers. The Nigerian Banking subsidiary (the Bank) as a matter of policy does not lend above its regulatory lending limit, which is 20% of its shareholders' funds unimpaired by losses. The internal guidance limit is, however, set at 18% of SHF to create a prudent buffer.
• Also, the Bank will not ordinarily advance beyond 50% of customers' shareholders' fund/net worth in cases of loans offered under individual assessment.
• Product programmes contain guidelines on single obligor limits.
• Except with the approval of the Board of Directors, the Bank shall not lend more than:
– 20% of the Bank's shareholders' funds to any company. Only companies rated 'A' or better may qualify for this level of exposure.
– No single retail loan should amount to more than 0.2% of total retail portfolio.
– No single retail loan should amount to more than 0.5% of the related retail product portfolio.

The Group also sets internal credit approval limits for various levels in the credit process and these are shown in the table below.

Approval limits are set by the Board of Directors and reviewed from time to time as the circumstances of the Group demand. Exposure to credit risk is also managed through regular analysis of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

STANDARD CREDIT APPROVAL GRID FOR WHOLESALE AND RETAIL LENDING

	Approval levels	Investment grade (N'000)	Non - nvestment grade (N'000)
1	BOD	>58,000,000	>58,000,000
2	BCC	58,000,000	58,000,000
3	MCC	30,000,000	15,000,000
4	GMD + CRO + BUSINESS_SCO1/SCO2	10,000,000	3,000,000
5	RISK_SCO1 + BUSINESS_SCO1/SCO2	8,000,000	2,500,000
6	BUSINESS_SCO1 + RISK_SCO2	5,000,000	1,000,000
7	RISK_SCO3 + BUSINESS_SCO2	500,000	250,000
8	RISK_SCO4 + BDM/GH	100,000	100,000

The group also controls and mitigates risk through collateral.

Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:
• Mortgages over residential properties.
• Charges over business assets such as premises, inventory and accounts receivable.
• Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty even before impairment indicators are identified for the relevant individual loans and advances.

3.2.2 Risk limit control and mitigation policies

Collateral continued

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

Exposure Management

To minimise the risk and occurrence of loss as a result of decline in quality and non-performance of risk assets, clear requirements and guidelines for ongoing management of the risk asset portfolio and individual risk exposures are defined. Ongoing exposure management entails collateral management, facility performance monitoring, exposure quality reviews promt and timely identification of decline in quality and risk portfolio reporting.

Delinquency Management/Loan Workout

In the undesired event of decline in quality of assets, timely management of such delinquency significantly reduces credit loss to the group. This covers loan workout where all activities are geared towards resuscitating non-performing loans including restructuring and the recognition of possible credit loss i.e. loan loss provisioning

Credit Recovery

Credit recovery commences after a facility has been deemed lost and involves managing such facilities to ensure the loss to the Bank is minimized. This includes winding down the Bank's exposure, credit write-off and/or interest waivers and reinstatement of previously written-off credit amounts on recovery of cash from the customers.

Management of concentration risk

The Group manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties, groups, industries and countries.
The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to a quarterly or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and counterparty are set by the Board of Directors on the recommendation of the Executive Director/Chief Risk Officer and are reviewed from time to time as the circumstances of the Group demand.

3.2.3 Impairment and provisioning policies

Impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the date of the consolidated statement of financial position based on objective evidence of impairment.
The impairment allowance shown in the consolidated statement of financial position at year end is derived from the group's rating system (The Obligor Risk Rating).

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

Credit risk exposures relating to on balance sheet assets are as follows:

	GROUP			COMPANY
	31 Dec 2012	31 Dec 2011	1 Jan 2011	31 Dec 2012
	N'millions	**N'millions**	**N'millions**	**N'millions**
Balances with central banks	245,140	153,935	42,362	-
Loans and advances to banks	411,429	462,856	575,467	-
Loans and advances to customers				-
- Overdraft	266,555	173,591	151,178	-
- Term loans	1,081,168	871,863	779,534	-
- Commercial Paper	125,883	183,973	112,328	-
- Advances under finance leases	3,694	4,611	7,323	-
- Others	64,387	18,424	109,930	-
Financial assets at fair value through profit or loss	2,899	2,682	11,485	
Investment securities - Debt				
-Available-for-sale investments	309,107	304,840	139,946	-
-Held to maturity investments	337,278	337,336	31,886	2,450
-Loans and receivables	-	-	-	11,014
Asset pledged as collateral	50,109	72,129	122,009	-
Assets held for sale	7,341	-	-	-
Other assets	28,111	52,996	30,699	-
	2,933,101	2,639,236	2,114,147	13,463

Assets held for sale of N12.9 billion includes accounts receivable balance of N7.3 billion which has a credit risk exposure.

3.2.4 Maximum exposure to credit risk before collateral held or credit enhancements continued

Credit risk exposures relating to off balance sheet assets are as follows:

	GROUP		
	31 Dec 2012	31 Dec 2011	1 Jan 2011
Loan commitments	27,111	13,481	3,752
Letter of credit and other credit related obligations	220,388	231,834	155,888
	247,499	245,315	159,640

3.2.5 Maximum exposure to credit risk after collateral held or credit enhancements

The group's maximum exposure to credit risk after consideration of collateral and other credit enhancements at 31 December 2012, 31 December 2011 and 31 December 2010 respectively is represented by the carrying amounts of the financial assets in the Statement of Financial Position.

3.2.6 Concentration of risks of financial assets with credit risk exposure

(ai) Geographical sectors - Group

The following table breaks down the Group's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as of 31 December 2012, 31 December 2011 and 31 December 2010. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties. Investment securities and Financial assets at fair value through profit or loss analysed below excludes investments in equty instruments.

	Lagos	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe and America	**Total**
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Balances with central bank	235,245	-	-	-	9,857	38	245,140
Loans and advances to banks	80,253	-	-	-	11,059	320,117	411,429
Loans and advances to customers	884,808	181,275	124,324	106,893	18,738	225,649	1,541,687
Financial assets at fair value through profit or loss	2,222	-	-	-	-	677	2,899
Investment securities	575,418	13,979	4,104	2,183	-	51,023	646,707
Assets pledged as collateral	50,109	-	-	-	-	-	50,109
Other assets	14,759	7,109	3,013	1,506	1,490	233	28,111
Assets held for sale	5,139	1,101	-	1,101	-	-	7,341
31 December 2012	1,847,954	203,463	131,441	111,684	41,143	597,738	2,933,423

Credit risk exposure relating to off balance sheet items are as follows

	Lagos	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe and America	**Total**
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
Loan commitments	-	-	-	-	-	27,111	27,111
Letters of credit and other credit related obligations	186,037	5,960	50	4,220	-	24,121	220,388
31 December 2012	186,037	5,960	50	4,220	-	51,232	247,499
Balances with central bank	153,935	-	-	-	-	-	153,935
Loans and advances to banks	33,627	-	-	-	3,434	425,795	462,856
Loans and advances to customers	781,515	168,783	78,974	82,901		140,289	1,252,462
Financial assets at fair value through profit or loss	1,672	-	-	-	-	1,010	2,682
Investment securities	596,384	12,889	1,009	2,366	-	29,528	642,176
Asset pledged as collateral	72,129	-	-	-	-	-	72,129
Other assets	40,942	5,607	4,159	2,288	-	-	52,996
31 December 2011	1,680,204	187,279	84,142	87,555	3,434	596,622	2,639,236

3.2.6 Concentration of risks of financial assets with credit risk exposure

Credit risk exposure relating to off balance sheet items are as follows

	Lagos	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe and America	**Total**
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Loan commitments	-	-	-	-	-	13,481	13,481
Letters of credit and other credit related obligations	138,694	4,422	312	10,267	-	78,139	231,834
31 December 2011	138,694	4,422	312	10,267		91,620	245,315

Credit risk exposure relating to on balance sheet items are as follows

	Lagos	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe and America	**Total**
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Balances with central bank	42,362	-	-	-	-	-	42,362
Loans and advances to banks	285,828	-	-	-	646	288,993	575,467
Loans and advances to customers	762,164	160,747	32,525	71,617		133,240	1,160,293
Financial assets at fair value through profit or loss	9,554	-	-	-	-	1,931	11,485
Investment securities	146,484	11,428	-	261	-	13,659	171,832
Assets pledged as collateral	122,009	-	-	-	-	-	122,009
Other assets	21,344	4,275	3,171	1,745	-	164	30,699
1 January 2011	1,389,745	176,450	35,696	73,623	646	437,987	2,114,147

Credit risk exposure relating to off balance sheet items are as follows

	Lagos	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe and America	**Total**
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Loan commitments	-	-	-	-	-	3,752	3,752
Letters of credit and other credit related obligations	139,143	8,295	14	3,885	-	4,551	155,888
1 January 2011	139,143	8,295	14	3,885	-	8,303	159,640

(aii) Geographical sectors -Company

The geographical concentration of the company's credit risk for loans and receivables is Lagos. The counterparty for the held to maturity debt is domiciled in Southern Nigeria .

b) Industry sectors

The following table breaks down the Group’s credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Group’s counterparties. Investment securities and Financial assets at fair value through profit or loss analysed below excludes investments in equty instruments.

	Loans and advances to banks	Loans and advances to customers	Financial assets at fair value through p/l	Investment securities	Asset pledged as collateral	Other assets	**Total**
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
Agriculture	-	54,006	-	-	-	-	54,006
Oil and gas	-	555,583	1,529	2,231	-	-	559,343
Consumer credit	-	150,316	-	2,000	-	-	152,316
Manufacturing	-	233,445	-	-	-	-	233,445
Real estate	-	106,672	-		-	-	106,672
Construction	-	35,131	-	500	-	-	35,631
Finance and insurance	411,429	18,169	678	8,555	-	28,111	466,942
Transportation	-	11,505	-	-	-	-	11,505
Communication	-	80,609	-	508	-	-	81,117
General commerce	-	80,691	2	427	-	-	81,120
Utilities	-	6,369	-	-	-	-	6,369
Retail services	-	90,683	-	-	-	-	90,683
Public sector	-	118,507	680	632,486	50,109	-	801,782
Total at 31 December 2012	411,429	1,541,686	2,889	646,707	50,109	28,111	2,680,932

The industrial sector for the credit exposure within Assets held for sale is General commerce.

3.2.6 Concentration of risks of financial assets with credit risk exposure

b) Industry sectors continued

	Loans and advances to banks	Loans and advances to customers	Financial assets at fair value through profit or loss	Investment securities	Asset pledged as collateral	Other assets	**Total**
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
Agriculture	-	21,057	-		-	-	21,057
Oil and gas	-	356,516	79		-	-	356,595
Consumer credit	-	224,245	-	-	-	-	224,245
Manufacturing	-	135,453	-	2,015	-	-	137,468
Real estate	-	49,622	-	-	-	-	49,622
Construction	-	8,566	-	513	-	-	9,079
Finance and insurance	462,856	51,018	1,010	11,260	-	52,996	579,140
Transportation	-	5,288	-	-	-	-	5,288
Communication	-	67,711	-	-	-	-	67,711
General commerce	-	92,204	35	-	-	-	92,239
Utilities	-	-	-	-	-	-	-
Retail services	-	129,074	-	-	-	-	129,074
Public sector	-	111,708	1,558	628,388	72,129	-	813,783
Total at 31 December 2011	462,856	1,252,462	2,682	642,176	72,129	52,996	2,485,301
Agriculture	-	12,546	-	-	-	-	12,546
Oil and gas	-	214,820	-	-	-	-	214,820
Consumer credit	-	70,970	-	-	-	-	70,970
Manufacturing	-	88,832	-	-	-	-	88,832
Real estate	-	111,443	-	-	-	-	111,443
Construction	-	8,674	-	-	-	-	8,674
Finance and insurance	575,467	211,181	1,931	3,687	-	30,699	822,965
Transportation	-	1,804	-	-	-	-	1,804
Communication	-	71,783	-	-	-	-	71,783
General commerce	-	188,023	31	-	-	-	188,054
Utilities	-	1,274	-	-	-	-	1,274
Retail services	-	114,176	-	-	-	-	114,176
Public sector	-	64,767	9,523	168,145	122,009	-	364,444
Total at 1 January 2011	575,467	1,160,293	11,485	171,832	122,009	30,699	2,071,786

Credit risk exposure relating to off balance sheet items are as follows

		GROUP	
	31 Dec 2012	31 Dec 2011	1 Jan 2011
	N 'millions	**N 'millions**	**N 'millions**
Agriculture	2,630	32,751	6,953
Oil and gas	111,947	53,342	66,892
Consumer credit	-	-	-
Manufacturing	29,862	56,369	38,447
Real estate	-	-	-
Construction	1,853	1,490	-
Finance and insurance	73,796	13,481	3,752
Transportation	138	-	-
Communication	249	6,116	9,562
General commerce	25,730	78,082	33,230
Utilities	33	505	-
Retail services	1,261	225	804
Public sector	-	-	-
TOTAL	247,499	242,361	159,640

3.2.7 Loans and advances

Credit quality of Loans and advances is summarised as follows:

	31 December 2012		31 December 2011		1 January 2011	
	Loans to customers N 'millions	Loans to banks N 'millions	Loans to customers N 'millions	Loans to banks N 'millions	Loans to customers N 'millions	Loans to banks N 'millions
Neither past due nor impaired	1,364,714	411,429	1,057,878	462,856	918,961	575,467
Past due but not impaired	174,666	-	193,881	-	201,678	-
Individually impaired	21,998	-	14,669	-	65,338	-
Collectively impaired	19,633	-	18,976	-	26,118	-
Gross	1,581,011	411,429	1,285,404	462,856	1,212,095	575,467
Less: allowance for impairment	(39,324)	-	(32,942)	-	(51,802)	-
Net	1,541,687	411,429	1,252,462	462,856	1,160,293	575,467
Individually impaired	17,254	-	12,936	-	26,031	-
Portfolio allowance	22,070	-	20,006	-	25,772	-
Total	39,324	-	32,942	-	51,803	-

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

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group (See section 3.3.1 for an explanation of the internal rating system).

	31 Dec 12 N 'millions	31 Dec 11 N 'millions	1 Jan 11 N 'millions
Grades:			
AAA	-	24,377	-
AA	46,702	101,823	62,000
A	16,135	16,000	17,000
BBB	158,044	179,518	353,000
BB	627,213	379,343	119,000
B	504,570	327,413	367,961
CCC	11,873	12,000	-
CC	-	3,000	-
C	177	14,404	-
	1,364,714	1,057,878	918,961

The credit risk associated with financial assets that were neither past due nor impaired are considered to be low at all 31 December 2012 and 31 December 2011.

(b) Loans and advances past due but not impaired

	31 Dec 2012 Loans to customers N 'millions	31 Dec 2011 Loans to customers N 'millions	1 Jan 2011 Loans to customers N 'millions
Past due up to 30 days	97,059	151,348	79,257
Past due by 30 - 60 days	12,930	28,641	13,479
Past due 60-90 days	64,677	13,892	108,941
Gross amount	174,666	193,881	201,678

3.2.7 Loans and advances

(c) Collectively impaired loans

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

(d) Loans and advances individually impaired

Gross amount	21,998	14,669	65,338
Specific impairment	17,254	12,934	26,031
Net amount	4,744	1,735	39,307

(e) Sensitivity analysis on impairment

The loan portfolio of First Bank Nigeria the most significant entity of the commercial banking group has been adopted for this sensitivity test; this is based on the premise that the outcome of this stress test on the Bank is reflective of the entire portfolio of the group. The credit factors considered for this sensitivity are highlighted below;

Probability of Default (PD): This represents the probability that a currently performing account will decline in credit quality. The probability of default model is designed to provide a measurement of obligor quality by estimating the likelihood default over a short term horizon (usually 12 months). A low probability of default indicates a borrower with good credit quality while a high probability of default indicates a borrower with low credit quality and a high likelihood of default.

Loss Given Default (LGD): The Loss Given Default estimates the expected loss on a default account after all recoveries have being exhausted. In estimating the LGD for the credit portfolio, recoveries made on historic loan loss data by way of loan repayment, recovery efforts and/or sale of collateral was applied.

Approach to sensitivity analysis

In performing the sensitivity analysis, two scenarios were considered as detailed below.

Scenario 1

The PD of the performing book was flexed by 20% while LGD was held constant. This is based on the assumption that obligor quality will deteriorate and this will lead to an increase in default.

Scenario 2

The LGD of the performing book and insignificant non-performing loans were flexed by 20% respectively while the PD was held constant. This is premised on deterioration in obligor quality, increase in rate of default as well as difficulty in realizing collaterals pledged.

Outcome of the sensitivity analysis is shown below as well as the impact on profit or loss

	Impairment charge in profit or loss		
	Current year N'millions	**Scenario 1 N'millions**	**Scenario 2 N'millions**
31 December 2012			
Overdrafts	5,651	6,163	6,372
Term loans	8,550	10,956	11,909
Commercial papers ('CP')	(1,164)	(952)	(952)
Others	626	813	893
Advances under finance lease	1	16	18
Total	13,664	16,996	18,240
31 December 2011			
Overdrafts	7,565	8,007	8,197
Term loans	27,026	28,676	29,813
Commercial papers ('CP')	3	442	442
Others	(1,296)	(1,155)	(1,155)
Advances under finance lease	(735)	(719)	(718)
Total	32,563	35,251	36,579

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

3.2.8 Credit quality of investment in debt securities and other assets is summarised as follows:

All investments in debt instruments are neither past due nor impaired.

The credit quality of investments in debt securities (including assets pledged for collateral) that were neither past due nor impaired can be assessed by reference to Agusto & Agusto's rating at 31 December 2012, 31 December 2011 and 1 January 2011:

Group	**GROUP**				**COMPANY**
	N'millions	N'millions	N'millions	N'millions	N'millions
31 December 2012			Investments in debt securities		
	Assets held for sale	Treasury bills	Bonds	Other assets	Debt Securities
A+ to A-	-	142,773	362,351	-	-
Unrated	7,341	-	192,372	28,111	13,464
	7,341	142,773	554,723	28,111	13,464
31 December 2011					
A+ to A-		173,000	356,871	-	-
Unrated		-	185,992	60,031	-
		173,000	542,863	60,031	-
31 December 2010					
A+ to A-		23,770	258,991	-	-
Unrated		-	20,603	34,680	-
		23,770	279,594	34,680	-

3.3 Liquidity risk

3.3.1 Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligation as they fall due or will have to meet the obligations at excessive costs.This risk could arise from mismatches in the timing of cash flows.

Funding risk is a form of liquidity risk that arises when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The objective of the Bank's liquidity risk management is to ensure that all anticipated funding commitments can be met when due and that access to funding sources is coordinated and cost effective.

Management of liquidity risk

The Group's liquidity management process,as carried out within the Market and Liquidity Risk Department, includes:

• Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
• Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.
• Active monotoring of the timing of cashflows and maturity profiles of assets and liabilities to ensure mismatches are within stipulated limits;
• Monitoring the liquidity ratios against internal and regulatory requirements; and
• Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets

Particular attention is also paid to the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

Funding approach

The Group is funded primarily by a well diversified mix of retail, corporate and public sector deposits. This funding base ensures stability and low funding cost with minimal reliance on more expensive tenured deposit and interbank takings as significant sources of funding. The Group places considerable importance on the demand and savings deposits which account for over 85% of its funding base. Although these accounts are repayable on demand, in reality, they are stable and have formed a core component of the Group's liabilities.

Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in table A below, are the contractual undiscounted cash flow, whereas the Group manages the liquidity risk on a bahavioural basis which is shown in table B below.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

3.3.1 Liquidity risk

(a) GROUP

TABLE A - LIQUIDITY ANALYSIS ON A CONTRACTUAL BASIS

	0 - 30 days N 'millions	31 - 90 days N 'millions	91 - 180 days N 'millions	181 - 365 days N 'millions	Over 1 year but less than 5 yrs N 'millions	Over 5 years N 'millions	Total N 'millions
31 December 2012							
Financial liabilities							
Deposits from banks	-	91,426	-	-	-	-	91,426
Deposits from customers	2,200,870	187,604	35,682	40,592	4	-	2,464,752
Financial liabilities at fair value through profit or loss		579	616	40	561	-	1,796
Borrowings		46,067	2,210	3,478	25,187		76,943
Other liabilities	23,143	16,992	71,713	8,310	-	-	120,157
Total financial liabilities	2,224,013	342,668	110,222	52,420	25,752	-	2,755,072
Assets held for managing liquidity risk	787,287	78,747	31,860	61,347	128,579	319,479	1,407,299
Loan commitments	27,111	-	-	-	-	-	27,111
Letters of credit and other credit related obligations	2,838	23,200	26,388	141,678	3,719		197,824

	0 - 30 days N 'millions	31 - 90 days N 'millions	91 - 180 days N 'millions	181 - 365 days N 'millions	Over 1 year but less than 5 yrs N 'millions	Over 5 years N 'millions	Total N 'millions
31 December 2011							
Financial liabilities							
Deposits from banks	-	188,913	-	-	-	-	188,913
Deposits from customers	179,629	296,410	252,678	288,109	943,489	-	1,960,315
Financial liabilities at fair value through profit or loss	14	1,995	84	50	714	-	2,857
Borrowings		10,047	6,002	5,494	84,394		105,937
Other liabilities	19,228	72,691	46,146	4,795	12,219	3,683	158,771
Total financial liabilities	198,871	570,056	304,910	298,448	1,040,816	3,683	2,416,793
Assets held for managing liquidity risk	435,498	270,111	96,778	119,315	165,798	291,571	1,379,071
Loan commitments	13,481	-	-	-	-	-	13,481
Letters of credit and other credit related obligations	11,755	72,283	35,023	108,981	838	-	228,880
	25,236	72,283	35,023	108,981	838	-	242,361
1 January 2011							
Financial liabilities							
Deposits from banks	-	152,728	-	-	-	-	152,728
Deposits from customers	511,663	360,991	212,051	224,495	146,844	-	1,456,044
Financial liabilities at fair value through profit or loss	13	-	-	-	1,187	439	1,639
Borrowings	-	-	1,478	20,362	80,078	26,359	128,277
Other liabilities	58,763	4,792	41,728	900	14,287	-	120,470
Total financial liabilities	570,439	518,511	255,257	245,757	242,396	26,798	1,859,158
Assets held for managing liquidity risk	636,439	32,425	24,974	31,221	161,053	70,198	b 956,310
Loan commitments	3,752	-	-	-	-	-	3,752
Letters of credit and other credit related obligations	18,043	22,518	12,303	102,473	551	-	155,888
	21,795	22,518	12,303	102,473	551	-	159,640

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

3.3.1 Liquidity risk

(a) GROUP
TABLE B - LIQUIDITY ANALYSIS ON A BEHAVIOURAL BASIS

	0 - 30 days N 'millions	31 - 90 days N 'millions	91 - 180 days N 'millions	181 - 365 days N 'millions	Over 1 year but less than 5 yrs N 'millions	Over 5 years N 'millions	Total N 'millions
31 December 2012							
Financial liabilities							
Deposits from banks	-	91,426	-	-	-	-	91,426
Deposits from customers	377,646	351,951	198,273	329,498	1,184,802	-	2,442,170
Financial liabilities held for trading	518	61	616	40	561	-	1,796
Borrowings	43,606	512	135	1,024	4,419	25,846	75,541
Other liabilities	23,143	16,992	71,713	8,310	-	-	120,158
Total financial liabilities	444,913	460,942	270,737	338,872	1,189,782	25,846	2,731,092
Assets held for managing liquidity risk	787,287	78,747	31,860	61,347	128,579	319,479	1,407,299
31 December 2011							
Financial liabilities							
Deposits from banks	51,306	132,194	-	-	-	-	183,500
Deposits from customers	176,100	297,784	253,276	287,116	955,219	-	1,969,495
Financial liabilities held for trading	1,862	-	-	-	439	556	2,857
Borrowings	9,926	28,195	-	-	36,855	29,497	104,473
Other liabilities	19,237	72,691	46,146	4,795	12,219	3,683	158,771
Total financial liabilities	258,431	530,864	299,422	291,912	1,004,731	33,736	2,419,096
Assets held for managing liquidity risk	435,498	270,111	96,778	119,315	165,798	291,571	1,379,071

	0 - 30 days N 'millions	31 - 90 days N 'millions	91 - 180 days N 'millions	181 - 365 days N 'millions	Over 1 year but less than 5 yrs N 'millions	Over 5 years N 'millions	Total N 'millions
1 January 2011 (N' million)							
Financial liabilities							
Deposits from banks	55,287	93,065	-	-	-	-	148,352
Deposits from customers	129,778	145,448	120,918	150,146	915,703	-	1,461,993
Financial liabilities held for trading	13	-	-	-	1,187	439	1,639
Borrowings	-	12,920	-	-	87,525	25,905	126,350
Other liabilities	58,763	4,792	41,728	900	14,287	-	120,470
Total financial liabilities	243,841	256,225	162,646	151,046	1,018,702	26,344	1,858,804
Assets held for managing liquidity risk	636,439	32,425	24,974	31,221	161,053	70,198	956,310

(b) COMPANY

	0 - 30 days N 'millions	31 - 90 days N 'millions	91 - 180 days N 'millions	181 - 365 days N 'millions	Over 1 year but less than 5 yrs N 'millions	Over 5 years N 'millions	Total N 'millions
Other liabilities	-	993	-	-	-	-	993

Assets held for managing liquidity risk

The Group holds a diversified portfolio of cash and high-quality securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk comprise:
• Cash and balances with central banks;
• Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
• Secondary sources of liquidity in the form of highly liquid instruments in the Group's trading portfolios.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

3.3.1 Liquidity risk

Derivative liabilities

Derivatives settled on a net basis
The interest rate swap and the accumulator forex contract will be settled on a net basis.

The table below analyses the Group’s derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

GROUP	Up to 1 month N 'millions	1-3 months N 'millions	3-6 months N 'millions	6 - 12 months N 'millions	1-5 years N 'millions	Over 5 years N 'millions	Total N 'millions
At 31 December 2012							
Derivative liabilities							
Interest rate swap	-	(61)	-	-	-	-	(61)
Accumulator-Forward FX contract	-	-	-	-	(260)	-	(260)
	-	(61)	-	-	(260)	-	(321)
Derivative assets	-	-	-	-	-	-	-
	-	-	-	-	-	-	
	-	(61)	-	-	(260)	-	(321)
At 31 December 2011							
Derivative liabilities							
Interest rate swap	-	(282)	-	-	(158)	-	(440)
Accumulator-Forward FX contract	-	-	-	-	(556)	-	(556)
	-	(282)	-	-	(714)	-	(996)
Derivative assets							
Interest rate swap	-	665	-	-	-	-	665
Accumulator-Forward FX contract	138	-	-	-	-	-	138
	138	665	-	-	-	-	803
	138	383	-	-	(714)	-	(193)
At 1 January 2011							
Derivative liabilities							
Interest rate swap		-	-	-	(834)		(834)
Accumulator-Forward FX contract		-	-	(354)	(439)		(793)
	-	-	-	(354)	(1,272)	-	(1,627)
Derivative assets							
Interest rate swap	-	-	-	-	1,927	-	1,927
	-	-	-	-	1,927	-	1,927
	-	-	-	(354)	655	-	300

3.3.1 Liquidity risk

Derivatives settled on a gross basis.

The Group's derivatives that will be settled on a gross basis are foreign exchange derivatives and options. The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cashflows on all derivatives including derivatives classified as 'liabilities held for trading'. The amounts disclosed in the table are the contractual undiscounted cash flows.

GROUP	Up to 1 month	1-3 months	3-6 months	6 - 12 months	1-5 years	Over 5 years	Total
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
At 31 December 2012							
Derivatives held for trading							
Foreign exchange derivatives:	4	105	(41)	13	-	-	81
Put options	-	-	-	-	329	-	329
Convertible options	-	-	-	-	334	-	334
	4	105	(41)	13	663	-	744
At 31 December 2011							
Derivatives held for trading							
Foreign exchange derivatives:	11	(1,574)	(84)	(50)	-	-	(1,697)
Put options	-	-	-	-	-	157	157
	11	(1,574)	(84)	(50)	-	157	(1,540)
At 1 January 2011							
Derivatives held for trading							
Foreign exchange derivatives:	31	- 9	-	-	-	-	22
	31	(9)	-	-	-	-	22

3.4 Market risk

Market risk is the potential for adverse changes in the value of a trading or an investment portfolio due to changes in market risk variables such as equity and commodity prices, interest rates, and foreign exchange rates.

Market risk arises from positions in currencies and securities held in our trading portfolio and from our retail banking business, investment portfolio, and other non-trading activities. The movement in market risk variables may have a negative impact on the balance sheet/ or income statement.
Through the financial year, the Bank was exposed to market risk in its trading, and non-trading activities mainly as a result of:
• interest rate movements in reaction to monetary policy changes by the Central Bank of Nigeria, fiscal policies changes, and market forces;
• foreign exchange fluctuations arising from demand and supply as well as government policies; and
• equity price movements in response to market forces and changing market dynamics, such as market making on the Nigerian Stock Exchange.

3.4.1 Management of market risk

The Board of Directors provides oversight for the market risk management function through its Board Audit & Risk Assessment Committee (BARAC). Management Oversight is provided by the Assets & Liabilities Management Committee (ALCO)

The ALCO is the highest technical body responsible for market risk management but has delegated its technical functions to an ALCO sub-committee, the Market Risk Policy Committee (MRPC), in order to achieve a more intense analysis of market and liquidity risks and to administer technical policies concerning financial models and valuation techniques. The MRPC shall make recommendations to ALCO on market risk management

3.4.1 Management of market risk

The Group's market risk management process applies disciplined risk-taking within a framework of well-defined risk appetite that enables the group to boost shareholders value while maintaining competitive advantage through effective utilisation of risk capital. Thus, the Group market risk management policy ensures:

• formal definition of market risk management governance – recognised individual roles and committees, segregation of duties, avoidance of conflicts, etc;
• management is responsible for the establishment of appropriate procedures and processes in implementing the Board-approved market risk policy and strategy. The procedures are documented in a periodically reviewed market risk procedural manual that spells out the procedures for executing relevant market risk controls.;
• an independent market risk management function reporting directly to the Chief Risk Officer;
• a Group-wide market risk management process to which all risk-taking units are subjected;
• alignment of market risk management standards with international best practice. Risk measurements are progressively based on modern techniques such as sensitivity, value-at-risk methodology (VaR), stress testing and scenario analysis;
• a robust market risk management infrastructure reinforced by a strong management information system (MIS) for controlling, monitoring and reporting market risk, including transactions between the company and the subsidiaries;
• continual evaluation of risk appetite, communicated through risk limits and overall effectiveness of the market risk management process;
• the Group does not undertake any risk that cannot be managed, or risks that are not fully understood especially in new products and;
• where the Group takes on any risk, full consideration is given to product maturity, financial market sophistication and regulatory pronouncement, guidelines or policies. The risk taken must be adequately compensated by the anticipated reward.

3.4.2 Market risk measurement techniques

As part of the management of market risk, the Group enters into interest rate swaps to match the interest rate risk associated with the fixed-rate long-term debt securities and loans to which the fair value option has been applied. The major measurement techniques used to measure and control market risk are outlined below.

(a) Value at risk (VAR)

VaR measures potential loss in fair value of financial instruments due to adverse market movements over a defined time horizon at a specified confidence level.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 99% and a 10-day holding period. The confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced three times per year in every 250 days. Only Firstbank Nigeria Limited (the Bank) is subject to the VaR methodology. The interest rate exposure of the other subsidiaires is considered insignificant to the Group. Thus, the VaR of the bank is deemed to be fairly representative of the Group.

The Bank continues to use VaR to estimate the potential losses that could occur on its positions as a result of movements in market factors.

The Bank uses the parametric method as its VaR methodology with an observation period of two years obtained from published data from pre-approved sources. VaR is calculated on the Bank’s positions at close of business daily.

The table and graph below shows the trading VaR of the Bank. The major contributors to the trading VaR are Bonds and Foreign Exchange due to high volatility in those instruments impacting positions held by the Bank during the period. The yield on various maturities for Bonds rose by over 500 basis points on the average; while the naira depreciated by about 5% in the interbank market.

VAR summary	**BANK**		
	12 months to 31 December 2012		
	Average	**High**	**Low**
Foreign exchange risk	176	1,267	2
Interest rate risk	264	1,303	5
Total VAR	**440**	**2,570**	**7**

VAR summary	**BANK**		
	12 months to 31 December 2011		
	Average	**High**	**Low**
Foreign exchange risk	76	276	1
Interest rate risk	57	214	0
Total VAR	**133**	**490**	**1**

VAR summary	**BANK**		
	1 January 2011		
	Average	**High**	**Low**
Foreign exchange risk	53	492	2
Interest rate risk	295	1,196	22
Total VAR	**348**	**1,688**	**24**

3.4.2 Market risk measurement techniques continued

(b) Stress tests

Based on the reality of unpredictable market environment and the frequency of regulations that have had significant effect on market rates and prices, the Group augments other risk measures with stress testing to evaluate the potential impact of possible extreme movements in financial variables on portfolio values.

The Stress testing is performed on FBN Nigeria Limited(the largest subsidiary of the group) and is an integral part of the market risk management framework. The testing considers both historical market events and forward-looking scenarios. A consistent stress-testing methodology is applied to trading and non-trading books. Stress scenarios are regularly updated to reflect changes in risk profile and economic events.

The ALCO of FBN Nigeria Limited is responsible for reviewing stress exposures and where necessary, enforcing reductions in overall market risk exposure. The stress-testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs. Regular stress-test scenarios are applied to interest rates, exchange rates and equity prices. This covers all asset classes in the financial markets banking and trading books. Ad hoc scenarios are also prepared reflecting specific market conditions and for particular concentrations of risk that arise within the businesses.

Non-trading portfolio

The principal objective of market risk management of non-trading portfolios is to optimise net interest income. Due to the size of the Group's holdings in rate-sensitive assets and liabilities, the Group is exposed to interest rate risk.

Non-trading interest rate risk results mainly from differences in the mismatches or re-pricing dates of assets and liabilities, both on- and off-balance sheet as interest rate changes.

The Group uses a variety of tools to measure non-tradable interest rate risk such as:
• interest rate gap analysis (which allows the Group to maintain a positive or negative gap depending on the perceived interest rate direction). The size of the gap is then adjusted to either hedge net interest income against changing interest rates or to speculatively increase net interest income;
• forecasting and simulating interest rate margins;
• market value sensitivity;
• calculating earnings at risk (EaR) using various interest rate forecasts; and
• re-pricing risk in various portfolios and yield curve analysis.

Hedged non-trading market risk exposures

The Group's books have some key market risk exposures, which have been identified and are being managed using swaps and options.

3.4.3 Foreign exchange risk

The Group is exposed to foreign exchange risks due to fluctuations in foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2012, 31 December 2011 and 1 January 2011. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.
The company does not have any exposure to foreign currency risk.

	31 December 2012					
	Naira millions	USD millions	GBP millions	Euro millions	Others millions	Total millions
Financial assets						
Cash and balances with CBN	280,453	8,291	1,110	786	9,861	300,501
Loans and advances to banks	54,337	265,384	71,602	9,325	10,601	411,249
Loans and advances	924,338	364,671	225,694	8,245	18,739.00	1,541,687
Investment securities	655,712	-	50,389	-	574.00	706,675
Asset pledged as collateral	50,109	-	-	-	-	50,109
Financial assets at fair value through profit or loss	1,726	1,262	623	-	-	3,611
Other assets	20,161	17,714	198	37	1,890	40,000
	1,986,836	657,322	349,616	18,393	41,665	3,053,832
Financial liabilities						
Customer deposits	1,716,108	531,591	113,633	3,436	36,092	2,400,860
Deposits from banks	18,435	654	69,088	10	-	88,187
Financial liabilities at fair value through profit or loss	-	1,278	518	-	-	1,796
Borrowings	20,028	52,772	12	3,352	4	76,168
Other liabilities	19,774	63,661	26,818	5,500	4,405	120,158
	1,774,345	649,956	210,069	12,298	40,501	2,687,169

3.4.3 Foreign exchange risk continued

	31 December 2011					
	Naira millions	USD millions	GBP millions	Euro millions	Others millions	Total millions
Financial assets						
Cash and balances with CBN	182,417	14,289	1,593	925	4	199,228
Loans and advances to banks	250,255	180,409	13,538	16,413	2,241	462,856
Loans and advances	891,118	250,685	110,659	-	-	1,252,462
Investment securities	670,624	-	23,645	-	-	694,269
Asset pledged as collateral	72,129	-	-	-	-	72,129
Financial assets at fair value through profit or loss	3,903	1,931	130	-	-	5,964
Other assets	19,686	42,201	204	171	10	62,272
	2,090,132	489,515	149,769	17,509	2,255	2,749,180
Financial liabilities						
Customer deposits	1,368,657	397,838	172,278	12,456	2	1,951,231
Deposits from banks	50,124	1,161	132,194	18	3	183,500
Financial liabilities at fair value through profit or loss	-	1,143	1,714	-	-	2,857
Borrowings	35,381	65,033	186	3,873	-	104,473
Other liabilities	32,122	78,673	41,597	3,245	3,135	158,772
	1,486,284	543,848	347,969	19,592	3,140	2,400,833

	1 January 2011					
	Naira millions	USD millions	GBP millions	Euro millions	Others millions	Total millions
Financial assets						
Cash and balances with CBN	65,223	7,164	2,058	1,068	4	75,517
Loans and advances to banks	280,162	96,495	180,463	17,949	398	575,467
Loans and advances	824,288	222,523	113,469	11	2	1,160,293
Investment securities	245,584	-	9,124	-	-	254,708
Asset pledged as collateral	122,009	-	-	-	-	122,009
Financial assets at fair value through profit or loss	14,674	1,962	-	-	-	16,636
Other assets	8,040	30,902	249	82	9	39,282
	1,559,980	359,046	305,363	19,110	413	2,243,912
Financial liabilities						
Customer deposits	1,151,322	288,573	4,126	3,577	2	1,447,600
Deposits from banks	148,336	-	-	13	3	148,352
Financial liabilities at fair value through profit or loss	-	1,639	-	-	-	1,639
Borrowings	41,111	79,511	254	5,474	-	126,350
Other liabilities	47,458	58,336	1,578	12,636	462	120,470
	1,388,227	428,059	5,958	21,700	467	1,844,411

The Group's exposure to foreign currency risk is largely concentrated in the US Dollar. Movement in exchange rate between the US Dollar and the Nigerian Naira affects reported earnings through revaluation gain or loss and balance sheet size through increase or decrease in the revalued amounts of assets of assets and liabilities denominated in US Dollars.

FX sensitivity analysis (31 December 2012)

The Group believes that for each foreign currency net exposure it is reasonable to assume a 5% appreciation/depreciation against the Group's functional currency. If all other variables are held constant, the tables below present the impacts on the Group profit or loss if these currency movements had occurred.

GROUP

As at 31 December 2012	US Dollar millions	GBP millions	EUR millions	Other currencies millions
Net foreign currency exposures	7,366	139,547	6,095	1,164
Impact of 5% increase in the Naira	(368)	(6,977)	(305)	(58)
Impact of 5% strenthening in the Foreign currency	368	6,977	305	58

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

3.4.3 FX sensitivity analysis continued

The group is exposed to the US dollar and EURO currencies.

The following table details the Group's sensitivity to a 10% (1 January 2011: 10%) increase and decrease in Naira against the US dollar and EURO. Management believe that a 10% (1 January 2011: 10%) movement in either direction is reasonably possible at the balance sheet date. The sensitivity analyses below include outstanding US dollar and EURO denominated financial assets and liabilities. A positive number indicates an increase in profit where Naira strengthens by 10% against the US dollar and EURO. For a 10% weakening of Naira against the US dollar and EURO, there would be an equal and opposite impact on profit.

	GROUP		
	31 Dec 2012	**31 Dec 2011**	**1Jan 2011**
Naira strengthens by 10% against the US dollar Profit/(loss)	(737)	5,433	6,901
Naira weakens by 10% against the US dollar Profit/(loss)	737	(5,433)	(6,901)
Naira strengthens by 10% against the British Pound Profit/(loss)	(13,955)	19,820	(29,941)
Naira weakens by 10% against the British Pound Profit/(loss)	13,955	(19,820)	29,941

3.4.4 Interest rate risk

Interest rate risk is the risk of loss in income or portfolio value as a result of changes in market interest rates. The Group is exposed to interest rate risk in its fixed income securities portfolio, as well as on the interest sensitive assets and liabilities in the course of banking and or trading. The Board sets limits on the level of mismatch of interest rate repricing and value at risk that may be undertaken, which is monitored daily by the Asset and Liability Committee.

The table below summarises the Group's interest rate gap position showing its exposure to interest rate risks. Value at risk exposure is disclosed in Note 3.4.2.

	GROUP			
	N millions Carrying amount	**N millions Variable interest**	**N millions Fixed interest**	**N millions Non interest-bearing**
31 December 2012				
Financial assets				
Cash and balances with Central Bank of Nigeria	300,531	-	-	300,531
Loans and advances to banks	411,429	-	71,880	339,549
Loans and advances	1,541,687	1,541,687		
Financial assets at fair value through profit or loss	3,611	-	680	2,931
Investment securities	706,675	-	646,386	60,290
Assets pledged as collateral	50,109		50,109	
Other assets	28,111	-	-	28,111
	3,042,153	**1,541,687**	**769,055**	**731,412**
Financial liabilities				
Customer deposits	2,400,860	1,894,391	496,804	9,664
Deposits from banks	88,187	-	88,187	
Financial liabilities at fair value through profit or loss	1,796	-	61	1,735
Borrowings	76,168	2,560	73,608	-
Other liabilities	120,157	-	-	120,157
	2,687,168	**1,896,951**	**658,660**	**131,557**
Interest rate mismatch		**(355,264)**	**110,395**	**599,855**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

3.4.4 Interest rate risk continued

	GROUP			
	N millions Carrying amount	**N millions Variable interest**	**N millions Fixed interest**	**N millions Non interest-bearing**
31 December 2011				
Financial assets				
Cash and balances with Central Bank of Nigeria	199,228	-	-	199,228
Loans and advances to banks	462,856	-	237,947	224,909
Loans and advances	1,252,462	1,252,462	-	-
Investment securities	694,269	-	642,176	52,093
Assets pledged as collateral	72,129	-	72,129	-
Financial assets at fair value through profit or loss	5,964	-	1,558	4,406
Other assets	52,996	-	-	52,996
	2,739,904	1,252,462	953,810	533,632
Financial liabilities				
Customer deposits	1,951,321	1,659,610	289,064	2,647
Deposits from banks	183,500	-	183,500	-
Financial liabilities at fair value through profit or loss	2,857	-	439	2,418
Liability on investment contracts	49,440	-	49,440	-
Borrowings	104,473	36,855	67,618	-
Other liabilities	158,771	-	-	158,773
	2,450,362	1,696,465	590,061	163,838
Interest rate mismatch		**(444,003)**	**363,749**	**369,794**
1 January 2011				
Financial assets				
Cash and balances with Central Bank of Nigeria	75,517	-	-	75,517
Loans and advances to banks	575,467	-	379,609	195,858
Loans and advances	1,160,293	1,160,294		-
Investment securities	254,708	-	171,832	82,876
Assets pledged as collateral	122,009	-	122,009	-
Financial assets at fair value through profit or loss	16,636	1,927	9,523	5,186
Other assets	30,699	-	-	30,699
	2,235,329	**1,162,221**	**682,973**	**390,136**
Financial liabilities				
Customer deposits	1,447,600	1,172,557	273,755	1,288
Deposits from banks	148,352	-	148,352	-
Financial liabilities at fair value through profit or loss	1,639	1,187		452
Liability on investment contracts	76,446	-	76,446	-
Borrowings	126,350	60,481	65,869	-
Other liabilities	120,470	-	-	120,470
	1,920,857	1,234,225	564,422	122,210
Interest rate mismatch		**(72,004)**	**118,551**	**267,926**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

3.4.5 Interest rate sensitivity gap analysis

The table below summarises the repricing profile of FirstBank Nigeria Ltd's non-trading book as at 31st December 2012. Carrying amounts of items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date. The interest rate exposure of the other subsidiaires is considered insignificant to the Group. Thus, the repricing profile of the bank is deemed to be fairly representative of the Group.

Figures in N'bn	<=30 DAYS	31 - 90 DAYS	91 - 180 DAYS	181 - 365 DAYS	1 - 2 YEARS	2 YEAR & ABOVE	Rate Sensitive
Treasury Bills	33	68	24	1	-	-	**126**
Government Bonds	29	8	7	59	201	204	**508**
Loans and advances to banks	308	21	-	-	-	-	**329**
Commercial Papers	42	71	13	-	-	-	**126**
Commercial Loans	16	38	868	-	-	-	**922**
Overdraft	8	12	169	70	-	-	**259**
Equipment on Lease	-	-	4	-	-	-	**4**
Staff Loans	-	-	5	-	-	-	**5**
TOTAL ASSETS	**436**	**218**	**1,090**	**130**	**201**	**204**	**2,279**
Deposits from customers	250	263	196	283	274	181	**1,447**
Deposits from banks	-	18	-	-	-	-	**18**
Medium term loan	50	1	1	1	4	25	**81**
TOTAL LIABILITIES	**300**	**282**	**196**	**284**	**278**	**206**	**1,546**
	135	**(64)**	**894**	**(153)**	**(77)**	**(2)**	**732**

Current and Savings deposits, which are included within customer deposits, are repayable on demand on a contractual basis. In practice however, these deposits form a stable base for the bank's operations and liquidity needs because of the broad customer base – both numerically and by depositor type. From the bank's experience, about 49% of these demand deposits are non-rate sensitive.

3.5 Management of Insurance Risk

The Company issues contracts that transfer insurance risk. This section summarises the nature and management of these risks.

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.
For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.
Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.
Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk.

a) Underwriting risk

Underwriting risk relates mainly to the uncertainty that the insured event will occur. The nature of an insurance contract is that the timing and size of claims are uncertain and therefore unpredictable. The principal underwriting risk is the risk that the actual outcome of mortality, morbidity and medical claims will result in volatile profits from one year to the next. Such volatility may result from large concentrations of risk or from charging inadequate premiums relative to the severity or incidence of the risk accepted. Inadequate policy wording may fail to protect the insurer from claims that were not envisaged when the product was priced.

Insurance events are random and the actual number and amount of underwriting benefits will vary from the best estimates established from statistical techniques and taking cognisance of past experience. The Company manages these risks through its underwriting strategy, reinsurance arrangements and claims handling processes.
The following policies and practices are used by the Company as part of its underwriting strategy to mitigate underwriting risk:

• All long-term insurance product additions and alterations, both within and outside of agreed business definitions, are required to pass through the approvals framework that forms part of the governance process. The contracted actuary approves the financial soundness of new and revised products.
• The Company's underwriting strategy aims to ensure that the underwriting risks are well diversified in terms of type (medical, occupational, financial) and amount of risk covered. Whilst this is difficult to measure at underwriting stage, the success or failure of the strategy may be measured by the historical stability of profits emerging from the book of business.
• Product pricing and reserving policies also include specific allowance for the risk of HIV/AIDS.
• The contracted actuary reports annually on the profitability of the business taking into consideration the reasonable benefit expectation of policyholders. All new rate tables are approved and authorised by the statutory actuary prior to being issued.
• The right to re-rate premiums is retained as far as possible, although this is limited by competitive pressure.
• Investigations into mortality and morbidity experience are conducted at least half yearly to ensure that corrective action is taken where necessary.

The Company’s core funeral product offering is characterised by low sums assured which negates the need for underwriting at policy inception. The policy conditions enable the Company to repudiate death claims arising from non-accidental causes during an initial waiting period after policy inception.

The Company's reinsurance arrangements include risk premium treaties for a high life cover, hospital cover product and critical illness products. The decision on the proportion of risk to be ceded follows mainly from the Company’s desire to maintain its relationship with the reinsurers and is based on the level of assistance received from the reinsurers. Exceptions to this are reinsurance cessions that are intended to limit the Company’s exposure to large sums assured.

Claims risk is represented by the fact that the Company may incur unexpectedly high mortality and morbidity losses on any group of policies. Client service staffs are trained to identify and investigate fraudulent claims timeously. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks.

3.5 Management of Insurance Risk continued

b) *Frequency and severity of claims*

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of death and job loss. Estimated inflation is also a significant factor due to the long period typically required to settle cases where information are not readily available.
The company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.
The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk.
Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew policies and it has the right to reject the payment of a fraudulent claim.
The reinsurance arrangements include surplus and quota - share. The effect of such reinsurance arrangements is that the company should not suffer total net insurance losses of more than N10 million on any policy. In addition to the overall company reinsurance programme, individual business units are permitted to purchase additional reinsurance protection.
The company has specialised claims units dealing with the mitigation of risks surrounding claims. This unit investigates and adjusts all claims. The claims are reviewed individually on a quarterly basis and adjusted to reflect the latest information on the underlying facts, contractual terms and conditions, and other factors. The company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.
The concentration of insurance risk before and after reinsurance by class of business in relation to the type of insurance risk accepted is summarised below, with reference to the carrying amount of the estimated insurance liabilities (gross and net of reinsurance) arising from insurance contracts:

	31 December 2012			**31 December 2011**		
	Gross liability	Reinsurance	Net Liability	Gross liability	Reinsurance	Net Liability
Individual traditional	345,713	(1,359)	344,354	102,108	-	102,108
Individual savings	290,108	-	290,108	41,005	-	41,005
Group credit life	690,187	-	690,187	233,352	-	233,352
Group Life - UPR	99,571	(7,084)	92,487	39,516	(1,324)	38,192
Group Life - IBNR	522,819	-	522,819	339,293	-	339,293
Additional reserves	114,075	-	114,075	67,320	-	67,320
Total	**2,062,473**	**(8,443)**	**2,054,030**	**822,594**	**(1,324)**	**821,270**

Claims paid by class of business during the period under review are shown below

	Gross liability	Reinsurance	Net Liability	Gross liability	Reinsurance	Net Liability
Group Life	536,924	(123,881)	413,043	70,653	(960)	69,693
Group Credit Life	81,306	-	81,306	11,316	-	11,316
Individual Life	3,173	-	3,173	110	-	110
Total	**621,403**	**(123,881)**	**497,522**	**82,079**	**(960)**	**81,119**

c) *Sources of uncertainty in the estimation of future claim*

Claims on contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time, and a larger element of the claims provision relates to incurred but not reported claims (IBNR).

Individual Business

For all individual risk business, the gross premium method of valuation was adopted. Future claims liabilities were calculated via a cash flow projection approach, taking into account future office premiums, expenses and benefit payments. Future cash flows were discounted back to the valuation date at the valuation rate of interest.

Group Business

An unexpired premium reserve (UPR) was included for Group Life business, allowing for acquisition expenses at a ratio of 15% of premium.
An allowance was made for IBNR (Incurred but Not Reported) claims in Group Life to take care of the delay in reporting claims.
A similar approach was used to calculate reserves for Group Credit Life business (UPR + IBNR) allowing for acquisition costs at a ratio of 10% of premium. An additional expense reserve was also calculated for future operating expenses.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

3.5 Management of Insurance Risk continued

Process used to decide on assumptions

i) For individual policies the valuation age has been taken as Age Last Birthday at the valuation date. The period to maturity has been taken as the full term of the policy less the expired term. Full credit has been taken for premiums due between the valuation date and the end of the premium paying term.

ii. The valuation of the liabilities was made on the assumption that premiums have been credited to the accounts as they fall due, according to the frequency of the particular payment.
iii. No specific adjustment has been made for immediate payment of claims.
iv. No specific adjustment has been made for expenses after premiums have ceased in the case of limited payment policies i.e. they have been allocated the same level of expenses as premium paying policies.
v. No allowance had been made for lapses or surrenders
vi. Where negative reserves were calculated, these were set to zero to prevent policies being treated as assets.
vii. Any policies subject to substandard terms were valued using the same basis as standard policies.

d) *Insurance risk sensitivity*
The sensitivity analysis was performed using the under-listed variables:

a) Valuation interest (discount) rate +/-1%
b) Expenses +/- 10%
c) Expense inflation +/-2%
d) Mortality +/-5% (including Group Life)

	Base	VIR		Expenses		Expense inflation	
		1%	-1%	10%	-10%	2%	-2%
Traditional individual risk	749,894	698,493	837,218	777,957	723,015	782,182	731,163
Group Life	622,390	622,390	622,390	622,390	622,390	622,390	622,390
Group credit life	690,187	690,187	690,187	697,886	682,508	690,187	690,187
Reinsurance	(8,443)	(8,443)	(8,443)	(8,443)	(8,443)	(8,443)	(8,443)
Net Liability	2,054,028	2,002,627	2,141,352	2,089,790	2,019,470	2,086,316	2,035,297
Assets	2,312,396	2,312,396	2,312,396	2,312,396	2,312,396	2,312,396	2,312,396
Surplus/deficit	258,368	309,769	171,044	222,624	292,925	227,079	277,099
% change in surplus	-	20%	-34%	-14%	13%	-12%	7%

	Base	Mortality	
		5%	-5%
Traditional individual risk	749,894	753,889	745,979
Group Life	622,390	662,491	596,249
Group credit life	690,187	690,187	690,187
Reinsurance	(8,443)	(11,253)	(8,443)
Net Liability	2,054,028	2,095,314	2,023,972
Assets	2,312,396	2,312,396	2,312,396
Surplus/deficit	258,368	217,071	288,424
% change in surplus	-	-16%	12%

Assumptions have been flexed on the basis used to calculate the value of in-force (VIF) business and the realistic and statutory reserving bases. The mortality sensitivity shows the impact of reducing and increasing mortality rates on business to 95% and 105% respectively of the base rates. The expense inflation sensitivity result shows the impact of reducing and increasing expense inflation rates on business to 98% and 102% respectively of the base rates. The expense sensitivity result shows the impact of reducing and increasing maintenance & acquisition expenses rates to 90% and 110% respectively of the base rates. Valuation Interest rate sensitivity result shows the impact of reducing and increasing valuation interest rate to 99% and 101% respectively of the base rates.

3.6 Equity risk

The Group is exposed to equity price risk by holding investments quoted on the Nigerian Stock Exchange (NSE) and other non-quoted investments. Equity securities quoted on the NSE is exposed to movement based on the general movement of the all share index and movement in prices of specific securities held by the Group.

As at 31 December 2012, the market value of quoted securities held by the Group is N6.99 billion (2011: N4.42 billion). If the all share index of the NSE moves by 100 basis points from the 28,078.81 position at 31 December 2012, the effect on the fair value of these quoted securities and other comprehensive income would have been N11.25 million.

The Group holds a number of investments in unquoted securities with a market value of N52.97 billion (2011: N47.68 billion) of which investments in Airtel Nigeria Ltd (49%), African Finance Corporation (31%) and Interswitch Ltd (3%) are the significant holdings. These investments were valued at N25.97 billion (cost N2.9 billion); N16.55 billion (cost N12.7 billion) and N1.56 billion (cost N31 million) respectively as at 31 December 2012. AFC is a private sector led investment bank and development finance institution which has the Central Bank as a single major shareholder (42.5%) with other African financial institutions and investors holding the remaining shares. Airtel Nigeria is a private limited liability company whose principal activity is the provision of mobile telecommunications service using the Global System for Mobile Communications (GSM) platform. The AFC operates a US dollar denominated balance sheet and provides finance in this currency. As at 31 December 2011 the corporation had a balance sheet size of $1.26 billion. Interswitch is an integrated payment and transaction processing company that provides technology integration, advisory services, transaction processing and payment infrastructure to banks, government and corporate organisations.

	At 31 December 2012	
	Favourable changes N 'millions	Unfavourable changes N 'millions
Unquoted investment security - Arican Finance Corporation [1]	18,209	14,898
Unquoted investment security - Airtel [2]	28,567	23,374
Unquoted investment security - Interswitch [3]	1,711	1,400

[1] The sensitivity was based on 10% increase or decrease in indicative values. The changes in value noted above will impact on equity.
[2] The sensitivity was based on 10% increase or decrease in indicative values. The changes in value noted above will impact on equity.
[3] The sensitivity was based on 10% increase or decrease in indicative values. The changes in value noted above will impact on equity.

The Group does not deal in commodities and is therefore not exposed to any commodity price risk.

3.7 Fair value of financial assets and liabilities
(a) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair value:

	31 December 2012		31 December 2011		1 January 2011	
	Carrying value N 'millions	Fair value N 'millions	Carrying value N 'millions	Fair value N 'millions	Carrying value N 'millions	Fair value N 'millions
Financial assets						
Cash and balances with Central banks	300,531	300,531	199,228	199,228	75,517	75,517
Loans and advances to banks	411,429	411,429	462,856	462,856	575,467	575,467
Loans and advances to customers						
- Overdrafts	266,555	266,555	173,591	173,591	151,178	151,178
- Term loans	1,081,168	1,173,192	871,863	984,915	779,534	885,012
- Staff loans	5,373	5,829	6,343	7,226	6,307	7,223
- Commercial papers	125,883	144,659	183,973	220,605	112,328	135,445
- Project finance	59,014	67,816	12,081	13,877	103,623	131,153
- Advances under finance lease	3,694	4,008	4,611	4,216	7,323	7,925
Investment securities (held to maturity)	337,278	344,272	337,336	304,606	31,886	32,250
Asset pledged as collateral	31,063	26,275	39,743	30,084	12,909	12,839
Other assets	40,000	40,000	62,272	62,272	39,515	39,515
TOTAL	**2,661,988**	**2,784,567**	**2,353,897**	**2,463,476**	**1,895,587**	**2,053,524**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

3.7 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value continued

	31 December 2012		31 December 2011		1 January 2011	
	Carrying value N 'millions	Fair value N 'millions	Carrying value N 'millions	Fair value N 'millions	Carrying value N 'millions	Fair value N 'millions
Financial liabilities						
Deposits from banks	88,187	88,187	183,500	183,500	148,352	148,352
Deposits from customers	2,400,860	2,400,860	1,951,321	1,951,321	1,447,600	1,447,600
Other liabilities	120,157	120,157	158,773	158,773	120,470	120,470
Borrowings	76,168	76,168	104,473	104,473	126,350	126,350
TOTAL	**2,685,372**	**2,685,372**	**2,398,067**	**2,398,067**	**1,842,772**	**1,842,772**

(b) Fair valuation methods and assumptions

(i) Cash and balances with central banks

Cash and balances with central bank represent cash held with central banks of the various jurisdictions in which the Group operates. The fair value of these balances is their carrying amounts.

(ii) Loans and advances to banks

Loans and advances to banks represents balances with local and correspondence banks, inter-bank placements and items in the course of collection. The carrying amount is a reasonable approximation of fair value because they are short term in nature.

(v) Loans and advances to customers

Loans and advances are carried at amortised cost net of provision for impairment. The fair value of loans and advances represent an estimation of the value of the loans using average benchmarked lending rates which were adjusted to specific entity risks based on history of losses. The rates used were obtained from the industry rates published by the Central Bank of Nigeria.

(iii) Investment securities (including pledged assets)

The held to maturity financial assets (including pledged assets) are based on market prices, or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(vii) Deposits from banks and due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

(vi) Other assets, liabilities and borrowings

Other assets represent monetary assets which usually has a short recycle period and as such the fair values of these balances approximate their carrying amount. Amount outstanding as other liabilities and borrowings are assumed to approximate their respective fair values

(c) Financial instruments measured at fair value

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable input reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

3.7 Fair value of financial assets and liabilities

The following table presents the group’s assets and liabilities that are measured at fair value at reporting date.

31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets at fair value through profit or loss				
Debt Securities	680	-	-	680
Listed Equity Securities	712	-	-	712
Derivatives	623	1,596	-	2,219
Available-for-sale financial assets				
Investment securities - debt	208,531	48,074	-	256,605
Investment securities - unlisted debt	-	52,503	-	52,503
Investment securities - unlisted equity	-	52,910	59	52,969
Investment securities - listed equity	7,319	-	-	7,319
Assets pledged as collateral	19,046			19,046
Financial liabilities at fair value through profit or loss				
Derivatives	518	1,278	-	1,796

31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Listed Debt Securities	1,558	-	-	1,558
Listed Equity Securities	3,284	-	-	3,284
Derivatives	-	1,123	-	1,123
Available-for-sale financial assets				
Investment securities - debt	223,138	33,916	-	257,054
Investment securities - unlisted debt	-	47,786	-	47,786
Investment securities - unlisted equity	-	16,966	31,122	48,088
Investment securities - listed equity	4,007	-	-	4,007
Assets pledged as collateral	32,386	-	-	32,386
Financial liabilities at fair value through profit or loss				
Derivatives	-	2,857	-	2,857

1 January 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Listed Debt Securities	9,523	-	-	9,523
Listed Equity Securities	5,151	-	-	5,151
Derivatives	-	1,962	-	1,962
Available-for-sale financial assets				-
Investment securities - listed debt	120,262	-	-	120,262
Investment securities - unlisted debt	-	19,954	-	19,954
Investment securities - unlisted equity	-	52,447	23,963	76,410
Investment securities - listed equity	6,196	-	-	6,196
Assets pledged as collateral	109,100	-	-	109,100
Financial liabilities at fair value through profit or loss				
Derivatives	-	1,639	-	1,639

Reconciliation of level 3 items

At 1 January 2011	23,963
Total Gains/(losses) recognised through OCI	7,159
At 31 December 2011	31,122
Purchases	-
Sales	-
Total Gains/(losses) recognised through OCI	-
Impairment allowance	
Transfer into/(out) of Level 3	(31,063)
At 31 December 2012	59

Total gains or losses for the period included in profit or loss are presented in 'Net gains/(losses) from investment securities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

3.7 Fair value of financial assets and liabilities

Sensitivity analysis of Level 3 items

The following table shows the sensitivity of level 3 measurements to reasonably possible alternative assumptions:

	At 31 December 2012		At 31 December 2011		At 1 January 2011	
	Favourable changes N 'millions	Unfavourable changes N 'millions	Favourable changes N 'millions	Unfavourable changes N 'millions	Favourable changes N 'millions	Unfavourable changes N 'millions
Financial assets						
Unquoted investment security - Arican Finance Corporation (1)	-	-	23,739	19,423	22,595	18,487
Unquoted investment security - Capital Alliance Property Investment Company (1)	-	-	1,229	1,005	781	639

(1) The sensitivity was based on 10% increase or decrease in indicative values.

3.8 Measurement basis of financial assets and liabilities.

GROUP

	Fair Value through P/L Held for trading *N'million*	Fair Value through OCI Available for sale *N'million*	Amortised Cost *N'million*	Total *N'million*
31 December 2012				
Financial assets				
Cash and balances with Central Banks	-	-	300,531	300,531
Loans and advances to banks	-	-	411,429	411,429
Loans and advances to customers	-	-	1,541,687	1,541,687
Investment securities		369,397	337,278	706,675
Asset pledged as collateral	-	19,046	31,063	50,109
Financial assets held for trading	3,611	-	-	3,611
Other assets excluding prepayments	-	-	28,111	28,111
Total Financial Assets	3,611	388,443	2,650,099	3,042,153
Financial liabilities				
Customer deposits	-	-	2,400,860	2,400,860
Deposits from banks	-	-	88,187	88,187
Financial liabilities held for trading	1,796	-	-	1,796
Borrowings	-	-	76,168	76,168
Other liabilities exclduing accruals			102,256	-
Total Financial Liabilities	1,796	-	2,667,471	2,567,011
31 December 2011				
Financial assets				
Cash and balances with Central Banks	-	-	199,228	199,228
Loans and advances to banks	-	-	462,856	462,856
Loans and advances to customers	-	-	1,252,462	1,252,462
Investment securities	-	356,933	337,336	694,269
Asset pledged as collateral	-	32,386	39,743	72,129
Financial assets held for trading	5,964	-	-	5,964
Other assets excluding prepayments	-	-	52,996	52,996
Total Financial Assets	5,964	389,319	2,344,621	2,739,904
Financial liabilities				
Customer deposits	-	-	1,951,321	1,951,321
Deposits from banks	-	-	183,500	183,500
Financial liabilities held for trading	2,857	-	-	2,857
Borrowings	-	-	104,473	104,473
Other liabilities excluding accruals			147,282	147,282
Total Financial Liabilities	2,857	-	2,386,576	2,389,433

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

3.8 Measurement basis of financial assets and liabilities continued

	Fair Value through P/L	Fair Value through OCI		
	Held for trading	Available for sale	Amortised Cost	Total
	N'million	*N'million*	*N'million*	*N'million*
1 January 2011				
Financial assets				
Cash and balances with Central Banks	-	-	75,517	75,517
Loans and advances to banks	-	-	575,467	575,467
Loans and advances to customers	-	-	1,160,293	1,160,293
Investment securities		222,822	31,886	254,708
Asset pledged as collateral	-	109,100	12,909	122,009
Financial assets held for trading	16,636	-	-	16,636
Other assets excluding prepayments	-	-	30,699	30,699
Total Financial Assets	16,636	331,922	1,886,771	2,235,329
Financial liabilities				
Customer deposits	-	-	1,447,600	1,447,600
Deposits from banks	-	-	148,352	148,352
Financial liabilities held for trading	1,639	-	-	1,639
Borrowings	-	-	126,350	126,350
Other liabilities excluding accruals			114,534	114,534
Total Financial Liabilities	1,639	-	1,836,836	1,838,475

4. Capital management

The Group’s capital management approach is driven by its strategy and organisational requirements, taking into account the regulatory and commercial environment in which it operates. It is the Group’s policy to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times.

Through its corporate governance processes, the Group maintains discipline over its investment decisions and where it allocates its capital, seeking to ensure that returns on investment are appropriate after taking account of capital costs.

The Group’s strategy is to allocate capital to businesses based on their economic profit generation and, within this process, regulatory and economic capital requirements and the cost of capital are key factors.

The Group's capital is divided into two tiers:

• Tier 1 capital: core equity tier one capital including ordinary shares, statutory reserve, share premium and general reserve. non-controlling interests arising on consolidation from interests in permanent shareholders’ equity. The book value of goodwill,intangible assets, unpublished losses and under provisions are deducted in arriving at Tier 1 capital; and

• Tier 2 capital: qualifying subordinated loan capital, preference shares, collective impairment allowances, debenture stock, non controlling interest and unrealised gains arsing on the fair valuation of equity instruments held as available for sale.

The Central Bank of Nigeria prescribed a minimum limit of 15% of total qualifying capital/total risk weighted assets as a measure of capital adequacy of banks in Nigeria. Total qualifying capital consists of tier 1 and 2 capital less investments in unconsolidated subsidiaries and associates. The total risk weighted assets reflects only credit and counterparty risk.

The Group achieved a capital adequacy ratio of 21.80% at the end of the year, compared to 22.16% and 24.99% recorded for the period ended December 2011 and December 2010 respectively. This is attributable to the intra-group capital movement on accounts of the emergence of FBN Holdings, a significant growth in risk weighted assets during the year and reduction of Tier 2 capital as tranche A of the EIB loan moved closer to maturity. The Bank, as a policy, works to maintain adequate capital cover for its trading activities, with a minimum internal target of 16%. Current position is closely monitored and reported fortnightly to the Assets and Liabilities Management Committee.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

4. Capital management

The table below summarises the composition of regulatory capital and the ratios of the Group for the years presented below. During those three years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	'31 Dec 2012	'31 Dec 2011	'1 Jan 2011
	N 'millions	**N 'millions**	**N 'millions**
Tier 1 capital			
Share capital	16,316	16,316	16,316
Share premium	254,524	254,524	254,524
Statutory reserve	43,347	32,144	28,508
SMEEIS reserves	6,076	6,076	6,309
Retained earnings	73,367	41,587	47,304
Less: intangible assets	(3,522)	(1,008)	(494)
Total qualifying for tier 1 capital	390,108	349,639	352,467
Tier 2 capital			
Fair value reserve	26,272	8,525	47,033
Statutory credit reserve	16,101	9,766	28,220
Translation reserve	1,668	606	-
Minority Interest	2,548	964	1,148
Contingency reserve	50	13	-
Treasury share reserve	(1,422)	(1,941)	(27,767)
Other borrowings	2,560	4,677	7,036
Total qualifying for tier 2 capital	47,776	22,610	55,670
Total regulatory capital	437,884	372,249	408,137
Risk-weighted assets			
On balance sheet	1,792,706	1,518,606	1,425,675
Off balance sheet	216,117	160,876	207,280
Total risk-weighted assets	2,008,823	1,679,482	1,632,955
Risk-weighted Capital Adequacy Ratio (CAR)	21.80%	22.16%	24.99%

5 Segment information

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reports provided to the Group's Executive Committee (the chief operating decision maker), which is responsible for allocating resources to the operating segments and assesses its performance.
The Group is divided into the following business units:

Commercial Banking Group
This is our core commercial banking business, which provides both individual and corporate clients with financial intermediation functions. It also contains all our international banking subsidiaries and representative offices.

Investment Banking Group
This is the investment-banking arm of the Group, providing advisory, asset management, markets, and private equity services to a largely institutional (corporations and governments) clientele.

Insurance Business Group
This group includes both our legacy brokerage business and the more recent full underwriting business, FBN Life Assurance Limited in partnership with South African Based Sanlam.

Other financial services
Currently serves as an incubator for our smaller non-bank financial services businesses.FBN Microfinance Bank Limited provides microfinance services to the mass-market retail segment
The Group’s management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event.

As the Group Management commitee reviews operating profit, the results of discontinued operations are not included in the measure of operating profit.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the Group Management commitee.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position, but exclude items such as taxation.

Segment result of operations
The segment information provided to the Group Management Commitee for the reportable segments for the year ended 31 December 2012 is as follows:

	Commercial Banking group	Investment banking group	Insurance business group	Other financial services	Total
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
At 31st December 2012					
Total segment revenue	338,921	11,805	4,229	5,390	**360,345**
Inter-segment revenue	326	(70)	(256)	-	**-**
Revenue from external customers	339,247	11,735	3,973	5,390	**360,345**
Profit/(loss) before tax	86,177	4,321	642	1,561	**92,701**
Income tax expense	(14,918)	(1,105)	(177)	(831)	**(17,031)**
Profit for the year	71,259	3,216	465	730	75,670
Impairment charge on credit losses	(13,165)			(61)	**(13,226)**
Impairment charge on doubtful receivables	-	543	(28)		**515**
Share of profit/(loss) from associates	1,008	-	-	(1,602)	**(594)**
Depreciation	(9,894)	(195)	(78)	(79)	**(10,246)**

5 **Segment information continued**

	Commercial Banking group	Investment banking group	Insurance business group	Other financial services	Total
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
At 31st December 2012					
Total assets	3,101,230	31,267	6,652	46,979	**3,186,128**
Other measures of assets:					
Loans and advances to customers	1,563,005	-	-	1,508	**1,564,513**
Investment in associates	5,609	-	-	712	**6,321**
Expenditure on non-current assets	18,634	281	90	226	**19,231**
Premium debtors	-	-	495	-	**495**
Investment securities	-	26,464	-	-	**26,464**
Total liabilities	2,725,847	16,833	3,069	1,533	**2,747,282**
At 31st December 2011					
Total segment revenue	265,580	2,084	897	5,250	**273,811**
Inter-segment revenue	(2,958)	25	(100)	3,033	**-**
Revenue from external customers	262,622	2,109	797	8,283	**273,811**
Profit/(loss) before tax	39,167	(2,824)	(210)	(270)	**35,863**
Income tax expense	(16,740)	(305)	(94)	(88)	**(17,227)**
Profit for the year	22,427	(3,129)	(304)	(358)	18,636
Impairment charge on credit losses	(38,127)	(99)	(190)	(1,129)	**(39,545)**
Impairment charge on doubtful receivables	(3,432)	(150)	(115)	1	**(3,696)**
Share of profit/(loss) from associates	(1,507)	-	-	-	**(1,507)**
Depreciation	(9,169)	(431)	(47)	(500)	**(10,147)**
Total assets	2,751,129	54,446	4,530	50,064	**2,860,169**
Other measures of assets:					
Loans and advances to customers	1,249,301	1,844	-	1,317	**1,252,462**
Investment in associates	7,489	-	-	-	**7,489**
Expenditure on non-current assets	11,481	273	77	226	**12,057**
Premium debtors	-	-	167	-	**167**
Investment securities	674,653	17,877	244	1,495	**694,269**
Total liabilities	2,361,100	73,058	1,629	55,802	**2,491,589**
At 1st January 2011					
Total assets	2,283,304	41,349	2,501	27,677	**2,354,831**
Other measures of assets:					
Loans and advances to customers	1,156,672	2,697	-	924	**1,160,293**
Investments in associates	8,996	-	-	-	**8,996**
Expenditure on non-current assets	14,513	202	68	104	**14,887**
Premium debtors	-	-	4	-	**4**
Investment securities	225,330	27,285	321	1,772	**254,708**
Total liabilities	1,889,253	38,510	1,965	23,508	**1,953,236**

Geographical information

Non current asset

	31 Dec 2012	31 Dec 2011	1 Jan 2011
	N 'millions	N 'millions	N 'millions
Nigeria	74,955	66,540	64,019
Outside Nigeria	3,953	342	109
Total	**78,908**	**66,882**	**64,128**

Revenues

	31 Dec 2012	31 Dec 2011
	N 'millions	N 'millions
Nigeria	333,045	257,029
Outside Nigeria	27,300	16,782
Total	**360,345**	**273,811**

6 Significant accounting judgments, estimates and assumptions

The Group's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the Group's results and financial situation due to their materiality

a Impairment charges on financial assets

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

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

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

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Bank's impairment charge on financial assets are set out in the Risk Management section on pages 30 to 39.

The estimation of impairment losses is subject to uncertainty, which has increased in the current economic environment, and is highly sensitive to factors such as the level of economic activity, unemployment rates,property price trends, and interest rates. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. See note 3.2.6 for more information.

b Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect the reported fair value of financial instruments. Refer to Note 3.4 for additional sensitivity information for financial instruments

6 Significant accounting judgments, estimates and assumptions continued

c Held-to-maturity investments

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

d Retirement benefit obligation

For defined benefit pension plans, the measurement of the group's benefit obligation and net periodic pension cost/(income) requires the use of certain assumptions, including, among others, estimates of discount rates and expected return on plan assets. See note 43, "Retirement benefits obligation," for a description of the defined benefit pension plans. An actuarial valuation is performed by actuarial valuation experts on an annual basis to determine the retirement benefit obligation of the group.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

7 Interest income

	GROUP	
	31 December 2012 N 'millions	31 December 2011 N 'millions
Investment securities	78,303	40,746
Financial assets at fair value through profit or loss	40	665
Loans and advances to banks	8,730	20,183
Loans and advances to customer	200,201	151,381
	287,274	212,975

Interest income on loans and advances to customers includes interest income on impaired financial assets of N 5.3 billion (2011: N 2.6 billion) , recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

8 Interest expense

	GROUP	
	31 December 2012 N 'millions	31 December 2011 N 'millions
Customer Deposits	54,347	26,905
Deposit from banks	6,451	5,514
Borrowings	1,284	4,365
	62,082	36,784

9 Impairment charge for credit losses

	GROUP	
	31 December 2012 N 'millions	31 December 2011 N 'millions
Loans and advances to customers		
Increase/(Decrease) in collective impairment (refer note 24)	2,064	(6,014)
Increase in specific impairment (refer note 24)	14,567	44,141
Income received on claims previously written off	(3,817)	(3,812)
Other assets (refer note 37)		
Increase in impairment	1	3,696
Reversal of impairment	(516)	-
	12,299	38,011

The credit impairment charge for the Group declined from N38.1billion in the financial year ended December 2011 to N16.6 billion in December 2012 financial year. The significant decline is attributable to a number of initiatives by the Group, which include proactive management of the loan portfolio, strengthening of monitoring function and culture including prompt identification and active remedial or recovery steps on delinquent loans and adoption of more rigorous credit appraisal process

10 Fee and commission income

	GROUP	
	31 December 2012 N 'millions	31 December 2011 N 'millions
Credit related fees	2,556	4,406
Commission on turnover	28,935	18,477
Letters of credit commissions and fees	4,748	5,719
Account Maintenance Fees	3,531	2,119
Electronic Banking fees	4,517	2,552
Commission on Bonds and Guarantees	1,394	1,229
Funds transfer & Intermediation fees	2,680	2,048
Commission on Collection	4,787	4,688
Other fees and commissions	6,816	6,346
	59,964	47,584

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

11 Net insurance premium

	GROUP	
	31 December 2012 N 'millions	31 December 2011 N 'millions
Premium revenue arising from insurance contracts issued	1,664	1,295
Premium revenue ceded to reinsurers from insurance contracts issued	(120)	(31)
Net Insurance premium	1,544	1,264

12 Foreign exchange income

	GROUP	
	31 December 2012 N 'millions	31 December 2011 N 'millions
	2,448	7,497

This income relates to margins earned from FX trading.

13 Net gains/(losses) on investment securities

	GROUP	
	31 December 2012 N 'millions	31 December 2011 N 'millions
Net results on disposal of Financial assets	(327)	1,046
Others	544	568
Impairment of avaliable for sale financial assets	822	(944)
	1,039	670

14 Net gains / (losses) from financial instruments at fair value through profit or loss

	GROUP	
	31 December 2012 N 'millions	31 December 2011 N 'millions
Equity securities	8	762
Derivatives	1,717	(470)
Debt securities	35	(1,288)
	1,760	(996)

15 Other operating income

	GROUP	
	31 December 2012 N 'millions	31 December 2011 N 'millions
Other income	5,487	417
	5,487	417

16 Insurance claims

	GROUP	
	31 December 2012 N 'millions	31 December 2011 N 'millions
Current year claims and loss adjustment expenses	574	65
Increase in expected cost of claims for unexpired risks	48	16
Claims expense recovered from reinsurers	(124)	-
Total claims and loss adjustment expenses	498	81

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

17 Operating expenses

	GROUP		COMPANY
	31 December 2012 N 'millions	31 December 2011 N 'millions	31 December 2012 N 'millions
Personnel expenses	68,804	57,544	1
Depreciation & Amortisation	10,858	10,174	-
Maintenance	22,283	15,184	-
Advert & Corporate Promotions	10,491	5,329	-
Legal and other professional fees	2,482	3,311	160
Donations & Subscriptions	1,651	1,113	-
Insurance premiums, rent and rates	3,055	6,669	-
Stationary & printing	1,998	1,729	146
Auditors' remuneration	284	193	30
Directors' emoluments	3,537	3,294	-
(Profit)/Loss on sale of property, plant and equipment	(1,760)	107	-
Deposit insurance premium	9,159	6,504	-
Banking sector resolution cost	7,391	5,872	-
Statutory fees	-	-	406
Other operating expenses	51,938	29,041	77
	192,171	146,064	820

17a Personnel expenses

Wages and salaries	47,916	48,655	1
Pension costs:			
- Defined contribution plans	2,508	3,737	-
- Defined benefit plans (Note 43)	18,380	5,152	-
	68,804	57,544	1

17b Operating lease rentals:

At 31 December 2012 the Group was committed to making the following future payments in respect of operating leases for land and buildings. The lease is expected to expire in June 2016.

Within one year	224	216	-
Between two and five years	552	729	-
	776	945	-

18 Taxation

	GROUP	
	31 December 2012 N 'millions	31 December 2011 N 'millions
Corporate tax	6,708	4,161
Contingent tax	9,577	5,644
Education tax	535	264
Technology tax	839	537
Capital gains tax	524	-
Under provision in prior years	9	221
Current income tax - current period	18,192	10,827
Origination and reversal of temporary deferred tax differences	(1,946)	6,400
Prior period adjustment on deferred tax	809	-
Over provision in prior years	(23)	-
Income tax expense	**17,031**	**17,227**

18 Taxation continued

Reconciliation of effective tax rate

	GROUP	
	31 December 2012	**31 December 2011**
	N 'millions	**N 'millions**
Profit before income tax	92,701	35,863
Tax calculated using the domestic corporation tax rate of 30% (2012: 30%, 2011: 30%)	27,810	10,759
Effect of tax rates in foreign jurisdictions		
Non-deductible expenses	7,488	10,328
Effect of education tax levy	535	236
Effect of Information technology	839	537
Effect of capital gains tax	524	-
Effect of minimum tax	-	2,188
Effect of Contingent Tax	9,577	5,644
Tax exempt income	(28,407)	(20,899)
Effect of disposal of subsidiary	(1,047)	-
Effect of Change in PBT due to IFRS Conversion	-	5,317
Tax incentives	(265)	(159)
Tax loss effect	1	3,921
Over provision in prior years	(23)	(645)
Total income tax expense in income statement	17,031	17,227

The movement in the current income tax liability is as follows:

At start of the period	24,254	20,052
Tax paid	(22,439)	(6,614)
Tax effect of translation	-	-
Reclassifications	(11)	
Witholding tax credit utilised	-	(10)
AFS Securities Revaluation Tax charge/(credit)	690	
Prior period under provision	2,543	-
Tax payable on excess dividend paid	-	-
Income tax charge	18,192	10,827
At 31 December	23,228	24,254
Current	23,228	24,254

19 Loss on sale of loan to AMCON

During 2011, the Asset Management Company of Nigeria purchased Eligible bank assets (EBA) from First Bank of Nigeria and issued bonds at a discount in exchange for value. Of the EBA sold, N99 million was in respect of performing loans of Seawolf Oilfield services with a discounted value of N88 billion, resulting in a loss of N11 billion.

	GROUP
	December 2011
	N 'millions
Face value of AMCON bonds	189,469
Unearned income	(56,145)
Discounted value	133,324
Net value of loans sold	(148,825)
Total loss on loan sold	**(15,501)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

20 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares.

The company does not have potential ordinary shares with convertible options and therefore there is no dilutive impact on the profit attributable to the equity holders of the parent.

	GROUP		COMPANY
	31 December 2012	31 December 2011	31 December 2012
Profit from continuing operations attributable to owners of the parent (N'millions)	75,890	19,520	(819)
Weighted average number of ordinary shares in issue (in million)	32,632	32,632	32,632
Basic/diluted earnings per share (expressed in Kobo per share)	2.33	0.60	(0.03)

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent and the number of basic weighted average number of shares excluding treasury shares.

21 Cash and balances with central banks

	GROUP		
	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Cash	55,391	45,293	33,155
Balances with central banks excluding mandatory reserve deposits	53,431	50,038	31,231
	108,822	95,331	64,386
Mandatory reserve deposits with the Central Bank of Nigeria	191,709	103,897	11,131
	300,531	199,228	75,517

22 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 other banks and other short-term highly liquid investments with original maturities less than three months.

	GROUP		
	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Cash (Note 21)	55,391	45,293	33,155
Balances with central banks other than mandatory reserve deposits (Note 21)	53,431	50,038	31,231
Loans and advances to banks excluding long term placements (Note 23)	410,723	462,856	575,467
Treasury bills included in Financial assets at FVTPL (Note 25)	680	1,316	496
Treasury bills and eligible bills excluding pledged treasury bills (Note 26.1 & 26.2)	121,347	149,489	10,365
	641,572	708,992	650,714

23 Loans and advances to banks

	GROUP		
	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Current balances with banks within Nigeria	16,140	11,291	86,841
Currrent balances with banks outside Nigeria	322,703	213,618	109,017
Placements with banks and discount houses	71,880	237,947	379,609
	410,723	462,856	575,467
Long term placement	706	-	-
Carrying amount	411,429	462,856	575,467

Balances with banks outside Nigeria include N48.9 billion (December 2011: N 61 billion, 1 January 2011: N 41.9 billion) which represents the naira value of foreign currency bank balance held on behalf of customers in respect of Letters of Credit transactions. The corresponding liability is included in other liabilities (see note 44). The amount is not available for the day-to-day operations of the Group.

Included in loans to banks is a non current placement of N706m (2011 - Nil, 2010 - Ni) which does not qualify as cash and cash equivalent. All other loans to banks are due within 3 months.

24 Loans and advances to customers

24.1 Analysis of loans and advances to customers

	GROUP				
	Gross amount N 'millions	Specific impairment N 'millions	Collective impairment N 'millions	Total impairment N 'millions	Carrying amount N 'millions
31 December 2012					
Overdrafts	276,839	6,882	3,402	10,284	266,555
Term loans	1,107,756	10,372	16,216	26,588	1,081,168
Staff loans	5,974	-	600	600	5,373
Commercial papers ('CP')	126,916	-	1,033	1,033	125,883
Project finance	59,746	-	732	732	59,014
	1,577,230	17,254	21,983	39,237	1,537,993
Advances under finannce lease	3,781	-	87	87	3,694
	1,581,011	**17,254**	**22,070**	**39,324**	**1,541,687**
31 December 2011					
Overdrafts	178,410	1,671	3,148	4,819	173,591
Term loans	896,997	11,263	13,871	25,134	871,863
Staff loans	6,575	-	232	232	6,343
Commercial papers ('CP')	186,170	-	2,197	2,197	183,973
Project finance	12,555	-	474	474	12,081
	1,280,707	12,934	19,922	32,856	1,247,851
Advances under finance lease	4,697		86	86	4,611
	1,285,404	12,934	20,008	32,942	1,252,462
1 January 2011					
Overdrafts	169,370	12,294	5,898	18,192	151,178
Term loans	807,990	12,680	15,776	28,456	779,534
Staff loans	6,887	-	580	580	6,307
Commercial papers ('CP')	114,522	-	2,194	2,194	112,328
Project finance	105,045	423	999	1,422	103,623
	1,203,814	25,397	25,447	50,843	1,152,970
Advances under finance lease	8,282	634	325	959	7,323
	1,212,096	26,031	25,771	51,802	1,160,293

	GROUP		
	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Current	392,238	357,564	263,506
Non-current	1,149,449	894,898	896,787
	1,541,687	1,252,462	1,160,293

24 Loans and advances to customers continued

24.2 Reconciliation of impairment allowance on loans and advances to customers:

	GROUP					
	Overdrafts N 'millions	**Term loans N 'millions**	**CP N 'millions**	**Finance lease N 'millions**	**Other N 'millions**	**Total N 'millions**
At 1 January 2011						
Specific impairment	12,294	12,680	-	634	423	26,031
Collective impairment	5,898	15,776	2,194	325	1,579	25,772
	18,192	28,456	2,194	959	2,002	51,803
Additional provision						
Specific impairment	10,117	34,941	-	(496)	(423)	44,138
Collective impairment	(2,750)	(2,153)	3	(239)	(875)	(6,014)
Loans written off	(20,740)	(36,108)	-	(138)	-	(56,986)
Recoveries		-	-	-	-	-
Specific impairment	1,671	11,265	-	-	-	12,936
Collective impairment	3,148	13,871	2,197	86	704	20,006
At 31 December 2011	4,819	25,136	2,197	86	704	32,941
Additional provision						
Specific impairment	5,624	8,704	-	-	239	14,567
Collective impairment	254	2,345	(1,164)	1	628	2,064
Loans written off	(413)	(9,597)	-	-	(239)	(10,249)
Specific impairment	6,882	10,372	-	-	-	17,254
Collective impairment	3,402	16,216	1,033	87	1,332	22,070
At 31 December 2012	10,284	26,588	1,033	87	1,332	39,324

24.3 Loans and advances to customers include finance lease receivables as follows:

	GROUP		
	31 December 2012 N 'millions	**31 December 2011 N 'millions**	**1 January 2011 N 'millions**
Gross investment			
- No later than 1 year	729	1,156	3,583
- Later than 1 year and no later than 5 years	3,282	4,390	6,679
- Later than 5 years	84	-	-
	4,095	5,546	10,262
Unearned future finance income on finance leases	(314)	(849)	(1,980)
Net investment	3,781	4,697	8,282
Less provision	(87)	(86)	(959)
	3,694	4,611	7,323
The net investment may be analysed as follows:			
- No later than 1 year	416	979	2,892
- Later than 1 year and no later than 5 years	3,194	3,632	4,431
- Later than 5 years	84	-	-
	3,694	4,611	7,323

24.4 Nature of security in respect of loans and advances:

	GROUP		
	31 December 2012 N 'millions	**31 December 2011 N 'millions**	**1 January 2011 N 'millions**
Secured against real estate	434,620	252,347	130,101
Secured by shares of quoted companies	14,713	28,496	27,938
Otherwise secured	1,021,433	745,322	774,968
Unsecured	110,245	259,239	279,089
	1,581,011	1,285,404	1,212,096

The Group is not permitted to sell or repledge the collateral in the absence of default by the owner of the collateral.

25 Financial assets at fair value through profit or loss (Financial assets at FVTPL)

The Group did not designated any financial assets as fair value through profit or loss on initial recognition. These investments are financial assets held for trading.

	GROUP		
	31 December 2012	**31 December 2011**	**1 January 2011**
	N 'millions	**N 'millions**	**N 'millions**
Treasury bills included in cash equivalents	680	1,316	496
Government bonds	-	242	9,027
Total debt securities	680	1,558	9,523
Listed equity securities	712	3,282	5,151
Total equity securities	712	3,282	5,151
Derivative assets	2,219	1,124	1,962
Total assets held for trading	3,611	5,964	16,636

The Group uses the following derivative strategies:

Economic hedges

The Group use of derivative instrument is very nascent and has been limited to hedging of risk exposures resulting from adverse movement in market risk factors. The Group's derivative transactions are principally in;
i. Interest Rate Swaps to hedge against Interest Rate Risks in its banking book; and
ii. Forward FX Contracts entered into to hedge against Foreign Exchange Risks arising from cross-currency exposures.

Interest rate risk in USD $175million subordinated debt was fully hedged with the aid of interest rate swap contracts. The contracts enabled the Group to exchange streams of future interest payments for another based on a specified notional amount. In some of the contracts the Group has exchanged fixed payment for a floating payment that is linked to the London Interbank offer Rate (LIBOR) and vice versa. Beside the use of the interest rate swaps to limit or manage exposure to fluctuations in interest rates, the Group has been able to obtain a marginally lower interest rate than it would have been able to get without the swap.

Exchange rate risk in EURO borrowing disbursed in US$ is being managed by the use of Forward FX Contracts that allows a notional accrual of Euros that will close the open position over the life of the borrowing.

Customers Risk Hedge Needs

The Group offers its customers derivatives in connection with their risk-management objectives to transfer modify or reduce foreign exchange risk for their own trading purposes. As part of this process, the Group considers the customers' suitability for the risk involved, and the business purpose for the transaction. Currently all hedge transactions with the customers are backed by trade (visible and invisible) transactions. The Group also manages its derivative-risk positions through offsetting trade activities with credible counterparties, calculation of pre-settlement risk exposure and daily reporting of positions and risk measures to senior management.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

	GROUP		
	Notional contract amount	**Fair values**	
		Asset	**Liability**
	N 'millions	**N 'millions**	**N 'millions**
31 Dec 2012			
Interest rate derivatives			
Interest rate swaps	13,198	-	(61)
Foreign exchange derivatives			
Forward FX contract	5,302	626	(860)
Currency swap	10,750	54	-
Put options	41,581	1,205	(875)
Equity option			
Put options	2,420	335	-
	73,251	2,220	(1,796)
Current	5,302	680	(660)
Non Current	67,949	1,540	(1,136)

25 Financial assets at FVTPL continued
31 Dec 2011

	GROUP		
	Notional contract amount	Fair values Asset	Fair values Liability
	N 'millions	N 'millions	N 'millions
Interest rate derivatives			
Interest rate swaps	68,728	665	(439)
Foreign exchange derivatives			
Forward FX contract	10,636	165	(1,728)
Currency swap	7,915	137	(690)
Put options	14,839	157	-
	102,118	1,124	(2,857)
Current	10,636	165	(1,728)
Non Current	91,482	959	(1,129)
	102,118	1,124	(2,857)
1 Jan 2011			
Interest rate derivatives			
Interest rate swaps	69,875	1,927	(1,187)
Foreign exchange derivatives			
Forward FX contract	1,516	35	(13)
Currency swap	5,992	-	(439)
	77,383	1,962	(1,639)
Current	1,516	35	(13)
Non Current	75,867	1,927	(1,626)
	77,383	1,962	(1,639)

26 Investment Securities

	GROUP			COMPANY
	31 December 2012	31 December 2011	1 January 2011	31 December 2012
	N 'millions	N 'millions	N 'millions	N 'millions
26.1 Securities available for sale				
Debt securities – at fair value:				
– Treasury bills	121,347	149,489	3,368	-
– Government bonds	183,706	155,351	136,578	-
– Unlisted	4,055	-	-	-
Equity securities – at fair value:				
– Listed	7,319	4,417	6,196	-
Equity securities – at fair value:				
– Unlisted	52,970	47,676	76,680	2,307
	369,397	356,933	222,822	2,307
Assets pledged as collateral				
Debt securities - at fair value				
– Treasury bills	17,531	22,195	-	-
– Government bonds	1,515	10,191	109,100	-
	19,046	32,386	109,100	-
Total securities classified as available for sale	388,443	389,319	331,922	2,307

		GROUP			COMPANY
26	**Investment Securities continued**	**31 December 2012 N 'millions**	**31 December 2011 N 'millions**	**1 January 2011 N 'millions**	**31 December 2012 N 'millions**
26.2	**Securities held to maturity**				
	Debt securities – at amortised cost:				
	– Government bonds and Treasury bills	161,152	337,336	6,997	-
	– Unlisted	176,126	-	24,889	2,450
		337,278	337,336	31,886	2,450
	Assets pledged as collateral				
	Debt securities - at ammortised cost				
	– Treasury bills	-	-	12,909	-
	– Government bonds	31,063	39,743	-	-
		31,063	39,743	12,909	-
	Total securities classified as held-to-maturity	368,341	377,079	44,795	2,450
26.3	**Loans and receivables**				
	- Intercompany loans	-	-	-	10,270
	- Others	-	-	-	744
		-	-	-	11,014
	Total investment securities	756,784	766,398	376,717	15,771

27 Asset pledged as collateral

The assets pledged by the group are strictly for the purpose of providing collateral to the counterparty. To the extent that the counterparty is permitted to sell and/or repledge the assets in the absence of default, they are classified in the statement of financial position as pledged assets. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities.

The nature and carrying amounts of the assets pledged as collaterals are as follows:

	GROUP		
	31 December 2012 N 'millions	**31 December 2011 N 'millions**	**1 January 2011 N 'millions**
Available for sale debt securities (note 26.1)	19,046	32,386	109,100
Held to maturity debt securities (note 26.2)	31,063	39,743	12,909
	50,109	72,129	122,009
Current	19,046	32,386	109,100
Non current	31,063	39,743	12,909
	50,109	72,129	122,009

28 Acquisition of Subsidiary

In October 2011, First Bank of Nigeria Plc paid for the acquisition of a 75% interest in Thorens Limited, which owns 99.9% interest in Banque Internationale de Crédit (BIC) in Democratic Republic of Congo (DRC). The transaction was approved by the Central Banks in Nigeria and the DRC, subject to subsequent restructuring of the investment by the Bank to achieve direct ownership of BIC. As part of the restructuring, the Bank gained effective control of BIC on 31 March 2012 by controlling 75% of its shares and voting interest and thus accounted for the acquisition on that date. The consideration transferred by the Bank in October 2011 was N5.5 billion.

The acquired company contributed interest income of N2,123 million and fee commision of N2,251 to the group for the period 1 April 2012 to 31 December 2012 as well as profit of N671million . If the acquisition had occurred on 1 January 2012, the group interest income would show N277,705 million, group fee and commission would be N54,123 and group profit before tax would have been N86,400.

This acquisition is expected to increase the Group's profile across Sub Saharan Africa, create a greater earning diversification and increased shareholder value through higher returns on equity.

The following table summarises the consideration paid for BIC, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	March 31 2012
Consideration	
	N'm
Cash	5,503
Contingent Consideration	-
	5,503
Recognised amounts of identifiable assets acquired and liabilities assumed	
	Provisional Fair value
Cash and cash equivalents	16,922
Treasury bills	44
Loans and advances to customers	16,046
Inventory	146
Deferred tax asset	1,045
Other assets	1,975
Property, plant and equipment	2,669
Deposits	(27,522)
Other liabilities	(6,182)
Total identifiable net assets	5,142
Non controlling interest	(1,286)
Goodwill	**1,646**
Cash and cash equivalents acquired from the subsidiary is made up of the following:	
Cash and balances with central banks	10,081
Treasury bills	44
Loans and advances to banks	6,841
	16,966

The goodwill of N1,646 million arises from a number of factors such as expected synergy's through combining a highly skilled workforce and obtaining economies of scale and unrecognised assets such as customer listing,brand and workforce

There were no contingent conisderation. So the fair value of the contingent consideration arrangement was deemed nil.

28 Acquisition of Subsidiary continued

The treasury bills were not marked to market as at 31 March 2012.The treasury bills are highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months. The maturity of the treasury bills ranges between 7days and 28 days. The amount represents its fair value.

The carrying amount of cash and balances with central bank and loans and advances to banks represents their respective fair value.

The net contractual amount for loans and advances to customers is N16.05 billion which is net of a loan loss provision of N2.2 billion.

The value of the other assets is N1.97 billion, this include an account receivable of N0.987 billion. This full amount is deemed recoverable. No provision has been made on the other asset

The value of the acquired property plant and equipment of N2.669 billion is provisional pending, receipt of the final valuations for the assets.

The non-controlling interest has been recognised as a proportion of net assets acquired.

29 Transactions with non controlling interests

Acquisition of interest in a subsidiary

In February 2010, NAICOM granted an operating licence to First Bank Nigeria PLC (FirstBank) to establish a life Insurance business in partnership with Sanlam Group of South Africa. Consequently, FirstBank incorporated a subsidiary, FBN Life Assurance Company Limited. In line with the sharholder agreement, First Bank of Nigeria Plc has a holding of 65% in the equity of FBN Life Assurance Company Ltd with the remaining 35% held by Sanlam Emerging Markets. During the year ended 2011, both shareholders made their capital contributions to FBN Life in line with the shareholding ratio of 65:35. Due to regulatory restrictions, of the N1.2 billion capital injected by Sanlam, N700m was approved by the regulators in 2011 and N518m was approved in 2012. There was no gain or loss on the transaction with Non controlling interest

30 Assets Held for Sale

The assets and liabilities relate to the property development portfolio of First Mortages Limited which is being presented as held for sale following the commitment to its sale by the Group's management in compliance with the Central Bank of Nigeria's (CBN) Regulation on the scope of Banking Activities and Ancillary Matters No 3, 2010, which require banks in Nigeria to concentrate on banking businesses. Shareholders approved the proposal to dispose of the company in May 2011.
The carrying amount of the assets and liabilities of the disposed group classified as held for sale are as listed below.

	GROUP
	31 Dec 2012
	N'million
Inventory	5,637
Accounts receivable	7,341
Total assets	**12,978**
Liabilities classified as held for sale	
Accounts payable - Deposit for property	**2,836**
Net Asset	**10,142**

31 Investment in associates (equity method)

First Bank of Nigeria Plc has 40% shareholding in Kakawa Discount House (KDH) and 42% shareholding in Seawolf.

KDH is a company incorporated in Nigeria and is involved in trading in, holding and provision of discount and re-discount facilities for treasury bills, commercial bills and other eligible financial instruments normally purchased by banks, corporate bodies and the investing public. KDH is not publicly traded and there is no published price information

Seawolf is a company incorporated in Nigeria and is involved in the Oil and Gas sector. The Company is not publicly traded and there is no publised price information

	GROUP		COMPANY
	2012	**2011**	**2012**
	N 'millions	**N 'millions**	**N 'millions**
Balance at beginning of period	7,489	8,996	-
Share of profit / (loss)	(594)	(1,003)	-
Transferred from FBN Nigeria Limited	-	-	11,875
Dividend	(574)	(504)	-
At end of period	6,321	7,489	11,875

Summarised financial information of the Group's principal associates are as follows:

	Total Assets	**Total Liabilities**	**Net assets /liabilities**	**Gross earnings**	**Profit or loss before tax**
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
31 December 2012					
KDH	119,342	105,960	13,383	15,134	2,416
Seawolf	248,661	271,120	(22,458)	13,495	(4,169)
31 December 2011					
KDH	121,995	108,338	13,657	10,976	2,618
Seawolf	185,847	207,464	(21,617)	11,454	(4,639)
1 January 2011					
KDH	161,347	148,293	13,054	10,244	3,147
Seawolf	221,060	237,219	- 16,519	10,323	- 1,227

KDH and Seawolf do not have any commitment or contingent liabilities as at 31st Devember 2012 (2011 : Nil, 2010 : Nil)

32 Investment properties

	GROUP	
	2012	2011
	N 'millions	N 'millions
Cost		
At 1 January	4,055	2,440
Additions resulting from acquisitions		52
Additions resulting from subsequent expenditure	30	1,563
Reclassification	(82)	-
At 31 December	4,003	4,055

This represents the Group's investment in land held for the purpose of capital appreciation. It is the company's policy not to depreciate land .

Investment properties did not generate any income or direct operating expenses during the period.

The fair value of investment properties is N4,339 million in 2012 which has been determined based on valuations performed by external valuers.The fair value of the properties have been determined using on transactions observable in the market.

33 Inventory

		GROUP	
	2012	Dec 2011	Jan 2011
	N 'millions	N 'millions	N 'millions
Work in progress	8,366	11,807	14,881
Interest capitalised	9,301	5,459	5,165
Stock of properties	9,646	8,343	3,035
Transfer to Assets held for sale	(5,637)		
At 31 December	21,676	25,609	23,081
Current	9,646	8,343	3,035
Non current	12,030	17,266	20,046
	21,676	25,609	23,081

Inventory relates to properties under development by FBN Mortgages Limited as well the real estate development of Rainbow Town Development Limited. This FBN Mortgages property development portfolio was classified as Asset Held for Sale during the period. see note 30 for a detailed note.

34 Property, plant and equipment

Refer to FA sheet

35 Intangible assets

	GROUP		
	Goodwill	Computer software	Total
Cost			
At 1 January 2011	-	1,925	1,925
Additions	-	1,711	1,711
At 31 December 2011	-	3,636	3,636
Additions	-	1,570	1,570
Disposals	-	(128)	(128)
Write off		(237)	(237)
Acquisition of subsidiary	1,646	-	1,646
Exchange difference		20	20
At 31 December 2012	1,646	4,861	6,507
Ammortisation and impairment			
At 1 January 2011	-	1,431	1,431
Ammortisation	-	1,197	1,197
At 31 December 2011	-	2,628	2,628
Ammortisation	-	676	676
Disposals	-	(97)	(97)
Write off		(237)	(237)
Exchange difference	-	14	14
At 31 December 2012	-	2,985	2,985
Net book value			
At 31 December 2012	1,646	1,876	3,522
At 31 December 2011	-	1,008	1,008
At 1 January 2011	-	494	494

The amortisation charge for the period is included in Other operating expenses in the Statement of comprehensive income.

Impairment tests for goodwill

Goodwill is allocated to cash generating units at a level which represents the smallest identifiable group of assets that generate largely independent cash flows.
Goodwill of N1.6 billion (31 December 2011: Nil) relates to the acqusition of BIC.

At 31 December 2012, the calculation of the recoverable amount of goodwill is based upon a value in use calculation that discounts expected pre-tax cash flows at an interest rate appropriate to the cash generating unit (CGU). The determination of both requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasted cash flows are available and to assumptions underpinning the sustainability of those cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management’s view of future performance.

The values assigned to key assumptions reflect past experience, performance of the business to date and directors judgement. The recoverable amount calculations performed for the significant amounts of goodwill are sensitive to changes in the following key assumptions

Cash flow forecasts
Cash flow forecasts are based on internal management information for a period of up to five years, after which a growth factor appropriate for the business is applied. Initial cash flows are based on performance in the current period and the cash flows for the next five years are consistent with approved plans for each business.

Growth rates
Growth rates beyond five years are determined by reference to local economic growth. A declining growth rate of 5% from the sixth year up to the 10th year was assumed.

Discount rate
The discount rate applied in the case of this CGU was 22.88% , which is the pre tax weighted average cost of capital for BIC. This reflects the risk the specific risk profile of the cash generating unit to the extent that such risk is not already reflected in the forecast

Certain elements within these cash flow forecasts are critical to the performance of the business. The impact of changes in these cash flows, growth rate and discount rate assumptions has been assessed by the Directors in the review. The Directors consider that reasonable changes in key assumptions used to determine the recoverable amounts of the BIC goodwill would not result in any material impairment.

36 Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2011: 30%, 2010: 30%).

	GROUP		
	31 December 2012 N 'millions	**31 December 2011 N 'millions**	**1 January 2011 N 'millions**
Deferred income tax assets and liabilities are attributable to the following items:			
Deferred tax assets			
Property and equipment	9,255	9,178	5,187
Allowance for loan losses	3,171	1,741	128
Tax losses carried forward	1	927	3,688
Other assets	752	1,126	-
Other liabilities	(10,286)	(10,420)	-
Defined benefit obligation	5,308	4,402	3,271
	8,201	6,954	12,274
Deferred tax liabilities			
Other liabilities	222	1,067	901
	222	1,067	901
Deferred tax assets			
- Deferred tax asset to be recovered after more than 12 months	7,449	5,828	12,274
- Deferred tax asset to be recovered within 12 months	752	1,126	-
	8,201	6,954	12,274
Deferred tax liabilities			
- Deferred tax liability to be recovered after more than 12 months	-	-	-
- Deferred tax liability to be recovered within 12 months	222	1,067	901
	222	1,067	901

36 Deferred tax continued

GROUP

	1 Jan 2012 N 'millions	Recognised in P&L N 'millions	Recognised OCI N 'millions	31 Dec 2012 N 'millions
Movements in Deferred tax assets during the year:				
Property and equipment	9,178	77		9,255
Allowance for loan losses	1,741	1,430		3,171
Tax losses carried forward	927	(925)		2
Other assets	1,126	(374)	-	752
Other liabilities	(10,420)	134	-	(10,286)
Defined benefit obligation	4,402	760	146	5,308
	6,954	1,101	146	8,201

	1 Jan 2011 N 'millions	Recognised in P&L N 'millions	Recognised OCI N 'millions	31 Dec 2011 N 'millions
Movements in Deferred tax assets during the year:				
Property and equipment	5,187	3,991	-	9,178
Allowance for loan losses	128	1,613	-	1,741
Tax losses carried forward	3,688	(2,761)	-	927
Other assets	-	1,126		1,126
Other liabilities	-	(10,420)		(10,420)
Defined benefit obligation	3,271	218	913	4,402
	12,274	(6,233)	913	6,954

	1 Jan 2012 N 'millions	Recognised in P&L N 'millions	Recognised OCI N 'millions	31 Dec 2012 N 'millions
Movements in Deferred tax liabilities during the year:				
Other liabilities	1,067	(845)	-	222

	1 Jan 2011 N 'millions	Recognised in P&L N 'millions	Recognised OCI N 'millions	31 Dec 2011 N 'millions
Movements in Deferred tax liabilities during the year:				
Other liabilities	901	166	-	1,067

Deferred income tax assets are recognised for tax loss carry-forwards only to the extend that the realisation of the related tax benefit is probable.

37 Other assets

	GROUP			COMPANY
	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions	31 December 2012 N 'millions
Insurance receivables	695	111	-	-
Prepayments	11,889	9,276	8,583	236
Accounts receivable	30,032	32,802	34,145	-
Other receivables	3,903	27,118	535	-
	46,519	69,307	43,263	236
Less specific allowances for impairment	(6,519)	(7,035)	(3,981)	-
	40,000	62,272	39,282	236

Reconciliation of impairment account

	GROUP	
	2012 N 'millions	2011 N 'millions
At start of period	7,035	3,981
(Reversal of impairment)/Increase in impairment	(516)	3,696
Amounts written off	-	(693)
Reclassification	-	51
At end of period	6,519	7,035

All other assets on the statement of financial position of the Group and Bank had a remaining period to contractual maturity of less than 12 months.

38 Deposits from banks

	GROUP		
	N 'millions	N 'millions	N 'millions
Interbank takings within Nigeria	66,980	97,661	148,115
Due to banks outside Nigeria	21,207	85,839	237
	88,187	183,500	148,352

Deposits from banks only include financial instruments classified as liabilities at amortised cost and has a remaining period to contractual maturity of less than 12 months

39 Deposits from customers

	GROUP		
	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Current	804,234	746,118	607,252
Savings	548,948	495,777	387,808
Term	496,804	289,064	273,755
Domiciliary	541,210	417,715	177,497
Electronic purse	9,664	2,647	1,288
	2,400,860	1,951,321	1,447,600
Current	2,400,856	1,950,991	1,379,978
Non-current	4	330	67,622
	2,400,860	1,951,321	1,447,600

Deposits from customers only include financial instruments classified as liabilities at amortised cost.

40 Financial liabilities at FVTPL

	GROUP		
	31 December 2012 N 'millions	**31 December 2011 N 'millions**	**1 January 2011 N 'millions**
Fair value of derivatives held for trading	1,796	2,857	1,639
Total		-	-
	1,796	2,857	1,639

Financial liabilities held for trading amounting to N1.8 billion (2011: N2.9 billion) are due after more than 12 months.

41 Borrowings

	GROUP		
	31 December 2012 N 'millions	**31 December 2011 N 'millions**	**1 January 2011 N 'millions**
Long term borrowing comprise:			
Due to FBN Capital Finance Company, Cayman Islands **(i)**	-	28,009	27,043
Due to European Investment Bank **(ii)**	2,560	4,677	7,036
Due to Standard Chartered Bank **(iii)**	-	32,178	53,445
On-lending facilities from financial institutions **(iv)**	25,846	29,497	18,807
Borrowing from correspondence banks **(v)**	47,762	10,112	20,019
	76,168	104,473	126,350
Current	54,004	55,329	21,491
Non-current	22,164	49,144	104,859
	76,168	104,473	126,350

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2011: nil).

(i) Facility represents dollar notes issued by FBN capital Finance Company, Cayman Islands on 30 March 2007 for a period of 10 years. Interest on the notes is payable at 9.75% per annum. The loan is repayable at six monthly intervals over a period of five years commencing from 29 March 2012. The loan is subordianted debt and is non-callable in the first five years.

(ii) Facility represents a medium-term loan (callable notes) secured from European Investment Bank. The loan is divided into tranche A of euro 35 million for a tenure of five year and tranche B of euro 15 million for a tenure of eight years, which qualifies it as tier II capital. Interest is payable half-yearly at 2% and 3% above LIBOR rate for tranche A and tranche B respectively. The facility was secured by negative pledge.

(iii) Facility represents a medium-term loan (dollar notes) secured from Standard Chartered Bank in February 2010 for a period of three years with a moratorium of 18 months. The interest on the loan is payable half yearly at 4.25% above the LIBOR rate. The loan is secured by N27 billion worth of FGN bonds investments as at year end.

(iv) Included in on-lending facilities from financial institutions are disbursements from banks within Nigeria of N18.807 billlion guaranteed by FBN for specific customers. These facilities include the BOI funds and CACS intervention funds.

a. CBN/BOI facilities

The Central Bank of Nigeria (CBN), in a bid to unlock the credit market, approved the investment of N 200 billion debenture stock to be issued by the Bank of Industry (BOI), which would be applied to the re-financing/restructuring of bank's loans to the manufacturing sector. During the year, the Bank of Industry (BOI) disbursed an additional N 1.8 billion (2011: N 1.13 billion) to First Bank of Nigeria Limited.

The fund disbursed is for a period of 15 years effective from the disbursement date and subject to 1% p.a. management fee.

b. CBN/CACS Intervention funds

The Central Bank of Nigeria (CBN) in collaboration with the Federal Government of Nigeria (FGN) represented by the Federal Ministry of Agriculture and Water Resources (FMA & WR) established the Commercial Agricultural Credit Scheme (CACS). During the year, First Bank Nigeria Limited received N 5.9 billion (2011: N 7.64 billion) for on-lending to customers as specified by the guidelines. Loans granted under the scheme are for a seven year period at an interest rate of 9% p.a.

(v) Borrowings from correspondence banks include loans from foreign banks utilised in funding letters of credits for international trade.

42 Liability on investment contracts

	GROUP		
	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Long term clients	4,524	38,304	20,804
Short term clients	7,797	11,132	23,693
Guaranteed fixed income	-	4	31,949
	12,321	49,440	76,446
Current	7,797	11,132	23,693
Non-current	4,524	38,308	52,753
	12,321	49,440	76,446

43 Retirement benefit obligations

	GROUP		
	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Post employment benefits	132	-	-
Defined contribution scheme	239	391	225
Defined Benefits Plan			
Gratuity Scheme (1)	14,645	7,685	6,298
Defined benefits - Pension (ii)	4,364	7,005	4,903
	19,380	15,081	11,426

Defined contribution scheme

The group and its employees make a joint contribution of 15% basic salaray, housing and transport allowance to each employee's retirement savings account maintained with their nominated pension fund administrators.

Total contributions to the scheme for the period were as follows:

Gratuity scheme (1)

The Group has a non-contributory defined gratuity scheme whereby on separation, staff who have spent a minimum number of pre defined years are paid a sum based on their qualifying emoluments and the number of periods spent in service of the Group.
Amounts recognised in the statement of financial position are as follows:

	N 'millions
Defined benefit obligations at 1 January 2011	6,298
Service cost	3,146
Interest cost	789
Actuarial losses/gains (Net)	957
Benefits paid (in the year)	(3,505)
Defined benefit obligations at 31 December 2011	7,685
Service cost	1,706
Interest cost	1,113
Actuarial losses/gains (Net)	3,022
Benefits paid (in the year)	(13,623)
Curtailment (Gains)/losses	9,160
Plan amendments	5,582
Defined benefit obligations at 31 December 2012	14,645

Included in the benefits paid of N 13.6 billion is N 12.5 billion paid to staff that were disengaged during the year.

	31 December 2012 N 'millions	31 December 2011 N 'millions
Amounts recognised in the income statement are as follows:		
Current service cost	(1,706)	(3,882)
Interest on obligation	(1,113)	(789)
Curtailment (gains)/losses	(9,160)	-
Plan amendments [1]	(5,582)	-
Total employee benefits expense	(17,561)	(4,671)
Amount recognised in other comprehensive income are as follows:		
Actuarial losses/(gains)	(3,022)	(221)

43 Retirement benefit obligations continued

3 Year record from first application of IAS 19

	GROUP		
	31 December 2012	**31 December 2011**	**1 January 2011**
	N 'millions	**N 'millions**	**N 'millions**
Present value of defined benefit obligation	14,645	7,685	6,298
Fair value of plan assets	-	-	-
Deficit/(surplus) in the plan	14,645	7,685	6,298
Experience adjustments on plan liabilities	(3,022)	(649)	(213)

[1]The plan amendment relates to the change in the basis of gratuity computation. This change also impacted on the curtailment losses incurred in the year.

Defined benefit - Pension (ii)
The Group has an old Defined Benefit scheme, discontinued in March 2001. The funds are placed with fund managers and the Group is under obligation to fund the deficit, and has elected to do this over the next five years commencing January 2010 with an annual contribution of N1.2 billion.

The movement in the defined benefit obligation over the year is as follows:

	N 'millions
Defined benefit pension obligations at 1 January 2011	13,550
Interest cost	1,285
Actuarial losses/gains (Net)	868
Benefits paid (in the year)	(1,410)
Defined benefit pension obligations at 31 December 2011	14,293
Interest cost	1,479
Actuarial losses/gains (Net)	(536)
Benefits paid (in the year)	(1,640)
Defined benefit pension obligations at 31 December 2012	13,596

The movement in the fair value of plan assets of the year is as follows:

Plan Assets	**N 'millions**
Fair value of plan assets at 1 January 2011	8,647
Expected return on plan assets	804
Actuarial gains/losses	(1,953)
Employer contributions	1,200
Benefits paid	(1,410)
Closing fair value of plan assets at 31 December 2011	7,288
Expected return on plan assets	660
Actuarial gains/losses	1,915
Employer contributions	1,010
Benefits paid	(1,640)
Closing fair value of plan assets at 31 December 2012	**9,233**
Net obligations at 1 January 2011	4,903
Net obligations at 31 December 2011	7,005
Net obligations at 31 December 2012	4,363

Amounts recognised in the income statement are as follows:

	31 December 2012	**31 December 2011**
	N 'millions	**N 'millions**
Interest on obligation	(1,479)	(1,285)
Expected return on plan assets	660	804
Total, included in staff costs (Note 17)	(819)	(481)

The actual return on plan assets was N2,575 million (2011: N789 million).

Amount recognised in other comprehensive income are as follows:

Actuarial gains/losses (Obligations)	536	(868)
Actuarial gains/losses (Plan assets)	1,915	(1,953)
Total actuarial gains/losses	2,451	(2,821)

43 Retirement benefit obligations continued

	GROUP		
Composition of Plan assets	**2012**	**2011**	**2010**
	N 'millions	**N 'millions**	**N 'millions**
Quoted Stock	3,625	3,020	5,610
Money market investments	2,093	234	566
Government Securities	3,103	1,857	862
Money on call	303	749	373
Guaranteed commercial papers	-	1,061	1,230
Others	108	367	7
Total	9,232	7,288	8,648

3 Year record from first application of IAS 19

	2012	2011	2010
Present value of defined benefit obligation	13,596	14,293	13,550
Fair value of plan assets	(9,232)	(7,288)	(8,648)
Deficit/(surplus) in the plan	4,364	7,005	4,902
Experience adjustments on plan liabilities	536	1,835	538
Experience adjustments on plan assets	1,915	(1,953)	- 153.00

The principal actuarial assumptions were as follows:

	31 Dec 2012	**31 Dec 2011**	**At 1 Jan 2011**
Discount rate on gratuity scheme	14%	14%	14%
Discount rate on pension plan	13%	11%	11%
Inflation rate	10%	10%	10%
Expected return on plan assets	9.28%	9.28%	9.28%
Future salary increases	12%	13%	13%
Future pension increases	0%	0%	0%

The sensitivity of the pension liability to changes in the weighted principal assumptions is shown in table below:

	Assumption	Defined Benefit Obligation N'millions	Impact on Liability
	13%	13,793	0.0%
	12.5%	14,333	3.9%
Discount rate	13.5%	13,285	-3.7%
	10%	13,793	0.0%
	9.5%	13,793	0.0%
Inflation rate	10.5%	13,793	0.0%
	12%	13,793	0.0%
	11.5%	13,249	-3.9%
Salary growth rate	12.5%	14,378	4.2%
	Base	13,793	0.0%
	Improved by 1 year	13,932	1.0%
Life expectancy	Decreased by 1 year	13,643	-1.1%

44 Other liabilities

	GROUP			COMPANY
	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions	31 December 2012 N 'millions
Customer deposits for letters of credit	47,401	61,102	41,885	-
Accounts payable	9,252	26,481	18,920	993
Provisions and accruals	17,902	11,489	5,936	91
Bank cheques	14,004	13,112	14,268	
Collection on behalf of third parties	7,225	4,375	4,193	
Sundry Creditors	22,642	38,083	17,930	
Other payables	1,732	4,129	17,338	
	120,158	158,771	120,470	1,084

Other liabilities are expected to be settled within no more than 12 months after the date of the consolidated statement of financial position.

45 Share capital

Authorised	**31 December 2012**
50 billion ordinary shares of 50k each	25,000

Issued and fully paid

Movements during the period:	**Number of shares N 'millions**	**Ordinary shares N 'millions**
Issued during the period	32,632	16,316
At 31 December 2012	32,632	16,316

46 Share premium and reserves

The nature and purpose of the reserves in equity are as follows:

Share premium: Premiums from the issue of shares are reported in share premium. A share capital reserve reduction scheme was approved by Shareholders and regulators during the period. This led to a reduction in share premium by N65 billion.

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

Statutory reserve: Nigerian banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by S16(1) of the Bank and Other Financial Institutions Act of 1991(amended), an appropriation of 30% of profit after tax is made if the statutory reserve is less than the paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid-up share capital.

AFS Fair value reserve: The AFS fair value reserve shows the effects from the fair value measurement of equity instruments elected to be presented in other comprehensive income on initial recognition after deduction of deferred taxes. No gains or losses are recognised in the consolidated income statement.

SSI reserve: This reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside a portion of the profit after tax in a fund to be used to finance equity investments in qualifying small and medium-scale enterprises. Under the terms of the guideline (amended by CBN letter dated 11 July 2006), the contributions will be 10% of profit after tax and shall continue after the first five years but banks' contributions shall thereafter reduce to 5% of profit after tax. However, this is no longer mandatory. The small and medium-scale industries equity investment scheme reserves are non-distributable.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

46 Share premium and reserves continued

Contigency reserve: As required by insurance regulations, a contingency reserve is maintained for both the non-life insurance and life assurance contracts underwritten by the Group. The appropriation to contingency reserve for non-life underwriting contracts is calculated in accordance with section 21(2) and 22(1)(b) of the Insurance Act 2003. The reserve is calculated at the higher of 3% of gross premiums and 20% of net profits of the business for the year. The appropriation to contingency reserve for life underwriting contracts is calculated at the higher of 1% of the gross premium and 10% of net profits of the business for the year. The appropriations are charged to the Life Fund.

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

Treasury share reserve: The Group buys and sells its own shares in the normal course of its equity trading and market activities. These shares are reported to a separate reserve. Gains and losses on sales or redemption of own shares are credited or charged to reserves.

Foreign currency translation reserve: Records exchange movements on the Group's net investment in foreign subsidiaries.

47 Reconciliation of profit before tax to cash generated from operations

		GROUP	
		31 December 2012	**31 December 2011**
		N 'millions	**N 'millions**
Profit before tax		92,701	35,863
Adjustments for:			
– Depreciation and amortisation	34	10,858	10,174
– Profit/(loss) from disposal of property and equipment	34	(1,760)	107
– Foreign exchange losses / (gains) on operating activities		(2,448)	(7,497)
– Profit/(loss) from disposal of subsidiaries	54	(288)	-
– Profit/(loss) on sale of assets to AMCON		-	15,501
– Profit/(loss) from disposal of investment securties		327	(1,046)
– Net gains/(losses) from financial assets classified as held for trading		(1,760)	996
– Impairment on loans and advances	9	16,631	38,127
– Change in provision in other assets		(515)	3,696
– Change in provision for dimunition of investments		(822)	944
– Change in employee benefits provisions		19,562	8,570
– Share of loss/(profit) from associates	31	1,168	1,507
– Dividend income		(541)	(4,400)
– Net interest income		(225,152)	(176,191)
– Provision for banking sector resolution cost		-	5,872
Increase/(decrease) in operating assets:			
– Cash and balances with the Central Bank (restricted cash)	21	(87,812)	(92,766)
– Inventories	33	(1,476)	(2,528)
– Loans and advances to banks	23	(706)	-
– Loans and advances to customers		(301,714)	(144,207)
– Financial assets held for trading		476	10,496
– Other assets		20,688	(26,686)
– Pledged assets	27	22,020	49,879
Increase/(decrease) in operating liabilities:			
– Deposits from banks	38	(95,138)	35,216
– Deposits from customers		426,752	510,323
– Financial liabilities	40	(1,061)	1,218
– Liability on investment contracts		(37,119)	(27,006)
– Liability on insurance contracts		1,303	824
– Other liabilities		(10,528)	38,301
Cash generated from operations		(156,354)	285,288

48 Contingent liabilities and commitments

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
48.1 Capital commitments			
Authorised and contracted			
Group	1,300	2,600	3,300

The expenditure will be funded from the group’s internal resources.

48.2 Litigation

The Group is a party to legal actions arising out of its normal business operations.
The Directors believe that, based on currently available information and advice of counsel, none of the outcomes that result from such proceedings will have a material adverse effect on the financial position of the Group, either individually or in the aggregate.

48.3 Other contingent commitments

In the normal course of business the group is a party to financial instruments which carry off-balance sheet risk. These instruments are issued to meet the credit and other financial requirements of customers. The contractual amounts of the off-balance sheet financial instruments are:

	GROUP		COMPANY	
	31 December 2012 N 'millions	31 December 2011 N 'millions	31 December 2012 N 'millions	31 December 2011 N 'millions
Performance bonds and guarantees	344,079	230,200	-	-
Letters of credit	220,388	228,880	-	-
	564,467	459,080	-	-

48.4 Loan Commitments

	GROUP		COMPANY	
	31 December 2012 N 'millions	31 December 2011 N 'millions	31 December 2012 N 'millions	31 December 2011 N 'millions
Undrawn irrevocable loan commitments	27,111	13,481	-	-

49 Related party transactions

The Group is controlled by FBN Holdings Plc, whose shares are widely held. The parent company is a non operational holding company. In 2012, there were no related party transactions with the parent company, other than a loan granted to a director.
A number of transactions are entered into with related parties in the normal course of business. These include loans and deposits.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

49.1 Loans and advances to related parties

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

	Directors and other key management personnel (and close family members)	Associates	Subsidiaries
31 December 2012			
Loans and advances to customers			
Loans outstanding at 1 January	-	-	-
Loans issued during the year	145	-	-
Loan repayments during the year	-	-	-
Loans outstanding at 31 December	145	-	-
31 December 2011			
Loans and advances to customers			
Loans outstanding at 1 January	64,806	104,580	37,192
Loans issued during the year	33,288	-	1,781
Loan repayments during the year	(6,463)	(96,313)	-
Loans outstanding at 31 December	91,631	8,267	38,973

No provision has been recognised in respect of loans given to related parties.
The loans to directors and other key maangement personnel are repayable from various cycles ranging from monthly to annually over the tenor and have average interest rates of 18%.

The loans to subsidiaries are non collaterised loans advanced at below market rates ranging from 8% to 14%. These loans have been eliminated on consolidation and do not form part of the reported group loans and advances to customers

49.2 Deposits from related parties

	Directors and other key management personnel (and close family members)	Associates	Subsidiaries
31 December 2011			
Due to customers			
Deposits at 1 January	189	780	5,828
Deposits received during the year	-	51,844	669,443
Deposits repaid during the year	-	(51,532)	(666,331)
Deposits at 31 December	69	1,092	8,940
	258	2,184	17,880

The company had no deposits from related parties in 2012.

49.3 Other transactions with related parties

31 December 2011			
Interest income	-	-	2,480
Interest expense	-	-	(455)
Fee and commission income	-	-	25
Other operating income	-	-	-
Operating expenses	-	-	(705)

The company had no income or expense from related parties in 2012.

49.4 Key management compensation

	31 December 2012 N 'millions	31 December 2011 N 'millions
Salaries and other short-term employee benefits	33	383
Other long term benefits	1	161
Termination benefits	-	1,472
	34	2,016

50 Employees

The average number of persons employed by the Group during the period was as follows:

	31 Dec 2012	31 Dec 2011
Executive directors	7	5
Management	203	219
Non-management	8,627	8,202
	8,837	8,426

See note 17 for compensation for the above staff

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

N300,000 - N2,000,000	213	393
N2,000,001 - N2,800,000	216	664
N2,800,001 - N3,500,000	577	202
N3,500,001 - N4,000,000	72	39
N4,000,001 - N5,500,000	2,938	2,629
N5,500,001 - N6,500,000	1,546	1,327
N6,500,000 - N7,800,000	950	209
N7,800,001 - N9,000,000	222	871
N9,000,001 and above	2,096	2,087
	8,830	8,421

51 Directors' emoluments

Remuneration paid to the Group's directors (excluding certain allowances) was:

	31 December 2012 N 'millions	31 December 2011 N 'millions
Fees and sitting allowances	11	162
Executive compensation	22	520
Compensation for loss of office	-	316
Retirement benefit costs	-	1,326
Other director expenses	1	970
	34	3,294

Fees and other emoluments disclosed above include amounts paid to:

Chairman	-	19
Highest paid director	22	71

The number of directors who received fees and other emoluments (excluding pension contributions and certain benefit) in the following ranges was:

	Number	
	31 Dec 2012	31 Dec 2011
Below N1,000,000	-	3
N1,000,000 -N2,000,000	-	-
N2,000,001 -N3,000,000	-	16
N5,500,001 and above	1	36
	1	55

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

52 Events after statement of financial position date

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

53 Principal subsidiary undertakings

Direct Subsidiaries of FBN Holdings Plc

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
First Bank Nigeria Limited (Note 53 (i))	235,640	-	-
FBN Capital Limited (Note 53 (ii))	4,300	4,300	4,300
FBN Life Assurance (Note 53 (iii))	2,000	2,000	-
FBN Insurance Brokers Limited (Note 53 (iv))	25	15	15
FBN Microfinance Bank Limited (Note 53 (v))	1,000	1,000	1,000
New Villa Limited (Rainbow Town Development Limited	100	100	100
	243,065	7,415	5,315
Indirect Subsidiaries of FBN Holdings Plc			
FBN Bank (UK) Limited (Note 53 (vi))	30,695	18,441	18,441
First Pension Custodian Limited (Note 53 (vii))	2,000	2,000	2,000
First Trustees Nigeria Limited (Note 53 (viii))	23	23	23
FBN Mortgages Limited (Note 53 (ix))	2,100	2,100	2,100
First Registrars Nigeria Limited (Note 54)	-	10	10
FBN Bureau de Change Limited (Note 53 (x))	50	500	500
First Funds Limited (Note 53 (xi))	2,050	2,050	2,050
FBN Securities Limited (Note 53 (xii))	2,338	1,638	1,638
Banque Internationale de Crédit (Note 53 (xiv))	5,503	-	-
	44,759	26,762	26,762
Impairment of investments in subsidiaries	(1,094)	(1,117)	(1,661)
	43,665	25,645	25,101

All shares in subsidiary undertakings are ordinary shares. For all periods shown, the group owned the total issued shares in all its subsidiary undertakings except FBN Life Assurance Limited in which it owned 65% and Banque Internationale de Crédit in which it owned 75%.

Subsidiary	**Principal activity**	**Country of incorporation**	**Statutory year end**
First Bank Nigeria Limited	Banking	Nigeria	31 December
FBN Capital Limited	Investment banking	Nigeria	31 December
FBN Life Assurance Limited	Life Insurance	Nigeria	31 December
FBN Insurance Brokers Limited	Insurance brokerage	Nigeria	31 December
FBN Microfinance Bank Limited	Microfinance banking	Nigeria	31 December
FBN Bank (UK) Limited	Banking	United Kingdom	31 December
First Pension Custodian Limited	Pension fund Assets custodian	Nigeria	31 December
First Trustees Nigeria Limited	Trusteeship	Nigeria	31 December
FBN Mortgages Limited	Mortgage banking	Nigeria	31 December
First Registrars Nigeria Limited	Share register administration	Nigeria	31 December
FBN Bureau de Change Limited	Bureau De Change	Nigeria	31 December
First Funds Limited	Venture Capital	Nigeria	31 December
FBN Securities Limited	Stock broking	Nigeria	31 December
Banque Internationale de Crédit (DRC)	Banking	Democratic republic of Congo	31 December

53 Principal subsidiary undertakings continued

i FBN Nigeria Limited
The Bank commenced operations in Nigeria on 31 March 1894 as a branch of Bank of British West Africa Limited (BBWA), and was incorporated as a private limited liability company in Nigeria in 1969. The Bank was the parent company of the group until 30th November 2012, when a business restructuring was effected in accordance with the directive of the Central Bank of Nigeria and FBN Holdings Plc became the parent company of the group.

ii FBN Capital Limited
FBN Capital Limited is a private limited liability company incorporated in Nigeria and commenced operations on 1 April 2005. It is registered with the Securities and Exchange Commission to undertake issuing house business. It is also involved in the business of asset management and financial advisory.

iii FBN Life Assurance Limited
In February 2010, NAICOM granted an operating licence to First Bank Nigeria PLC (FirstBank) to establish a life Insurance business in partnership with Sanlam Group of South Africa. Consequently, FirstBank incorporated a subsidiary, FBN Life Assurance Company Ltd. First Bank of Nigeria Plc has a holding of 65% in the equity of FBN Life Assurance Company Ltd.

iv FBN Insurance brokers Limited
The company was incorporated under the Companies and Allied Matters Act CAP C20 LFN 2004, as a limited liability company on 31 March 1994 with the name 'Trust Link Insurance Brokers Limited'. The company prepared financial statements up to 31 March 1998 after which it became dormant. The company was resuscitated on 1 April 2000 as FBN Insurance Brokers Limited. The principal activity of the company is insurance brokerage business.

v FBN Microfinance Bank Limited
The Bank was incorporated in Nigeria on 18 March 2008 under the provisions of the Companies and Allied Matters Act CAP C20 LFN 2004 with Registration Number RC 736874. The Bank was licensed to carry on the business of microfinance banking on 25 August 2008 by the Central Bank of Nigeria. It commenced microfinance banking business on 19 January 2009.

vi FBN Bank (UK) Limited
FBN Bank (UK) Ltd ('FBNUK') is a company incorporated in the United Kingdom under the Companies Act 1985 as a UK registered bank authorised by the Financial Services Authority to accept deposits and undertake banking business.
FBNUK was incorporated in November 2002. It is a wholly owned subsidiary of First Bank of Nigeria Plc. The bank has a branch in Paris.

During the current year, the Group invested additional capital in FBN UK in compliance with the regulatory requirement imposed by the Financial Services Authority to re-capitalise the company,

vii First Pension Custodian Limited
First Pension Custodian Limited was incorporated on 12 August 2005 and granted an approval in principle by the National Pension Commission on 1 August 2005 while the operating licence was obtained on the 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.

viii FBN Trustees Limited
First Trustees Nigeria Limited was incorporated in Nigeria as a private limited liability company on 8 August 1979 and commenced business on 3 September 1979. The Company was established to engage in the business of trusteeship as well as portfolio management, financial/investment advisory services and loan syndication.

ix FBN Mortgages Limited
The Company was incorporated on 17 March 2003 and commenced operations on 1 May 2004. Its principal activities include acceptance of deposits, provision of mortgage finance for customers and investment in properties.

x FBN Bureau de Change Limited
This represents the Bank's 100% holding in FBN Bureau de Change Limited. The Bank obtained approval from the Central Bank of Nigeria to operate a bureau de change on 8 August 2006. In 2010, the Central Bank of Nigeria (CBN) withdrew the license of all class 'A' Bureau De Change and advised them to apply for class 'B' in order to continue in business. The Class B license was issued in the current year and the Bank obtained a refund of N450 million for the excess capital requirement.

xi First Funds Limited
First Funds Limited was incorporated on 14 November 2002. It commenced operations on 1 April 2003. It is a wholly owned subsidiary of First Bank of Nigeria Plc. Its principal activities is to carry on venture capital and private equity business.

xii Banque Internationale de Crédit (DRC)
Banque Internationale de Crédit (BIC), is a company incorporated in the Democratic Republic of Congo (DRC) on 6th April 1994, following the approval granted by the Central Bank of Congo on September 24, 1993. First Bank Nigeria Limited has a holding of 75% in the equity of BIC.

xiii FBN Securities Limited
FBN Securities Limited was incorporated on 23 July 1991. It is a wholly owned subsidiary of FBN Capital Limited. Its principal activities include stock broking and other financial services.

53 Principal subsidiary undertakings continued

xiv New Villa Limited (Rainbow Town Development Limited)
New Villa Limited is a special purpose vehicle incorporated on 28 November 2008. It is a wholly owned subsidiary of FBN Holdings Plc. Its principal activities include investments and general trading.

54 Disposal of Subsidiary

On 28th December 2012, FBN Limited disposed of 100% of the share capital of its subsidiary - First Registrars. The company contributed profit of N1.5 billion to the Group from 1 Januay 2012 to 28 December 2012 (N986m for prior year)

The details of the assets and liabilities disposed and the disposal consideration are as follows

	N'million
Loans and advances to banks	30,619
Loans and advances to customers	148
Investment	3,001
Inventory	11
Property and equipment	565
Deferred tax asset	81
Other assets	222
Other liabilities	(31,445)
Net Asset	**3,202**
Sale consideration	3,490
Gain on sale	**288**

55 Condensed results of consolidated entities

The condensed results of the consolidated entities of FBN Holdings Plc are shown on the next page.

The FBN Banking group as referenced in the condensed results includes the results of the underlisted entities:

First Bank Nigeria Limited
FBN Bank (UK) Limited
Banque Internationale Du Credit
FBN Mortgages Limited
FBN Pension Fund Custodian Nigeria Limited
FBN Bureau De Change Limited

Others as referenced in the condensed results page includes the results of the undelisted entities:

40th Century Limited
Twin Peaks Limited
Industrial Fund
FBN real Estate Development Fund
FBN Asset Management Limited
FBN Heritage Fund
FBN Capital Partners Limited

56 Compliance with regulations

a A penalty of N 2.1 million was paid by the company for publishing a notice of the court ordered extra-ordinary general meeting in respect of the business restructuring without prior consent from the Securities and exchange commission (SEC) in accordance with section 14(a) of the general undertaking.

56. Condensed results of consolidated entities

31 December 2012	Banking group	Hold co	FBN Capital	Trustees	First Funds	FBN Securities	Microfinance bank	Insurance brokers	FBN life	Rainbow	Others	Total	ADJUSTMENTS	GROUP
	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm	N'm
Condensed Income Statement														
Operating income	280,410	1	3,802	1,599	179	480	1,181	794	1,581	54	8	290,377	7,388	297,765
Operating expenses	(182,329)	(820)	(2,931)	(581)	(244)	(196)	(813)	(578)	(1,155)	(386)	(41)	(190,074)	(1,582)	(191,656)
Provision expense	(12,912)	-	-	-	-	-	(61)	-	-	-	-	(12,973)	159	(12,814)
Profit before tax	85,169	(819)	871	1,018	(65)	284	307	216	426	(332)	(33)	87,329	5,965	**93,295**
Associate	1,008	-	-	-	-	-	-	-	-	-		1,008	(1,602)	(594)
Tax	(14,918)	-	(188)	(895)	(8)	(13)	-	(123)	(54)	-	(1)	(16,200)	(831)	(17,031)
Profit for the year from discontinued operatior	3,838	-	-	-	-	-	-	-	-	-	-	3,550	(3,550)	-
Profit/(loss) for the year	**75,097**	**(819)**	**683**	**123**	**(73)**	**271**	**307**	**93**	**372**	**(332)**	**(34)**	75,687	**(18)**	**75,670**
Condensed Financial Position														
Assets														
Cash and balances with Central Bank	298,024	-	2	0	-	168	62	-	288	1,139	848	300,531	-	300,531
Due from other banks	393,125	-	931	13,353	336	2,239	3,579	929	1,901	-	1,470	417,863	(6,433)	411,429
Loans and advances	1,563,005	-	-	-	-	-	1,508	-	-	-	-	1,564,513	(22,826)	1,541,687
Financial Assets held for Trading (HFT)	2,565	-	19	-	335	-	-	-	-	-	692	3,611	-	3,611
Investment securities	737,952	270,711	37,948	6,715	4,636	10	101	155	2,695	-	4,445	1,065,368	(302,262)	763,105
investment Properties	-	-	-	-	-	-	-	-	-	-	4,833	4,833	(830)	4,003
Inventory	-	-	-	-	-	-	-	-	-	20,086	-	20,086	1,590	21,676
Other assets	33,733	236	1,655	278	300	13	161	237	635	3,092	524	40,864	(864)	40,000
Deferred tax	7,955	-	192	1	-	-	-	53	-	-	-	8,201	-	8,201
Intangible Assets	3,417	-	44	-	-	2	-	1	47	11	-	3,522	-	3,522
Property and equipment	74,454	30	372	36	14	10	261	45	114	50	-	75,386	-	75,386
Assets held for sale	12,978	-	-	-	-	-	-	-	-	-	-	12,978	-	12,978
	3,127,208	**270,977**	**41,162**	**20,383**	**5,621**	**2,442**	**5,672**	**1,420**	**5,680**	**24,378**	**12,812**	**3,517,754**	**(331,626)**	**3,186,128**
Financed by												-		-
Customer deposits	2,405,858	-	-	-	-	529	821	-	-	-	9	2,407,216	(6,357)	2,400,860
Due to other banks	87,551	-	-	-	-	-	1,112	-	-	-	-	88,663	(476)	88,187
Financial liabilities held for trading	1,796	-	-	-	-	-	-	-	-	-	-	1,796	-	1,796
Liabilities on investment contracts	-	-	-	18,331	-	-	-	-	-	-	-	18,331	(6,010)	12,321
Liabilities on insurance contracts	-	-	-	-	-	-	-	-	2,127	-	-	2,127	-	2,127
Borrowed funds	75,541	-	-	6,600	3,494	-	-	-	-	22,910	7,551	116,096	(39,929)	76,168
Tax payable	22,374	-	1,045	38	83	16	-	276	75	10	16	23,934	(706)	23,228
Other liabilities	118,065	1,085	1,541	580	45	461	2,332	363	334	1,459	4,356	130,620	(10,463)	120,158
Retirement benefit obligatons	18,648	-	637	-	1	56	-	37	-	-	2	19,380	-	19,380
Deferred income tax liabilities	6	-	-	5	2	162	47	-	-	-	-	222	-	222
Liabilities held for sale	2,836	-	-	-	-	-	-	-	-	-	-	2,836	-	2,836
Equity and reserves	394,533	269,892	37,939	(5,171)	1,996	1,218	1,360	744	3,144	(1)	879	706,533	(267,687)	438,846
	3,127,208	**270,977**	**41,162**	**20,383**	**5,621**	**2,442**	**5,672**	**1,420**	**5,680**	**24,378**	**12,813**	**3,517,755**	**(331,627)**	**3,186,128**
Condensed cash flows														
Net cash from operating activities	(28,954)	-	(1,564)	(194)	193	(7,062)	196	190	929	(2,885)	24,371			(8,738)
Net cash from financing activities	(53,890)	-	(550)	(26)	-	-	(3)	-	518	3,172	(6,125)			(53,264)
Net cash from investing activities	(5,286)	-	824	306	(1,676)	(10)	(40)	139	435	25	(34)			(5,416)
At year start	708,991	-	2,222	66	1,818	9,479	333	596	2,802	828	18,117			708,991
Movement in cash and cash equivalent	(88,130)	-	(1,290)	86	(1,483)	(7,072)	153	330	1,882	312	18,212			(67,418)
At year end	620,861	-	932	152	334	2,407	486	926	4,684	1,140	36,329			641,573

34. Property, plant and equipment

GROUP	Improvement &buildings N million	Land N million	Motor vehicles N million	Office equipment N million	Computer equipment N million	Furniture, fittings & equipment N million	Plant & machinery N million	Work in progress N million	Total N million
Cost									
At 1 January 2011	28,742	10,702	9,189	27,600	12,222	5,333	22	5,552	99,362
Additions	1,270	2,908	1,937	2,249	1,987	719	2	457	11,529
Reclassifications	(35)		-	(2)	3	37	-	(3)	-
Disposals			(1,100)	(974)	(93)	(459)	-	-	(2,626)
At 31 December 2011	29,977	13,610	10,026	28,873	14,119	5,630	24	6,006	108,265
Accumulated depreciation									
At 1 January 2011	2,745	-	6,024	13,884	9,716	3,342	17	-	35,728
Charge for the year	596	-	1,521	4,547	1,618	689	2	-	8,973
Reclassifications	(27)	-	-	-	-	27	-	-	-
Disposals	-	-	(789)	(971)	(92)	(458)	-	-	(2,310)
At 31 December 2011	3,314	-	6,756	17,460	11,242	3,600	19	-	42,391
Net book amount at 31 December 2011	**26,663**	**13,610**	**3,270**	**11,413**	**2,877**	**2,030**	**5**	**6,006**	**65,874**
Cost									
At 1 January 2012	29,977	13,610	10,026	28,873	14,119	5,630	24	6,006	108,265
Additions	2,420	2,658	3,211	6,295	2,027	1,458	-	594	18,663
Acquisition of new subsidiary	1,545	-	297	575	982	615	-	419	4,433
Reclassifications	1	-	-	-	(14)	-	-	-	(13)
Disposals	(293)	-	(1,917)	(1,387)	(354)	(182)	-	(9)	(4,142)
Write offs	(102)	-	-	-	(84)	(49)	-	-	(235)
Discontinued operations	-	(368)	(171)	(126)	(238)	(38)			(941)
Exchange difference	(2)	-	-	-	-	-	-	-	(2)
At 31 December 2012	33,546	15,900	11,446	34,230	16,438	7,434	24	7,010	126,028
Accumulated depreciation									
At 1 January 2012	3,314	-	6,756	17,460	11,242	3,600	19	-	42,391
Acquisition of new subsidiary	79	-	242	445	640	340	-	-	1,746
Charge for the year	682	-	1,761	4,861	2,019	856	3	-	10,182
Disposals	(95)	-	(1,508)	(942)	(353)	(161)	-	-	(3,059)
Write offs	(101)	-	-	-	(85)	(49)	-	-	(235)
Discontinued operations	-	-	(67)	(92)	(200)	(24)	-	-	(383)
At 31 December 2012	3,879	-	7,184	21,732	13,263	4,562	22	-	50,642
Net book amount at 31 December 2012	**29,667**	**15,900**	**4,262**	**12,498**	**3,175**	**2,872**	**2**	**7,010**	**75,386**
Net book amount at 31 December 2011	**26,663**	**13,610**	**3,270**	**11,413**	**2,877**	**2,030**	**5**	**6,006**	**65,874**

56 Transition to IFRS

Explanation of transition to IFRS

As stated in note 2, these are the Group's first IFRS annual financial statements. The Group has applied IFRS 1 in preparing these financial statements and the accounting policies set out in note 2 have been applied in preparing the consolidated financial statements for the year ended 31 December 2012, the comparative information presented in these financial statements for the year ended 31 December 2011, and in the preparation of an opening IFRS statement of financial position at 1 January 2011 (the date of the Group's transition to IFRS).

In preparing its opening statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with Statements of Accounting Standards issued by the Nigerian Accounting Standards Board ("previous GAAP" or "NGAAP"). An explanation of how the transition from previous GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.
In preparing this financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions from full retrospective application of IFRS. The optional exemptions from full retrospective application selected by the Group are summarised below.

Exceptions from full retrospective application - followed by the Group

The Group applied the following mandatory exceptions from retrospective application:

Derecognition of financial assets and liabilities exception
Financial assets and liabilities derecognised before 1 January 2011 are not re-recognised under IFRS.

Hedge accounting exception
This exception requires the Group to apply hedge accounting only if the hedge relationship meets all the hedge accounting criteria under IAS 39. The Group has not applied hedge accounting under IFRS.

Non-controlling interests exception
From 1 January 2011 total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if it results in the non-controlling interests having a deficit balance.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners) from 1 January 2011.

The guidance contained in IFRS on accounting for the loss of control of a subsidiary is applied prospectively from 1 January 2011.

Classification and measurement of financial assets exception
The assessment of whether the Group's financial assets meet the requirements to be measured at amortised cost, as set out in IAS 39, was performed at 1 January 2011.

Estimates exception
Estimates under IFRS at 1 January 2011 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

Government loan

The requirements of IAS 20 and IAS 39 would be applied prospectively to government loans existing at the date of transition to IFRS. As a result of this, all government loans were carried at their previous GAAP amount with no adjustment for day 1 gain or loss and have been classified as financial liabilities in accordance with IAS 32.

The Group applied the following optional exemptions from retrospective application

Business combinations
The Group has elected to apply the exemption on business combintations. As a result of this election the previous GAAP numbers were carried forward as none of its previous business combinations were restated. Consequently, no additional assets were recognised.

Foreign currency translation
FBN Plc has elected to apply the exemption to set the foreign currency translation reserve in respect of its FBN UK Limited subsidiary to zero. As a result of this exemption, the foreign currency translation reserve in the opening statement of financial position was reclassified to retained earnings.

Explanation of transition to IFRS continued

Investments in subsidiaries, associates and joint ventures
FBN Plc has elected to apply the exemption to retain its previous GAAP numbers as the deemed cost of its investments in subsidiaries, joint ventures and associates in the company stand alone financial statements.

Employee Benefits
The Group has elected to apply the exemption relating to employee benefits by recognising all cumulative actuarial gains and losses at the date of transition to IFRS, and thus set the unrecognised actuarial gains and losses to zero.

Fair value measurement of financial asset or liabilities at initial recognition
The Group has elected to apply the exemption on "day 1" gain or loss recognition requirements per IAS 39 for financial instruments recorded at fair value. As a result of applying this exemption,the Group applies the "day 1" gain or loss recognition requirements in IAS 39 prospectively to transactions entered into after 1 January 2011.

Reconciliation of profit for the year

		31 Dec 2011		
Group	**Note**	**N-GAAP**	**Adjustments**	**IFRS**
Continuing operations				
Interest income	(b),(c),(k)	220,397	(7,422)	212,975
Interest expense	(n)	(36,950)	166	(36,784)
Net interest income		**183,447**	**(7,256)**	**176,191**
Impairment charge for credit losses	(c).	(44,814)	6,803	(38,011)
Net interest income after impairment charge for credit losses		**138,633**	**(453)**	**138,180**
Insurance premium revenue	(b)	-	1,295	1,295
Insurance premium revenue ceded to insurers	(b)	-	(31)	(31)
Net insurance premium revenue		-	1,264	1,264
Net fee and commission income	(b)	61,721	(14,137)	47,584
Net loss from investment securities	(g)	-	670	670
Net gains/(losses) from financial assets at fair value through profit or loss	(g)	-	(996)	(996)
Foreign exchange income		7,549	(52)	7,497
Dividend income	(n)	4,950	(550)	4,400
Loss/Profit on sale of investments	(g)	(2,245)	2,245	-
Other income		3,812	(3,395)	417
Loss on sale of assets to AMCON	(d)	-	(15,501)	(15,501)
Insurance claims		-	(81)	(81)
Other operating expenses	(k),(m)	(147,358)	1,294	(146,064)
Operating profit		**67,062**	**(29,692)**	**37,370**
Exceptional items	(d)	(15,489)	15,489	-
Share of (loss)/Profit of associates	(p)	(1,507)	-	(1,507)
Profit before tax		**50,066**	**(14,203)**	**35,863**
Income tax expense		(5,281)	(11,946)	(17,227)
PROFIT FOR THE YEAR		**44,785**	**(26,149)**	**18,636**
Other comprehensive income				
Foreign currency translation differences		-	606	606
Unrealised net gains on AFS Financial Assets	(g)	-	(38,509)	(38,509)
Actuarial gains/(losses) on retired benefit obligation	(m)		(3,042)	(3,042)
Share of other comprehensive income of associates		-	-	
Tax effect of other comprehensive income			913	913
Other comprehensive income for the period net of income tax		-	(40,032)	(40,032)
Total comprehensive income for the year		**44,785**	**(66,181)**	**(21,395)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

Notes to the reconciliation of equity and profit

Index

a Effective interest rate - Interest payable and receivable
b Effective interest rate - Fee and Commission income
c Impairment - Loss loss provisioning
d Financial statement presentation
e Loans and advances to customers
f Treasury bills
g Financial instrument classification and measurement
h Property Plant and Equipment
i IFRS 1 - Foreign exchange translation reserve
j Inventory
k Employee benefits
l Treasury shares
m Retirement benefit obligation
n Other correctional adjustments
o Deferred tax
p Investment in associates

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

	GROUP	
	31 Dec 2011 'N'million	**1 Jan 2011 'N'million**
Investment securities	8,023	113
Loans and advances to customers	1,370	-
Loans and advances to banks	45,818	482
	55,211	595

In addition interest relating to accrued interest payable was transferred from other liabilities to:

Deposits from customers	3,517	2,495
Deposits from banks	55	66
Borrowings	11,190	1,478
	14,762	4,039

Furthermore, under the previous GAAP the amortised cost is calculated by amortising the unearned discount/premium on a debt instrument to income statement on a straightline basis, whereas under IFRS the unearned discount/premium are recognised as part of the instruments by applying the effective interest rate.The effect of applying the effective interest method resulted in a reclassification of unearned discount/premium from other assets or other liabilities as part of the debt instrument.

	GROUP	
	31 Dec 2011 'N'million	**1 Jan 2011 'N'million**
Investment securities	12,563	(2,270)

(b) The effective interest rate calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate. Under NGAAP interest income and expense are recognised in accordance with terms of the related instrument on an accrual basis and the related fees are earned in one period. The effect of applying the effective interest method resulted in a reclassification of N 7.8 bn for the bank and N 12.4 bn for the group (which represents a reasonable estimate of earned portion) from fees and commission income for the year ended 31 December 2011 (1 January 2011: N0.544bn) to interest income for the income that has been earned. The unearned portion of the fee and commission income of N 4.6 bn is deferred and released as and when due.

Items classified as fees and commissions relating to the group's insurance business under the previous GAAP have been reclassified to report as net insurance premium revenue under IFRS.

Notes to the reconciliation of equity and profit

(c) For the periods presented in this reconcilliation, Interest and similar income on impaired loans and advances to customers suspended under the previous GAAP was recognised under IFRS, resulting in an increase in interest income (retained earnings for 1 January 2011) as follows:

	GROUP	
	31 Dec 2011 'N'million	**1 Jan 2011 'N'million**
Interest in suspense	4,487	24,982

Under previous GAAP loans and advances are measured at cost net of impairment losses. A specific provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. This provision is made for each account that is not performing in accordance with the terms of the Prudential Guideline. Also, a general reserve of at least 1% is made for all performing accounts to recognise losses in respect of risks inherent in any credit portfolio. Under IFRS incurred loss model, an impairment loss can only be recognised if there is objective evidence that a loss has occurred after the initial recognition but before the reporting date.
The difference in the measurement basis of impairment loss between IFRS incurred loss model and the previous GAAP Prudential Guideline (provisions and interest in suspense) resulted in a net transfer of N1.06bn for 31 December 2011 (1 January 2011: N23.54bn). In line with the regulatory requirement, this reduction in impairment loss was transferred from retained earnings to a non distributatble reserve called the Statutory Credit Reserve (Central Bank of Nigeria Prudential Guideline 2011). These amounts relate to the Bank and the Group.

The impairment charge for credit losses under the previous GAAP consisted of impairment of investment securities of N 7.9 bn which has been reclassified to net gains or losses from financial instruments held for trading under IFRS. Written off loan recoveries have also been reclassified from other operating income under the previous GAAP to impairment charge of credit losses under IFRS.

(d) Under the previous GAAP, certain amounts were classified as exceptional items on the face on the income statement. On transitioning to IFRS, these amounts were reclassified as part of (loss)/gain from sale of assets to the Asset Management Company of Nigeria (AMCON) and disclosed on the face of the income statement based on the transaction's nature and materiality.

	GROUP	
	31 Dec 2011 'N'million	**1 Jan 2011 'N'million**
Exceptional items	15,489	226

(e) Advances under finance lease are reported separately in the statement of financial position under Nigerian GAAP. Given the nature of this portfolio, management has reclassified the total balance of N4.697bn at 31 December 2011 (1 January 2011: N8.282bn) from advances under finance lease to Loans and advances to customers.
Under the previous GAAP, foreign currency loans (clean lines) were reported as off balance sheet loans . For the year ended 31 December 2011, a total balance of N11.22bn (1 January 2011: Nil) was reclassified to loans and advances to customers.

(f) Under the previous GAAP treasury bills were separately disclosed as a line item on the face of the statement of financial position as treasury bills and are stated at face value. Treasury bills portfolio has been reclassified into held to maturity and available-for-sale securities and were measured according to IAS 39 classification and measurement basis.

Additionally, an amount of N72.13bn as at 31 Dec 2011 (1 January 2011:N122.01bn) have been reclassified as assets pledged as collateral from investment securities and treasury bills. Under the previous GAAP, this amount was not seperately disclosed as a line item on the face of the statement of financial position.

(g) Under the previous GAAP, investment securities were either classified as short-term or long-term investments. Short-term investments are investments that are held temporarily in place of cash and which can be converted into cash when current financing needs make such conversion desirable. These investments are measured at net realisable value and gain/loss on revaluation is credited/charged to profit or loss during the period. Long-term investments are investments held by management over a long period of time to earn income. This may include debt and equities and carried at cost less impairments.

IFRS requires financial assets to either be classified as loans and receivables, held to maturity, fair value through profit or loss or available for sale. For financial assets measured at fair value (including derivatives), gains and losses are recognised in profit or loss except for classification and measurement basis per investments in equity instruments for which the Group has elected to present gains and losses in other comprehensive income.

Notes to the reconciliation of equity and profit

(h) Under the previous GAAP revaluation was carried out for some items of property plants and equipment (PPE) which resulted in a revalution surplus in reserves. On transitioning to IFRS, the group elected the cost model to account for its items of PPE and the revaluation reserve was reclassified to retained earnings.This resulted in an amount of N2.37bn being transferred from revaluation reserve to retained earnings as at 1 January 2011. No amount existed for subsequent periods.

Under the previous GAAP some items of PPE that are available for use in their present location and condition were recognised as deferred acquisitiion cost in other assets. Under IFRS, items of PPE must be recognised once the item is available for management use.The amount of N8.07bn for 31 Dec 2011 (1 January 2011:N9.64bn) was reclassifed from other assets to form part of PPE. These amounts relate to Group and Bank.

(i) IFRS 1 Adjustments- The foreign currency translation reserve in respect of its subsidiary (FBN UK Limited) was set to zero. As a result of this exemption the opening balance of the foreign currency translation reserve of N2.3b was reclassified to retained earnings as shown in the table below.

	GROUP	
	31 Dec 2011	**1 Jan 2011**
	'N'million	**'N'million**
Foreign currency translation reserves	4,203	3,597
Revaluation reserve	2,379	2,379

(j)

Under IFRS, properties are recognised as inventories when the property is purchased for the specific purpose of resale, constructed for the specific purpose of resale (work in progress under the scope of IAS 18, 'Revenue') or transferred from investment property to inventories. On transition to IFRS, it was discovered that a portion of properties classified within investment properties and other assets met the classification for inventory and have thus been reclassified to inventories. For the periods presented in this reconciliation, the following amounts were reclassified and seperately disclosed as inventories;

	GROUP	
	31 Dec 2011	**1 Jan 2011**
	25,609	23,081
	25,609	23,081

(k) The group provides low interest rate loans to employees. These loans are recorded at amortised cost based on the contractual terms under the previous GAAP. On transitioning to IFRS, these loans were fair valued on initial recognition. The difference between the fair value and the contractual value is included in other assets as a prepaid expense and amortised over the expected repayment period of the loan. The effects are as follows:

	GROUP	
	31 Dec 2011	**1 Jan 2011**
	'N'million	**'N'million**
Net decrease in loans and advances to customers	(2,687)	(1,578)
Net Increase in other assets (prepayment)	3,159	1,863
Net Increase in interest income	886	285
Net movement in employee benefits expense	(1,550)	(7,179)

(l) Under the previous GAAP, some of the entities within the First Bank Group had shares of First Bank Plc as part of their investment portfolio. These are treasury shares under IFRS. Under IFRS, when an entity purchases its own share (either directly or indirectly) , the amount paid for the treasury shares is deducted from equity as treasury shares. The amount of N1.94bn for 31 Dec 2011 (1 January 2011:N27.77bn) was debited to equity as treasury shares.

m) The Group has elected to apply the exemption relating to employee benefits by recognising all cumulative actuarial gains and losses at the date of transition to IFRS, and thus set the unrecognised actuarial gains and losses to zero. IFRS 1 allows entities to recognise all cumulative actuarial gains and losses at the date of transition on the balance sheet. Because the Group has taken the exemption, it has recognize the full net pension asset or liability on its balance sheet at the date of transition to IFRS. The defined benefit obligations were determined using facts and circumstances and appropriate actuarial assumptions at each reporting date. The exemption has been applied to all employee benefit plans within the group.

Notes to the reconciliation of equity and profit

(n) An investment at the group level which qualified as an investment in subsidiary was accounted for leading to an increase in loans and advances to banks (31 December 2011: N 1.74 billion, 1 January 2011 : N 1.97 billion) a reduction of investment securities (31 December 2011: N 801 million, 1 January 2011: N 401 million) and an increase in other liabilities (31 December 2011: N 1 billion; 1 January 2011: N 1.59 billion).

As a result of the transiton to IFRS, liabilities under investment contracts recorded off balance sheet under the previous GAAP have been recognised on balance sheet. (31 December 2011: N 10.3 billion). As at 1 January 2011, liabilities under investment contracts of N 18.9 billion recognised on balance sheet under the previous GAAP have been derecognised as they do not meet the recognition criteria under IFRS leading to a corresponding reduction in the managed funds assets (N 15.4 billion) and investment securities (N 2.64 billion). Managed funds assets of N 21.6 billion and short term investments of N 711 million were also reclassified to loans and advances to banks

(o) The effect of deferred tax on financial instruments per IFRS
(p) The effect of equity accounting for associates per IFRS

Explanation of material adjustments to the consolidated cash flow statements

Under IFRS, only call deposits, tresury bills and other short-term investments that are readily convertible to a known amount of cash and subject to insignificant risks of changes in value due to the short maturities thereof (three months or less from the date of acquisition) are classified as cash and cash equivalents. Under the previous GAAP, all treasury bills are classified as cash and cash equivalents. Under IFRS, only treasury bills with a maturity of three months or less (excluding those pledged as collaterals) are classified as cash and cash equivalents in the consolidated cash flow statements under IFRS.

On transitioning to IFRS, the net effect of IFRS on the cash flow statements are are as follows;

	GROUP	
	31 Dec 2011 'N'million	**1 Jan 2011 'N'million**
Net effect of IFRS on cash and cash equivalents	33,966	-
Net effect of IFRS on cash generated from/used in operations	(99,862)	-

FBN Holdings Plc

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
Note 56. Explanation of transition to IFRSs (continued)

	Note	GROUP 31 December 2011 N-GAAP	Adjustments	IFRS	GROUP 1 January 2011 N-GAAP	Adjustments	IFRS
ASSETS							
Cash and balances with central banks		199,227	0	199,228	75,517	-	75,517
Treasury bills	(f)	187,457	(187,457)	-	23,769	(23,769)	-
Loans and advances to banks	(a), (n)	404,959	57,897	462,856	550,414	2,451	552,865
Loans and advances to customers	(a), (c) (e), (k)	1,235,560	16,902	1,252,462	1,127,900	32,393	1,160,293
Advances under finance leases	(e)	4,697	(4,697)	-	7,581	(7,581)	-
Financial assets held for trading		-	5,964	5,964	-	17,347	17,347
Insurance Assets	(e)	111	(111)	-	-	-	-
Investments	(a), (g), (n)	572,853	(572,853)	-	337,181	(337,181)	-
Investment Securities - Available for sale	(f)	-	356,933	356,933	-	225,470	225,470
Investment Securities -Held to maturity	(f)	-	337,336	337,336	-	31,886	31,886
Pledged assets	(f)	-	72,129	72,129	-	122,009	122,009
Investment in subsidiaries		5,503	(5,503)	-	1,000	(1,000)	-
Managed funds	(n)	21	(21)	-	37,917	(7,388)	30,529
Investment in associates	(g)	8,209	(720)	7,489	9,716	(720)	8,996
Deferred tax asset	(l)	10,617	(3,663)	6,954	5,315	6,959	12,274
Other assets	(a), (h)	141,274	(79,002)	62,272	63,558	(24,043)	39,515
Investment Property		10,708	(6,653)	4,055	10,326	(7,886)	2,440
Inventory	(j)	-	25,609	25,609	-	23,081	23,081
Property, plant and equipment	(h)	57,171	8,703	65,874	53,998	9,636	63,634
Intangible assets		1,006	2	1,008	494	-	494
Total assets		**2,839,373**	**20,795**	**2,860,169**	**2,304,686**	**61,664**	**2,366,350**
LIABILITIES							
Deposits from banks	(a)	181,892	1,608	183,500	148,286	66	148,352
Deposits from customers	(a)	1,947,803	3,517	1,951,321	1,450,095	(2,495)	1,447,600
Borrowings	(a)	93,284	11,189	104,473	124,872	1,478	126,350
Financial liabilities held for trading		-	2,857	2,857		1,639	1,639
Current income tax liabilities		23,844	410	24,254	20,051	1	20,052
Other liabilities	(a), (p)	178,443	(19,672)	158,771	121,026	(633)	120,393
Liability on insurance contracts	(e)	824	1	825	-	-	-
Liability on investment contracts	(e)	39,104	10,336	49,440	95,352	(7,310)	88,042
Deferred income tax liability	(l)	1,067	-	1,067	901	-	901
Retirement Benefit obligations		7,628	7,453	15,081	4,898	6,528	11,426
Total liabilities		**2,473,889**	**17,699**	**2,491,589**	**1,965,481**	**(726)**	**1,964,755**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
Note 57. Explanation of transition to IFRSs (continued)

		GROUP 31 December 2011			GROUP 1 January 2011		
	Note	**N-GAAP**	**Adjustments**	**IFRS**	**N-GAAP**	**Adjustments**	**IFRS**
EQUITY							
Share capital		16,316	-	16,316	16,316	-	16,316
Share premium		254,524	-	254,524	254,524	-	254,524
Retained earnings	(h)	42,322	(735)	41,587	23,540	23,764	47,304
Other reserves				-			-
Statutory reserve		35,804	(3,660)	32,144	28,508	-	28,508
SMEEIS reserve		8,960	(2,884)	6,076	9,193	(2,884)	6,309
Contingency reserve	(h)	13	-	13			-
Revaluation reserve	(i)	2,379	(2,379)	-	2,379	(2,379)	-
Treasury reserve		-	(1,941)	(1,941)	-	(27,767)	(27,767)
Statutory credit reserve	©	-	9,766	9,766	-	28,220	28,220
Foreign currency translation reserve	(i)	4,203	(3,597)	606	3,597	(3,597)	-
AFS reserve		-	8,525	8,525	-	47,033	47,033
					-	-	-
Non-controlling interest		964	-	964	1,148	-	1,148
Total equity		**365,485**	**3,095**	**368,580**	**339,205**	**62,390**	**401,595**
Total equity and liabilities		**2,839,374**	**20,794**	**2,860,169**	**2,304,686**	**61,664**	**2,366,350**
		1	(1)	(0)	0	(0)	0

FBN HOLDINGS PLC

Value Added Statement - Group

Group	31 December 2012 N'million	%	31 December 2011 N'million	%
Gross income	**359,253**		256,803	
Interest expense	**(62,082)**		(36,784)	
	297,171		220,019	
Administrative overheads:				
- Local	**(106,598)**		(80,908)	
- Foreign	**(5,911)**		(1,793)	
Value added	**184,662**	**100**	137,318	100
Distribution				
Employees				
- Salaries and benefits	**68,804**	**37**	53,072	39
Government				
- Taxation	**17,031**	**9**	17,227	13
The future				
- Asset replacement (depreciation)				
- Local	**9,721**	**5**	8,923	6
- Foreign	**461**	**0**	52	0
- Asset replacement (amortisation)				
- Local	**607**	**0**	1,130	1
- Foreign	**68**	**0**	68	0
- Asset replacement (provision for losses)	**12,299**	**7**	38,209	28
- Expansion (transfers to reserves)	**75,670**	**41**	18,637	14
	184,662	**100**	137,318	100

FBN HOLDINGS PLC

Value Added Statement - Company

Company	**31 December 2012 N'million**	%
Gross income	1	
Interest expense	-	
	1	
Administrative overheads:		
- Local	(107)	
- Foreign	-	
Value added	(106)	100
Distribution		
Employees		
- Salaries and benefits	1	0
Government		
- Taxation	-	-
The future		
- Asset replacement (depreciation)		
- Local	-	-
- Foreign	-	-
- Asset replacement (amortisation)		
- Local	-	-
- Foreign	-	-
- Asset replacement (provision for losses)	-	-
- Expansion (transfers to reserves)	(819)	100
	(818)	100

FBN HOLDINGS PLC

FIVE YEAR FINANCIAL SUMMARY - GROUP

STATEMENT OF FINANCIAL POSITION

	As reported under IFRS			*As reported under N-GAAP*	
	31 December 2012 N'million	31 December 2011 N'million	31 December 2010 N'million	31 December 2009 N'million	31 March 2009 N'million
Assets:					
Cash and balances with central bank	**300,531**	199,228	75,517	70,332	140,403
Loans and advancs to banks	**411,429**	462,856	575,467	514,193	764,048
Loans and advances to customers	**1,541,687**	1,252,462	1,160,293	1,072,640	752,166
Financial assets at fair value through profit or loss	**3,611**	5,964	16,636	-	-
Investment securities	**706,675**	694,269	254,708	292,843	214,332
Assets pledged as collateral	**50,109**	72,129	122,009	-	-
Inventory	**21,676**	25,609	23,081	-	-
Managed funds	**-**	-	-	64,630	36,894
Investment in associates	**6,321**	7,489	8,996	13,373	2,884
Investment in subsidiaries	**-**	-	-	-	1,510
Other assets	**40,000**	62,272	39,282	69,286	51,884
Investment property	**4,003**	4,055	2,440	8,466	6,098
Intangible assets	**3,522**	1,008	494	-	-
Property, plant and equipment	**75,386**	65,874	63,634	47,987	39,695
Deferred tax	**8,201**	6,954	12,274	-	-
Assets held for sale	**12,978**	-	-	-	-
	3,186,128	2,860,169	2,354,831	2,153,750	2,009,914
Financed by:					
Share capital	**16,316**	16,316	16,316	14,504	12,432
Share premium	**254,524**	254,524	254,524	254,524	254,524
Reserves	**165,458**	96,776	129,607	41,973	70,449
Non controlling interest	**2,548**	964	1,148	3,081	-
Deposits from banks	**88,187**	183,500	148,352	173,280	170,410
Deposits from customers	**2,400,860**	1,951,321	1,447,600	1,342,704	1,194,455
Financial liabilities held for trading	**1,796**	2,857	1,639	-	-
Liabilities on investment contracts	**12,321**	49,440	76,446	148,224	93,296
Liabilities on insurance contracts	**2,127**	825	-	-	-
Borrowings	**76,168**	104,473	126,350	35,729	35,042
Retirement benefit obligations	**19,380**	15,081	11,426	724	332
Current income tax	**23,228**	24,254	20,052	19,635	11,283
Other liabilities	**120,157**	158,771	120,470	128,760	154,057
Deferred income tax liabilities	**222**	1,067	901	10,612	13,634
Liabilities held for sale	**2,836**	-	-	-	-
	3,186,127	2,860,169	2,354,831	2,173,750	2,009,914

FBN HOLDINGS PLC

FIVE YEAR FINANCIAL SUMMARY - GROUP

INCOME STATEMENT

	As reported under IFRS		*As reported under N-GAAP*		
	12 months ended 31 Dec 2012 N'million	12 months ended 31 Dec 2011 N'million	12 months ended 31 Dec 2010 N'million	9 months ended 31 Dec 2009 N'million	12 months ended 31 Mar 2009 N'million
Gross Earnings	**360,345**	273,811	232,079	193,932	218,287
Net operating income	**298,263**	237,027	178,062	127,662	160,730
Insurance claims	**(498)**	(81)	-	-	-
Operating expenses	**(192,171)**	(146,064)	(119,274)	(77,574)	(90,141)
Group's share of associate's results	**(594)**	(1,507)	(3,657)	114	-
Impairment charge for credit losses	**(12,299)**	(38,011)	(21,590)	(38,174)	(16,790)
(Loss) on sale of assets to AMCON	**-**	(15,501)	-	-	-
Exceptional item	**-**	-	226	-	(26,113)
Profit before taxation	**92,701**	35,863	33,767	12,028	27,686
Taxation	**(17,031)**	(17,227)	(4,590)	(8,406)	(15,117)
Profit for the year	**75,670**	18,636	29,177	3,622	12,569
Profit attributable to:					
Owners of the parent	**75,890**	19,520	27,244	2,612	12,569
Non controlling interest	**(220)**	(884)	1,933	1,010	-
	75,670	18,636	29,177	3,622	12,569
Earnings per share in kobo (basic/diluted)	232	57	89	12	51

FBN HOLDINGS PLC

FIVE YEAR FINANCIAL SUMMARY - COMPANY

STATEMENT OF FINANCIAL POSITION

	31 December 2012 N'million
Assets:	
Cash and balances with central bank	-
Loans and advancs to banks	-
Loans and advances to customers	-
Financial assets at fair value through profit or loss	-
Investment securities	15,771
Assets pledged as collateral	-
Inventory	-
Investment in associates	11,875
Investment in subsidiaries	243,065
Other assets	236
Investment property	-
Intangible assets	-
Property, plant and equipment	30
Deferred tax	-
Assets held for sale	-
	270,977
Financed by:	
Share capital	16,316
Share premium	254,524
Reserves	(947)
Non controlling interest	-
Deposits from banks	-
Deposits from customers	-
Financial liabilities held for trading	-
Liabilities on investment contracts	-
Liabilities on insurance contracts	-
Borrowings	-
Retirement benefit obligations	-
Current income tax	-
Other liabilities	1,084
Deferred income tax liabilities	-
Liabilities held for sale	-
	270,977

FBN HOLDINGS PLC

FIVE YEAR FINANCIAL SUMMARY - GROUP

INCOME STATEMENT

		12 months ended 31 Dec 2012 N'million
Gross Earnings		1
Net operating income		1
Operating expenses		(820)
Profit before taxation		(819)
Taxation		-
Profit for the year	-	(819)
Earnings per share in kobo (basic/diluted)		(0.03)