FBN Holdings

Connected.

FBN Holdings Plc | Annual Report and Accounts 2013

Connected.

Growth through connected solutions

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

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

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

USING THIS INTERACTIVE PDF

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- You can also click on the titles along the top of each page to jump to the start of a section.

The term 'FBN Holdings Plc' or the 'Group' means FBN Holdings together with its subsidiaries. FBN Holdings Plc is a financial holding company incorporated in Nigeria on 14 October 2010. The Company was listed on the Nigerian Stock Exchange under the 'Other Financial Services' sector on 26 November 2012 and has issued and fully paid-up share capital as 32,632,084,345 ordinary shares of 50 kobo each (₦16,316,042,172.50). In this report the abbreviations '₦mn' and '₦bn' represent millions and billions of naira respectively.

FBN Holdings Plc is structured under four business groups, namely: Commercial Banking, Investment Banking and Asset Management, Insurance, and Other Financial Services.

- The Commercial Banking business group comprises First Bank of Nigeria Limited, FBN Bank (UK) Limited, Banque Internationale de Crédit (BIC), First Pension Custodian Nigeria Limited and FBN Mortgages Limited. Others include the International Commercial Banks (ICB) in Ghana, Guinea, The Gambia and Sierra Leone. First Bank of Nigeria Limited is the lead entity of the Commercial Banking business group.
- Investment Banking and Asset Management business group consists of FBN Capital Limited, First Trustees Nigeria Limited, First Funds Limited and FBN Securities Limited. FBN Capital Limited is the lead entity of the Investment Banking and Asset Management business group.
- The Insurance business group comprises FBN Life Assurance Limited (now FBN Insurance Limited) and FBN Insurance Brokers Limited.
- Other Financial Services business group includes FBN Microfinance Bank Limited (FBN MFB).

This report encompasses the FBN Holdings Plc financial report made up of First Bank of Nigeria Limited, FBN Capital Limited, FBN Insurance Limited, FBN Insurance Brokers Limited and FBN MFB, all of which are direct subsidiaries of the holding company.

This report has been prepared under the International Financial Reporting Standards (IFRS), and unless otherwise stated, the income statement analysis compares the 12 months to December 2013 to the corresponding 12 months of 2012, and the balance sheet comparison relates to the corresponding position at 31 December 2012. Unless otherwise stated, all disclosed figures relate to continuing operations. Relevant terms that are used in this document but are not defined under applicable regulatory guidance or International Financial Reporting Standards are explained in the glossary or abbreviation section of this report.

Shareholders will receive a CD containing the annual report and accounts for FBN Holdings Plc, as well as information on outstanding dividend claims and a list of all our branch locations. There will be an option to view a navigable PDF copy of the FBN Holdings report and the First Bank of Nigeria report as well as standard PDFs of other subsidiary reports at the download centre on ir.fbnholdings.com. A CD will be available on request by contacting FBN Holdings Plc Investor Relations department, Samuel Asabia House, 35 Marina Street, Lagos.

IN THIS REPORT

Connected solutions

Creating innovative products and services

Serving over 8.5 million active customer accounts across 11 countries, we have evolved to become one of the leading financial services providers in Africa, by gaining a clear understanding of our clients and designing tailor-made services to meet their needs. We have invested in e-channels and products, which offer greater convenience and improved customer experience, and our state-of-the-art contact centre caters round-the-clock to customer enquiries.

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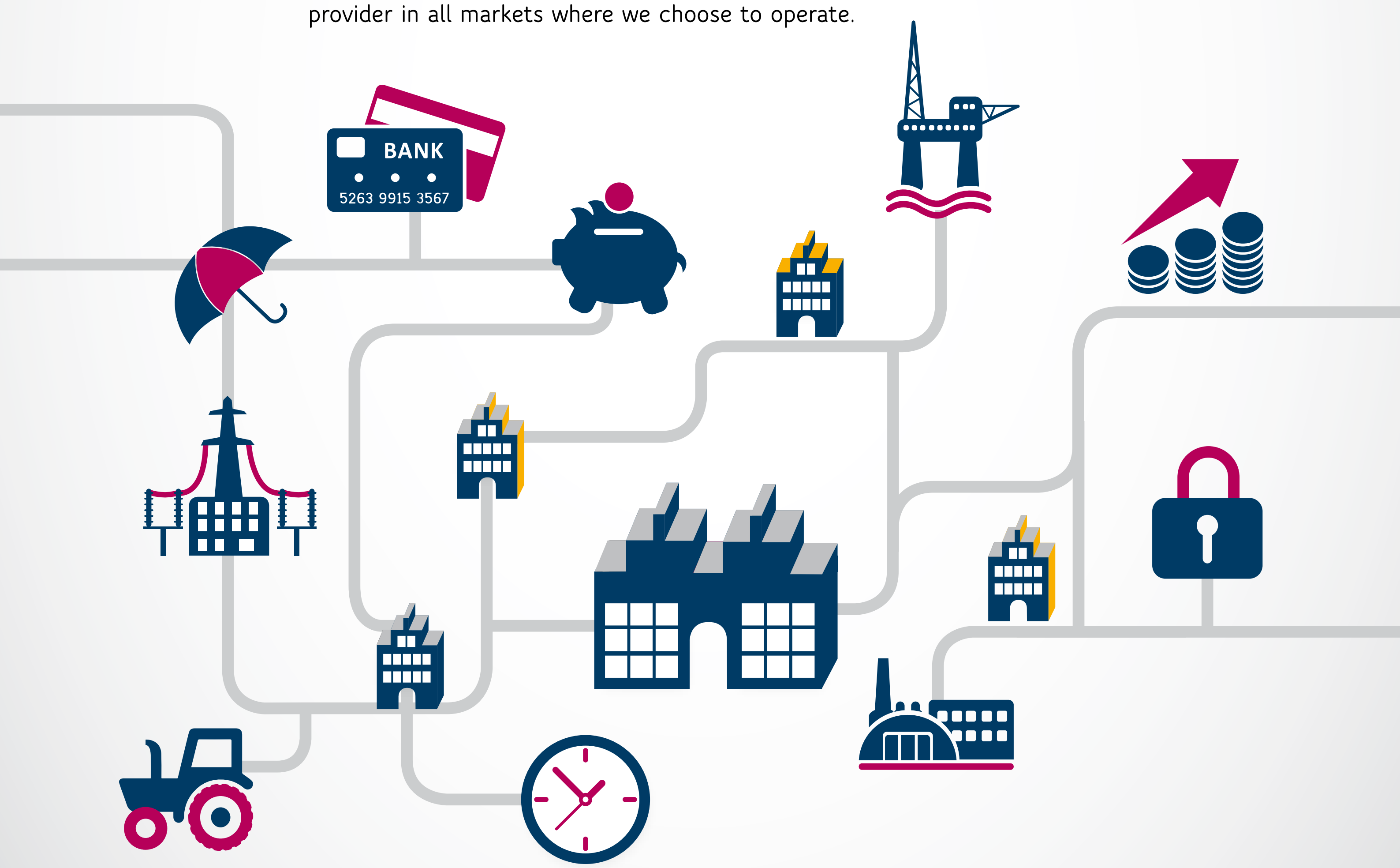
Connected business

An integrated holding company to drive synergies

Led by a highly experienced and reputable management team, the Group's holding company is structured to enable clear management focus and capacity to optimise cross-selling potential. This allows us to benefit from synergies and improve cost efficiency by leveraging shared distribution platforms across the Group as we seek to be the leading financial services provider in all markets where we choose to operate.



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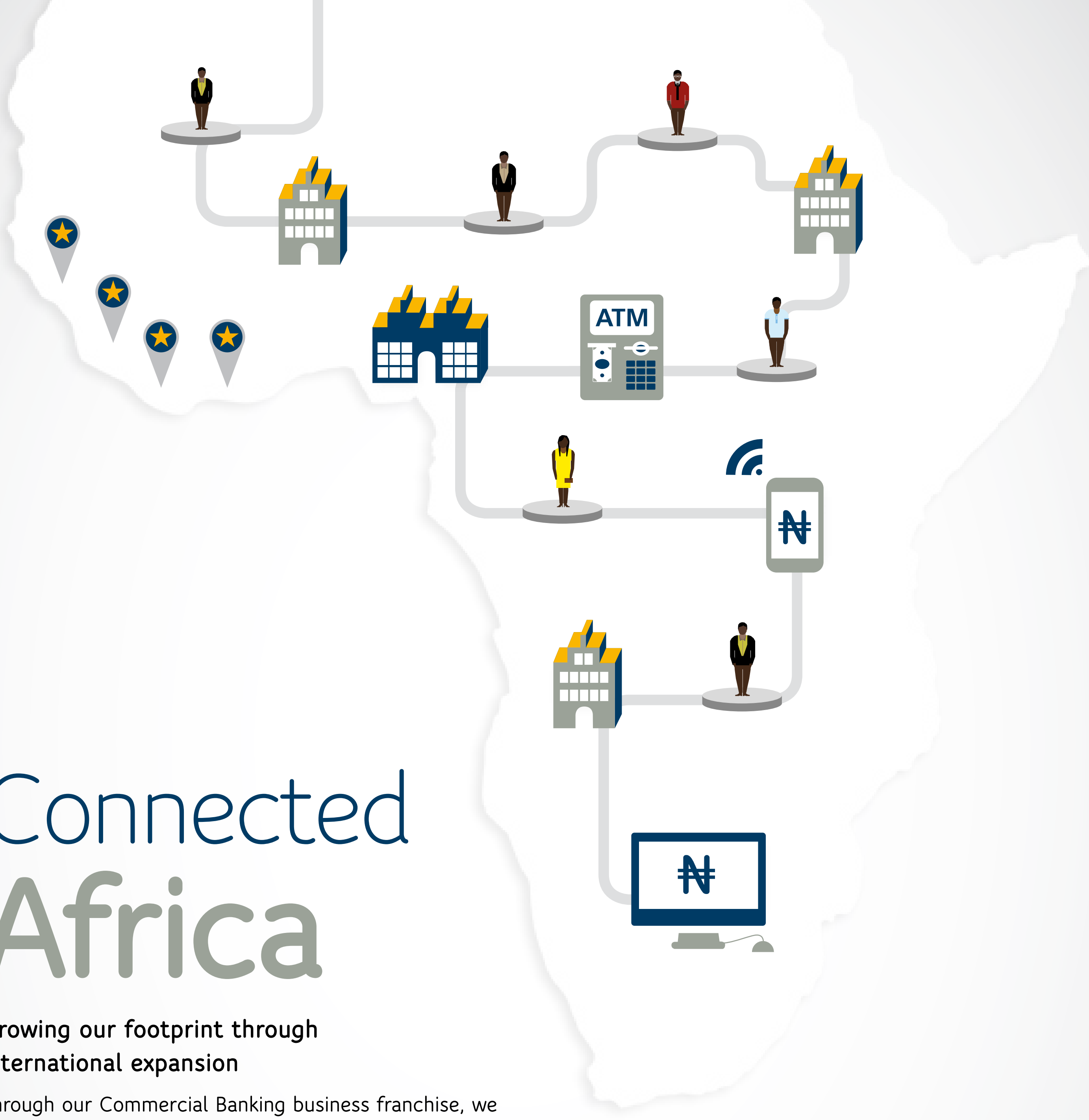

Connected Africa

Growing our footprint through international expansion

Through our Commercial Banking business franchise, we have significantly extended our banking business footprint, particularly across West Africa, with the acquisition of the West African operations of the International Commercial Bank (ICB) in 2013. With this acquisition, we are now providing full banking services in four additional countries – Ghana, Gambia, Guinea and Sierra Leone. In line with our growth strategy, we will continue to upscale our reach in existing and new markets, through organic expansion and targeted acquisitions, helping us to maintain our leading market position. Our unrivalled business network provides our clients with greater choice and flexibility regarding how and where they deliver services.

FIND OUT MORE p23

Connected to stakeholders

A clear strategy and unwavering commitment to stakeholders

In delivering value to our stakeholders, we have a strategy of continuously growing our operations in a controlled and profitable manner as we seek new opportunities across our target markets. Our strategy is delivered through our consistent business model, which enables us to provide effective service solutions for our clients, generate healthy returns for our shareholders and build a sustainable business. We maintain our leadership position across all markets where we operate by providing unique financial services that meet the individual needs of our clients.

FIND OUT MORE p34

GROUP OVERVIEW

We are a well-diversified financial services Group and the largest private sector financial services provider in Sub-Saharan Africa (excluding South Africa). We have leading positions in many of the markets in which we participate, a market leading distribution capability and a well-recognised brand with a large customer base.

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Financial highlights

"We made significant progress integrating our business planning process and harmonising our investment decisions in a way that allowed the entire Group to take full advantage of opportunities in non-banking spaces."

Dr. Oba Otudeko, CFR
Group Chairman

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"Our goal is to enhance the contributions of the non-banking subsidiaries to the Group through synergy extraction and investment in other areas within the financial services landscape."

Bello Maccido
Group Chief Executive Officer

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CORPORATE PROFILE

FBN Holdings (FBNH) is the non-operating holding company of the FirstBank Group. The business groups within FBNH offer a broad range of products and services, including commercial banking, investment banking and asset management, insurance and other financial services to millions of customers, with the bulk of the business in Nigeria.

FBNH's principal bank subsidiary is First Bank of Nigeria Ltd (FirstBank), a commercial bank with operations in 11 countries.

We also have FBN Capital, a leading investment banking and asset management company; FBN Insurance, a life insurance business until March 2014, now a composite insurance company; FBN Insurance Brokers; and FBN MFB, which offers microfinance services. The bank and non-bank subsidiaries of FBNH operate in Nigeria, as well as through overseas branches and subsidiaries and representative offices.

The strategic vision for the Group in 2014-16 is 'to become the pre-eminent financial services group in Middle Africa, providing value to our stakeholders.

9,563 employees

867 business locations and **2,437** ATMs

6.46 million cards in circulation

OUR VISION

Our corporate strategy supports the Group vision of being recognised as the leading Sub-Sahara African financial services group by shareholders, customers, staff and our communities. We are focused on producing long-term, profitable growth by building great franchises and delivering value to all our stakeholders.

8.5 million active customer accounts

₦3.9 trillion Total assets

₦395.9 billion Gross earnings

KEY:
Head office Subsidiary Branch of FBN UK Representative office

LONDON, UK

Subsidiary

Name	FBN Bank (UK) Ltd
Est.	2002
Type	Licensed bank
Total assets	₦536 billion
Total deposits	₦296 billion
Net loan book	₦291 billion
Profit before tax	₦8.0 billion

PARIS, FRANCE

Branch of FBN UK

Name	FBN Bank (UK) Ltd
Est.	2008
Type	Licensed bank (Paris branch office)

WEST AFRICA

Name	ICB (Ghana, Gambia, Guinea, Sierra Leone)
Est.	Ghana – 1996 Gambia – 2004 Guinea – 1996 Sierra Leone – 2004
Type	Licensed bank

LAGOS, NIGERIA

Subsidiary

Name	First Bank of Nigeria Ltd
Est.	1894
Type	Licensed bank
Total assets	₦3.7 trillion
Total deposits	₦2.9 trillion
Net loan book	₦1.8 trillion
Profit before tax	₦87.5 billion

LAGOS, NIGERIA

Head office

Name	FBN Holdings Plc
Est.	2012
Type	Financial holding company
Total assets	₦3.9 trillion
Total deposits	₦2.9 trillion
Net loan book	₦1.8 trillion
Profit before tax	₦91.3 billion

KINSHASA, DRC

Subsidiary

Name	Banque Internationale de Crédit
Est.	1994
Type	Licensed bank
Total assets	₦53.6 billion
Total deposits	₦37.6 billion
Net loan book	₦24.4 billion
Profit before tax	₦1.7 billion

BEIJING, CHINA

Name	First Bank of Nigeria Ltd
Est.	2009
Type	Representative office

ABU DHABI, UNITED ARAB EMIRATES

Name	First Bank of Nigeria Ltd
Est.	2011
Type	Representative office

JOHANNESBURG, SOUTH AFRICA

Name	First Bank of Nigeria Ltd
Est.	2004
Type	Representative office

All loans and deposits are to customers only.

HOW ARE WE STRUCTURED?

In 2012, in response to the Central Bank of Nigeria (CBN) new policy framework, the Group adopted a holding company structure and all non-banking subsidiaries were transferred to the holding company, while the Bank retained the banking businesses and subsidiaries.

OUR GROUP STRUCTURE

FBN Holdings Plc (FBNH)

COMMERCIAL BANKING

- FIRST BANK OF NIGERIA LTD
  - FBN BANK (UK) LTD
  - BANQUE INTERNATIONALE DE CRÉDIT
  - FIRST PENSION CUSTODIAN NIGERIA LTD
  - FBN MORTGAGES LTD
  - ICB GHANA
  - ICB GAMBIA
  - ICB GUINEA
  - ICB SIERRA LEONE

INVESTMENT BANKING AND ASSET MANAGEMENT

- FBN CAPITAL LTD
  - FIRST TRUSTEES NIGERIA LTD
  - FBN CAPITAL ASSET MANAGEMENT LIMITED
  - FBN SECURITIES LTD
  - FIRST FUNDS LTD

INSURANCE

- FBN INSURANCE LIMITED
- FBN INSURANCE BROKERS LTD

OTHER FINANCIAL SERVICES

- FBN MICROFINANCE BANK LTD

REPORTING BY BUSINESS GROUP

FBN Holdings Plc is made up of four business groups (as shown left). In addition to reporting on Group performance we also report on performance under our four business groups (see pages 97-128).

Each business group is represented within the report through its own colour, as shown in the icon above.

The CBN's primary objectives for the banking sector reforms were:

- ensuring the protection of depositor funds by ring-fencing banking from non-banking business;
- redefining the licensing model of banks and minimum requirements to guide operations going forward;
- effectively regulating the business of banks without hindering their growth aspirations; and
- facilitating more effective regulator intervention in public interest entities.

The FirstBank Group aspires to become a diversified global financial services group. We therefore opted to adopt a holding company structure in order to capitalise on potential synergies across the business units. This revised structure was developed to provide a stronger platform to support the Group's ambitions for future growth, both domestically and internationally. It is based on the notion that the optimal legal structure for such a global financial services group is not necessarily the same as the optimal operating structure for managing the business.

FBN Holdings (FBNH) is the Nigerian-based (non-operating) financial holding company for the banking and non-banking operations of the FirstBank Group. The FBN Holdings structure consists of a corporate centre and four business groups responsible for commercial banking; investment banking and asset management; insurance; and microfinance. These entities represent both our banking and non-banking financial services and we strongly believe in their natural synergy and potential for medium- and long-term growth. Meanwhile, the corporate centre acts as a 'strategic architect' and serves to enhance our industry competitiveness while streamlining and coordinating our various operations and further increasing opportunities for effective cooperation between our business groups.

OPERATING STRUCTURE

FBNH oversees four major business groups in financial services sectors we believe have significant growth potential. We have grouped similar businesses in order to improve coordination and specialisation. Under each group is one or more divisions structured around a single client group or limited product area, with clear reporting lines to the heads of the business groups. These groups are:

Commercial Banking – This is our core commercial banking business, providing both individual and corporate clients with financial intermediation functions. In addition, we have two non-banking financial services i.e. a pension fund custodian and a primary mortgage institution. All of our global banking subsidiaries and representative offices also fall under the Commercial Banking business.

Investment Banking & Asset Management (IBAM) – This is the investment-banking arm of the Group providing advisory, asset management, market, and private equity services primarily to an institutional (corporations and governments) clientele.

Insurance – This group includes both our legacy insurance brokerage business and the more recent full underwriting business, FBN Insurance from a Life Assurance business. The underwriting business is performed by FBN Insurance Limited, a partnership with South African-based Sanlam Group.

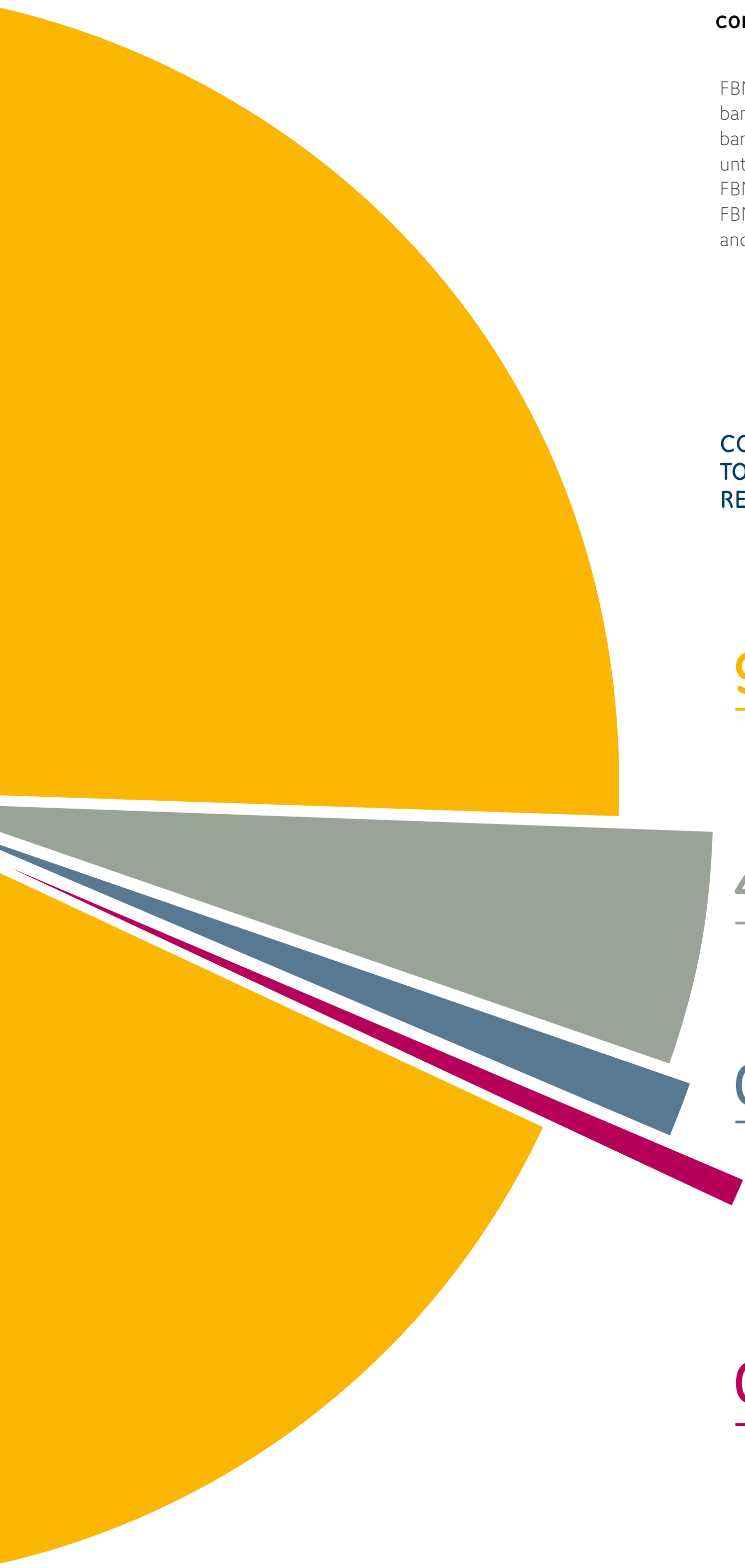
Other Financial Services – Currently serves as a quasi-incubator for our smaller non-banking financial services businesses including a microfinance bank, FBN MFB, which provides microfinance services to the mass-market retail segment.

GOVERNANCE STRUCTURE

FBN Holdings is led by a CEO, whose focus is on developing the long-term Group vision and executing a growth strategy for our businesses, ensuring business groups successfully identify and exploit synergies. The FBNH Board is responsible for top-level strategic/governance issues and oversight for executive management across the groups. Similarly, the executive management of each business group is responsible for strategy development/implementation, and key management and operational decisions that drive business success. Regular meetings are established to ensure adequate tracking and business performance against approved plans and budgets of the Group. A Group Executive Committee (GEC), consisting of the FBNH CEO and the MD/CEOs of the individual business groups, has also been set up to sit between FBNH and the business groups to ensure the right level of operational supervision of the activities of the business groups. FirstBank has envisaged a holdings structure that will evolve in phases over time, with the corporate centre gradually taking greater responsibility for optimising revenue and cost within the Group, facilitating group synergy and alignment and providing centralised services to the various subsidiary businesses.

For further information, see Governance on page 129.

WHAT DO WE DO?



The diverse range of businesses that make up FBN Holdings offer a broad range of products and services, including retail, commercial, corporate/investment banking and insurance.

FBNH's principal subsidiary is First Bank of Nigeria Ltd (FirstBank), a commercial bank with operations in 11 countries. We also have FBN Capital, a leading investment banking and asset management company; FBN Insurance, a life insurance business until March 2014, now a composite insurance company; FBN Insurance Brokers; and FBN MFB, which offers microfinance services. The bank and non-bank subsidiaries of FBNH operate nationally in Nigeria, as well as through overseas branches, subsidiaries and representative offices for the banking business.

CONTRIBUTION TO GROUP NET REVENUE

COMMERCIAL BANKING

93.7%

This is the Group's core business, which provides both individual and corporate clients/customers with financial intermediation services. This business segment includes the Group's local, international and representative offices offering commercial banking services.

INVESTMENT BANKING AND ASSET MANAGEMENT

4.9%

Arranges finance, provides advice, manages funds and sells investment products to clients.

INSURANCE

0.9%

Offers insurance brokerage and composite assurance services to customers.

OTHER FINANCIAL SERVICES

0.5%

This includes the Group's non-operating holding company and other non-banking financial services businesses including a microfinance bank, FBN MFB, which provides microfinance services to the mass-market retail segment.

COMMERCIAL BANKING

FIRST BANK OF NIGERIA LTD
- FBN BANK (UK) LTD
- BANQUE INTERNATIONALE DE CRÉDIT
- FIRST PENSION CUSTODIAN NIGERIA LTD
- FBN MORTGAGES LTD
- ICB GHANA
- ICB GAMBIA
- ICB GUINEA
- ICB SIERRA LEONE

NET REVENUES

₦278.7bn

(2012: ₦280.5bn)

PROFIT BEFORE TAX

₦86.7bn

(2012: ₦84.5bn)

TOTAL CAPITAL ADEQUACY RATIO (CAR)

17.7%[1]

(2012: 19.1%)

NUMBER EMPLOYED

9,062

(2012: 8,611)

PERFORMANCE HIGHLIGHTS

- Notable performance in spite of the significantly negative impact from increased cash reserve requirements as well as changes in banking tariffs.
- Sustained predominantly low-cost deposit funding base, achieving a year-on-year deposit growth of 22%.
- Upgraded core banking application to Finacle 10 from Finacle 7.
- Expanded footprint in Africa by acquisition of West Africa operations of the International Commercial Bank (ICB).

FIND OUT MORE p98

1 These are the capital ratios of the Banking Group. The individual entities within the Group complied with all the externally imposed capital requirements.

INVESTMENT BANKING AND ASSET MANAGEMENT

FBN CAPITAL LTD
- FIRST TRUSTEES NIGERIA LTD
- FBN CAPITAL ASSET MANAGEMENT LIMITED
- FBN SECURITIES LTD
- FIRST FUNDS LTD

NET REVENUES

₦12.3bn

(2012: ₦9.6bn)

PROFIT BEFORE TAX

₦6.8bn

(2012: ₦4.1bn)

ASSET UNDER MANAGEMENT

₦148bn

(2012: ₦90.1bn)

NUMBER EMPLOYED

130

(2012: 124)

PERFORMANCE HIGHLIGHTS

- Continued strategic focus on providing superior advisory services, capital raising and funds management. Key business lines remain Investment Banking Advisory, Asset Management, Trustees, Markets (Debt and Equity), and Private Equity/ Principal Investments.
- Gained strong traction in the Investment Banking and Asset Management business benefiting from reform initiatives in the power and oil and gas sectors.
- FBN Securities ranked #4 (by Value) on the NSE top 10 stockbrokers league table.

FIND OUT MORE p115

The net revenue and profit before tax figures are consolidated numbers after adjusting for inter-group balances.

INSURANCE

FBN INSURANCE LIMITED

FBN INSURANCE BROKERS LTD

NET REVENUES

₦3.5bn

(2012: ₦2.9bn)

PROFIT BEFORE TAX

₦1.1bn

(2012: ₦0.6bn)

LOSS RATIO

15.9%[2]

(2012: 26.4%)

NUMBER EMPLOYED

115

(2012: 109)

PERFORMANCE HIGHLIGHTS

- Maintained steady growth in gross premium to ₦3.9 billion (+34.6%) in spite of the 'no premium, no cover' policy primarily driven by increased business volumes.
- Launched new products (mobile insurance) in partnership with telecommunications companies.
- Acquisition of Oasis Insurance Limited by the Life Insurance business to enable participation in General Insurance business.
- Disciplined underwriting practices, cost optimisation initiatives and improved returns on investments result in improved profitability

FIND OUT MORE p122

OTHER FINANCIAL SERVICES[3]

FBN MICROFINANCE BANK LTD

NET REVENUES

₦1.7bn

(2012: ₦8.0bn)

PROFIT BEFORE TAX

(₦3.2bn)

(2012: ₦4.6bn)

TOTAL CAPITAL ADEQUACY RATIO (CAR)

64%[4]

(2012: 37%)

NUMBER EMPLOYED

256

(2012: 247)

PERFORMANCE HIGHLIGHTS

- Challenging operating environment due to increasing security concerns and regulatory policies.
- Net interest income reduction of 15.4% to ₦803 million impacted by reduced volume in microfinance lending.
- Additional capital of ₦1 billion injected to meet the regulatory minimum from a state to a national licensed microfinance bank .
- Introduction of FirstPay payment solution to make instant interbank transfers.

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2 Relates to FBN Insurance (Computed as Claims expenses/Gross premium income).

3 This includes other non-banking financial service businesses as well as FBN MFB.

4 Capital adequacy relates to the FBN MFB.

COMMERCIAL BANKING

FirstBank is the largest banking group by assets in Sub-Saharan Africa (SSA) (excluding South Africa i.e. 'middle Africa'), offering banking services to a rich network of both individual customers and businesses. First Bank of Nigeria Ltd (FirstBank) represents the main legal entity and previously played an operating holding company function before the implementation of FBNH. Other entities under FirstBank include the following:

- **FBN Bank (UK) Ltd** – a fully licensed FSA bank with a branch office in Paris;
- **Banque Internationale de Crédit (BIC)** – a leading tier 2 bank headquartered in the Democratic Republic of Congo (DRC), which we acquired in 2011 in line with our international expansion strategy;
- **International Commercial Bank (ICB)** – a portfolio of four West African banks (Ghana, Gambia, Guinea and Sierra Leone), which we acquired in the last quarter of 2013 (discussed further on page 94);
- **First Pension Custodian Ltd (FPCNL)** – provides pension fund custody services; and
- **FBN Mortgages Limited** – a primary mortgage institution.

The Nigerian banking business operates nationally and boasts over 8.5 million active customer accounts served through a large distribution network of 760 bank locations for First Bank of Nigeria (627 branches, 64 quick service points (QSP) and 69 cash centre/agencies), 2,437 ATMs and 13,283 point of sale terminals (POS). Headquartered in Lagos, FirstBank also has representative offices in Abu Dhabi, Beijing and Johannesburg, set up to procure business between the respective regions. Marketing activities are organised into six Strategic Business Units (SBUs), allowing greater specialisation and in turn a more valuable customer experience. These SBUs are:

- **Institutional Banking Group (IBG)** – provides corporate finance, treasury services and distributor management for our most sophisticated customer base. IBG customers have an annual turnover of a minimum of ₦10 billion;
- **Corporate Banking Group (CBG)** – serves the middle segment of the Nigerian corporate landscape; predominantly unrated and non-investment grade companies, providing a full range of business banking services to institutions from regional hubs across the nation. CBG serves customers with a turnover of a minimum of ₦5 billion per annum but with key man risks;
- **Commercial Banking Group** – serves mid to lower end corporate customers with a turnover between ₦500 million and ₦5 billion;
- **Retail Banking Group (RBG)** – offers personal banking services to individual retail clients leveraging our wide distribution network. It also serves SME customers (with an annual turnover of up to ₦500 million) and Local Government clients;
- **Private Banking Group (PBG)** – a separate business unit, PBG manages our high net worth individuals (HNIs), offering private banking and wealth management services; and
- **Public Sector Group (PSG)** – caters to our public sector client base, including the federal and state governments, as well as other ministries, departments and agencies (MDAs).

FBN Bank UK – with its London headquarters and a branch office in Paris – offers a full suite of Commercial Banking business services. Its personal services and products are tailored to meet the needs of international business executives, professionals and entrepreneurs, with an in-depth understanding of global markets, whereas its corporate banking business targets companies with a demand for cross-border transactions including trade finance, treasury services and FX-related products. FBN UK also offers a wide range of correspondent banking facilities, covering all major currencies. FBN UK earned a profit before tax of ₦8.0 billion, representing an improved profit performance of 19.5% compared to the same period in 2012. The balance sheet expanded by 2.0% year-on-year, driven by customer deposits generated and retained earnings to support increased lending activities.

BIC is the third largest commercial bank in DRC with revenues of ₦1.7 billion. ICB Ghana, Guinea, Gambia and Sierra Leone are recent additions to the banking portfolio with our acquisition of a 100% equity stake in the four West African banks during the fourth quarter of 2013. First Pension Custodian Limited (FPCNL) provides warehousing and asset management services to licensed pension fund managers and finally, we have FBN Mortgages, a primary mortgage institution.

INVESTMENT BANKING AND ASSET MANAGEMENT (IBAM)

FBN Capital is the Investment Banking and Asset Management business group of FBN Holdings, generating ₦12.3 billion in net revenues. Being a part of Nigeria's strongest and most dependable financial group provides significant financial capacity and access to a strong tradition of governance. IBAM arranges finance, provides advice, manages funds and sells investment products to its clients. Key lines of business include investment banking, markets (sales and trading), asset management, principal investing/private equity and trustee and agency services. IBAM's core value proposition to clients comprises; deep industry expertise and experience, strong knowledge of the local terrain, extensive market contacts and access to strategic resources/partnerships. The business has made significant investments in its operating platform in order to deliver superior products and services to its clients.

INSURANCE

The Insurance business group covers our insurance related subsidiaries i.e. FBN Insurance Brokers and FBN Insurance. Previously, the FirstBank Group held only an insurance brokerage business, but in partnership with South African-based Sanlam, we established a life insurance business that is now a composite insurance company – FBN Insurance. The insurance business group generated a net revenue of ₦3.5 billion and a profit before tax of ₦1.1 billion for the year 2013. A high level of awareness and improved regulatory framework remains a major driver in addition to the success of the bancassurance model, leveraging the retail banking strength of the Commercial Banking business. Going forward, we hope to grow the general insurance business and continue to experience growth in the Individual Life Premium as more distribution channels open and increase the number of agents.

OTHER FINANCIAL SERVICES

Lastly, the Other Financial Services business group. This includes the Group's non-operating holding company and other non-banking financial services businesses including a microfinance bank, FBN MFB, which provides microfinance services to the mass-market retail segment. FBN MFB provides financial services to low income retail customers and it aims to address the challenges of the huge unbanked adult population.

CHAIRMAN'S STATEMENT

"Despite the challenging operating environment...our resilient new system prevailed and largely produced notable results"

INTRODUCTION

On the back of strong recovery in the US, the global economy strengthened in the 12 months to end December 2013. The International Monetary Fund (IMF) estimates global output growth over this 12-month period at 2.9% from 3.2% in 2012.

Although the pace of growth remained uneven across regions and economies, rising job numbers and resumption of growth in the real estate sector signalled the recovery in the US. Contrary to improved performance expectation emanating from the euro area, overall output growth there remained slow throughout 2013. The UK was Europe's star performer, having grown by 1.4% over the review period, although this is still below pre-crisis growth levels.

Emerging markets were last year's main economic underperformers, dragged down by slower than expected growth in China where the authority's attempt at boosting domestic demand as a counterpoint to falling export growth was hampered by rising worries over domestic liquidity. Nonetheless, GDP grew last year in Nigeria by 6.87%, up from 6.58% in 2012.

On the back of these developments, over the past year, we had the opportunity to consolidate the change agenda implemented last year through the adoption of the holding company structure.

Despite the challenging operating environment last year, characterised by the crystallisation of regulatory risk especially in our commercial banking business, our resilient new system prevailed and largely produced notable results.

EXPLOITING NEW SYNERGIES

In my 2012 statement, I had referred to the exploitation of new synergies as the driving force for adopting the holding company business model. Over the past 12 months, we had ample opportunity to drive value from this arrangement by, among other things, leveraging key capabilities and competencies in specialised financial services across the Group. Through cross-selling initiatives, which we deployed group-wide, we were able to bundle our products/services in packages tailor-made to meet particular customer demands. Specifically, our African-based subsidiaries took full advantage of FBN Bank UK's structured trade commodity finance, project finance and infrastructure finance skills.

Significantly, we were able to forge deeper relationships with our customers thanks to measurable increases in the joint mandates between FirstBank and the Investment Banking and Asset Management (IBAM) subsidiary. As reforms to the Nigerian economy continue, our investment banking arm saw business grow, spurred by the divestment of state-owned electricity generation and distribution assets, and reforms in the upstream oil and gas sectors.

We also coordinated the Group's private banking franchise across Nigeria and the UK, while pushing our insurance products across FirstBank's domestic sales network. The recent acquisition of Oasis Insurance by FBN Insurance further reinforces the relationship with Sanlam of South Africa in our drive to grow business in the general insurance segment of the insurance sector.

In addition, specific arrangements are in place between our IBAM and Retail Banking arms to push the operation of our asset management business through the affluent segment of FirstBank's retail banking business. We are also defining the collaboration between FBN Insurance and FirstBank's Retail Banking that will see more bancassurance products sold through the Bank's retail platform.

BUILDING MORE EFFICIENT PROCESSES AROUND SHARED SERVICES

Over the 12 months to December 2013, we made progress putting in place the infrastructure for shared services for FBN Holdings through the Group's Human Resources, and Information Technology (IT) Committees, as well as Marketing and Corporate Communication and Risk Management.

Consequently – with the standardisation of the Bank's Human Capital Management and Development capabilities and Marketing and Corporate Communication expertise – we were able to standardise human resources practices and policies, and the methods of projecting the Group brand across subsidiaries in the review period. Essentially, unified brand identity should strengthen the Group's value proposition across its different markets, and make it easier to cross-sell products/services.

> *Our expanded African footprints position us to leverage profitable growth opportunities in one of the world's fastest-growing regions*

Considerable work is in progress on harmonising the Group's IT infrastructure in a manner that guarantees that all subsidiaries are constantly able to access a world-class support platform that will enhance their service value propositions. Marketing and Corporate Communication has successfully launched a brand refresh programme, by introducing a uniform logo and aligned brand architecture across the Group that retains the iconic elephant in a way that is more appealing to the diverse markets we serve.

STREAMLINING THE GROUP STRUCTURE FOR EFFECTIVE COMPLIANCE

While a leaner and more efficient group structure will benefit the Group's attempts to contain cost while deploying processes that deepen our revenue streams, an equally strong case can be made for the improved ease with which the Group is able to meet its diverse compliance requirements, while supported by more efficient structures.

The Group compliance reporting system has an escalating process that ensures necessary triggers are in place for reports to be prepared and checked, and ensures the reports are routed to the management and board of each business group within the FBN Holdings Group and returns rendered to the appropriate regulatory authorities. This way, we are able to forestall a situation where regulatory concerns are not attended to because they straddle different aspects of our operations.

STRENGTHENING SUBSIDIARY BOARDS' INDEPENDENCE

In the same vein, the Group governance structure has been designed in such a way that each subsidiary board is responsible for day-to-day management of the business, while key decisions on the operation of these businesses are agreed by the FBN Holdings Board. Thus, we are able to take advantage of the principle of 'subsidiarity' and its requirement that business decisions be taken by the smallest, lowest, or least centralised authority capable of addressing matters effectively.

FBN Holdings' Board is, however, responsible within the context of setting guidelines for the subsidiary boards on strategy and general risk tolerance levels, among others. These guidelines preserve the Board's exclusive right to oversee matters pertaining to the allocation and raising of capital.

MEETING BOARD GOALS FROM 2013

As set out in my 2012 statement, the Board of FBN Holdings was committed to pursuing a clear set of goals over the 12 months to December 2013:

INDUSTRY LEADERSHIP

Specifically, in line with our commitment to lead in each business we choose to participate in, we remained the dominant player – in terms of size and top line – in the commercial banking industry.

Progress was made during the year along the entire spectrum of our Investment Banking and Asset Management business, where we retained industry leadership in Corporate and Public Trust, and in the Project and Structured Finance businesses. We improved our position on the stockbroking league tables from 10th position to fifth in the review period. Similarly, we improved our standing in the life assurance market from 15th to sixth, while we remained third in the insurance brokerage space.

GROWING OUR CONTINENTAL FOOTPRINT

As regards our Commercial Banking business, we moved closer to our goal of transforming FBN Holdings into a global brand with the acquisition of the West African banking assets of ICB Financial Group Holdings A.G. (ICBFGH), comprising operations in Ghana, the Gambia, Guinea, and Sierra Leone. This acquisition builds on our existing presence in the Democratic Republic of Congo.

Our expanded African footprints position us to leverage profitable growth opportunities in one of the world's fastest-growing regions. The huge unrealised needs in the region and a succession of reforming governments in key countries mean that the opportunities for growth are strengthened. On the other hand, we are now better able to support our customers' cross-border businesses.

STRENGTHENING OUR GENERATIONAL APPEAL

Over the course of the year, we put in place programmes boosting the Group's brand proposition to the next generation of Nigerians. Inspired by the increasingly early introduction of our youth to entrepreneurial activity, we successfully launched a customer engagement model for this segment of our market. The initial feedback from the engagement model suggests the ranges of products with which we hope to define our engagement within this market segment are becoming more acceptable. To enrich the model further in ensuring its full implementation and achieving the desired outcome, we plan to continue organising series of industry-specific fora and training for SMEs nationwide. Furthermore, we will explore e-commerce portals and e-channel platforms where SMEs and individual entrepreneurs can advertise and sell their goods and services.

DELIGHTING OUR CUSTOMERS

Our service rankings demonstrated consistent improvements across the board. Not surprisingly, we had implemented a series of service quality improvement measures in the same period, in light of which we expect to see further improvements in this matrix going forward.

More detailed reporting on this is available in the Relationships and Responsibility section (see page 57).

POSITIONING FIRSTBANK AS A HUB FOR THE BEST TALENT IN THE INDUSTRY

In 2013, for the third year running, the Group won the award for the 'Best Company to Work for in Nigeria'. Certainly, we are being rewarded for the employee engagement initiatives put in place over the years.

We will continue to invest in our most important and most mobile resource through new learning capacities and job enrichment measures. This will keep us ahead of the curve for human capital management practices in the country.

> *We will continue to invest in our most important and most mobile resource through new learning capacities and job enrichment measures*

DELIVERING HIGH STANDARDS OF INTEGRITY AND ETHICAL CONDUCT

The strong ethics that have supported FirstBank through 120 years are the pillars of FBN Holdings' foundation. Aware of this legacy, the Board ensured that throughout last year, our corporate governance practice stayed ahead of the most exacting statutory requirements with the values upheld while advancing our business practices. These practices not only keep us ahead of the competition, they also ensure the sustainability of our businesses.

We remain committed to pushing the governance envelope across our diverse operations in a way that enables us to set the pace for each market in which we operate. In a bid to achieve accountability to shareholders, we established a Statutory Audit Committee (SAC) in accordance with the Company and Allied Matters Act (CAMA). In addition to being an organisation in the forefront of governance, we were one of the first companies to participate in the pilot stage of the Corporate Governance Rating System (CGRS) promoted by the Nigerian Stock Exchange, which is intended to strengthen good corporate governance practices in the financial industry by publishing a company's level of compliance with governance practices.

BENEFITS OF ADOPTING THE HOLDING COMPANY STRUCTURE

When we adopted the holding company structure, our main aim was to deliver the full spectrum of financial services that are tailor-made to our diverse clientele across the Group. The principal activity of the Company is raising and allocation of capital and resources while developing and coordinating implementation of Group strategies and coordinating group-wide financial reporting to shareholders, managing shareholders, investor and external relations to the Group.

In performing these roles, we were able to achieve full compliance with the CBN guidelines, stay in tune with the Group's vision, align the businesses across the Group, operate a corporate office and protect shareholder value. Our experience with the new structure so far has helped hone our business focus, deepen specialisation and skill sets across the Group, and increase our profit prospects.

We made significant progress integrating our business planning process and harmonising our investment decisions in a way that allowed the entire Group to take full advantage of opportunities in non-banking spaces. As we continue to diversify our profit base through this process, we will remain focused on containing costs and ramping up operational efficiency through targeted centralisation of all functions that lend themselves group-wide.

The end of the first operating year coincided with the conclusion of the last planning cycle for the periods 2011 to 2013. Accordingly, the holding company, working with an internationally reputable firm, articulated a strategic plan programme for the entire Group to cover our next planning cycle starting from 2014 to 2016. The high-level aspirations defined at the Group level, together with specific action plans, are building blocks that will not only sustain our momentum, but raise our leadership position in the evolving marketplace.

Changes to the Group Board and governance required to further fine tune the holding company structure are covered in the section on group governance.

Thank you.

Dr Oba Otudeko, CFR
Group Chairman

FINANCIAL HIGHLIGHTS

	12 months to Dec 2013 ₦ million	12 months to Dec 2012 ₦ million
Major balance sheet items		
Total assets	3,871,001	3,228,384
Gross loans and advances	1,814,177	1,580,701
Deposit liabilities	2,929,081	2,395,148
Share capital	16,316	16,316
Shareholders' funds	471,777	441,315
Major profit and loss account items		
Gross earnings	395,942	370,167
Impairment charge for credit losses	20,309	12,549
Profit before taxation	91,337	93,921
Taxation	20,706	17,120
Profit after taxation	70,631	76,801
Dividend		
Declared	-*	32,632
Information per 50 kobo ordinary share		
Earnings (basic)	₦	₦
Basic	2.16	2.37
Adjusted	2.16	2.37
Net assets	14.53	13.59
Total assets	119.21	99.42
Stock exchange quotation	16.30	15.72
Ratios	%	%
Cost to income	62.5	64.6
Return on average assets	2.0	2.5
Return on average equity	15.5	19.0
Capital adequacy†	17.7	19.1
Number of branches/agencies and subsidiaries	867	790
Number of shares in issue (million)	32,632	32,632

* The directors recommend the approval of a final dividend of ₦1.10 per share, amounting to the sum of ₦35.9 billion.
† Capital adequacy relates to the Banking Group.

NON-FINANCIAL HIGHLIGHTS

In the push to meet our financial targets, the Group embarked on a number of non-financial initiatives in 2013. Members of the Group coordinated to exploit business opportunities so clients across different climes can enjoy the same high-quality services.

Our financial performance reflected the successful implementation of the Group's strong organic growth initiatives, business diversification and improved synergies among members of the Group. It focused on the transformation of our interface with customers, providing industry-leading services across channels, increasing branch network, upgrading IT infrastructure, operations and product offerings.

We improved the interface between market-facing and non-market-facing aspects of our business, revised our products and portfolio pricing, as well as our marketing and branding approach. These initiatives were implemented to ensure we delivered on our non-financial aspirations. We achieved a number of these non-financial targets, with the addition of more than 70 business locations, the upgrade of our core banking IT system to the latest Finacle 10 in 2013 – as well as the continuous re-organisation of our talent management system.

SERVICE DELIVERY AND OPERATIONAL EXCELLENCE

In 2013 we upgraded our core banking solution Finacle from version 7 to version 10 to give our customer a better banking experience. It makes service turnaround time shorter and more pleasant, as well as providing other basic services without hassle. It takes an average of two minutes to generate a new account number, thereby freeing up more time for branch staff.

We commenced expansion of our centralised processing centre (CPC) to cater for more branches as the present CPC has expanded beyond its initial scope; this will reduce processing time and improve cost savings as many of the tasks carried out by the branches will become centralised. We also continued with the upgrade of IT infrastructure, provision of innovative products and services (First Current Business account and First eConnect) through better understanding of our customers. During the year under review, the Commercial Banking business through FirstBank set up the commercial banking strategic business unit (SBU) (formerly known as Emerging Corporate) to enable us cater to the needs of small and medium enterprises (SMEs) as we have increased our market penetration in this space by growing deposits and loans by 72% and 61% respectively, albeit from a low base.

BRAND TRANSFORMATION

In 2013, we refreshed our marketing and branding approach to coincide with the 120th year anniversary of our existence as a financial organisation. As a Group that has invested significantly in its people, processes, technology and touch points, it was essential to refresh our external brand to ensure it currently, depicts the bold changes that have taken place within the Group, which represents the culmination of various investments made over the years to better serve our customers. Consequently, we refreshed our brand icon, addressing the perception of being slow by matching the ambition and aspiration of the Group with a dynamic new logo.

SUCCESSFUL CHANNEL MIGRATION AND INCREASED ADOPTION OF E-PAYMENT SOLUTIONS

We deepened our alternative channels to complement our traditional channels and reduce overall cost per transaction.

In line with this, our new retail internet banking platform, FirstOnline, was launched in November 2013 to customers with additional functionalities and customised solutions.

The number of active retail accounts with electronic cards increased from the previous year's position. FirstBank continues to lead in the number of cards in the Nigerian banking market, with over six million debit cards now in issue.

We also recorded an increase in the adoption of e-payment solutions by corporate and public sector institutions, which helped in driving up transaction volumes.

BUSINESS EXPANSION

Through our Commercial Banking business, we have significantly extended our footprint, particularly across West Africa, with the acquisition of International Commercial Bank (ICB) in December 2013. With this we are now providing full banking services in four additional countries – Ghana, The Gambia, Guinea and Sierra Leone. We have also recently acquired an existing insurance company to enable us to expand our scope to general insurance.

In line with our growth strategy, we will continue to upscale our reach in existing and new markets, through organic expansion and targeted acquisitions, helping us to maintain our leading market position. Our unrivalled business network provides our clients with greater choice and flexibility regarding how and where they deliver services.

The recent acquisition of Oasis insurance company, expanded the insurance portfolio to include the general insurance business, with FBN Insurance (previously FBN Life Assurance) now a composite insurance company. In 2014, we intend to harness the growth opportunities in the insurance sector, driving volumes via Bancassurance and leveraging on our extensive footprint in Nigeria.

BANKING SOFTWARE UPGRADE

The bank upgraded its main banking software to the much improved Finacle 10. The new banking platform provides the opportunity to take full advantage of the improved functionalities and operational capabilities, improve business support & customer service. It has not only improved turn-around time but gives the opportunity to determine customers' needs and offer better services.

Other benefits from the new software include: 24/7 operations from the flexibility of operations; greater reliability/uptime due to improved availability of infrastructure; enhanced product development functionality; multi entity functionality, built around multiple environment, multi-currency with extensive multi-level security; complete view of customer data/information; de-Dupe functionality to guide against duplicated records; enhanced loan module including loan subsidy and loan syndication.

COMMERCIAL BANKING STRATEGIC BUSINESS UNIT

The Emerging corporates sub-SBU previously under Corporate Banking is now a full-fledged commercial banking SBU. This is with a view to carve a niche in the middle market segment of the economy.

The key focus of the Commercial Banking SBU is to create an environment where trade business thrives and establishing the Bank as a leader in the Commercial Banking Business. This will be achieved by driving aggressive customer acquisition and penetration to drive demand deposit growth towards growing the commission and fee based transactions.

MOBILE FINANCIAL SERVICES

Our mobile financial services solution Firstmonie®, targeted at extending banking services to the unbanked and under-banked segments of the market, in addition to enabling existing customers of the Bank to conveniently perform banking transactions from their mobile phones, recorded significantly improved performance and closed the year with c.499,000 customers (Dec 2012: c.28,000). Firstmonie as at the end of the year had registered c.10,000 agents, presenting a viable, reliable and growing network to help grow its customer base, access low-cost deposits without the burden of huge capital investments, and drive float and fee income growth in the medium to long term. The $12 million grant by the Bill and Melinda Gates foundation is focused on agent network building, marketing consulting and other market studies with the aim of ensuring FirstBank exploits the inherent opportunities presented by the mobile money business whilst at the same time driving financial inclusion for the unbanked and under-banked.

FOCUS ON EFFICIENCY

The implementation of cost initiatives such as reduction in deployment of new branches in the current year; maintaining an appropriate staffing structure and work force alignment; optimising procurement and operational spend; branch transformation by making them more sale centres including rationalisation of rural branches and unprofitable locations.

A work approach to enhance branch profitability using cost to income ratio performance was approved for implementation in June 2013. Adopting this approach, branch performance is monitored using monthly cost to income ratio performance. This is to facilitate awareness about cost consciousness and a need for branches to utilise minimum resources in achieving enhanced profit margins. A number of branches which had hitherto recorded cumulative losses have begun to show improvements as a result of this intervention and implementation of recommended actions.

Others initiatives include further automating our activities by migrating more processes and branches to the central processing centre (CPC), leveraging shared distribution platform across the Group.

CHIEF EXECUTIVE OFFICER'S REVIEW

"The contribution of other subsidiaries to the Group financial performance continues to rise and has helped to cushion the impact of the headwinds to the Commercial Banking Business..."

Our distinguished shareholders, ladies and gentlemen, it gives me great pleasure to welcome you to the second Annual General Meeting of your company, FBN Holdings Plc. It is also my pleasure to present to you the financial results of FBN Holdings Plc for the year ended 31 December 2013.

INTRODUCTION

The 2013 financial year was a very challenging one for the commercial banking sub-sector of the Nigerian economy, as a result of a number of regulatory pronouncements by the Central Bank of Nigeria (CBN). These policies have had a significant negative impact on the performance of banks generally, including our flagship, First Bank of Nigeria Limited. In spite of these regulatory headwinds facing the Commercial Banking business of the Group, we continue to remain true to our aspirations to be the leading financial services group in Sub-Saharan Africa (SSA). The contribution of other subsidiaries to the Group financial performance continues to rise and has helped to cushion the impact of the headwinds to the Commercial Banking business, thereby justifying our decision to restructure through the holding company, which led to the birth of FBN Holdings in 2012.

As we look ahead to the future, we will continue to enhance the contribution of the other subsidiaries to the Group through deepening market penetration in each of our business lines, investments in other growing sub-sectors of financial services and driving cross-selling and synergy realisation across the Group, whilst expanding our commercial banking footprints and consolidating our position as the leading commercial banking franchise in SSA.

INDUSTRY REVIEW

The Nigerian financial services sector recorded a mixed performance during the 2013 financial year. The Commercial Banking business sub-sector experienced a difficult operating environment in the year under review, which negatively reflected in the financial performance of the banking sector. Whilst the operating environment has been difficult, particularly with a number of far-reaching regulatory changes such as the huge increase in Cash Reserve Ratio (CRR) on public sector funds from 12% to 50%, increased interest on savings accounts, removal of ATM fees and reduction of Commission on Turnover on banking transactions, FBN Holdings continues to defend its market share while growing its business and expanding its footprints across West Africa. The recent acquisitions in four West African countries will among other objectives diversify the banking portfolio and reduce country-specific risks.

By contrast, the investment banking sub-sector experienced improved growth during the year under review, bolstered by the ongoing reforms in the power sector and divestments of oil and gas assets by International Oil Companies (IOCs). On the capital market front, the Nigerian Stock Exchange (NSE) made an appreciable impact in 2013 compared to 2012 as all market indicators rose with definable gains. All share index closed at 41,329.19 points recording a gain of 47.19%. Our Investment Banking franchise, FBN Capital consolidated its position in the market, particularly the Project and Structured Finance unit closing a healthy number of landmark deals in power, oil and gas and infrastructure. Our financial advisory team also advised a number of consortia bidding for the assets of the Niger Delta Power Holding Company in the ongoing privatisation of the power assets of the Federal Government of Nigeria.

Like the commercial banking terrain, the insurance sector also experienced major changes in the year, as the industry started to witness the positive impact of the 'no premium, no cover' policy of the Nigerian Insurance Commission in line with Section 50 of the Insurance Act, 2003. This policy, which was introduced in January 2013 has strengthened the liquidity position of the insurance industry, thereby enhancing the ability of underwriters to meet their financial obligations including claim settlements. FBN Insurance Limited continues to leverage its relationship with Sanlam of South Africa and the retail chain of FirstBank to deepen its market reach. Furthermore, the recent acquisition of Oasis Insurance will create a speedy in-road into the general insurance segment of the insurance sector.

Our Investment Banking franchise consolidated its position in the market closing a healthy number of landmark deals in power, oil and gas and infrastructure

During the year, FBN Holdings injected additional capital of ₦1 billion into the microfinance business, which brought the paid-up capital to ₦2 billion, in compliance with the revised regulatory minimum paid-up capital of ₦2 billion for microfinance banks with national licences. The increased financial capacity of our Microfinance Bank will enhance its ability to compete for the hugely untapped 'unbanked' informal sector of the Nigerian economy in line with the promoted financial inclusion project of the CBN.

PERFORMANCE REVIEW

The 2013 financial year marks the end of our three-year strategic planning cycle, which started in 2011. At FBN Holdings, we remain committed to our vision of becoming the dominant financial services group in Sub-Saharan Africa. While the Commercial Banking business remains the flagship business of the Group, we are resolute in our aspiration to enhance the contributions of the non-banking subsidiaries to the Group through synergy extraction and investment in other areas within the financial services landscape where we see growth opportunities.

+19%

growth in Commercial Banking assets in 2013

In spite of the difficult regulatory environment under which the Commercial Banking business operated in 2013, impacting fee-based income as a result of new regulatory policies, it was able to maintain its prior year's performance. Specifically, the Commercial Banking business witnessed an 8.9% growth in gross earnings from ₦341.96 billion in 2012 to ₦372.56 billion in 2013, while profit before tax remained flat at ₦87.46 billion from ₦87.14 billion in 2012. During the period, the Commercial Banking assets grew by 19.8% from ₦3.13 trillion in 2012 to ₦3.75 trillion in 2013, while customers' deposits grew to ₦2.94 trillion in 2013 from ₦2.41 trillion, representing a growth of 22.4% year-on-year.

The tough operating environment notwithstanding, the consolidated results for the Group overall showed marginal growth across all the key indices buoyed by the improving performance of our non-banking subsidiaries. Net interest income grew by 1.5% from ₦226.61 billion in 2012 to ₦230.12 billion in 2013. However, profit before tax declined slightly by 2.8% from ₦93.9 billion in 2012 to ₦91.34 billion in 2013.

With the recent acquisition of ICB banks across four West African countries, the acquisition of Oasis Insurance and our ongoing effort to strengthen the Investment Banking and Asset Management business group through the acquisition of a merchant banking licence, we are convinced that the Group is in line to deliver on its promises to its various stakeholders, particularly, the shareholders of FBN Holdings.

OUTLOOK

The outlook for the financial services sector in SSA remains promising, driven largely by strong investment demand, despite the fear of portfolio flows out of most emerging and frontier markets, including SSA due to the impact of the tapering of the quantitative easing programme of the US Federal Reserve. Nigeria is expected to experience reduced impact of Federal Reserve tapering considering its relatively strong public and external finances compared to other regional economies. Nigeria's macroeconomic appeal will however be impacted by expected fiscal laxity in the run-up to the election year and uncertainty about monetary policy post the current CBN Governor's tenure, factors that could exert pressure on Naira exchange rate.

In spite of the strong regulatory headwinds impacting our Commercial Banking Business, the FirstBank Group continues to strengthen its dominance in the market by driving transaction volumes, regional expansion of its Commercial Banking franchise and diversification into other growing segments of the wider financial services sector. The Group recently announced the acquisition of ICB Banks in Ghana, The Gambia, Guinea and Sierra Leone. This acquisition provides the opportunity to extend our franchise and raise the Group's profile beyond our current borders, provides new growth options, expands our geographic earnings profile and reduces country-specific risks. As a result of this transaction, the Group will consolidate its position as a leading financial institution in SSA.

Our Investment Banking business continues to increase its contribution to the Group portfolio on the back of its growing transactions driven by the ongoing reforms in the Nigerian power sector and increased activities in the oil and gas sector, which have resulted in opportunities for project financing for power sector capital expenditure, core-investor refinancing and IOC divestments. All of these have reinforced that our decision to reorganise our businesses through the holding company structure is a good strategic decision.

The insurance industry continues to experience a positive outlook, driven by enhanced levels of insecurity in the country, as well as the development of new Telco-based products that are significantly impacting the penetration of insurance in Nigeria. The FirstBank Group has enhanced its insurance portfolio with the recently concluded acquisition of Oasis Insurance Plc. This acquisition allows our insurance flagship company, FBN Insurance (previously FBN Life), to play in the general segment of the insurance market, which represents about 85% of the total insurance market. This development is expected to significantly increase our Group's overall share of the insurance market. Similarly, efforts are ongoing to roll-out bancassurance products leveraging over 760 bank branches, QSPs and cash centres/agencies across Nigeria.

Our Microfinance business's recent upgrade to National Licensed Microfinance Bank will further enhance its competitiveness and allow the business to tap into opportunities created by the financial inclusion strategy of the CBN, which recommends, among others, an increase in the share of microfinance credit as a percentage of total credit extended to the private sector, increased participation of state and local government credit schemes, as well as improvements in the accessibility and participation of women in microfinance schemes.

Finally, we have begun to drive the process of greater group coordination, such that the holding company enhances cross-selling opportunities and synergy realisation across the members of the Group. Today, between Investment Banking and the Retail Banking SBU, there is a Memorandum of Understanding that defines how our Asset Management business will be pushed through the affluent segment of the retail banking business of FirstBank. Likewise, between FBN Insurance and the Retail Banking SBU, an agreement to push four Bancassurance products through FirstBank's retail platform has already been incorporated in FirstBank's scorecard.

4

Bancassurance products being pushed through the retail banking business

As we steadily progress in our journey under the holding company arrangement, we expect to drive growth in each of our business lines, in a way that will enhance the aggregate performance of the Group. This will be complemented by reinforcing the pre-eminence of our Commercial Banking franchise, while driving the level of contribution from each of the non-banking subsidiaries.

Thank you and God bless you.

Bello Maccido
Group Chief Executive Officer

RECOGNITION OF OUR PERFORMANCE

THE 2013 SECTORAL LEADERSHIP AWARD IN THE FINANCIAL SERVICES

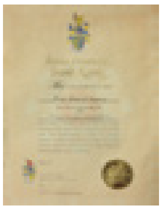
PEARL AWARDS

FBN Holdings Plc emerged as the winner of the prestigious Sectoral Leadership Award (Financial Services – Other Financial Institutions) in the 2013 Pearl Awards, in recognition of its outstanding operational and stock market performance.

BEST BANK IN WEST AFRICA

THE *AFRICAN BANKER* MAGAZINE

FirstBank won the Best Bank in West Africa, awarded by the *African Banker* magazine in recognition of its industry leadership; strong financial performance and quality of service across the West African region.



THE BEST BANK BRAND IN NIGERIA

***THE BANKER* MAGAZINE**

FirstBank has been named 'The Best Bank Brand in Nigeria' three times in a row – 2011, 2012, and 2013 by the globally recognised *The Banker* Magazine of the Financial Times Group. The Bank has achieved this feat in recognition of its steady transformation and increased brand value through the years

Euromoney Best Bank in Nigeria Award

BEST BANK IN NIGERIA

EUROMONEY AWARDS FOR EXCELLENCE

The Bank was awarded the Euromoney Best Bank in Nigeria Award in recognition of its leadership, innovation and momentum in the Nigerian Market.

BEST BANK IN NIGERIA

GLOBAL FINANCE AWARDS

FirstBank has been the winner of the 'Best Bank in Nigeria', awarded by Global Finance for the past nine consecutive years in recognition of the Bank's consistent leadership in innovative banking in Nigeria.

BEST FOREIGN EXCHANGE SERVICES IN AFRICA

EMEA FINANCE TREASURY SERVICES AWARDS

FirstBank clinched the Best Foreign Exchange Services in Africa Award in recognition of its market share, growth, innovation and corporate strategy in Foreign Exchange Services.

BEST BANK IN NIGERIA

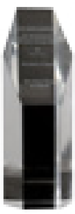
EMEA FINANCE AFRICAN BANKING AWARDS

The Bank clinched the award for the fourth time in recognition of its consistent and outstanding performance in generating revenue and profit growth over the past several years.

BEST COMPANY IN INFRASTRUCTURE

SOCIAL ENTERPRISE RESPONSIBILITY AWARDS

The Bank won the SERA Awards in recognition of its efforts at complementing the Government in the development and advancement of education nationwide by providing the much-needed infrastructure in universities spread across Nigeria.



THE BEST RETAIL BANK IN NIGERIA

THE ASIAN BANKER INTERNATIONAL EXCELLENCE IN RETAIL FINANCIAL SERVICES AWARDS

FirstBank was reaffirmed 'Best Retail Bank in Nigeria' for the second consecutive year by the Asian Banker. This award was earned based on the Bank's robust portfolio and exceptional performance in Nigeria's retail market.

THE BEST IN E-BANKING AWARD

NIGERIA TELECOM AWARDS

The 'Best in E-Banking' award was awarded to the Bank in recognition of its leadership in the growth and development of electronic payment solutions in Nigeria.

TELECOM FINANCING BANK OF THE YEAR AWARD

NIGERIA TELECOM AWARDS

The Bank clinched the Telecom Financing Bank of the Year Award in recognition of its contributions to the development of the Telecoms industry in Nigeria.

MOST COMPLIANT ADVERTISER IN THE FINANCIAL INSTITUTION CATEGORY

APCON ADVERTISING BEST PRACTICE AWARDS

The Bank was awarded the Most Compliant Advertiser in the Financial Services Industry in recognition of its strict adherence to regulatory policies in the advertising industry.

MOST RELIABLE BANK OF THE YEAR

HALL OF GRACE AWARDS

FirstBank was awarded the Most Reliable Bank of the Year in recognition of its various contributions to the banking industry in Nigeria.

FINANCIAL BRAND OF THE YEAR

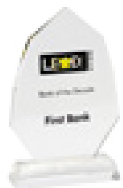
MARKETING WORLD AWARDS

The Bank won this award in recognition of its leadership in the provision of innovative products and services in the Financial Services Sector.

THE BEST COMPANY TO WORK FOR IN NIGERIA AND THE MOST INNOVATIVE HUMAN RESOURCE STRUCTURE IN NIGERIA

GREAT PLACE TO WORK AWARDS

The Bank won these awards in recognition of its outstanding and innovative Human Resource practices and policies that make FirstBank an outstanding institution to work with.



BEST BANK OF THE DECADE

LEAD AFRICA AWARDS

FirstBank was awarded the Bank of the Decade in recognition of its consistency and uncompromising standards in the delivery of cutting edge banking services that have impacted on enterprise development in Africa for over a decade.

MOST INNOVATIVE AFRICA INVESTOR SRI 50 COMPANY

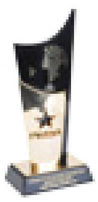
AI INDEX SERIES AWARDS

The Bank won the award in recognition of its commitment to sustainable development and innovative achievements in the banking industry.

MOST DEDICATED AND SUPPORTIVE ORGANISATION FOR THE DEVELOPMENT OF INFORMATION MANAGEMENT IN AFRICA

RECORDS AND INFORMATION MANAGEMENT AWARD

The award was given to the Bank in recognition of its strides and achievements in the Information Security Sector.



BANK OF THE YEAR

ELITE BUSINESS AFRICA NETWORKS

FirstBank was awarded the Bank of the Year at the Elite Business Awards in recognition of its corporate character and increased shareholder returns in 2013.

MOST TRUSTED BRAND IN NIGERIA FOR 2013

BRANDHEALTH

This award reinforces FirstBank reliability and dependability in the provision of innovative financial services.

WINNER OF THE 2013 HR BEST PRACTICE AWARDS

CHARTERED INSTITUTE OF PERSONNEL MANAGEMENT

The CIPM Award was presented to the Bank as the Over All Best Winner in recognition of the Bank's exceptional Human Resource policies.

WINNER OF THE BANKING & INSURANCE CATEGORY IN THE 2013 HR BEST PRACTICE AWARDS

CHARTERED INSTITUTE OF PERSONNEL MANAGEMENT

The CIPM Award was presented to the Bank for Best Practice in the Banking & Insurance Sector in recognition of the Bank's exceptional Human Resource policies and innovations in the banking industry.

THE BEST PRIMARY MORTGAGE INSTITUTION (PMI) IN NIGERIA IN 2013

LUXURY LIVING AFRICA

FBN Mortgages Limited was awarded The Best Primary Mortgage Institution in Nigeria in recognition of its astonishing impact in the Nigerian Real Estate industry.

BEST LOCAL TRADE FINANCE BANK IN WEST AFRICA 2013

GLOBAL TRADE REVIEW

FBN Bank (UK) Limited has been awarded the Best Local Trade Finance Bank in West Africa for five consecutive years (2009-2013). This award was given in recognition of the Bank's trade finance activities in West Africa, which include its growing Structured Trade Commodity Finance presence.

AFRICAN EXPORT-IMPORT BANK FINANCIAL INSTITUTIONS' AWARD (GOLD CATEGORY) 2013

AFRICAN EXPORT-IMPORT BANK

This award was given to FBN Bank (UK) Limited in recognition of its exceptional contributions to meeting the mandate and corporate goals of the The African Export-Import Bank.

BEST INVESTMENT BANK 2013

***GLOBAL FINANCE* MAGAZINE**

In 2013, FBN Capital was named Best Investment Bank in Nigeria for the second consecutive year by *Global Finance* magazine. The Group was recognised for participating/leading several debt capital market and project financings – a major achievement amongst others recorded in the same year.

BEST INVESTMENT BANK 2013

WORLD FINANCE BANKING AWARDS

FBN Capital Limited is recognised as part of one of the most reputable financial groups in Africa, and has become a key player in the local market. The Investment Bank's leadership position has evolved as the investment landscape in Nigeria progresses and customers' needs become more sophisticated.

BEST LOCAL INVESTMENT BANK

EMEAFINANCE AFRICAN BANKING AWARDS

FBN Capital is recognised as the Best Local Investment Bank in Nigeria. The award is in recognition of the Group's commitment to giving clients the most innovative ideas, while demonstrating unrivalled market expertise and reliable business values.

THE RISING STAR AWARD

SANLAM EMERGING MARKETS

FBN Insurance was named winner of the Rising Star award after emerging top amongst the Sanlam Group investments across 11 other countries, including India and East Africa. This is groundbreaking history as it takes majority of insurance companies five years to break even and record profit.

OUR APPROACH

Our approach is central to building a stronger bank and to the sustainability of the Group in the long-term. Key to our aspiration is to ensure a well-diversified financial services group with a strong balance sheet and ability to effectively manage risk.

"From a sectoral perspective, we expect funding gaps across the power sector, oil and gas, financial services, real estate and infrastructure financing needs to drive transactions."

How is our marketplace evolving?

p32

"Our business model shows 'how' our strategic initiatives 'are' implemented to generate revenue and sustain a profitable business operation."

How do we generate long-term value?

p39

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What makes our business model sustainable?

HOW IS OUR MARKETPLACE EVOLVING?

OPERATING ENVIRONMENT

The global economy showed strong signs of a recovery over the 12 months to end-December 2013. The International Monetary Fund (IMF) estimates at 2.9% from 3.2% in 2012. As was the case at the height of the Great Recession, the pace of recovery towards the end of 2013 was uneven.

Signs of a recovery were strongest in the United States of America, where rising job numbers (unemployment closed 2013 at 6.7%) and a recovering properties sector fed into better output figures (gross domestic product (GDP) is expected to have risen by 1.6%). This persuaded the Federal Reserve Bank to announce the planned commencement of the rollback of its quantitative easing programme by the first quarter in 2014.

The euro zone's problems appeared to have bottomed out, with the spreads on government debt for countries at the periphery continuing to narrow. Still, overall GDP growth in the area remained tepid (-0.4%) all through 2013. With output estimated to have grown by 1.4%, the United Kingdom was the star economy in Europe last year.

Emerging markets were last year's main economic laggards. As the prospect of rising bond yields in the developed markets (in response to better economic data in those economies) threatened a reversal of capital flows, concerns were voiced over the depth of additional reforms needed to drive sustainable growth in developing markets.

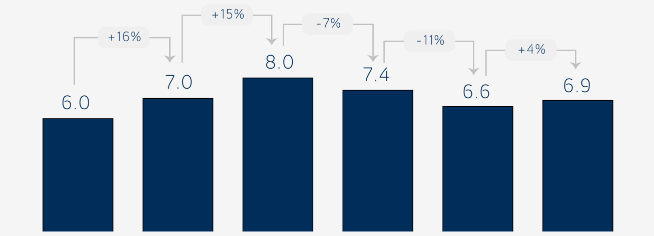
Efforts by the authorities in China to drive domestic demand were thwarted by rising worries over domestic liquidity. Efforts by the Peoples' Bank of China to manage this liquidity further threatened general output performance. GDP growth still closed 2013 at a healthy 7%.

Domestic issues were a bigger concern in South Africa. Growing unemployment, a stronger rand and a fall in investment in new capacity all helped to drive down the competitiveness of the economy. The Congolese economy remained one of the fastest growing on the continent last year, with output estimated to have grown by 8.2% (from 7.2% in 2012).

Overall, output grew last year at 6.87%, up from 6.58% in 2012. Agriculture was the main growth driver, supported by telecommunications and the wholesale and retail trade sectors. Despite global conditions for crude oil sales remaining flat, the oil and gas sector's contribution to GDP dropped throughout last year. Less accommodative monetary conditions kept inflation within the single digit range last year and the exchange rate of the naira within the Central Bank of Nigeria's (CBN) pre-defined band.

As a result, the consumer price index closed December 2013 at 8.0% from 12.0% in 2012; while the naira exchange rate (at the official market) closed December 2013 at ₦157.26/USD1, having opened the year at ₦157.33/USD1 (including 1% commission).

GDP growth (%, 2008-2013)



Source: NBS, NSE

TRADING CONDITIONS WITHIN OUR INDUSTRY

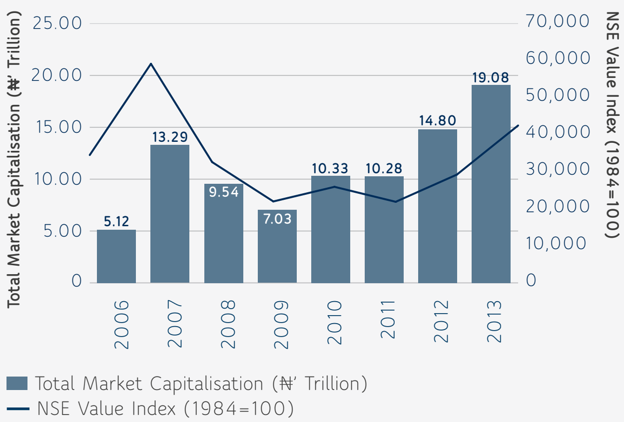
Our representative offices and UK operations were respectively affected by the vicissitudes of the recent global economic recovery. While conditions improved in Europe, there were worries for China, especially as the regulatory authorities there appeared less disposed to the build-up of bubbles in the financial services sector.

Despite the political difficulties in the region, our UAE office did not have to contend with volatilities in its industry. On the back of continuing trade links between Nigeria and the host economy, our South African representative office continued to do well even though there were worries over the strong headwinds confronting the larger economy there.

In spite of general liquidity worries, the Nigerian bond and capital markets turned in positive results in 2013, which fed through to our investment and capital market business. The All Share Index was up 47.19% in the year to December 2013 and the market capitalisation stood at ₦13 trillion.

Despite recent reforms, the insurance industry in Nigeria remained soft. Cultural issues and enforcement lapses have continued to hold back the take-off of an industry with huge unrealised business potentials. The industry remained broker-dominated, as the latter segment accounted for 70% of all premiums last year.

NSE Market Capitalisation and All Share Index, (2006-2013)



1. REGULATORY TRENDS

The most far-reaching change to our regulatory universe occurred in the UK, when, effective from 1 April 2013, the Financial Service Authority (FSA) created three new regulatory bodies. This new regulatory architecture aims to more precisely focus on financial sector supervision and protect consumers in the world's leading financial centre. On the whole, the UK's regulatory environment last year was a challenging one. Regulations designed in the aftermath of the 2012 London Interbank Offered Rate (LIBOR) continue to impose compliance costs on our operations.

The monetary authority in the Democratic Republic of the Congo (DRC) significantly cut the policy rate, reduced the reserve requirement and moved toward de-dollarisation of the economy in response to concerns over volatile prices and a need to grow domestic savings and consumption. While we expect our operation in the DRC to profit from these initiatives, it is not yet clear on the likely knock-on effects of the plans by the Congolese central bank to introduce discrimination coefficient for deposits in the Congolese Franc (CDF) relative to those in foreign currencies.

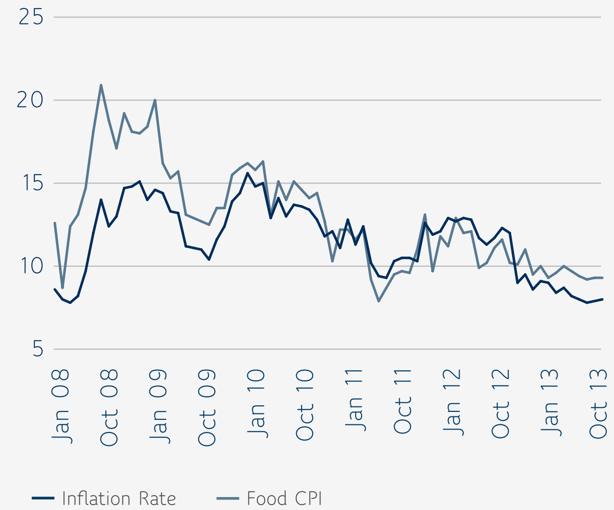
In Nigeria, the Pension Commission continued to push through reforms that will enhance participation in the pension scheme, broaden investment outlay for players and ensure stricter compliance with the pension act.

Concerned with elevated levels of liquidity in the economy, the CBN tightened monetary conditions in the review period. Although, the monetary policy rate (MPR) remained unchanged during the year, at 12%, and with inflation in single digit territory all year round, it was sufficiently high to help constrain growth in money supply. Consequently, broad money fell by 4.82% to ₦14.74 trillion at year-end.

The policy environment was further tightened when the CBN raised the cash reserve requirement for public sector deposits from 50% to 75% in the January 2014. While this had a negative effect on FirstBank's cost of funds, additional measures by the regulatory authorities, including a reduction in commission on turnover and removal of ATM-related charges, combined to compress the Bank's net interest margin.

In response to these pressure points, the Bank focused on growing its share of domestic financial transactions by managing key clients' value chains.

Inflation rate vs. food CPI (%, Jan 2008 – Dec. 2013)



Source: NBS

2. OUTLOOK FOR THE GROUP

On the current economic and industry regulations trajectory, we expect continued growth in our Nigerian and UK banking operations. Noticeable growth in contributions at the margins will come from our African presence over the next 12 months. However, while the UK operations will benefit from the recovery in the host economy, increasing accumulation of liquidity in the Nigerian banking system poses considerable regulatory downside risks to our Nigerian operations.

Insurance sector growth (Nigeria) is expected to come in at about 16% up to 2015, buoyed by new regulations that will both deepen and improve industry transparency. Boosted by strong macroeconomic fundamentals, the outlook for the Congolese banking industry is positive. Industry assets are projected to grow by 20% annually over the next three years. Low banking penetration and the growing appetite for alternative channels in the DRC will remain strong growth opportunities.

In investment banking and asset management business, the 2014 outlook is heavily influenced by the expected impact of the 2015 elections (reform slowdown, much higher fiscal spending) and the tapering of quantitative easing in the US. Some outflow is expected as foreign institutional investors re-price the cost of risk. Analysts expect some macro volatility based on expectations of mild currency devaluation, slow growth in external reserves, weak growth in the stock market and fixed income segments. Notwithstanding, inflation is expected to remain in the single digit region and GDP is expected to grow by 6.8%.

From a sectoral perspective, we expect funding gaps across the power sector (Power Holding Company of Nigeria (PHCN) and National Integrated Power Project (NIPP) asset privatisation and reforms), oil and gas (divestment by International Oil Companies (IOCs); investment post Petroleum Industry Bill (PIB)), financial services, real estate (the roll-out of the Mortgage Refinance Company, recapitalisation of mortgage banks) and infrastructure financing needs (roads, bridges, airports, real estate) to drive transactions.

OPPORTUNITIES

TAKING ADVANTAGE OF A FLOURISHING DOMESTIC ECONOMY

Nigeria is the 13th fastest growing economy in the world, and over the last decade has registered consistent high Gross Domestic Product (GDP) growth rates that averaged over 8% year on year. The GDP in Nigeria was USD262.61 billion in 2012, representing 0.42% of global GDP.

Since 2012, the government of Nigeria has been working to revise the calculation of economic performance with a view to producing new methods of measuring GDP. The central goal of this reform is to update the base year, which serves as the benchmark for calculating GDP. The planned re-basing of the GDP figures over the next few months is expected to secure Nigeria's status as the largest economy in Africa. This, in addition to the government's continued efforts towards revamping the economy through various sectoral policy reforms (energy reforms, agricultural reforms, oil sector reforms, etc.), is expected to drive higher growth going forward.

13th

fastest growing economy in the world

The Central Bank of Nigeria's (CBN) focus on tight monetary policy has resulted in an inflation rate of 8% in December 2013, down from the usual double digits. Also, external reserves have been growing and the country still maintains a low debt-to-GDP ratio. However, there are some risks that need to be mitigated to ensure growth is not stifled during the strategic planning cycle, such as increased oil theft, upcoming elections/political play, or potential outflow of funds from tapering of quantitative easing (QE), which could impact liquidity in emerging markets in general. In spite of these risks, foreign investors still remain bullish towards the country given its oil wealth, large consumer market and reforms, which are gradually being introduced by civilian governments.

8%

inflation rate down from the usual double digits

10%

Only 10% of Nigerian adults had a loan in 2012

EXPLOITING A SIGNIFICANT NEW CUSTOMER BASE

The size and structure of the Nigerian population ensures a continuous pipeline of new customers for the banking industry. The low level of banking penetration creates the opportunity for the commercial bank in Nigeria to capture a fair share of new bank customers and increase wallet size for current customers.

NEW CREDIT OPPORTUNITIES

The various economic reforms of the government will provide significant opportunities for banks to take advantage of significant credit opportunities. In 2012 only 10% of Nigerian adults had a loan and only 12% of business account owners borrowed from banks for infrastructural financing for various projects at the three tiers of government.

OPPORTUNITIES CREATED BY THE NEW GROUP STRUCTURE

The apex body of the banking industry renewed focus on reducing the cost of banking services on customers with the revised 'guide to bank charges' (such as abolition of ATM charges, gradual removal of commission on turnover (COT), stipulation of 30% of monetary policy rate as minimum interest on savings accounts), which has resulted in the overall reduction of total bank revenues leading to erosion of profitability in the banking sector. Therefore, it is critical banks are able to think outside the box and provide best-in-class service to customers and increase their revenue streams. In addition, the Group must also continuously harness the synergy through increased cross-sell between the various Strategic Business Units (SBUs) in the Bank and other FBN Holdings subsidiaries, providing both local and cross-border products and services to our customers.

WHAT IS OUR STRATEGY?

2013 was the final year of our strategic planning cycle and revolved around five strategic themes, detailed below, which drove implementation during the reporting period. During the final quarter, we developed a new corporate strategy for the 2014–2016 planning cycle after a detailed review of the Group's historical performance against stated aspirations.

RESTRUCTURING FOR GROWTH

IMPROVING FLEXIBILITY IN THE GROUP'S STRUCTURE TO ACCELERATE PROFITABLE GROWTH

The set-up of FBN Holdings was a key milestone for the Group as it is the culmination of our proactive efforts in optimising the operating and governance structure of the Group. A response to regulations over a period in our history led to a portfolio of subsidiaries with a low degree of coordination with costly implications (i.e. overlaps in business, uncoordinated balance sheet commitments, disjointed market approach and limited subsidiary oversight). Today, FBN Holdings is a non-operating financial holding company with clear business mandates for each group, and deeper specialisation and client focus.

We are better structured for growth and best positioned to capture the benefits of a broad set of financial services and products regionally.

2011–2013 ACHIEVEMENTS

- Established holding company with specialised subsidiary groups

BUSINESS LINE EXPANSION

ENHANCING YIELDS THROUGH INCREASED FOCUS ON HIGH GROWTH SEGMENTS

With improved specialisation and deeper capabilities across our business groups, we continue to exploit opportunities within the financial services industry. Growth areas for the Commercial Banking business include Retail Banking and small and medium enterprises (SME)/emerging corporates. Strong economic growth has driven the rise of the middle-class consumer segment with positive implications for consumer finance. A fast expanding middle class will drive demand in luxury goods, home ownership, etc. middle corporates are an economically important segment, which have traditionally been underpenetrated given the challenging risk profile. FirstBank has grown its capacity to address the segment's needs, leveraging on its strong product platform and superior risk management capabilities. Within the non-banking space, asset management was an area we had limited scale in and had not performed to potential. Under Investment Banking and Asset Management (IBAM), that line of business has been strengthened to cultivate investor relationships and aggressively market products through an expanded sales and distribution network.

2011–2013 ACHIEVEMENTS

- Strong multi-channel expansion (e.g., 13,283 POS, 2,437+ ATM, 760 branches)
- Re-structured banking business along all key customer segments with an added focus on high-growth areas – Retail Banking (Youth, Affluent, SME) and emerging corporates (middle corporates)
- Launched Firstmonie® – Mobile Money initiative

INTERNATIONAL EXPANSION

GROW OUR FRANCHISE WITHIN AND BEYOND OUR BORDERS

We continue to execute on our previously articulated regional expansion strategy of being consistent in our objective of effectively maximising shareholder value, while harnessing the benefits of diversification. We have only pursued expansion into countries that will appropriately add economic value over the medium- to long-term and bolster the Banking Group's strategic positioning in the Sub-Saharan African (SSA) financial landscape.

2011-2013 ACHIEVEMENTS

- Commenced Sub-Saharan African Expansion
- Acquired Congo-based Banque Internationale de Crédit
- Acquired ICB West Africa (ICB in Ghana, Gambia, Guinea and Sierra Leone)
- Launched Abu Dhabi representative office

SYNERGIES AND CROSS-SELLING

HARNESSING THE POWER OF THE GROUP TO DRIVE SUPERIOR RETURNS

Strong natural synergies and cross-selling opportunities exist between banking and other financial services sectors, and we have intensified efforts to leverage our unique offering to forge deeper relationships with our customers, e.g. following a bancassurance model with FBN Insurance.

2011-2013 ACHIEVEMENTS

- Developed Synergy through customer analysis across other Business Units to ring-fence value chain around businesses/transactions

SEQUENCING GROWTH SYSTEMATICALLY

In working to capture the attractive opportunities inherent in the businesses and geographies we operate in, we are mindful of ensuring our growth is a profitable one. This requires proper sequencing of our strategy initiatives and prioritising foundational changes. Within the Bank, the focus has begun to shift to the granular details of our Bank strategy (product, channel and segment) as broad structural changes have largely been completed. We are now moving towards building scale, specifically in non-banking business groups e.g. Investment Banking and Insurance. The sequential approach to our Group strategy will deliberately focus on first reinforcing our leadership position in Nigeria, followed by guided diversification of the Group and finally building scale internationally.

Over the 2011-2013 cycle, we succeeded in reorganising and greatly transforming the Commercial Banking business and moving its performance up substantially across several key metrics (capital efficiency, profits, service levels) and have consolidated our position as SSA's largest banking group. This includes successfully establishing FBN Insurance and seeing it rapidly rise to profitability, while simultaneously reorganising our investment banking and asset management business, refreshing and up-skilling its talent, and seeing it come out of a shaky market at the beginning of the cycle to a strong position in the industry.

MOVING FORWARD: 2014-2016

Looking forward, our key focus is on optimising our business operating model to drive a cost advantage and equity returns. We will also focus on driving growth in our non-bank subsidiaries, as well as enhancing and exploiting synergies across all Group subsidiaries over the next three years.

The strategic vision for the Group in the 2014-2016 cycle

1. Be the undisputed leader in every business we choose to participate in
2. Significantly grow our franchise within and beyond our borders
3. Significantly increase our appeal to the next generation of Nigerians
4. Delight our customers by providing unparalleled and innovative service
5. Develop FBN into a hub for the best industry talent anywhere
6. Hold ourselves to the highest standards of integrity and ethical conduct
7. Deliver superior returns to our shareholders.

The Group's strategic aspirations for 2016 are to maintain and enhance its pursuit of the above goals. The Strategic Planning Process for the 2014-2016 vision primarily employs a bottom-up approach, with subsidiaries codifying their individual plans at Group level (though there will be some top-down refinement).

Flowing out of this strategic posture is an ambitious set of strategic aspirations for the Group as a whole over the next three years. In order to ensure that Group-level aspirations are achieved, the individual subsidiaries have developed detailed strategies to achieve their business aspirations, which together will ensure the Group delivers on its objectives.

A SUMMARY OF EACH OF THE SUBSIDIARY PLANS IS PRESENTED ON p38

Strategic themes and priorities for FirstBank 2014–2016

CONSOLIDATE OUR LEADERSHIP ON ALL FRONTIERS AND REMAIN AT THE FOREFRONT OF BANKING SERVICES IN NIGERIA AND ACROSS OUR AFRICAN MARKETS

Themes	ATTAIN LEADERSHIP IN COMMERCIAL AND SME SEGMENTS	IMPROVE COST AND CAPITAL EFFICIENCIES	SERVICE EXCELLENCE
Strategic priorities	• Be the SME & Commercial bank of choice • Build transaction banking capability • Institutionalise RM sales excellence.	• Scale up integrated cost containment programme • Drive aggressive management of non-performing loans (NPL).	• Aggressively pursue service delivery excellence programme • Transform branch into best in class service and sales machines.

Strategic themes and priorities for the non-banking subsidiaries 2014–2016

TO BECOME THE PRE-EMINENT FINANCIAL SERVICES GROUP IN MIDDLE AFRICA, PROVIDING VALUE TO OUR CUSTOMERS AND DISTINCTIVE RETURNS TO OUR SHAREHOLDERS

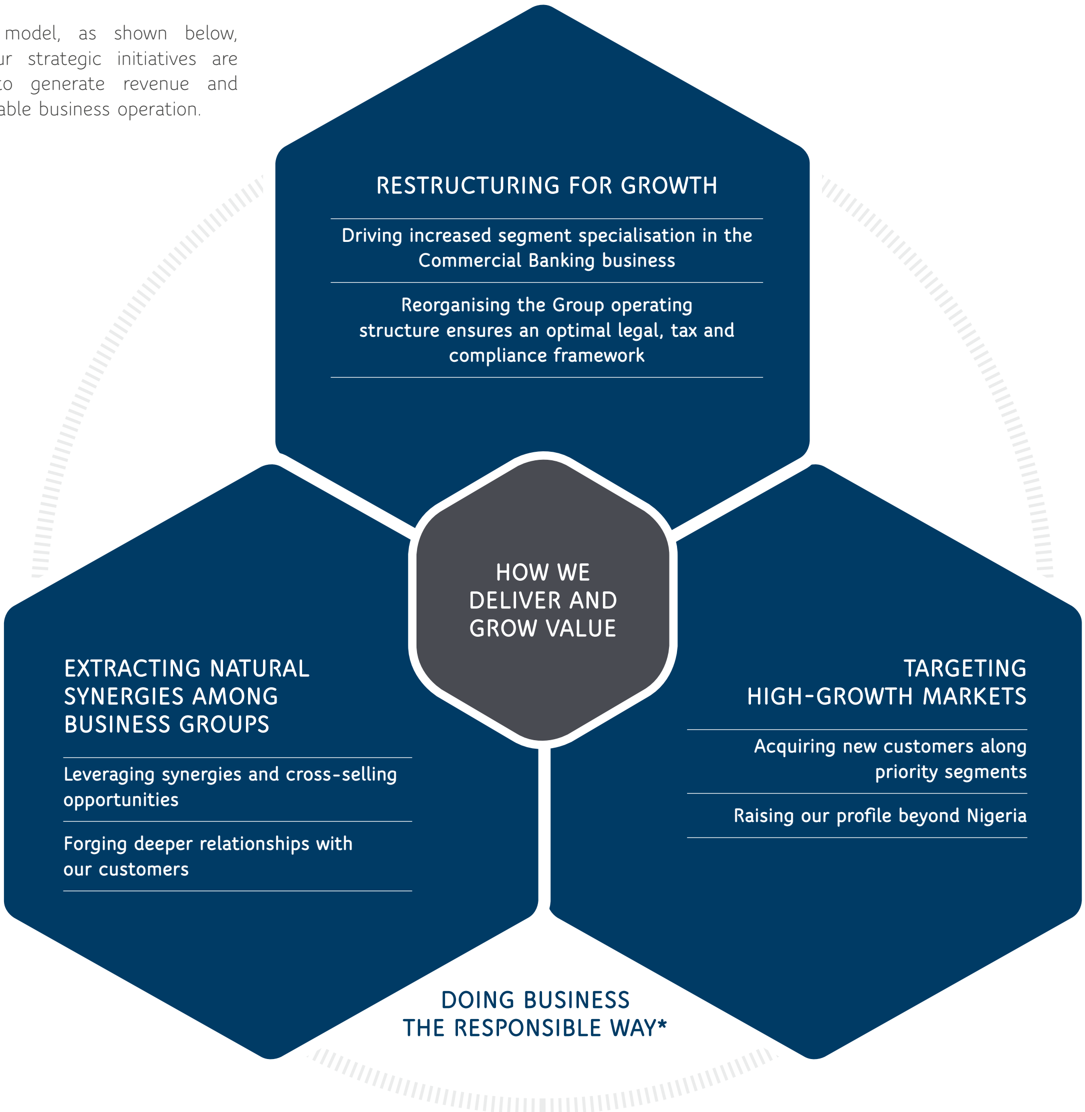
Themes	INVEST TO DRIVE TANGIBLE GROWTH IN EACH SUBCO	INCREASE RELATIVE CONTRIBUTIONS OF NON-BANK SUBCOS	FOSTER COLLABORATION ACROSS AND WITHIN SUBCOS
Strategic priorities	• Obtain a merchant banking licence • Build a credible broad-based sales and trading platform for IBAM • Expand the distribution network for microfinance • Diversify Brokerage to serve new segments and increase footprint.	• Drive step change improvement in salesforce productivity – Refocus Asset Management sales effort – Increase sales force effectiveness in Insurance and Brokerage – Improve staff capabilities in microfinance.	• Institutionalise collaboration across IB and CBG, IBG and PSG • Drive cross-sell between bancassurance and the Bank's retail network • Ensure more FirstBank loans are brokered internally.

HOW DO WE GENERATE LONG-TERM VALUE?

FBN Holdings aspires to become the dominant financial services group across Sub-Saharan Africa (SSA, excluding South Africa). The Group begins from a position of strength, having established itself over a 119-year history as the largest bank in Nigeria and already as the largest private sector banking group in SSA.

OUR BUSINESS MODEL

Our business model, as shown below, shows how our strategic initiatives are implemented to generate revenue and sustain a profitable business operation.



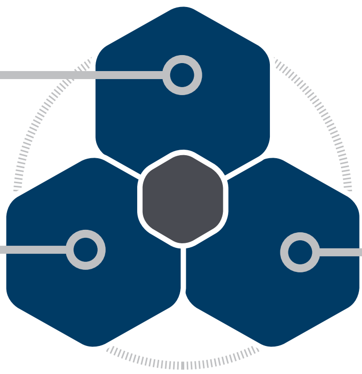
*RELATIONSHIPS AND RESPONSIBILITY p57

RESTRUCTURING FOR GROWTH

We have clustered similar businesses to improve coordination and specialisation while ensuring an optimal legal, compliance and tax framework.

Within the Commercial Banking business, we will continue to drive increased segment specialisation across the organisation in line with the demands of an increasingly discerning customer base, evolving competitive environment and international best practices.

Consequently, we developed a framework that allows for better coordination among business groups by functioning as an investment holding company with portfolio oversight over business groups.



EXTRACTING NATURAL SYNERGIES AMONG BUSINESS GROUPS

Strong natural synergies and cross-selling opportunities exist between banking and other financial services sectors, and we have intensified efforts to leverage our unique offering to forge deeper relationships with our customers.

INSURANCE

- Life assurance underwriting
- General insurance underwriting
- Insurance brokerage

COMMERCIAL BANKING

- Institutional banking
- Corporate banking
- Retail banking
- Public sector banking

INVESTMENT BANKING AND ASSET MANAGEMENT

- Advisory
- Capital markets
- Principal investing and private equity
- Asset management
- Securities services

OTHER FINANCIAL SERVICES[5]

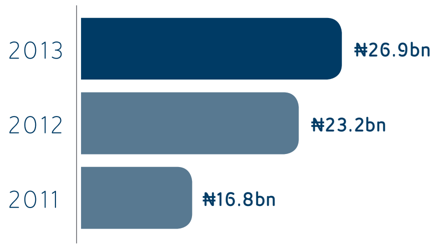
- Microfinance

TARGETING HIGH-GROWTH MARKETS AND SEGMENTS

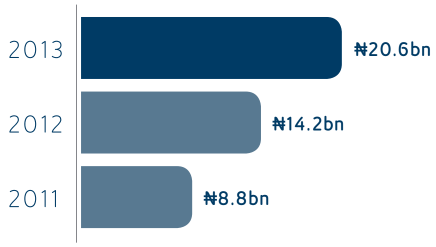
We are seeing tangible benefits of a modified (Bank) operating model, with the development of segment and functional specialists. We will be focused on the customer – acquiring new customers along priority segments (i.e. Emerging Corporates and Retail).

Over the medium term, we intend to raise our profile beyond its current borders, establishing presence in select Sub-Saharan African countries that are of interest. This expansion is expected to result in a number of benefits, including greater earnings diversification and increased shareholder value through higher returns on equity.

NON-NIGERIA REVENUE



NON-BANKING REVENUE*



* Summation of net operating income of non-bank subsidiaries.

5 Includes other non-banking financial service businesses as well as FBN MFB.

The Group intention remains to consolidate its position in banking in Nigeria while pursuing profitable growth in the non-bank financial services space and in commercial banking internationally. Nigeria accounts for nearly a quarter of GDP in SSA and a third of banking assets, and as the Nigerian market leader with a healthy balance sheet, FBN Holdings is optimally poised to lead the creation of a strong, regional diversified financial services group.

Africa's economic growth over the last decade, currently places it among the world's most rapidly growing economic regions and its consumer-facing industries (including financial services) are leading the pack. Growth has been driven by deliberate government reform to improve macroeconomic conditions and create more favourable business climates enabling broad growth across industries and regions. This has consequently resulted in greater demand for financial services from key customer segments. The growing urban population and rising levels of wealth both have positive implications for the consumer finance business, which we believe is significantly under-penetrated. Huge opportunities also exist to support public and private sector clients in financing the large infrastructure deficit.

Our business strategy has been designed to appropriately capture these opportunities by leveraging on our strong commercial banking platform to build other non-bank financial services businesses. The scale of the Banking Group provides a significant advantage in serving the banking needs of all customer segments both on the asset and liability side. Corporate customers with more specialised banking needs will be served from our IBAM group and the Insurance business group will aim to build scale in a market with very low product penetration. The FBNH structure allows for better coordination among business groups by functioning as an investment holding company with portfolio oversight over business groups. We will profitably grow our business in a systematic manner across target segments (such as retail and middle corporates) and geographies.

How our business groups create value

Business group	Primary income source	Description
Commercial Banking	Interest and fee income	Make a spread from the deposits received from customers and the funds lent. Fee income is made from transaction charges on funds lent and commissions made in facilitating other transactions.
Investment Banking and Asset Management	Fees and trading income	Arrange finance, provide investment advice, trade execution, manage funds and sell investment products for a fee and trading income.
Insurance	Premium, commission and investment income	Help customers manage risks by pooling and redistributing these risks for a stream of premium. In addition, income is made from investing the premiums collected. We also provide insurance brokerage services for commission.
Other Financial Services (microfinance)	Interest and fee income	Like the Commercial Banking business, we make a spread from the deposits received from customers and the funds lent. Fee income is made from transaction charges on funds lent and commissions made in facilitating other transactions.

WHAT MAKES OUR BUSINESS MODEL SUSTAINABLE?

OVERVIEW

Our aspiration is to deliver growth by building a leading SSA financial services group. The sustainability of our business performance is driven by our structure, people and reach – giving us a true competitive advantage.

Our structure has clustered similar businesses to improve coordination and specialisation while ensuring an optimal legal and compliance framework. Specifically, the separation of the Commercial Banking business from other operations provides a platform for enhanced focus on the growth of non-bank subsidiaries, allows for greater risk management supervision and enables optimal capital allocation decisions. Our passion to constantly improve the competencies of our people has been the driving force behind our employee transformation programme with initiatives such as talent management, cross-posting and mentoring. Our shareholders desire a long-term stream of profits, and it is our responsibility to ensure the business drivers are in place to support this aspiration.

Due to the alignment and operations of the FirstBank Group, we have created a corporate centre with responsibility for setting strategic direction, providing Group-wide oversight and ensuring the leveraging of synergies across the Group through the constitution of a governing board and committees at the Group level to optimally align corporate governance and management roles.

This has helped ring-fence the commercial banking business from non-banking businesses and their associated risks, thereby protecting shareholder value.

Our shared services structure enhanced efficiency across our businesses. The optimal use of technology has resulted in speeding up the new product development process within the Group, while reducing the time to market for the launch of new products and ideas.

The differentiating aspect of FBN Holdings' approach is the scale and scope of our business and brand portfolio, as well as our geographic reach. The diversity of our business portfolio creates highly valuable scale benefits that are difficult to replicate. In Nigeria, our Commercial Banking business has the widest distribution network, with 760 branches, QSPs and cash centres/ agencies, and serves possibly the largest client list across all key customer segments. In terms of loan growth, credit quality and net interest margins (NIM) relative to our peers, our scale provides a more defendable interest margin. Similarly, our non-banking business groups enjoy economies of scale created by the large brand premium underpinning the Commercial Banking business. The diversification and strong natural synergies, in turn, reduce risk and improve the quality of our earnings.

There are key drivers that the Group has put in place to ensure our business model will deliver sustainable returns. These are outlined briefly below and explored in detail on the subsequent pages.

STRONG LEADERSHIP

The Board of FBN Holdings is represented by distinguished individuals with in-depth and diverse experience. These eminent persons have displayed excellent and proven business knowledge and board experience spanning an array of industries and sectors. The primary purpose of the Board is to build long-term shareholder value and ensure management oversight so that appropriate controls, systems and practices are entrenched to safeguard the assets of FBN Holdings in a sustainable manner.

The Board comprises seven members: six non-executive directors (NEDs) and a Chief Executive Officer (CEO). To ensure appropriate oversight function, the CEO sits on the Board of each of the direct subsidiaries (business groups) of FBN Holdings.

For further information, see Governance on page 129.

CAREFUL RISK MANAGEMENT

The Group considers effective risk management to be of utmost importance to its overall operations. Accordingly, the Group has put in place a robust risk management framework that clearly monitors, evaluates and manages the principal risks it assumes in conducting its activities.

Our risk management is guided by our key elements philosophy, including an holistic and integrated approach in bringing all risks together under a limited number of oversight functions. However, responsibility for managing risks extends from the Board of Directors and executive committees to each business manager and risk owner. Each risk officer is empowered to perform their duties professionally and independently in line with well-defined policies and structures that are clearly communicated across the Group. This helps to achieve and maintain a conservative balance between risk and revenue considerations.

Part of the Group's commitment to driving sustainability involves managing sustainability risks. We do this by enhancing the existing environmental and social screening process for lending to a more comprehensive mechanism – the environmental, social and governance management system (ESGMS).

The system consists of an environmental, social and governance policy; procedures to screen transactions for environmental, social and governance risks; guidance for monitoring performance and maintaining ESGMS records; and ways of reviewing ESGMS and continuously improving it, based upon changing international standards.

We continually modify and enhance our risk management policies and systems to reflect changes in markets, products and international best practices. For more information, see Risk management approach summary on page 48.

RELATIONSHIPS AND RESPONSIBILITY

At FBN Holdings, relationships and corporate responsibility are intertwined. Our citizenship approach involves developing and sustaining mutually beneficial, trusting and meaningful relationships between us and our stakeholders.

We believe that building strong relationships with our customers, shareholders, employees and communities to inform our focus areas and priorities underpins our own sustainability.

This proactive approach ensures that our goal of driving long-term growth includes the protection of all stakeholders' interests, by going beyond profit-making to support the preservation of the environment and help empower the communities in which we operate.

We are also committed to conducting business transparently and ethically by managing our business processes towards ensuring an inclusive, positive impact on society. Our sustainability strategy focuses on sustainable finance; people empowerment; community support; and environmental sustainability. Our key citizenship priorities are driven under these platforms.

ETHICS AND COMPLIANCE

The Group prides itself on having one of the most compliant and industry-leading holding company structures. Its governance structure is unparalleled with Board and management appointments, including transitions at executive levels, made with ease and without rancour or business disruption.

In the Group, our approach to conducting business is premised on high ethical standards and strict adherence to all provisions of the code of conduct guidelines. With an enviable corporate governance framework, and leveraging the quality of its workforce, the Group has experienced continued growth in its various business operations in line with its strategic priority 'to increase its share of the customer's wallet in the chosen market'. Among other things, the ability to deliver and sustain this mandate is dependent on the commitment, engagement and ability of staff. In addition to their high quality, the conduct of the Group's workforce remains professional, being based on well-established ethical and code of conduct frameworks that guide expected behaviour.

This ethical behaviour is driven by senior leaders who have worked relentlessly to build an ethical culture across the Group. This culture is reinforced by rewarding employees who constantly embody the values and integrity that the Group upholds.

Employees are regularly sensitised to expected behavioural patterns through internal campaigns aimed at ensuring that our people operate in line with high ethical standards.

LEADERSHIP AND GOVERNANCE

"...we believe that a rigorous approach towards observing best practices in corporate governance is crucial to ensuring the Group's long-term sustainability"

DR OBA OTUDEKO, CFR, GROUP CHAIRMAN

As a Board, we are aware that the task of instilling high standards of corporate governance is never complete; yet, we remain committed to establishing the same standards across the Group. On the regulatory front, we will be regulated by the Securities and Exchange Commission's (SEC) Code of Corporate Governance and the Central Bank of Nigeria's (CBN) Code of Corporate Governance.

The first step towards having an effective Board is ensuring that persons with excellent business knowledge and Board experience are appointed to the Board. As may be gleaned from the Directors' profiles at page 133, each of the Directors have sat or are currently sitting on the boards of holding companies or groups of companies and it is expected that this will prove beneficial to the Board in providing the seamless supervision that a holding company demands. Each member of the Board is expected to attend at least two to three major trainings in a year and their performance will be evaluated annually through a Board appraisal process to be anchored by an external consultant as appointed by the Board.

Similarly, all the companies within the Group have distinct boards and comply with statutory and regulatory requirements of the industries they operate in. They are all required to align their respective governance frameworks with that of the Group and we will establish a policy framework for monitoring compliance with this alignment.

Various steps are being taken to strengthen corporate governance practices across the Group. One such step includes our establishment of a Statutory Audit Committee in line with the provisions of the Companies and Allied Matters Act (CAMA), which makes it mandatory for all public companies to have in place an Audit Committee, to be chosen at the Company's Annual General Meeting (AGM).

All the companies within the Group have distinct boards and comply with statutory and regulatory requirements of the industries they operate in

To enhance transparency and disclosure in our financial reports, the Group adopted the International Financial Reporting Standards (IFRS), thus aligning with the strongest global standards of transparency in financial reporting. This is because we believe that a rigorous approach towards observing best practices in corporate governance is crucial to ensuring the Group's long-term sustainability.

LEADERSHIP AND GOVERNANCE

BOARD OF DIRECTORS

Dr Oba Otudeko, CFR
Group Chairman

Bello Maccido
Group Chief Executive Officer

Abdullahi Mahmoud
Non-Executive Director

Bisi Onasanya
Non-Executive Director

Lt. General Garba Duba, rtd
Non-Executive Director

Oye Hassan-Odukale, MFR
Non-Executive Director

Chidi Anya
Independent Director

Tijjani Borodo
Company Secretary

FBN HOLDINGS MANAGEMENT

Bello Maccido
Group Chief Executive Officer

Tijjani Borodo
Company Secretary

Oyewale Ariyibi
Head, Finance

Oluyemisi Lanre-Phillips
Head, Investor Relations

Olu Adegbola
Head, Risk Management

LEADERSHIP AND GOVERNANCE

OUR SUBSIDIARIES

COMMERCIAL BANKING:

Bisi Onasanya
GMD/CEO, First Bank of Nigeria Limited

Peter Hinson
Managing Director, FBN Bank (UK) Limited

Cheikh Tidiane
Managing Director, Banque Internationale de Crédit, Congo

Kunle Jinadu
Managing Director, First Pension Custodian Limited

Adenrele Oni
Managing Director, FBN Mortgages Limited

Subu Giwa-Amu
Managing Director, International Commercial Bank Ghana.

Viswanathan Sundaram
Managing Director, International Commercial Bank Sierra Leone

Ananta Padmanabhan
Managing Director, International Commercial Bank Guinea

Ravinder Singh Parhar
Managing Director, International Commercial Bank Gambia

INVESTMENT BANKING AND ASSET MANAGEMENT:

Kayode Akinkugbe
Managing Director, FBN Capital Limited

Adekunle Awojobi
Managing Director, First Trustees Nigeria Limited

Michael Oyebola
Managing Director, FBN Capital Asset Management Limited

Abiola Adekoya
Managing Director, FBN Securities Limited

Nkiru Adekoya
Managing Director, First Funds Limited

LEADERSHIP AND GOVERNANCE

OUR SUBSIDIARIES CONTINUED

INSURANCE:

Valentine Ojumah
Managing Director,
FBN Insurance Limited

Fidelis Ojeah
Managing Director,
FBN Insurance Brokers Limited

OTHER FINANCIAL SERVICES:

Pauline Nsa
Managing Director,
FBN Microfinance Bank Limited

STATUTORY AUDIT COMMITTEE MEMBERS

Waheed Adegbite
Chairman

Abubakar Yahyah

Job Onwuahara

Lt. General Garba Duba, rtd

Oye Hassan-Odukale, MFR

Chidi Anya

RISK MANAGEMENT APPROACH SUMMARY

OVERVIEW

Effective risk management remains fundamental to the business activities of the Group. At FBN Holdings, we engender a culture where risk management is everyone's business, from board and executive level committees down to risk owners and respective risk units.

The Group addresses the challenge of risks comprehensively through an enterprise risk management framework (ERM) that clearly monitors, evaluates and manages the principal risks it assumes in conducting its activities. These risks include credit, market and operational risks, as well as legal, compliance, reputational and information security risks that are each discussed in the key risk summary below.

The delegation of risk management responsibilities is structured to ensure that decisions are enacted at the most appropriate level in line with business objectives, subject to robust and effective review. Strategic business decisions are taken within a Board-approved risk appetite, with the executive and risk committees closely monitoring risk profiles against this appetite.

The Board drives the risk governance and compliance process through the Board Audit & Risk Assessment Committee (BARAC) and the Board Credit Committee (BCC). The BARAC evaluates the processes for identifying, assessing, monitoring and managing key risk areas; it also evaluates the adequacy of the Group's risk management systems and control environment. The BCC is responsible for approving the Group's credit risk management strategies, policies, standards, products, approval limits/authorities and risk appetite.

The Board risk control functions are supported by various management committees (Management Credit Committee (MCC), Assets & Liabilities Management Committee (ALCO) and Business Risk & Compliance Committee (BRCC)), which help it develop and implement various risk strategies. Management assurance processes are assessed by the Group's Internal Audit and the effectiveness of the Group's control framework is assessed by the BARAC.

The Group continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and international best practices.

Responsibility for risk management

RISK MANAGEMENT APPROACH SUMMARY

PERFORMANCE IN 2013

The Group recorded a 15% growth in its loan portfolio for the 2013 financial year, reflecting an expansion of lending especially to moderate risk assets. Asset quality ratio for the period was 3.0% and within the acceptable threshold of the Group.

During the year, the ERM framework was reviewed in keeping with the commitment of the Board of Directors to establish and drive international best practices in risk management. In conducting the review, due consideration was given to changes in both the local and international regulatory environments, revised Basel Accord, Sarbanes-Oxley Act, Risk-Based Supervision issued by the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) and the CBN guidelines on Nigeria Sustainable Banking Principles. The framework is considered to be adequate for the management of risks being carried in the business.

The Group maintained a strong liquidity position (in spite of a distortion in the systemic liquidity) due to our efforts in leveraging the value of collaboration across business lines, improving the productivity of our business operations and sustainable growth in client engagement.

One of the key focus areas for the group in 2013 was the implementation of the Payment Card Industry Data Security Standard (PCI DSS), a gold standard in the Payment Card industry supported by all the popular card brands. The Group, through its implementation of the reputed international standards, is well-equipped and positioned to tackle emerging vulnerabilities in its business practices and organisational culture, which are guided by global best practices.

Also, in further demonstration of its leadership position in the Nigerian banking industry, FirstBank Nigeria achieved another milestone by being the first bank in Nigeria to achieve the highest certification for Business Continuity Management known as 'ISO 22301 (Societal Security: Business Continuity Management System)' from the British Standard Institute (BSI).

LOOKING AHEAD

The following shall be the risk management priorities across the Group in 2014:

- standardising methodology and process across the Group, thus ensuring a common risk language across the Group;
- maintaining a business-like approach to all regulatory compliance;
- further embedding the use of technology in the risk management process;
- providing financial intermediation to key viable sectors of the economy to bridge infrastructure gaps;
- promoting sound portfolio management practices by ensuring a well-diversified portfolio;
- promoting good information security practices and governance in the financial industry.

RISK MANAGEMENT APPROACH SUMMARY

RISK FACTORS OVERVIEW

CREDIT RISK

Type of risk

CREDIT

Risk of loss that may arise if an obligor fails to perform an obligation under a loan or trading contract. It includes:

- default/counterparty risk;
- performance risk;
- payment risk;
- diversion risk; and
- managerial risk.

Potential impacts on business

- Poor asset quality arising from high level of non-performing loans and ultimately low yield on risk assets
- Financial loss due to increased loan loss provisions and charges on impaired assets
- Possibly leading to impairment of shareholders' funds.

Mitigating measures

- Strong credit analysis to identify the risk and proffer mitigants
- Clear loan covenants and transaction dynamics
- Effective credit control and monitoring processes
- Prompt identification of early signs of deterioration
- Adequacy and reliability of collateral
- Adoption of risk-based pricing for risk assets
- Strengthened risk management systems and processes to optimise portfolio quality and to ensure appropriate pricing of risk assets.

Type of risk

PORTFOLIO LIMIT RISK

- Concentration risk
- Probability of loss arising from heavily lopsided exposure to a particular group of counterparties.

Potential impacts on business

Breaches of portfolio limits and regulatory provisions could lead to sanctions and increased financial loss.

Mitigating measures

Adherence to portfolio limits and regulatory requirements.

RESPONSIBILITY

Strategic Business Units (SBUs), Risk Management and Chief Risk Officer.

RISK MANAGEMENT APPROACH SUMMARY

MARKET AND LIQUIDITY RISK

Type of risk

INTEREST RATE RISK

- Re-pricing risk
- Yield curve risk
- Basis risk
- Optionality risk.

Potential impacts on business

Could result in significant financial loss from reduction in net interest income and impairment of interest-rate-related instruments, including fixed-rate and floating-rate debt securities and instruments that behave like them, and non-convertible preference shares.

Mitigating measures

- Regular monitoring of assets and liabilities mismatches and compliance with set limits
- Daily reporting of valuation results to executive management
- Strict adherence to the Group's internal policies such as the use of limits and management action triggers
- The use of hedge contracts to mitigate interest rate risk exposures
- Experienced Market Risk Policy Committee that meets regularly.

Type of risk

FOREIGN EXCHANGE RISK

This is the possibility of loss posed by exposure to unanticipated changes in the exchange rate between currencies. The various forms in which foreign exchange risk can take include:

- Credit Risk
- Interest Rate Risk
- Country Risk
- Settlement Risk (time zone)

Potential impacts on business

Could lead to diminution in the value of foreign currency position.

Mitigating measures

- Daily monitoring of foreign exchange (FX) trading position against risk limits
- Daily reporting of all FX exposures to executive management
- Hedging policy in place
- Regular review of the Group's currency exposures by the Market Risk Policy Committee (MRPC)
- Limiting transactions to approved counterparties.

Type of risk

INVESTMENT RISK

This is the probability that the actual return on an investment will be lower than the expectations.

Potential impacts on business

Could lead to diminution in the value of investments.

Mitigating measures

- Significant investments approved by the Board and all others by the Management Committee (MANCO)
- Counterparties for investments approved by executive management and the Board
- Highly experienced professionals in the strategy unit advise on strategic investments
- Strong supervision by the parent company board on subsidiaries
- Portfolio selection and diversification strategies.

Type of risk

COUNTERPARTY RISK

- Pre-settlement risk is the risk that one party to a contract will fail to meet the terms of the contract and default before the contract's settlement date
- Settlement risk is the risk that one party will fail to deliver the terms of a contract at the time of settlement.

Potential impacts on business

Could lead to financial losses due to the default of a trading counterparty.

Mitigating measures

- Approved counterparties with pre-settlement risk lines
- Measurement and reporting of pre-settlement risk exposures to executive management.

Type of risk

LIQUIDITY RISK

- Funding Liquidity
- Trading Liquidity

Potential impacts on business

Could lead to insolvency and eventual reputational risk.

Mitigating measures

- Efficient Assets & Liabilities Management Committee (ALCO) that oversees liquidity management
- Diversified sources of funding
- Contingent funding plan
- Effective cash flow planning.

RESPONSIBILITY

Treasury Unit, product groups Trading Desk, Market and Liquidity Risk Unit and the Chief Risk Officer.

RISK MANAGEMENT APPROACH SUMMARY

OPERATIONAL RISK

Type of risk

PEOPLE RISK

The risk of loss – financial, reputational or otherwise – arising from a failure to properly manage the Group's human capital. This could manifest itself in the form of staff fraud, high staff attrition, knowledge gaps and a demotivated and disgruntled workforce.

Potential impacts on business

This would impact the Group by way of negative service experiences for our customers and the attendant loss in market share, financial loss and reputational damage, and the cumulative effect of being unable to deliver the strong business performance that meets or exceeds stakeholders' expectations.

Mitigating measures

- Robust Human Capital Management and Development (HCMD) practices to achieve a strong workplace
- Effective background checks and thorough confirmation process on new hires
- Competitive remuneration package and other hygiene factors to attract and retain the best talent
- Enforcement of strong supervisory control
- Zero tolerance to staff integrity issues and fraud
- A fully fledged learning and development unit and infrastructures to cater for the training and development needs of staff
- Strict enforcement of the requirements of the staff handbook
- A disciplinary committee that meets regularly to deal with and resolve employee issues
- A comprehensive Fidelity insurance policy
- Encouragement of a work-life balance culture.

Type of risk

OPERATIONS RISK

The risk for the Group of incurring financial loss as a result of inadequacies or failures in operations processes, systems or staff. Operations risk additionally incorporates the risk arising from disruption of operations activities caused by external events. Examples are: transaction capture, execution and maintenance errors or failures; failures in the customer intake and documentation process; failed mandatory reporting obligations; limit breach due to inadequate internal processes; inadequate reconciliation processes; and manual intensive processes.

Potential impacts on business

Impact on business ranges from negative customer impact and the attendant loss in market share, financial loss and reputational damage, and the cumulative effect of being unable to deliver a strong business performance that meets or exceeds stakeholders' expectations.

Mitigating measures

- Comprehensive functional standard operating procedures (SOP) are in place to guide operational activities and processes of the Group
- The establishment of a central processing centre specialising in various operation areas, and the migration of some activities which were hitherto handled at the branches
- The introduction of a functional reporting structure to the operations job families to allow for effective supervisory control of the operations of the Group
- The introduction of a self-assessment programme to allow process owners to identify control weaknesses with a view to taking proactive remedial actions
- Automation and re-engineering of our processes
- The establishment of an Enterprise Process Improvement (EPI) unit to facilitate the standardisation of our processes and their continuous improvement
- Putting in place robust business continuity planning and disaster recovery programmes
- Stepping up operational risk awareness training and programmes
- Monitoring and managing key risk indicators (KRIs) in processes, products and activities.

Type of risk

SYSTEM OR TECHNOLOGY RISK

The risk of failing to develop, implement or operate the Group's technology platforms and solutions to meet stakeholders' requirements.

Potential impacts on business

This could manifest itself in the form of: system downtime resulting in irate customers and tarnished reputation; software failures; systems change process management failures; seizure of technical support; hardware failures; obsolete hardware; and lack of support from the manufacturers.

Mitigating measures

- The Group has a Disaster Recovery Centre (DRCe)
- A comprehensive Service Level Agreement (SLA) with IT service providers
- Regular IT audit and control
- Hardware policies covering hardware purchase, use, replacement and disposal
- Software policies covering purchase or design, use, enhancement, patching, replacement and disposal
- Resilience built into the Group's network platform through the installation of a back-up link to over 90% of our branches
- An articulated medium-term transformation plan to optimise the Group's investment in technology.

RISK MANAGEMENT APPROACH SUMMARY

OPERATIONAL RISK continued

Type of risk

EXTERNAL EVENTS AND THIRD-PARTY RISK

Risk arises from external events such as external fraud, natural disaster and third-party.

Potential impacts on business

External events could lead to disruption in business and financial loss to the Group. Third-party failure could lead to poor service, reputational damage and financial loss to the Group.

Technology failure due to activities of hackers and inadequate financial capacity to fulfil obligations could impact negatively on the Group's service delivery.

Mitigating measures

- Hedging against external events with adequate insurance cover
- A robust business continuity management system that has passed the BS 25999 certification to improve the Group's resilience
- Regular monitoring and review of all outsourcing arrangements in the Group
- Strict adherence to the Group's outsourcing policy
- Enforcement of SLA and sanctions for breach of contracts
- Real-time reporting of high-risk incidents or exposure
- A Physical Security and Personal and Business Protection Policy to mitigate internal and external threats.

Type of risk

REGULATORY AND COMPLIANCE RISK

This could lead to financial and reputational losses to the Group as a result of failure to comply with the laws, regulations or codes applicable to the financial services industry.

Potential impacts on business

The impact of this risk category on the Group ranges from financial loss arising from fines and penalties; loss of revenue due to temporary suspension or bans from certain market activities; possible loss in share price and negative investors perception occasioned by disclosure of regulatory infractions in our Annual Report and withdrawal of licence.

Mitigating measures

- A fully fledged compliance team to drive and implement the Group's compliance framework
- Effective monitoring of the Group's compliance with laws and regulations, its code of conduct and corporate governance practices
- A process for ensuring new and changed legal and regulatory requirements are identified, monitored and reflected in the Group's process and rule book
- Ensuring that regulatory requirements are incorporated in the operational procedures manual where appropriate
- Prompt submission of regulatory reports
- Sound corporate governance practices and setting the right tone from the top with respect to regulatory issues.

RESPONSIBILITY

Strategic Business Units and support functions, e.g., branches, operations group, e-business and Human Capital Management and Development (HCMD).

RISK MANAGEMENT APPROACH SUMMARY

INFORMATION SECURITY RISK

Type of risk

Unauthorised access, use, disclosure, modification, perusal, inspection, recording or destruction of information assets which could cause possible disruption of operations.

Potential impacts on business

Information assets are critical to Group's operations and crucial to the effective and efficient delivery of service by the Group to its customers.

Disruptions to these assets could have dire consequences for the Group.

Mitigating measures

- Continued risk evaluation through the use of proven risk assessment methodology which identifies key risk areas and prescribes controls necessary in reducing these risks to an acceptable level
- Documenting and standardising the processes within the Group while building appropriate controls into them
- Classifying all information assets with appropriate priorities, assigning ownership and ensuring that all assets are handled according to documented handling procedures.
- Group-wide security risk assessment carried out by an independent security assessment company, to determine the security risk posture of the Group and recommend appropriate safeguards to its information assets
- Developing a Group-wide awareness programme and making information security the responsibility of all staff
- Aligning the Group's processes to international standards and best practices such as the ISO 27001 and Payment Card Industry Data Security Standard (PCI DSS).

RESPONSIBILITY

The primary responsibility for the security of the Group's information assets and applicable legislations lies with members of staff, while the Board and Management have the overall responsibility to ensure that all information assets within the Group are adequately protected.

RISK MANAGEMENT APPROACH SUMMARY

LEGAL RISK

Type of risk

LITIGATION AND ADVERSE CLAIMS

Potential impacts on business

Increased costs, loss of revenue, abuse and/or loss of intellectual property, distraction, negative brand equity, strained relationships with customers, employees, service providers, investors, regulators and other stakeholders, and possible disruption of business activities.

Mitigating measures

- Consistent application of professional standards
- Transparency and fairness while transacting
- Bespoke documentation and clarity to reduce areas of possible conflict
- Availability of a dependable record retention system
- Protection of intellectual property through licensing
- Engagement of an external counsel with proven competence in the prosecution of the Group's claims against third parties and in the conduct of the Group's defence, and exploring alternative dispute resolution mechanisms, among others.

Type of risk

ASSET SECURITY COVER RISK

Potential impacts on business

Loss of revenues, weak legal position in recovery efforts, increase in litigations and an attendant negative impact.

Mitigating measures

- Thorough and experienced credit proposal reviews
- Use of independent experts for asset valuations
- Conduct of due diligence on assets subject matter of the security arrangements
- Water-tight and legally defensible documentation to protect the Group's security interest
- Use of result-oriented solicitors for end-to-end perfection exercises
- Effective and proactive monitoring of credits.

Type of risk

CONTRACTUAL PERFORMANCE RISK

Potential impacts on business

Increase in litigations, increased expenses/financial loss, strained relationships with service providers and customers, and negative reputational exposures.

Agreements and nimble efficient preparation as well as deft review of contracts/agreements.

Mitigating measures

- Engagement of reputable service providers with proven pedigree
- Taking out appropriate insurance policies against identified contractual risks
- Availability of dependable systems and processes that ensure the Group's contractual obligations are met on a consistent basis
- Insistence on service-level best practice..

RESPONSIBILITY

Litigation and adverse claims – Heads, Legal Services.

Asset security cover risk – Heads, Legal Services, Specialised Lending, Credit Analysis and Processing, Credit Risk Management and all Relationship Managers.

Contractual performance risk – Heads, Legal Services, Information Technology, Operations and General Services.

RISK MANAGEMENT APPROACH SUMMARY

COMPLIANCE RISK

Type of risk

REGULATORY RISK

This is the risk whereby procedures implemented by the Group to ensure compliance to relevant statutory, regulatory and supervisory requirements are not adhered to and/or are inefficient and ineffective. It is also the exposure to financial loss arising from the probability that regulatory agencies will make changes in the current rules (or will impose new rules) that will negatively affect the trading positions already taken.

Potential impacts on business

This could result in significant financial loss, impairment of shareholders' funds and/or outright closure of business, occasioned by sanctions or fines on the Group, or loss or suspension of its licence.

Mitigating measures

- Proactive implementation of the Group's robust compliance programme that ensures compliance by all stakeholders to relevant laws and regulations. This includes continuous updates of the Group's rule books as well as training of all stakeholders to understand regulatory obligations and the consequence of non-compliance
- Adopting a global view and fostering a culture that allows change to occur easily at operational, financial and management levels and minimises the impact on business when regulations change.

Type of risk

REPUTATIONAL RISK

This is the risk whereby the Group might be exposed to negative publicity due to the contravention of applicable statutory, regulatory and supervisory requirements and/or providing a service that does not comply with fit and proper industry standards.

It is the risk arising from negative perception on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect the ability to maintain existing, or establish new, business relationships and continued access to sources of funding. Reputational risk, typically through the provision of implicit support, may give rise to credit, liquidity, market and legal risk, all of which can have a negative impact on the Group's earnings, liquidity and capital position.

Potential impacts on business

- Negative publicity
- Loss of revenue
- Litigation
- Loss of customers
- Exit of key employees, share price decline
- Difficulty in recruiting talent
- Loss of correspondent banking relationships
- Loss of investor community confidence
- Significant financial loss.

Mitigating measures

- Maintaining timely and efficient communication among shareholders, customers, the Board of Directors and employees
- Establishing strong enterprise risk management policies and procedures throughout the organisation, including an effective anti-fraud programme
- Reinforcing a risk management culture by creating awareness throughout the organisation
- Responding promptly and accurately to bank regulators, oversight professionals (such as internal and external auditors) and law enforcement agencies
- Establishing a crisis management team in the event that there is a significant action that may trigger a negative impact on the organisation.

RESPONSIBILITY

All members of staff conducting particular transactions or activities to which regulation applies. However, the Board of Directors is ultimately accountable for compliance through the Chief Compliance Officer.

RELATIONSHIPS AND RESPONSIBILITY

INTRODUCTION

With over 8.5 million active customers and deeply entrenched domestic footprints, the Group is well poised to cater to the needs of our stakeholders and continuously drive sustainable growth across Africa.

We recognise that in order to help improve the quality of life and provide financial security for our customers and their families, communities and investors building and sustaining valuable relationships is important.

From traversing the challenges confronting a new industry in colonial times, to the transition of political independence and the successive reforms that governments have pursued in recent times to bolster the resilience of the domestic economy, our growth and leadership strides have been largely dependent on our ability to manage our relationships with our stakeholders.

CITIZENSHIP APPROACH

At FBN Holdings, citizenship means taking into consideration the needs of stakeholders when making decisions. It includes our commitment to conducting business transparently and with integrity by managing our business processes to ensure an inclusive, positive impact on society.

It is also about operating ethically and sustainably in our dealings with all stakeholders, as well as empowering the communities where we operate. Citizenship is not bolted on to our corporate strategy: it is embedded into our business strategy and our daily operations.

The citizenship approach is contained in the Group's corporate responsibility policy. The policy clearly outlines our commitments and approach to corporate responsibility, as well as the Group's corporate responsibility and sustainability governance. The scope of the policy and respective guidelines applies throughout the Group's operations and activities, including its subsidiaries in all locations, stakeholders and associated partners representing the Group.

THE JOURNEY OF EMBEDDING SUSTAINABILITY

To help drive responsible practices, the sustainability team, which consists of business units across the Group in partnership with Accenture, recently concluded the exercise of developing a sustainability strategy, an implementation road map and performance management system for 2014-2016. This is based on engagement with our customers, employees, investors, regulators, communities, industry partners and non-governmental organisations (NGOs).

The sustainability strategy is designed to deliver value in a structured way along four key areas. These are: driving sustainable finance empowering people; supporting our communities; and contributing to environmental sustainability.

- **Driving sustainable finance** – our customers remain a vital element of our business. We constantly seek ways of providing products and services to meet their needs, while ensuring that we manage our environmental and social impacts in the process. Thus, contributing to overall sustainable growth and development.
- **Empowering people** – we are committed to helping our people grow, providing opportunities and a supportive environment and culture for personal development.
- **Supporting our communities** – we invest our time and resources as part of our responsibilities to enrich the communities in which we work and live.
- **Contributing to environmental sustainability** – we are committed to avoiding or minimising environmental impacts beyond our responsible lending efforts.

The sustainability strategy is enhanced by a set of enablers that help drive our priorities. They include sustainability capacity development, stakeholder management, partnerships and communications, as well as sustainability performance management. Capacity development requires developing the relevant policies, processes and tools, skills and capabilities to achieve the Group's sustainability and business objectives. Also, building trust, brand and reputation through effective stakeholder engagement and thought leadership on sustainability are key enablers in achieving our sustainability priorities. Equally important in meeting our sustainability goals is providing actionable performance data, producing sustainability reports and effectively managing performance.

BUILDING RELATIONSHIPS THROUGH OUR CITIZENSHIP APPROACH

At FBN Holdings, relationships and corporate responsibility are intertwined. Our citizenship approach involves developing and sustaining mutually beneficial, trusting and meaningful relationships between us and our stakeholders.

We believe that building strong relationships with our customers, employees and communities underpins our own sustainability and informs our focus areas and priorities.

Our proactive approach ensures that relationships play a vital role in the success of our business operations and processes, which are mainly aimed at improving the quality of lives of our customers and communities.

RESPONSIBLE LENDING

One of the major functions of FirstBank, a key subsidiary of FBN Holdings, is lending to customers. The sustainability risks associated with lending include financial risks, legal risks and reputational risks. Financial risks involve inability of customers to repay their loans due to environmental and social costs. Legal risks include potential direct liability for the subsidiary to pay for clean-up of contamination caused by a customer through possession of assets. And reputational risks include the damage to reputation as a result of association with polluting or exploitative and unethical customers.

To manage these risks, FirstBank has taken a structured approach to the ongoing process of embedding sustainability; it has taken important steps to build on the existing environmental screening process and make a more comprehensive mechanism involving the environmental, social and governance management system (ESGMS).

RELATIONSHIPS AND RESPONSIBILITY

The ESGMS consists of environmental, social and governance policy procedures to screen transactions; guidance for monitoring performance and maintaining ESGMS records; ways of reviewing ESGMS and continuously improving it based upon changing international standards and the Company's lending profile; considerations with regard to internal and external reporting of ESGMS performance; roles and responsibilities for implementation, as well as budget, training and senior management approval. The implementation of the ESGMS will begin in 2014, in line with the sustainability implementation plan. The sustainability implementation plan with identified priorities is phased from 2014-2016, aligned with the corporate strategy. The priorities for 2014 include developing and implementing ESGMS, enhancing financial literacy and financial inclusion programmes.

INNOVATIVE SOLUTIONS FOR OUR CUSTOMERS

We take a responsible approach to enhancing the quality of life and financial security of our customers and their families. It has seen us design sustainable products and services tailored to meet their needs and expectations. A vital current area of focus is driving new industry solutions to the challenge of inclusive finance. Firstmonie, an innovative product targeted at the un-banked segments of the nation's adult population. Firstmonie's main selling point is that it allows customers and non-customers to withdraw money from any FirstBank ATM without a payment card. In addition, through active partnerships with the government and other stakeholders, we have successfully provided loans and financial services to over 40,000 small and medium enterprises (SMEs) in Nigeria. In 2013, through our SME Connect, we have also started our capacity building programmes for SMEs, as well as providing them with downloadable business management resources and tools from our FirstBank SME Connect dedicated website.

Our overarching customer service approach aimed at entrenching excellent customer service culture in the Group has seen us come up with specially designed customer-centric initiatives. Three key programmes are highlighted here. First, is the Voice of the Customer forum, a platform that allows customers to interact with top management executives. We held three forums across the country in 2013. The second programme is FirstClub. This is FirstBank's point-based loyalty and reward programme aimed at appreciating customers' patronage across all segments of the Bank's customer base. It's one of the numerous ways we reward our customers for banking with us. Unlike promotions, where few benefit, the loyalty scheme rewards every customer. Thirdly, is mystery shopping; this involves rewarding our staff dedicated to quality service. Our employees in over 760 footprints are regularly rewarded for exceptional service delivery to customers, knowing that the success of our customers and their families secures future business and enhances our sustainability.

A GREAT PLACE TO WORK

At the heart of building relationships within the Group lies the respect and value we place on our people. Our people sit at the heart of our value propositions. Partially, this is the nature of our business. As our respective franchises have grown, attracting new businesses and relationships, we have constantly sought, identified and adopted new ways of up-scaling the competencies of our people to drive the requisite transformation of our business models. Accordingly, our Group human resource development goal is to become a hub for the best talent in the industry, and we have structured our training and capability initiatives to focus on the competency requirements of the different roles and in line with industry requirements. Over the last seven years, at least 90% of the workforce has attended courses and programmes designed to boost their job performance and personal fulfilment.

Our responsibilities to our people include enhancing the quality of relationships among all people in the Group, as this is a key determinant of qualitative decisions and how they are implemented. To this end, our mantra for year 2013 was 'WHOLESUMNESS'. This was borne out of a deep reflection on the all-important need to proactively drive synergies across the Bank, its various teams and subsidiaries. Our engagement plan included people integration, managing change and promoting diversity and inclusion. Our diversity policy was refreshed, aimed at promoting diversity and inclusion in the workplace. We recognise that advancing diversity and inclusion creates possibilities for change and innovation as unique views and ideas are aligned for a common goal.

Our diverse working environments include employees of different ethnicities, genders, abilities, ages and cultural differences. We currently have nine women on the respective boards of the subsidiaries that make up FBN Holdings – the highest of any holding company in Nigeria. In addition, to engender healthy relationships and employee bonding, we have created platforms for our employees to actually express themselves and have truly fulfilling experiences. One such platform is the Employee Volunteering Scheme (EVS). This scheme provides an opportunity for employees to volunteer their time and skills in empowering communities where we live and work.

SUPPORTING OUR COMMUNITIES

Our ability to respond to the changes in our operating environment since 1894 has been largely attributed to the quality of relationships we have built and sustained with our relevant stakeholders, including communities. The communities where we live and work have been instrumental to our success. It's been a relationship based on mutual trust, respect and support. Stakeholder engagement with our communities in education, economic empowerment and the environment are key in our support of the community.

Under these platforms the Group has some key programmes, but constantly supports various community investment activities; on average we have supported 40 community support activities and development projects on an annual basis, over the last ten years, spending approximately ₦500 million per year. The key programmes include FirstBank Endowment programme; FutureFirst programme; Infrastructure Development programme; Youth Leadership programme; Hope Rising programme. These programmes are continuous and have significantly impacted the communities at large.

Our approach to advancing environmental sustainability includes minimising our direct and indirect impact on the environment. Our efforts at minimising our direct impact involve conserving energy to reduce global warming by reducing CO_2 emissions, as well as conserving resources such as reduction in the use of paper in our business operations, anchored on our print optimisation programme.

STANDARDS AND CODES

We are committed to international standards and have only adopted principles that can be supported by the relevant frameworks, as well as those that strategically fit with our business.

RELATIONSHIPS AND RESPONSIBILITY

ISO 26000 GUIDANCE STANDARDS ON SOCIAL RESPONSIBILITY

ISO 26000 is an international standard giving guidance on social responsibility. It is intended for use by organisations of all types, in both public and private sector, in developed and developing countries, as well as in economies in transition. It is designed to help organisations in their efforts to operate in a socially responsible manner. ISO 26000 contains voluntary guidance, not requirements, and therefore is not for use as a certification standard. FirstBank, one of the subsidiaries of FBN Holdings, is a technical partner in the Nigerian adoption process tagged 'ISO 26000: NAP', which began last year. As a technical partner, we are fully committed to the seven core subjects of ISO 26000 guidance. These are: community involvement and development; human rights; labour practices; the environment; fair operating practices; consumer issues and organisational governance.

Clearly, being part of the process has allowed us to shape our thinking and outcomes in line with local understanding and relevance. We had promised that our 2013 report would be based on ISO 26000 after the adoption ceremony, which took place in the fourth quarter of 2013. Unfortunately, reporting aligned with this standard will most likely begin in our 2014 report as our sustainability performance process recently concluded.

THE NIGERIAN SUSTAINABLE BANKING PRINCIPLES (NSBP)

The NSBP programme was constituted under the auspices of the Central Bank of Nigeria (CBN) and the Bankers' Committee to formulate sustainable banking standards and guidelines for Nigerian banks. This led to the birth of the Strategic Sustainability Working Group (SSWG), of which First Bank of Nigeria, a subsidiary of FBN Holdings, is a member. With support from FMO Entrepreneurial Development Bank (FMO), International Finance Corporation (IFC) and an independent adviser, the SSWG was instituted to work under the Bankers' sub-committee on Economic Development and Sustainability to develop the NSBP. The priority focus areas for the sustainability programme were: agriculture (including water resource related issues and the Nigeria Incentive-Based Risk-Sharing System for Agricultural Lending (NIRSAL), power (with an emphasis on renewable energy), and oil and gas. The Bank actively participated in two of the sub-committees (agriculture, and oil and gas), which made submissions that were approved by the Bankers' Committee for implementation by the sector regulators, banks and other related financial institutions.

FirstBank is a member of the steering committee responsible for providing implementation guidance on the NSBP for signatories to the principles.

NSBP IMPLEMENTATION UPDATE

Principles	Requirements	Status Update
Principle 1: our business activities, environmental and social risk management – to integrate environmental and social considerations into decision-making processes relating to our business activities to avoid, minimise or offset negative impacts.	• Development of appropriate Environmental and Social (E&S) policies. • Development of appropriate E&S procedures. • Development and customisation of E&S due diligence procedures. • Articulation of E&S governance and approval authority measures. • Monitoring and reviewing E&S risks and conditions. • Provision of client engagement guidance on E&S issues. • Development of appropriate E&S reporting criteria. • Reporting on implementation progress. • Support for investment in sustainable, innovative business opportunities.	• Environmental, social and governance management system (ESGMS) has been developed. This covers all requirements, except the last two. • Implementation from 2014.
Principle 2: our business operations – environmental and social footprint – we will avoid, minimise or offset the negative impacts of our business operations on the environment and local communities in which we operate and, where possible, promote positive impacts.	• Development of an environmental management programme with facilities management. This should address climate change and greenhouse gas emissions reduction, water efficiency, waste management and environmentally friendly facilities construction and management. • Compliance with relevant labour and social standards. • Implementation of a community investment programme. • Application of E&S standards to relevant party.	• Print optimisation programme. • To launch new initiatives on sustainable procurement. • Comply with international labour standards. • Partnership with the Nigerian Conservation Foundation.
Principle 3: human rights – we will respect human rights in our business operations and business activities.	• Development and implementation of a human rights policy (including labour and working conditions). • Integration of human rights due diligence into E&S procedures. • Investment in resources and training of staff on human rights issues.	• Developing a more comprehensive human rights policy. • Parts of our ESGMS. • Plans to conduct training on human rights within the Group.

RELATIONSHIPS AND RESPONSIBILITY

Principles	Requirements	Status Update
Principle 4: women's economic empowerment – we will promote women's economic empowerment through a gender inclusive workplace culture in our business operations and seek to provide products and services designed specifically for women through our business activities.	• Developing and implementing a women's economic empowerment policy. • Establish a women's economic empowerment committee. • Develop initiatives and programmes to promote and celebrate women's empowerment. • Invest and dedicate resources for female talent. • Support the establishment of a sector-wide women's empowerment fund.	• A policy is being developed. • The Bank has a market share of 26% under the Federal Government's Growth Enhancement Support Scheme designed for SMEs. • Over 3,000 SMEs run by women get support from FirstBank. • FirstBank Board composition consists of four women out of 19, representing 21% of the Board. • Women's economic empowerment committee established. • Partners with WOWE, WIMBIZ on women's development. • Developed a diversity policy for promoting inclusion and diversity.
Principle 5: financial inclusion – we will promote financial inclusion, seeking to provide financial services to individuals and communities that traditionally have had limited or no access to the formal financial sector.	• Developing and implementing a financial inclusion policy. • Providing development and growth support to SMEs. • Improving financial literacy and institutional practices. • Improving access to bank facilities and services.	• Developing a policy. • Loans for over 40,000 SMEs. • FutureFirst and other programmes in place for financial literacy. • Firstmonie; FirstInstant for the un-banked.
Principle 6: E&S governance – we will implement robust and transparent E&S governance practices in our respective institutions and assess the governance practices of our clients.	• Establish E&S governance responsibility. • Develop institutional E&S governance practices. • Actively support key industry initiatives that aim to address E&S governance issues with clients operating in sensitive sectors. • Implement E&S performance-linked compensation and incentive schemes. • Establish internal and, where appropriate, external E&S audit procedures.	• Developed sustainability governance team chaired by Chief Risk Officer (CRO). • A member of the NSBP steering committee.

RELATIONSHIPS AND RESPONSIBILITY

Principles	Requirements	Status Update
Principle 7: capacity building – we will develop individual institutional and sector capacity necessary to identify, assess and manage the environmental and social risks and opportunities associated with our business activities and business operations.	• Identify relevant roles and responsibilities for delivery against sustainable banking commitments. • Provide sustainable banking training sessions. • Create practical E&S training tools and resources. • Multi-stakeholder capacity building.	• Board and executive management have been trained on sustainability. • 40 strategic key heads of SBUs and departments. Part of the team that developed the sustainability strategy and opportunities have been trained. • Partnering with the NSBP, and IFC in training key staff. • Plans within the Group to ensure every member of staff is trained in sustainability.
Principle 8: collaborative partnership – we will collaborate across the sector and leverage international partnerships to accelerate our collective progress and move the sector as one, ensuring our approach is consistent with international standards and Nigerian development needs.	• Collaborate and coordinate with other banks. • Convene sector-wide workshops and events. • Commit to international standards and best practice initiatives. • Establish and participate in Nigerian sector level initiatives.	• A member of the NSBP steering committee. • Participate in industry wide workshops. • Member UNGC and signatory to ISO 26000.
Principle 9: reporting – we will regularly review and report on our progress in meeting these Principles at the individual institution and sector level.	• Establish a sustainable banking reporting template. • Set clear targets and relevant performance indicators. • Ensure the necessary systems are in place to collect data. • Agree the frequency, nature and format of internal and external reporting. • Contribute to sector-level reporting.	• Developed a reporting template. • Targets and KPIs have been developed. Implementation from 2014. • Developing a system to collect data. • Internal reporting quarterly. External: yearly.

THE UN GLOBAL COMPACT

The UN Global Compact (UNGC) is currently the highest body for corporate citizenship in the world today. Established in 2000 to serve as a platform for dialogue, learning and partnership for organisations willing to commit to adopting corporate responsibility as part of their business strategy and daily operations, the UNGC has successfully attracted and mobilised over 7,000 businesses in over 130 countries across the world to become members.

Membership into the UNGC implies an organisation's willingness to align with UN values and support initiatives that advance the UN goals as contained in the Millennium Development Goals (MDGs). Participants simply commit to align their strategies and operations with ten principles in the area of labour, human rights, environment and anti-corruption.

We started the process for UNGC membership in late 2012, with the goal of supporting the principles of the organisation. We became a member in the first quarter of 2013. As part of our commitment to going beyond meeting the minimal membership requirements to playing an active role in advancing the global corporate sustainability agenda, Bisi Onasanya, Group Managing Director, GMD/CEO, First Bank of Nigeria joined global political and business leaders in New York for the Africa Private Sector Forum in consideration of a new global architecture for the private sector on sustainability and contribution to global priorities and the public good. The GMD/CEO chaired a session on Innovative and Sustainable Financing at the United Nations triennial Global Compact Leadership Summit in the US.

The FirstBank 2013 annual report showcases our communication on progress (COP).

RELATIONSHIPS AND RESPONSIBILITY

STAKEHOLDER ENGAGEMENT

Stakeholders are those who affect or are affected by an organisation. Our key stakeholders include: employees; customers; shareholders; communities; regulators and the media.

	Reasons for the engagement	Types of engagement
EMPLOYEES	• To ensure that the FBN Holdings Group remains a great place to work by providing a secure, positive and inspiring working environment. • Listening, understanding and responding to staff needs and concerns. • To ensure all staff are aware of the Group's vision and activities and the role they are required to play.	• These include focus groups; knowledge sharing sessions; roadshows; engagement surveys; emails and intranet communications; and magazines and training.
CUSTOMERS	• To have a better understanding of the financial services needs of our customers. • To meet the needs of our customers by providing appropriate solutions.	• Interactions through branch service points; relationship managers; contact centres complaint lines and customer engagement forums; social media, surveys and marketing and advertising activities.
INVESTORS	• To manage relations with the investor community by positively projecting the intrinsic value of the Company, enhancing investors' confidence and ultimately creating value.	• Roadshows. • Communication and responses to investor and analyst queries. • Annual General Meetings. • Conferences and presentations.
REGULATORS	• To build and enhance relationships with regulators by ensuring all legal and compliance requirements are met to minimise associated risks and safeguard our license to operate.	• Meetings. • Statutory reporting.
COMMUNITIES	• To develop and sustain mutually beneficial, trusting and meaningful relationships with our communities aimed at enhancing the Group's corporate responsibility goals. • To obtain inputs from communities regarding the Group's corporate responsibility programmes and how their needs can be better met. • To partner with non-governmental organisations (NGOs) in ensuring that the Group's activities and operations are conducted responsibly. • To create awareness of the Group's corporate responsibility initiatives.	• Citizenship approach – ongoing support of projects and interaction with a wide variety of NGOs and government organisations. • Sustainability and corporate responsibility partnerships with Global Compact; LEAP Africa; and Junior Achievement Nigeria. • Steering Committee – Sustainability Champions of NSBP.

RELATIONSHIPS AND RESPONSIBILITY

CUSTOMERS – OUR CUSTOMER FOCUS

Our strategic drive for 2013 focused on improving the overall customer experience, expanding our service offerings to meet with the ever-growing needs of our customers, and ensuring we remain the leading financial institution in Nigeria by embracing innovation and cutting-edge technology.

With its diverse customer base in mind, each subsidiary developed its strategy based on the unique qualities of the industry and the expectations of its customers.

In 2013, FBN Holdings sustained focus on improved service delivery by concentrating on our key satisfaction themes: customer care; convenience; system and infrastructure; process efficiency; and products and services. We know we can only achieve excellence when we put our customers at the centre of our business. This means anticipating their needs, as well as offering suitable products, easy to use channels, greater convenience and superior experience across touch points.

We established a Service Steering Committee as the highest service decision-making body within the Bank. Chaired by the Group Managing Director/ Chief Executive Officer, the committee was established to provide strategic guidance on the Bank's service delivery priorities, review the practice and procedures required to drive the Bank's service goal and continually take necessary corrective actions and make recommendations for achieving service excellence.

THE GROUP, THROUGH ITS SUBSIDIARIES, HAS ACHIEVED QUITE A LOT OF ACTIVITIES IN 2013:

- migration of our core banking application to Finacle 10 from Finacle 7;
- renovation of our online banking platform to provide additional features;
- customer forums held in various locations to gather direct information on improving satisfaction and meeting expectations;
- 2,107 visits were made to the branches by vendors and Service Delivery Excellence staff, to experience service from our customers' perspective;
- the surveying of 17,240 customers to measure satisfaction with our products and services;
- review of service performance framework to include Service KPIs in scorecards, ensuring improved ownership;
- establishment of the Service Steering Committee as the highest service decision-making body within the Bank;
- introduction of Firstmonie®, resulting in fast and efficient money transfer services and a reduction of negative effects of the Central Bank's cashless policy;
- deployment of FirstPay, a payment platform for quick transfer of money within banks including salary payment, bill payments, etc;
- expansion of branch network in response to customers' demand to have our services closer; and
- modification on the new Internet Banking facility to allow viewing of all accounts of grouped together customers at one log in.

EMPOWERING BRANCH TEAMS TO TAKE OWNERSHIP

At FBN Holdings, we understand the adoption of new behaviours accelerates when the branch manager and local team fully participate in planned changes. With over 760 branch outlets, our branch staff play a crucial role in quality service and as such we have devised several means in which branch staff can embrace the changes and own the change agenda.

Through the Voice of the Employee forum, senior management is able to engage with branch staff to identify service issues and agree required resolutions. Our complaints handling policy also encourages staff to aim to resolve complaints at first point of contact.

We actively seek out staff members who are providing exceptional service to customers. These personnel are recognised Bank-wide and rewarded. Across the Bank, all staff understand our zero tolerance policy of unacceptable behaviours towards our customers and are they are expected to conform accordingly.

SERVICE DELIVERY

At FBN Holdings, driving service delivery requires being proactive in discovering issues, identifying trends and proffering adequate solutions. Our quarterly service performance report comprises reports from our dashboard, mystery shopping, surveys, complaints management and internal sources highlight immediate service improvement areas. This guides our areas of focus and enables us to channel our resources to those aspects of our business appropriately.

Our robust IT infrastructure and Finacle 10 upgrade aimed at improving service delivery have resulted in the improvement of our ATM uptime. This has further guaranteed the reliability of our ATMs to customers, reduced complaints and the inconvenience associated with ATM downtimes.

As part of our drive to improve our service offerings, we launched a new online banking platform, which has enhanced security features, a more appealing look and feel and a financial planner, as well as a contemporary menu bar that allows customers to easily navigate through the site. Customers can now be set up in any of our branches within five minutes and update their details without being physically present in our banking halls. In addition, customers can schedule payments, carry out up to 10 multiple transfers at the same time, set daily withdrawal limits, be alerted when certain accounts go below a specific balance and manage their account preferences. Also available on this platform is the International Funds Transfer (FirstTrade) where customers can transfer funds from their domestic accounts to any location and at any point in time.

RELATIONSHIPS AND RESPONSIBILITY

CUSTOMERS – OUR CUSTOMER FOCUS

With about 85,000 customers segmented into groups, individuals, corporate account holders and savings account holders, FBN Microfinance Bank has been designed to become the market leader in the microfinance space with the backing of the FBN brand and reputation, as well as tailor-made banking services that deliver value to numerous customers. Such tailor-made services include our 'My Daily Savings' product, which allows customers who sell on a daily basis to save small amounts of money daily through our collection staff. Loan products have also been made to serve a different category of customers. There are the monthly loans for non-daily traders, weekly loan repayment cycles for the daily sales client and one-off repayments for FirstBank Easy Loan customers. Processes have been put in place to ensure loan applications do not exceed 48 hours between submission and approval or rejection.

Also introduced is the daily savings collection from customers' business locations to ensure they do not have to come to the bank to save their funds. Complaints of service infractions are quickly dealt with and appropriate sanctions are issued. A control unit was set up to curb complaints in loan disbursements and management.

Staff are frequently trained to enhance their customer service skills. Through the annual customers' forum, good customers are rewarded and information is provided on areas such as health management and loan management.

With First Pension Custodian, we have a well-defined relationship management structure that ensures our clients are well serviced. In addition, the staff have been trained to ensure services are provided promptly and efficiently.

The recent implementation of the newly-acquired Custody Software addresses the issue of perceived inefficiency in service delivery to clients.

CUSTOMER SERVICE

Offering our customers the best service remains our foremost priority and we recognise the important role our workforce plays in achieving this goal. As a result, we continually seek and reward staff who display exemplary behaviour. During Customer Service Week, celebrated worldwide in the first week of October, outstanding service staff were rewarded. Also, departments and units noted to have made significant contributions towards the Bank's service delivery goals were also recognised.

To ensure we serve customers even better and also comply with regulatory reporting requirements, the Bank set up a task force to take a critical look at its customer data quality. Accurate and reliable customer data enables us to contact customers and resolve issues without delay, disseminating valuable information to customers, carrying out proper analysis and allowing us to make the best decisions, rendering accurate reports in compliance with regulatory requirements.

To achieve this goal, a data cleansing team, has begun a customer data enrichment campaign in which customers with incomplete or stale information are being requested to update their records accordingly. Over the course of 2014, we plan to consolidate the customer data in our systems and also launch a full customer data enrichment campaign. We also plan to acquire tools that would support the continuous management and maintenance of good quality data in an effective and efficient manner, so that customers are constantly served well.

BUILDING STRONG RELATIONSHIPS

As the leading bank in Nigeria with the most diverse portfolio of small and medium enterprises (SMEs), we recognise that SMEs are the bedrock for the development of any economy. As a result, we are strengthening our SME offering to enable us to effectively meet their changing needs.

We launched a robust and added-value engagement model for SMEs nationwide. This focuses on non-financial services in order to deepen our existing customer relationships while acquiring new SME customers that wish to start, grow and sustain their businesses with us.

We kick-started our capacity-building programme aimed at providing practical support for challenges faced by owners of small businesses in Nigeria with the launch of the Annual SME National Conference. The conference included participants from different sectors of the economy. Successful SME business owners shared their experiences with upcoming entrepreneurs, while government representatives shared their advice on optimising existing opportunities in the Nigerian economy. We plan to organise a series of industry-specific forums, town hall meetings and training seminars for SMEs nationwide.

Furthermore, we are providing business management resources and tools for download and use by SMEs on both a new FirstBank dedicated SME website and an e-commerce portal (with social networking capabilities), where SMEs and individual entrepreneurs can advertise and sell their goods and services. At the moment, over 1,000 SMEs and individual entrepreneurs have registered on the website.

CUSTOMER SATISFACTION

In FBN Holdings, interacting with our customers to solicit feedback on our services, their expectations and suggestions on how we can better serve their needs is of utmost importance to us. Hence, FBN Holdings continued with its customer engagement model, through the Bank and organised four Voice of the Customer forums across the country. This allowed the Bank to have a clear perception of the service issues capable of having a negative impact on the Bank's relationship with its customers and ensured such issues were handled with the attention they deserve. First Pension Custodian engages with customers via a monthly operational meeting, regular interaction with the clients by the relationship team and, when the situation calls for it, occasional communication with the Company executives.

We are constantly carrying out reviews of our processes to ensure the adoption of efficient and customer-friendly processes. This is based on feedback received from surveys, the complaints dashboard and other vital sources. In 2013, over 17,000 customers were surveyed to obtain feedback.

In addition, we held the first service strategy planning session where key stakeholders within the Bank converged to agree and define strategic service priorities for the ensuing year, as well as decide on how best we can continue to serve our customers.

RELATIONSHIPS AND RESPONSIBILITY

CUSTOMERS – OUR CUSTOMER FOCUS

COMPLAINT HANDLING

The Group, through its subsidiaries, has identified the achievement of service excellence as an important non-financial priority. Crucial to this is the enrichment of customers' experience through the proactive management of complaints and issues. We respond to requests, enquiries and resolve complaints 24 hours a day, seven days a week through our contact centre and various other channels such as emails via the Online platform, short messaging service (SMS), through the relationship managers or by walking into any branch to speak to a customer service officer; these are channels through which customers can contact us. We also took a step further in ensuring customers are aware of all our complaints channels by displaying them in all our branches. This includes escalation channels for complaints that are not adequately resolved. To further protect customers, the Bank renders customer complaints to the Central Bank of Nigeria (CBN) on a daily basis and is expected to resolve outstanding issues within defined timelines.

We put structures in place to ensure that we have a holistic view of all complaints received. This resulted in an increase in the number of complaints received as over 39,000 were reported in 2013 compared to 18,080 recorded in the previous year, as shown in the report below.

Customer complaints received in 2013

S/N	Description	Number		Amount claimed (₦)	
		2013	2012	2013	2012
1	Pending complaints brought forward	386	34	1,316,965,049.90	552,753,255.82
2	Received complaints	39,785	18,080	15,933,790,532.48	7,271,128,417.93
3	Resolved complaints	39,115	17,694	2,145,283,016.39	139,125,475.74
4	Unresolved complaints escalated to CBN for intervention	0	1	0.00	1,600,000,000.00
5	Unresolved complaints pending with the Bank carried forward	670	386	5,295,753,038.34	1,316,965,049.90

Furthermore, a complaints dashboard was developed in the last quarter of the year that shows complaints grouped by type, resolution time, percentage turnaround time performance, percentage in previous and current count and percentage of each of the categories compared to total receipt.

All these have helped identify recurring complaints, seasonal complaints and the sources of these complaints, resulting in quick resolution while outstanding issues receive the required attention.

At FBN Bank (UK) Ltd to ensure customers' complaints are well handled towards exceptional customer service, every customer on the bank's book has a Relationship Manager (RM) who is the main point of contact for the customer and ensures each account is functioning in accordance with the customer's expectation. As part of Know Your Customer (KYC) the RM reviews the account with the customer, currently on an annual basis. This process is overseen by the Bank's Compliance department as part of its compliance monitoring programme.

In the pension custodian business however, complaints are lodged and logged with the relationship management team. In a bid to achieve effective and efficient TAT, which crescendos to a high level of customer experience, unresolved complaints received are escalated to the head of investor relations, through to the Chief Executive Officer as required.

OPERATIONAL EXCELLENCE

The *Service Standard Manual* was developed and circulated to enhance staffs understanding of the Bank's service delivery standards and expectations, enhance professionalism by guiding staff in their interaction with customers and reinforce staff commitment to excellent customer service delivery. It also serves as a blueprint for the internal set of standards required to deliver on our service priorities.

With a lot of branches spread out across various locations nationwide, maintaining the same quality service and standards is of great importance to us. Hence, we carry out mystery shopping activities in our branches on a quarterly basis and measure based on defined metrics. The branches are then ranked by their scores and the results are published across the Bank. In addition, the branch service managers of the best and worst branches are rewarded and sanctioned accordingly, based on our mystery shopping performance framework.

RELATIONSHIPS AND RESPONSIBILITY

CUSTOMERS – OUR CUSTOMER FOCUS

CUSTOMER SERVICE OBJECTIVE

OBJECTIVES IN 2014

The key focus for the group in 2014 is to continue to improve on customer needs and expectations. This will be achieved by:

- improving our complaints management framework;
- expanding the scope of independent customer satisfaction surveys to identify service failures as well as areas of customer satisfaction;
- encouraging proactive management of the complaints process;
- closer engagement and feedback strategies with various customer segments;
- driving product innovation and expected service level within the staff;
- engendering a customer-centric culture through the incorporation of service quality indicators across all functions from front-line to back end;
- continuously tracking and measuring service performance; and
- ensure Zero tolerance for service infraction.

CONSUMER PROTECTION

We participated in the 2013 Child and Youth Finance Week by reaching out to children and youth in various communities across Nigeria. This is a global event and a part of the Customer Protection framework (CPF) of the Central Bank of Nigeria (CBN), aimed at promoting financial literacy among children and young adults. During the week, visits were made to various schools and students were taught about financial independence.

RELATIONSHIPS AND RESPONSIBILITY

CUSTOMERS – INNOVATIVE BANKING SERVICES

Although the industry has been very uncertain as a result of regulatory interferences, the Group has continued to focus on driving key strategic objectives of growing Service Delivery Excellence, and thus has sustained leadership position in the electronic space. Within the last two years, we introduced a number of innovative products and processes that made access to financial services more convenient and cheaper for our customers, and this has helped us to grow financial services demand significantly.

EXTENDED INSTANT CARD ISSUANCE PROCESS

Providing superior customer service has been our key differentiating strategy and thus our card issuance process – which was revamped to issue a fully functional payment card to customers across our branches in just 15 minutes – was extended to our Debit Master Card Variant in 2013. No other bank in the industry has been able to replicate this, and this strategy has been fundamental to the phenomenal growth in the usage of these cards abroad in 2013. For example, a customer who is in a hurry to catch an international flight can easily be issued a Naira MasterCard and get it activated in just 15 minutes, saving the customer the cost of missing the flight and availing them of the convenience of spending directly from the Naira Current or Savings account anywhere in the world.

STRENGTHENING OUR ATM SERVICE

Increased competition in our industry has made it clear that providing quality service is a key differentiator for the Bank. For this reason, we have introduced a number of strategic initiatives to strengthen the services provided through our ATMs in 2013. We have improved both the availability of our ATMs through 24/7 monitoring and the accessibility of our machines at our branches. This is to ensure both our customers and other banks' customers make use of this alternative channel. We believe that focusing on our customers is critical to the running and sustaining of a profitable business that delivers returns to its shareholders.

As the largest retail bank in Nigeria, the Bank has consistently improved convenience and access for its customers through its unparalleled and growing branch, ATM and POS network. The Bank recognises that satisfied customers will carry out more transactions that translate to growth in our key product volumes. At the end of the financial year, we had a clear lead in the number of ATMs deployed (2,437) and debit cards issued (6.33 million) in the industry, further establishing FBN Holdings as the financial entity with the widest retail footprint in the country. This unparalleled reach makes it convenient for our customers to carry out banking transactions, reducing travel time and cost as we are closest to the customer.

TECHNOLOGY INNOVATIONS

We introduced a number of innovative products and services, especially in the areas of e-commerce – First eConnect and Mobile Financial Services – the Mobile Banking module of the Firstmonie® platform and the internet banking solution.

IMPROVED SERVICE THROUGH ONLINE AND MOBILE BANKING

We completed a revamp of our Internet banking solution to meet the increasing demands from users for a more responsive, easy to use, online banking portal. This solution also improves the average time with which we can deploy and market new services through the use of more modern and agile technologies. The Firstonline was launched in November 2013 and has begun to add significant impetus to the Bank's drive for improved service delivery.

Our Internet banking offering increases access to banking for our customers and reduces costs-to-serve. For instance, in 2013 customers' transactions on the Internet banking platform amounted to over ₦378.1 billion, representing an approximate growth of 311% from around ₦91.9 billion in 2012. We are determined to continuously improve banking access for our customers, hence the upgrade of the Internet banking platform to a more robust system capable of improving the turnaround time (TAT) of enrolling new customers, while offering a better and more appealing customer interface and experience.

Also, we successfully deployed a new Mobile Banking module on the Firstmonie platform and we have registered about 499,000 users. Our Mobile Banking solution supports deposits, withdrawals, transfers, airtime recharge and bill payment transactions directly from your bank account. Through this technology, people with access to mobile phones are able to transfer and receive funds, make payments for goods and services and withdraw cash at agent/merchant locations or banks. This negates the need to travel far in search of a traditional banking outlet/branch that can handle their payment. By this, accessing financial activities anytime and anywhere becomes easier.

RELATIONSHIPS AND RESPONSIBILITY

CUSTOMERS – INNOVATIVE BANKING SERVICES

SOCIAL E-COMMERCE SOLUTIONS

First eConnect, is a robust social commerce solution launched to revolutionise the way consumers and merchants facilitate payment for goods and services using social and digital media, as well as improving banking services and easing customer experience. This is Nigeria's first social commerce platform that has social media and e-commerce functionalities. With its social media functionality, businesses can interact with potential customers while its e-commerce functionality enables online ordering and payment for goods and services. The Internet has become a major channel used by companies to drive their business operations. Nigeria has the highest penetration of Internet users in Africa. With 45 million Internet users, one in three Nigerians has access to the Internet and most modern consumers use it to perform their daily tasks. Research has shown that most businesses showcase their products and services on the Internet in a bid to drive business volumes. The commercial benefits and values of this solution to our customers include:

- **Increased sales** – First eConnect provides convenience to users and business owners who ordinarily cannot afford to rent a shop for their goods and services and cannot afford to move around with their products. Since they can now be online (no setup fees), they are able to reach more people and sell more.
- **Entrepreneurial opportunities for professionals** – First eConnect allows professionals who have paid jobs and are time-constrained the opportunity to be entrepreneurs, register new businesses and showcase themselves online.
- **Creation of a perfect channel for business** – in order to make sales, visitors are required to visit shops. With First eConnect, shops are only a click away from prospective customers and one can have more buyers than in a brick and mortar shop.
- **Improved customer support** – customer acquisition and retention is one of the key factors of the business value chain. First eConnect provides customer support more effectively on the Internet by using online correspondence. This means better customer satisfaction and increased profitability.
- **Cost savings** – with First eConnect, virtually any business transaction can be done online, such as supply chain management, billing, shipping, procurement, etc. Streamlining these business processes through online systems will allow companies to reduce marketing cost significantly in almost every sphere of the business.
- **Ability to do business 24 hours** – First eConnect promotes 24-hour businesses all year round. This leads to improved sales – far more than regular business hours.
- **Global presence and reach** – First eConnect opens up businesses to consumers all over the world and increases patronage.

ENABLING FINANCIAL INCLUSION

We are creatively using technology to grant the unbanked and under-banked population in Africa access to reliable, convenient and affordable financial services.

Firstmonie® is a mobile payment product that is packed with a number of innovations, foremost of which is a concept we call 'Viral Account Creation'. It enables customers of the Bank to send money to any mobile phone in the country using the Bank's cards or the Bank's ATMs. For beneficiaries that are not already enrolled on the platform, a mobile account is created on the mobile account platform. The recipient then validates the account and can withdraw money via our ATM network without a payment card – a concept termed cardless withdrawal. This has helped us to solve one of the major 'early days' problems in mobile payment schemes – how to transfer money to a Mobile Wallet. Customers of FirstBank could send money to any mobile phone user in the country (irrespective of network), on any of FirstBank's ATMs, from their phones and the recipient can withdraw the money from any FirstBank ATM without a payment card (cardless) by entering a code generated from the system.

Firstmonie has over 10,000 agents and about 499,000 users. Firstmonie takes into consideration the needs of the target market, the strength of the Bank, the flow of trust for financial services and learning from other markets. As a result, the service innovations in Firstmonie are unparalleled.

Through our mobile financial services offerings, we offer cross-border remittance services to customers and further reduce financial market boundaries in Africa, including people who are today excluded from financial services into the mainstream.

To further reach out to the unbanked populace and make our product competitive globally, we commenced the project to migrate all our prepaid cards to a platform where funds credited into the cards are made available to the customer instantly. On the completion of the project, we expect to capture a chunk of the unbanked customers through the sale of prepaid cards. Currently, we have issued about 35,000 prepaid cards.

Our prepaid cards offer unbanked and under-banked consumers access to online shopping and bill payment, as well as a host of other traditional banking functionalities. Moreover, we are increasingly adopting prepaid cards as a mechanism to service the unbanked market space, because it is cheaper, faster and more secure to transfer funds to cards than it is to mail cheques or provide cash to all recipients.

LOOKING FORWARD

We will continue to focus on delighting our customers and increasing access to financial services for them by deepening our retail footprints and innovating our processes and distribution channels. We will explore ways we can leverage the scale we have achieved in card issuance and channel deployment to reduce our cost-to-serve and make banking more affordable for our customers.

Through our e-capabilities, especially our Firstmonie and Mobile Banking, we will continue to help the Group grow its retail and corporate franchises and deliver strong returns to shareholders.

RELATIONSHIPS AND RESPONSIBILITY

CUSTOMERS – SOCIAL ROLE

OVERVIEW

At FBN Holdings, our focus is to consistently offer customers the right mix of products and services that positively impact their economic standing. Be it individual customers, corporate or government bodies, the Group's focus is to go beyond the traditional role of mediating between savings and lending but tailoring products to suit the specific needs of each customer, providing them with enhanced value for money. These services enhance the individual and family lifestyles of our customers, enabling them to build or even purchase their own houses, save towards their children's future, and so much more.

HELPING TO DEVELOP AND SUPPORT BUSINESSES

We have helped companies expand their business horizons through easy and accessible financing, which has seen businesses grow. This has provided much needed assets for their business operations, while supporting them with a wide range of products that facilitate trade.

SPEEDING UP REVENUE COLLECTION

For government agencies, our robust offerings for driving government revenue collections have contributed to the growth of internally generated revenues, both at federal level, with a 13% contribution to the Federal Inland Revenue Service (FIRS) collections and at state levels, with a 14% contribution to Internal Generated Revenue (IGR) collections, thereby enabling the execution of the government's infrastructural development projects. In addition, our cutting-edge e-payment products have offered convenient payment services to our customers in all sectors of the economy, which have helped them comply with the new Central Bank of Nigeria (CBN) cashless policy, as well as reduced man-hours/resources needed for processing salary, vendor and other related payments

GIVING OUR CUSTOMERS BUSINESS ADVANTAGE IN TOUGH ECONOMIC TIMES

In 2013, we continued to provide our esteemed customers with various products that helped them navigate the challenging economic environment. Greater focus was placed on small and medium enterprises (SMEs), which are the engine room of any economy, but have long been downplayed in Nigeria, while individuals, corporate bodies, religious bodies, government agencies, etc. also continued to enjoy our innovative products and services. We provided revenue and sales collections platforms for government agencies and corporate bodies alike, while empowering SMEs to access lending with ease.

SUPPORTING THE AGRICULTURAL SECTOR

The Federal Government, through the Federal Ministry of Agriculture and Rural Development (FMARD), continued to implement various groundbreaking initiatives in 2013. Interest rebate schemes, interest drawback schemes, and single-digit lending, among others, encourage lending to the agricultural sector by Deposit Money Banks (DMBs), thereby increasing the sector's performance. Most DMBs consider lending to the agricultural sector challenging business, but we have keyed into the agricultural intervention initiatives of the Federal Government and brought these benefits closer to customers in order to help them grow their businesses at affordable lending rates. Many customers were able to access agricultural loans at single-digit interest rates under the Federal Government's intervention schemes, thus reducing their operating costs and increasing their yield.

RESPONDING TO CHANGING CUSTOMER NEEDS

Following the implementation of the cashless policy by the CBN in six states of the federation, FirstBank enabled both corporate and individual customers to transact easily and conveniently, by making more products available on various customer touch points, thereby assisting customers to conveniently comply with this regulation. In consistently offering the best service to our customers, we review and improve product features to ensure the availability of suitable financial products in the community, even as customer needs and the economic environment change.

> *We will continue our support of SMEs to drive local economic growth, and increase employment opportunities.*

LOOKING AHEAD

In 2014, we are poised to continue to support our customers. We will continue our support of SMEs to drive local economic growth and increase employment opportunities by providing financing to the agricultural sector and key distributors of large manufacturing concerns. We will do this while providing the necessary support to government agencies in order to engender the growth and development of society.

RELATIONSHIPS AND RESPONSIBILITY

CUSTOMERS – SOCIAL ROLE

SUPPORTING OUR CUSTOMERS WITH A DIVERSE RANGE OF PRODUCTS

The Group offers a robust selection of consumer/retail asset and deposit products aimed at addressing the lending and savings needs of customers in the retail space (individuals and SMEs). Various regulatory policies (including the reduction of commission on turnover (COT) from ₦5 per ₦1, 000 to ₦3 per ₦1,000, standardisation of fees charged to customers for facility uptake, implementation of the CBN cashless policy in some states and increment of the interest rate on savings deposits) were introduced by the apex bank in the course of 2013. The Bank's response was to implement strategies to address customer needs through the introduction of innovative products targeted at generating low-cost deposits, while creating quality risk assets.

We deployed many value-added products in 2013 including the bancassurance products suite and the Salary Overdraft Account, while our erstwhile flagship product for children (0-18 years), the HiFi Young Savers Account, was segmented into two products: KidsFirst (0-12 years) and MeFirst (13-17 years) for greater impact. Not forgetting the youth, a novel product XploreFirst was introduced to cater for the needs of the youth between ages 18 and 24.

Bancassurance is the sale of insurance products through bank to provide our huge customer base (and their relatives) of over 8.5 million active customer accounts with easily accessible and affordable insurance coverage for life insurance, healthcare insurance and permanent disability insurance. Our customers are now able to access insurance coverage that helps to pay hospital bills in case of sickness, or assist family members in case of death of the policyholders and even in the case of permanent disability – benefits that ordinarily would have cost a whole lot more to access and enjoy. Our savings deposit product range has helped our esteemed customers to develop and encourage savings behaviour in their children through our children's savings products, encouraged the savings culture of adult Nigerians, as well as provided customers with the platform to prepare towards a target activity in their lives such as saving for a house, children's school fees, etc. To further encourage our customers, we launched the fifth edition of our savings deposit promotional campaign tagged 'FirstBank Big Splash Promo: 120th Anniversary Special' in July 2013. Through this we have further enriched the lives of over 240 customers who have shown consistency in their savings behaviour with an assortment of gifts, including brand new cars, household appliances and cash awards. For the children, we have endeavoured to contribute to their educational development through the annual raffle draw promotions on the KidsFirst and MeFirst products, which produced 12 lucky winners of ₦1 million targeted towards tuition fees, drawn from the six geo-political zones of the country. Catering to the personal and business needs of our customers remains paramount to us, hence our asset products are designed to offer customers the desired and affordable lifestyles through flexible and customisable loan products that empower them in meeting personal and business needs. These include personal loans against salary, mortgages and term loans offered to all salaried employees in predefined organisations, as well as to experienced entrepreneurs.

...our asset products bouquet are designed to offer customers the desired and affordable lifestyles through flexible and customisable loan products that empower them to meet personal and business needs...

Gombe Branch presenting a ₦1 million cheque to MeFirst winner (second left)

Warri Shell Branch presenting a ₦1 million cheque to KidsFirst winner (second left)

Ogbomosho Branch presenting a Toyota Corolla to Savings Promo winner (right)

RELATIONSHIPS AND RESPONSIBILITY

CUSTOMERS – SOCIAL ROLE

FACILITATING PAYMENT FOR OUR CUSTOMERS

Through our payments and collections function, we develop and facilitate the delivery of third-party collection solutions (including franchise and sales collections for target corporates) and bespoke e-payment services for maximum revenue generation for our esteemed customers. Our services, delivered through cutting-edge technologies, cut across both public and private enterprises.

ELECTRONIC PAYMENT AND COLLECTION

Our electronic payment and collection solutions are borne out of the need to ensure that customers are adequately equipped to operate in the emerging electronic space, such that they can, in addition to the traditional brick and mortar outlets, transact without hindrance. Our customers are enabled to remotely route their funds without fear of breaching the CBN cashless policy. We actively collaborated with the CBN in all locations where pre-commencement activities for the cashless policy required massive enlightenment campaigns, namely Federal Capital Territory (FCT) Abuja, Abia, Anambra, Kano, Ogun and Rivers States.

SUPPORTING INDUSTRY

FIRSTHEALTHCOLLECT+

As our contribution to the growth of the healthcare sector, we introduced a novel product - FirstHealthCollect+, a robust solution for automated hospital management that provides convenience and administrative ease to both hospitals and their patients. This solution enhances hospital administrative and management processes, provides HR solutions and addresses the e-payment needs of hospitals.

AVICOLLECT

Our Aviation Revenue Lifecycle Monitoring System (Avicollect) is a robust solution specially developed and deployed for the six agencies of the Aviation ministry to improve their operations and increase revenue throughput by plugging sources of revenue leakages in the system. In fostering financial inclusion, a key objective of the Federal Government of Nigeria, FirstBank is currently deploying a mobile revenue collection solution for IGR collection at grassroots and other locations where the unbanked and under-banked are prevalent. In addition, we strategically partnered with reputable e-payment and switching service providers, to enhance customers' businesses and offer superior value through:

- convenience: ATMs, point of sale (POS), web, mobile, eKiosks, etc.;
- availability: 24/7 services;
- affordability: cheap;
- accessibility: enrolment across branches and channels; and
- security: payments effected to intended recipients without compromising information security.

CONTRIBUTING TO AGRICULTURE POLICY ADVOCACY

The Bank continued to demonstrate its unswerving commitment to the agricultural sector by contributing to agriculture policy advocacy as the lead sponsor of the 19th National Summit of the Nigerian Economic Summit Group. The theme of the summit was 'Growing Agriculture as a Business to Diversify Nigeria's Economy'. The summit was attended by the President and Commander-in-Chief, Dr Goodluck Jonathan, ministers of the Federal Republic of Nigeria and leading international and multilateral organisations involved in the agricultural sector.

It provided an opportunity to highlight and enrich the Agricultural Transformation Agenda of the government. With the gradual winding down of the Commercial Agricultural Credit Scheme (CACS) programme of the CBN due to exhaustion of funds, the Bank witnessed huge repayment by customers in 2013, an indication of the success of the programme as proper monitoring ensured most customers were able to judiciously utilise the granted facilities and hence were able to repayment appropriately.

Being the star and preferred product of customers due to its single-digit interest rate and fairly long-tenured structure, the exhaustion of the CACS fund in the first quarter of 2013 and the prevailing high interest rate in the money market combined to depress the demand for credit in the agricultural sector. As a mark of its footprint in the sector, two FirstBank customers were invited personally by the President and Commander-in-Chief of the Federal Republic of Nigeria to the presidential dialogue at the summit. These customers were the only agro-industrialists and farmers from across the country that featured in the presidential dialogue during the summit.

SUPPORTING OUR CUSTOMERS THROUGH FINANCE SCHEMES

In our continued resolve to support the real sector of the economy, we provided funds in excess of ₦4.2 billion to empower SMEs in the distributive trade category. In 2013 we supported distribution of goods in the fast-moving consumer goods (FMCG), downstream petroleum, cement and telecommunications subsectors. This extended to both top and lower-end distributors to enable them to meet their working capital financing needs in distributing products purchased from the principals nationwide.

The Key Distributorship Finance schemes have enabled both the principals and their distributors to achieve their annual projections in terms of revenue and sales turnover, fostering improved relationships between principals and distributors who are now able to enjoy volume discounts, commissions and other incentives from the principals for exceeding sales turnover targets in a sustainable manner. Through these products, we have made capital injection into the sector very easy and helped some distributors transit from unstructured to semi/well-structured businesses who are serious employers of labour.

To meet customers' preferences, we enhanced our bonds and guarantees through a number of initiatives, including the modification of cash-backed bonds, guarantees to cash and non-cash-backed bonds and guarantees, downward review of turnaround time of issuance, and creating flexibility on the use of security/collateral for initial and subsequent disbursement of APS (Advance Payment Sum).

During the financial year under review, we endorsed a Memorandum of Understanding (MoU) with two major oil companies to provide financial support to their contractors and local vendors to the tune of a combined USD325 million under our Oil and Gas Contract Finance product. This strategic alliance is in furtherance of the Group's continued support to the oil and gas sector of the Nigerian economy, in which it committed in 2012 to provide USD1 billion over a five-year timeframe to provide financial support to the contractors of the Shell Petroleum Development Company (SPDC) and the Shell Nigeria Exploration and Production Company (SNEPCo) to build capacity.

RELATIONSHIPS AND RESPONSIBILITY

CUSTOMERS – SOCIAL ROLE

IMPACTING LIVES AND SOCIETIES

Through our money transfer promotions, FirstBank has impacted lives and societies. The IGUE Festival of Benin Kingdom, which is a traditional ceremony commemorating the Benin Kingdom's New Year festival that heralds another traditional year and brings all the sons and daughters of the Benin Kingdom in the diaspora home, has been sponsored yearly by Western Union and FirstBank since its inception in 1996. The purpose of this sponsorship is to identify with the cultural heritage of the Benin people, to increase brand awareness, and encourage affinity to the two brands (FirstBank and Western Union). Through this sponsorship, the Bank is able to give back to the community for their high patronage of the service, identify with the community in their special festival, show appreciation to the oba for his people's belief in the Bank and create brand awareness for Western Union and FirstBank.

During the year, a back-to-school promotion in collaboration with MoneyGram ensured parents and children were given gifts, including school bags and writing materials, to encourage them in their educational pursuits.

With a thriving diaspora presence across the globe, we are positioned to continue to provide innovative service to Nigerians, both at home and abroad, as we make remittances easy and convenient with the implementation of a third-party bank deposit option on the RIA Money Transfer platform. Major enhancements are already underway on the Western Union Money Transfer product with the introduction of the account-based money transfer service, while the use of mobile money platforms as a payout option will be implemented on other services like MoneyGram and RIA and ATM/web payout options will be implemented on our domestic transfer service - First Domestic Transfer. Expansion into the African market leveraging recent expansion into some African countries will be our focus in 2014.

In recognition of our customers' loyalty, we launched the FirstClub enterprise loyalty programme, a value-added business support initiative to show appreciation to our customers for choosing to remain with us. FirstClub is our point-based loyalty and reward programme designed to appreciate customers' patronage across all segments of our customer base. The reward scheme is a mixture of points and a discount offering to customers for consummating transactions within a predefined matrix. The FirstClub point is an acceptable currency in over 60 outlets across different parts of the country. The points can also be redeemed via the Bank's ATMs in exchange for airtime recharge on all major telecommunication networks in Nigeria. The middle to upper customer segment receives FirstClub loyalty cards, in addition to points accumulation. The benefits of holding the FirstClub card include, but are not limited to, the following:

- enhanced transaction volume across channels – POS, ATM and web;
- discount purchase at merchant partner outlets;
- priority check-in and concierge at airports; and
- insurance on purchased items.

> *FirstClub is our point-based loyalty and reward programme designed to appreciate customers' patronage across all segments of our customer base.*

Management of FirstBank with representatives from InterSwitch and MasterCard at the FirstClub launch

Cross-section of the Products & Marketing Support team at the official launch of FirstClub

2014 PRIORITIES

Our focus in 2014 is to continually provide the best services to our esteemed customers with innovative products that give increased economic leverage. We plan to strengthen our various reward programmes including promotional campaigns and loyalty schemes that will ensure every customer continues to enjoy rewards for their continued loyalty and patronage. Furthermore, working with relevant business units, we will engage in various capacity-building activities for SMEs across various industries, as our way of positively impacting the Nigerian economy by driving the growth of SMEs.

RELATIONSHIPS AND RESPONSIBILITY

CUSTOMERS – SOCIAL ROLE

FBN CAPITAL'S THIRD ANNUAL INVESTORS CONFERENCE: TOMORROW'S NIGERIA THROUGH ECONOMIC EMPOWERMENT

The conference presents the opportunity for local and international institutional investors to interact with key policymakers, regulators and management teams of leading corporate institutions in Nigeria, to deliberate on how best to realise existing and potential opportunities in the economy and methods to adopt to make the Nigerian capital markets into a leading destination for investment in Sub-Saharan Africa and beyond.

In 2012, we considered the enabling factors and practical initiatives that could be taken to boost Nigeria's growth in our conference themed 'Catalyst for growth; a pragmatic approach'. It is encouraging to see the signs of progress with some of the initiatives to reform sectors considered to be key enablers, such as the power sector.

In 2013, the theme was 'Tomorrow's Nigeria; economic empowerment' and the objective was to deliberate on the way in which economic empowerment can accelerate Nigeria's development. The discussion bordered on several topics: the challenges of growing the economy whilst pursuing fiscal restraint; the measures that are being taken to enhance Nigeria's competitiveness on the global stage; and a framework with which to project Nigeria's development from a frontier to a growth market with a spotlight on the investment community in Nigeria – the 'buy-side'.

There were presentations from some of the foremost reformers in government, renowned leaders in the private sector within and outside Nigeria. Discussions were held on issues relating to the accelerated ongoing efforts geared towards enhancing sustainable national economic growth and development. It was stated that one of the factors needed for Nigeria to be the largest growing economy in Africa is the re-basing of the nation's Gross Domestic Product (GDP), because Nigeria is seen as the hub of Africa as our banks are present in almost all West African countries.

There were presentations and panel discussions drawing on the experiences of other emerging markets and exploring ways to harness the potential of the industry in Nigeria, emphasising the need to create a conducive environment for key policymakers and foreign and local investors. We considered ways in which the government can draw out plans to develop and help create sustainable growth to boost skills acquisition and job creation.

Discussions were also held on the efforts made by government to ensure the public sector works with the private sector, the Bank of Industry (BOI), Small and Medium Enterprise Agency of Nigeria (SMEDAN) and the Industrial Training Fund (ITF), to bridge the skills gap in the country with the objective that Nigerians acquire available jobs in the country and that Nigeria increasingly becomes a more attractive destination for local and foreign investors.

FBN Capital investor conference: Tomorrow's Nigeria through economic empowerment

RELATIONSHIPS AND RESPONSIBILITY

COLLEAGUES

INTRODUCTION

Part of the Group's focus for 2013 was to: *structure HR policies and practices to strengthen the Group's global expansion strategy and play strong in the global market*. This was founded on a 'Sustainable Leadership drive' built earlier in 2012 through structures and frameworks for Talent Management, Knowledge Management, Performance and Reward Management.

The Group pays great attention to the development of human capacity through its human resource development initiatives to ensure that the corporate goals and aspirations of the Group are achieved. To sustain and extend its leadership position across the sub-Saharan region and beyond, the quality of its people must be unparalleled.

While seeking to achieve its aspiration, the Group introduced initiatives to make it become a hub for the best industry talent.

TALENT MANAGEMENT

The Talent Management framework project was concluded in 2013 with the aim of effectively managing the process for attracting, developing and retaining people with the right skills and competencies to meet the strategic objectives of the organisation. This framework has also provided the Group with competitive human resource advantage which will impact organisation performance, as ultimately the business is run by its people and they determine the results. It has also helped to ensure employees reach their full potential and increase their organisational impact on productivity.

In 2014, the framework will create a new form to our people management processes as all jobs will be segmented into different workforces and all staff will be delineated into various talent clusters and career tracks. Employees will be placed on a nine-grid box based on performance history and the outcome of potential assessment to determine level of readiness for increased/strategic responsibilities within the Bank. The outcome of this talent identification/categorisation process will be used to place individuals on different tracks. With this framework, human capital initiatives will continue to centre on job rotation, succession planning, workforce segmentation, competency framework and capacity building.

Also, it will help the development of high potentials to increase their organisational impact on productivity. This is in line with our career tracks system under our Talent Management framework.

In 2013, our First Pension Custodian team ensured that more members of staff were given new roles to demonstrate their leadership abilities. A few mid-level staff were given higher responsibilities so as to develop their leadership qualities and skills required for the job. This has also created the feeling of ownership and commitment to the organisational goal.

We also designed a Staff Assignment and Repatriation Framework in 2013 to institute an integrated framework to support staff throughout the cross-posting, and other related assignment cycles. The approved framework outlines the terms and conditions applicable throughout the assignment period (pre-assignment, assignment and repatriation). The framework has ensured that:

- staff are well prepared for the assignment and are clear about their roles and responsibilities;
- staff are assisted to quickly adapt to their new environment; and
- ensured that improved re-integration strategies are implemented.

STAFF CAPACITY BUILDING

With capacity building currently sitting at the core of the Group's HR Strategy, it was imperative that this featured significantly in driving the Group's Strategy for 2013, through the support in key strategic focus areas as:

- contribution towards the overall improvement of customer service index to which we achieved the development of a service excellence curriculum, rolled out intensive service management trainings, and conducted extensive FirstBank product training;
- contribution towards the Bank's global expansion drive with Sierra Leone, Senegal, Guinea, Gambia and Ghana in focus to which we have built FirstBank's internal francophone capabilities through intensive French Language certification training. Also we facilitated a knowledge management 'Project Retrospective session' for key staff involved in the Bank's international expansion;
- contribution towards improving the stability and reliability of the Bank's IT and electronic business platforms to which we developed a suite of seven e-business e-learn courses targeted at relationship managers and banking services staff to drive knowledge of e-banking/business products for improved sales. Also we successfully installed and tested a fully integrated mobile learning platform, that allows all e-learning courses to run/play from mobile devices;
- contribution to Bank-wide cost optimisation efforts to which we certified a 33-man internal faculty in July 2013, to support training programme facilitation/delivery in banking services, credit, sales, treasury, management, leadership and soft skills (cost savings of ₦11.4 million). Also we rolled out e-learning courses to 8,578 staff with a cost savings of ₦257.6 million; and
- in 2013, we strengthened leadership capacity across local and global FirstBank Subsidiaries through the INSEAD Blue Ocean Strategy programme, offered as part of the First Academy Leadership School. Also key, was building cross-cultural, diversity and inclusiveness competencies through the development of a comprehensive program on Employment & Labour Laws.

A major achievement in 2013 was the anchoring of an extensive Knowledge Sharing session, facilitated by Michael Barrett (CRO, FBN UK) on 'Structured Trade & Commodity Finance' for relevant staff of FirstBank Nigeria. The strategic impact of this was the development of competency in credit and the creation of a one-Bank philosophy.

Our schools for First Bankers were fully launched this year and were totally operational.

- **Foundation School:** This school provided basic banking knowledge for graduate hires in 2013.
- **Supervisory School:** This school was targeted at two categories of staff: those with supervisory responsibilities and those that will soon assume supervisory responsibilities.

RELATIONSHIPS AND RESPONSIBILITY

COLLEAGUES

- **Leadership Schools:** In 2013, we ran training sessions for staff in leadership positions and taught general leadership principles for employees in the Group.
- **Specialised Schools:** In 2013, we added Credit, Operations, Treasury, People Management and Sales force schools to our specialised school bouquet. We are particularly proud of our Leadership Schools with Pan African, Cornell, INSEAD and Michigan Ross Universities in signature programmes, such as Blue Ocean Strategy.

We also carried out needs analysis training for staff on assignments. This was with the aim of sustaining the learning and development culture, whilst ensuring that staffs (irrespective of their location) are adequately equipped to perform optimally on the job. The current skills and competencies of the staff were assessed and relevant training prepared for them. This has ensured that the staff on assignment are adequately prepared for the tasks they face in the new markets.

Training needs of all individuals were drawn up from appraisal outcomes and discussions with the Head of the International Banking Group and line managers of the respective staff. The approved group training plan is currently being implemented by First Academy.

Also in our FBN Congo office, a Bank-wide soft skills training, which included customer care, communication, leadership, and team building, was organised. Attendance analysis and feedback provided showed that an average of 50% of the workforce benefited from the programme. There was also an exchange programme of staff to First Bank of Nigeria for hands-on-training, to improve integration and inclusion within the Group and to bridge the knowledge gap.

KNOWLEDGE MANAGEMENT

The Knowledge Management framework was developed in 2013 and, while being fine-tuned, it is achieving exciting results. The framework encompasses the capture, storage, sharing and transfer of '*valuable information*', necessary for improving organisational effectiveness, competitiveness and overall business continuity. Such initiatives as the storytelling initiatives with the Group Managing Director and other senior staff, Communities of Practice, the launch of the knowledge portal, several Bank-wide case study initiatives and Project Retrospect, were operational in 2013. Considering that the group is a legacy institution and also looking at the current workforce demographics, it is a critical tool to preserve knowledge. As recognition for our efforts in the Knowledge Management Space, we have obtained the prestigious American Productivity and Quality Centre (APQC) Certification.

We had two major storytelling sessions in 2013:

- Storytelling session with Tim Bolade – July 2013; and
- Storytelling session with Akinwunmi Fanimokun – October 2013.

We also developed a Knowledge Management and Cultivation framework for staff on offshore assignments. This was aimed at facilitating the use of critical knowledge and experiences as a foundation and resource repository in view of the sub-Saharan Africa expansion. This greatly helped create a solid foundation for staff on assignments to new cultures that would require proper briefing from experienced people and this has effectively enhanced their settlement in the countries.

PERFORMANCE MANAGEMENT

It is our aspiration and management's mandate to ensure that the performance management system truly triggers the appropriate behaviours, serves as a developmental tool and aligns individual performance with corporate performance. The Group worked towards the following initiatives in 2013:

- The cascade of individual KPIs (Key Performance Indicators) for individuals – the engagement sessions and modalities
- Organisation and coordination of calibration sessions after the end of year appraisals
- We created zonal approach to aspects of performance management to encourage understanding of the different business segments and for flexibility
- Identification of change requirements and the upgrade of the appraisal process.

Also, the Annual Merit Award was planned and completed with the theme "Ageless" that depicted our 120 years of existence, while the concept of "pop hip hop" provided the link between different generations of staff in the Bank. A number of teams and individuals within the Group were rewarded and this has served as an incentive and reward scheme to encourage high performance in the Group.

EMPLOYEE ENGAGEMENT

Our human capital mantra for year 2013 was "Wholesomeness". This was borne out of a deep reflection on the all-important need to proactively drive synergies across the Group. Several initiatives and campaigns were designed in the year in review to nurture a culture that supports collaboration across teams, while optimising costs as much as possible.

Major transformation issues that people were faced with at the beginning of the year were:

- change management
- brand identity unification (based on new acquisitions)
- less than expected staff attitude
- staff knowledge and engagement.

To address these issues we designed strategic support to foster our people management initiatives.

PEOPLE INTEGRATION PLAN (NEW LOCATIONS)

This plan by the Group was aimed at establishing guidelines to enable the success of the acquisition in the area of human and cultural elements. This plan is yielding positive results as career management and performance management frameworks have been developed, training plans have been designed and job evaluations have been carried out. Other initiatives to ensure the implementation of this plan included:

- the design of the approved people integration plan highlighting the key people and organisational related risk (people & cost, structure, talent, regulatory, culture & engagement and process & policy) and corresponding risk mitigation strategies. The next steps will be to work with the Integration Committee to implement;
- Interim People Management Plan is currently being implemented. Human Resource officers have been deployed to various locations to provide support on people management issues; and
- we also held engagement sessions with Union Members of the key location (Ghana) in order to allay fears and apprehension.

RELATIONSHIPS AND RESPONSIBILITY

COLLEAGUES

CHANGE MANAGEMENT

In 2013, the Group revamped and upgraded the change management framework and change agents were selected as navigators and tools for driving change and development. They have so far partnered on this pilot phase to help drive staff to now visible results from recent ratings. The change agents held several team engagement meetings during the course of the year and actively partnered and helped drive engagement for our People First initiatives, including our First Fit initiatives, engagement surveys and charity events, which were all a huge success. The roadshows began in September and all change agents attended in regions visited, including: Abuja, Port Harcourt, Uyo, Benin, Ibadan and Oshogbo, which represents 80% of proposed regions.

Change Management is being developed to address all forms of change that affects people via the Awareness Desire Knowledge Ability Reinforcement (ADKAR) model of change. In 2013, two of our staff were licensed with the ADKAR model as certified Change Managers, the ADKAR model of Change Management is in the process of being implemented across all change platforms in the Group. Using this model, the team worked with stakeholders on the Internal Controls and Anti-Fraud Automated Solutions (ICAFAS) project and the Corporate Identity (CI) Brand Refresh project.

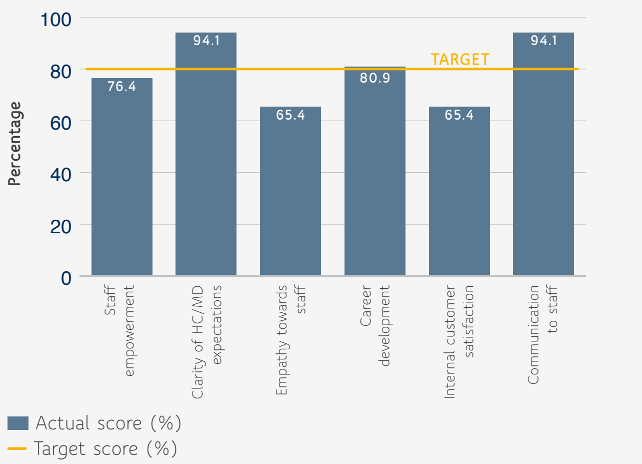
ENGAGEMENT SURVEYS

To determine the engagement level of our employees, in 2013 the Group used the acclaimed and worldwide trusted survey tool Gallup Q12. The Gallup Q12 is a survey designed to measure employee engagement and the Gallup organisation uses the Q12 as a semi-annual employee engagement index – a random sampling of employees across the country.

A total engagement score of 79.4% was achieved, which is close to our benchmark target score of 80%. Key issues noted from comments include: favouritism; politicking and backstabbing; lack of clarity with regard to the appraisals; work life balance; distrust; jerk attitude; and inability of management to accept honest mistakes.

Deductions from the Gallup Q12 Survey

(Total engagement score of 79.4%)



As fallout of the responses from the Gallup survey, we identified tailored solutions and recommendations to address the issues raised, for example the Jerk behaviour campaign, several policy reviews and the intensification of the job rotation framework. The Gallup survey clearly states how employees feel and being an international standard of internal measurement we have chosen to adopt this and build on it progressively to measure feedback bi-annually.

DIVERSITY & INCLUSION

Paramount to structure, commitment, culture and regulatory compliance is the issue of Diversity & Inclusion. We pride ourselves in being an equal opportunities employer and have integrated diversity policies and awareness into our practices. The following are highlights of some of the areas that we have incorporated this:

- the Bank has a diversity team responsible for ensuring the Bank has a diverse workforce and an inclusive workplace, with opportunities for the talents of all employees to create value, deliver a superior client experience and develop innovative solutions for the markets and the communities we serve. We have set aside a Diversity & Inclusion Day to create awareness and ensure an inclusive workplace/work culture;
- as part of recruitment and posting, this is subtly worked into selections without dampening the meritocracy that needs to be entrenched in the system. For example, this year prior to the graduate test we deliberately carried out a campaign in a wider set of universities that yielded a set of graduates across the nation that sat for the entry test;
- created a working environment where the various workforce generations will thrive. We have also reviewed the gender policies and demographics;
- we have a male and female ratio at 61% and 39% respectively across the workforce, while at the senior management level the male/female ratio is 64% and 36% respectively. At the Board level, the male/female gender diversity ratio is 100% and 0% respectively; and
- the diversity objective of the Bank is to be a recognised industry leader in workforce diversity and leverage diversity for the growth of FirstBank and the success of the customers and communities we serve.

HEALTH AND WELL BEING

With regards the health of employees, the aim is to create a healthy workforce and work environment to achieve the vision of the organisation. To this end the Occupational Health & Safety Management System (OHSMS) certification process was commenced as a demonstration of the management's commitment to employee's health and safety. This is expected to go a long way in enhancing business continuity and performance. The process has been approved and the final stages of the process are ongoing.

The medical scheme was also reviewed across the Group. This included an assessment of local and international healthcare providers and managers. A comparative analysis done on 15 Banks revealed that over 55% engaged Health Maintenance Organisations (HMOs) services, while about 25% adopted a mixed medical scheme.

An inspection/review of approved hospitals was embarked upon with a view to retaining/appointing standard facilities and maintaining quality services.

CONCLUSION

In conclusion, the Group places great emphasis on human capacity building, with a supportive talent management framework that has informed the various initiatives in the areas of staff development and motivation. In 2014, key for us will be implementation of a comprehensive resourcing strategy, commitment strategy, international expansion strategy and Talent Management strategy.

RELATIONSHIPS AND RESPONSIBILITY

COLLEAGUES

The Group is positioned to establish a strong alignment with practice and the organisation's goals/vision/core values, where staff are highly skilled and exude a high level of brand essence. The culture in the Group is characterised by an atmosphere of innovation, a high level of personal accountability and creativity with an ownership mentality, devoid of intimidation and harassment, with a clear role model framework to enable us 'Walk the Talk'.

Our targets for the group in 2014 include the following:

- provide a structured approach of managing the assignment life cycle for staff on offshore assignments;
- emphasis on Global Exchange Programme, Group Engagement and Commitment framework, Cultural Orientation Programme;
- develop holistic policies that will take into consideration the regulations of the different entities to govern the relationship between the organisation and its employees;
- initiate employee engagement programmes to enable easy integration of the employees across the sub-Saharan African subsidiaries;
- provide visible (active) support for the Bank, individual business units and international subsidiaries (Guinea, Ghana, Sierra Leone, Congo, Gambia, etc.) in achieving the set targets and aspirations;
- develop a pool of next-generational leaders that will take the Group to its next level through our Talent Management framework;
- to institute overarching policies at the Group level that would drive people management practice; and
- identify immediate training needs (soft skills that can help with cultural shift and technical skills to drive job performance.

We have therefore set ambitious and audacious goals/targets for 2014, some of which are outlined below:

- 90% Bank-wide training penetration;
- 100% training credit/hours achieved;
- Minimum of 85% internal customer satisfaction rating;
- 100% leadership development coverage; and
- 95% adequate manning coverage.

BUILDING SUPPLIER RELATIONSHIPS

Across the Group, we are increasingly managing our supply chain as a critical aspect of our business operations and success. This includes focusing on how to maximise the effectiveness of our supply chain in order to promote our performance goals across such areas as procurement and distribution. We understand the primary purpose of a supply chain is to satisfy the customer's needs and we are constantly exploring avenues to better manage our suppliers in order to achieve that purpose.

Rather than basing our supplier relationships strictly on a lowest-price policy, we are achieving amazing success by viewing our suppliers as partners who invest in meeting mutually agreeable objectives. Our supply chain process focuses on selecting the right suppliers for the right reasons. We start the process by analysing our business requirements, then we search for prospective suppliers. We lead the team in selecting the winning supplier and successfully negotiate a contract.

In addition to the efforts we make towards building better supplier relationships, we engage even more robustly with our most strategic suppliers in discussions centred on incoming quality, new innovations and technology. These suppliers play an important role in providing vital information necessary to ensure we are constantly well equipped to actualise our business objectives. Essentially, we leverage the expertise and know-how of our most strategic suppliers in our business planning.

We have taken further steps to ensure we extract maximum value from our supplier relationships by outsourcing some of our services. Outsourcing provides our Group with opportunities to leverage external expertise and scale, to provide quality services at reduced cost, enabling internal resources to be more focused on core activities appropriate to our knowledge and skill. Our recent engagement with a third-party logistics company – who delivered stationery and bulk items direct to branches across the Bank's network – is a prime example of how such outsourcing has given rise to more efficient deliveries and eliminated warehousing and other related costs.

PROCUREMENT POLICY AND PROCEDURES

Our procurement policy is designed to ensure the purchase of all goods, services and works required for the satisfactory operation of the Holding Company is handled in a transparent, timely, efficient and effective manner, giving due regard to the best practices for purchasing and the needs of individual user departments.

We have tailored our procurement policy to support our corporate strategy, aims and objectives and in an effort to implement centralised procurement across the Group, we take a long-term strategic view of our needs while continually assessing, reviewing and auditing procedures, strategy and objectives. This ensures procurement projects are delivered on time and within cost constraints, while the needs of end-users are fully met.

HOW WE EVALUATE OUR SUPPLIERS

We constantly seek suppliers who support our strategic goals and objectives while continually looking for ways to manage our costs. We evaluate suppliers with regard to value and put particular emphasis on specified criteria – such as quality, total cost, delivery, service, innovation and management expertise – in order to meet our requirements. We also understand the need to create a level of flexibility with regards to our evaluation criteria, tailored to the nature of goods or services supplied.

Over time, our evaluation has become an integral part of how we select our suppliers, as well as the continuing supplier development process. We evaluate our suppliers based on service-level agreements (SLAs), with particular focus on exceeding set targets within the overall objectives of improving performance standards. We hold SLA review sessions with our suppliers periodically, a process that affords us the opportunity to identify and resolve supplier performance issues. These review sessions have become crucial, as we need to monitor our suppliers' performance carefully in order to ensure they meet our expectations.

Overall, our goal is to perfectly align our supply chain with business strategy thereby creating the competitive advantage we need to stay ahead of competition.

RELATIONSHIPS AND RESPONSIBILITY

COMMUNITIES

Our support under the communities pillar is informed by the views from our stakeholder engagement.

Our key programmes include the FutureFirst programme; Educational Endowment scheme; Infrastructure Development programme; Youth Leadership programme; Hope Rising Initiative and Employee Volunteering Scheme (EVS).

INFRASTRUCTURAL DEVELOPMENT PROGRAMME

FirstBank Infrastructural Development programme is aimed at promoting and supporting infrastructure development in the areas it has identified as in need of support. The areas include the provision of infrastructure facilities in schools, hospitals and environmental projects. This is in recognition of the place of infrastructure in facilitating economic performance and its role in improving the quality of life of communities where we work and live. Some of the support projects under this purview include the Faculty of Arts building in the University of Port Harcourt; the Entrepreneur Centre in the University of Abuja; the sports pavilion for Queens College and Squash Court for Kings College; the Administrative Block for the Jesuit Memorial College; a Red Cross Clinic in Ibadan; and the Bank's Ivory Park in Banana Island.

Faculty of Dentistry Building, University of Nigeria Nsukka

HOPE RISING PROGRAMME

Hope Rising programme is one of the key programmes of the Group designed to empower people living with disabilities. Its key objective is engendering inclusivity and diversity through education, advocacy and enlightenment and skills acquisition through training, as well as inclusive events. Our main focus is creating awareness of and how to live with Down's syndrome. This is enhanced by the Hope Rising drama series, which focuses on highlighting the challenges of Down's syndrome, exploring efforts to provide a platform for advocacy and public enlightenment.

Some of the initiatives we have supported under this programme include Demystifying Autism in partnership with the Patrick Speech and Languages Centre; support to Mr Folawiyo Jimoh Adisa, a Para-Badminton player to attend Para-Badminton tournaments across Europe; scholarships for two visually impaired persons: Mr Morakinyo Emmanuel and Mr Abdulateef Alani Azeez to complete their higher education at the University of Ibadan and Osun State Polytechnic respectively.

FirstBank sponsored LEGO Cinema Screening Event for children living with Down's syndrome

Staff volunteers from the EVS visit to an old people's home, Yaba Lagos

RELATIONSHIPS AND RESPONSIBILITY

COMMUNITIES

FUTUREFIRST PROGRAMME

The FutureFirst programme is designed to achieve the main objective of the youth strategy, which is to engage the youth, change their perception and encourage a banking relationship with FirstBank. FutureFirst, through two expressions – Career Counselling and Financial Literacy, focuses on empowering secondary school students between the ages of 13 and 17 years old in JSS 3 to SS2. The key objective is to help build fulfilling careers for students and better equip them with the tools and knowledge for long-term financial independence.

The FutureFirst programme was launched in the last quarter of 2013, in partnership with Lagos Empowerment and Resource Network (LEARN) and Junior Achievement Nigeria (JAN). As with all our programmes, FutureFirst is also implemented through a structured Employee Volunteering Scheme (EVS) where our employees offer their time and knowledge in enlightening high school students in Lagos State on Financial Literacy and Career Counselling. Over 1000 students have benefited from the programme and our target for 2014 is to enrich the lives of 10,000 students.

FutureFirst Career Counselling and Financial Literacy event for secondary school students

EDUCATION ENDOWMENT PROGRAMME

This programme was instituted by FirstBank as far back as 1994. It is dedicated to enhancing academic excellence geared towards the long-term development of Nigeria. Currently, we have professorial chairs in 10 Nigerian universities, with total endowments worth over ₦440 million. Some of the universities and endowed academic fields include: the University of Lagos – business ethics; Nnamdi Azikiwe University, Awka – banking and finance; University of Agriculture, Makurdi – agronomy; and the Federal University of Technology, Akure – computer science.

Breakdown of the Corporate Social Responsibility (CSR) spend

Serial number		Expended sum
1	Education	₦641,714,904.91
2	Health and Welfare	₦395,299,323.00
3	Economic Empowerment	₦129,130,000.00
4	Environment and others	₦82,639,734.00
5	**Total**	**₦1,248,783,961.91**

RESOURCE EFFICIENCY

In the face of an ever-changing business climate and new industry regulations, it is important the Group is well positioned to maintain its lead in the industry. A major tool employed for this is the optimal use of available resources in delivering on set targets. Hence, we have constantly advanced new initiatives, as well as improved on previous ones to increase the benefits to the Group. Some of these initiatives are highlighted below.

CENTRALISED PROCESSING CENTRE (CPC)

As reported last year, the CPC was set up to achieve operational efficiency and excellence in service delivery. With this concept, we have been able to move our non-customer-facing processes to the back office to maximise economies of scale and efficiency, as well as increase the amount of time our front-line staff spend in providing services and sales to customers.

Since its inception in 2010, there has been improved compliance with regulatory authorities. It has assisted in the standardisation of our processes and ensured our bulk payments, as well as loan requests being processed efficiently. In addition, new procedures that required Bank-wide roll-out have been effectively implemented centrally at the CPC – enabling a faster roll-out of new processes and initiatives, while existing documentations and policies had to be reviewed in order to optimise straight through processing via the CPC.

However, we had to review our CPC model to accommodate the expansion of our operations into new countries. We initiated a new project in 2013, focusing on fine-tuning our CPC model with the objective of not just enhancing the capacity of our current CPC, but also laying the foundation to mobilise a shared services structure for the entire Group. This project will not just re-examine the effectiveness of the current operating model, but will review our existing processes and policies, determine the scope of services and processes to be offered and define the required scope of technology enablers needed to support a world-class shared services centre for the Group.

RELATIONSHIPS AND RESPONSIBILITY

COMMUNITIES

PRINT OPTIMISATION

Following the success achieved in the implementation of the managed print service initiative at Head Office, various managed print service deployment options have been evaluated for use in our branches. This initiative is expected to reduce the cost expended in the acquisition of multiple machines as against multi-functional printers. This reduces the risk of exposing confidential print jobs and aids monitoring of usage and print volumes.

We have embarked on a pilot launch of one of the deployment models in select branches to ascertain its effectiveness, and the outcome will guide the approach to launch in all our locations.

BRANCH PROFITABILITY ENHANCEMENT PROGRAMME

A work approach to enhance branch profitability using cost-to-income ratio performance was approved for implementation in June 2013. Adopting this approach, branch performance is monitored using monthly cost-to-income ratio performance. This is to facilitate awareness about cost consciousness and a need for branches to utilise minimum resources in achieving enhanced profit margins. A number of branches which had recorded cumulative losses have begun to show improvements as a result of this intervention and implementation of recommended actions.

In addition, environments prone to high security threats and locations with low viability have been identified and earmarked for closure or downgrade in order to preserve lives, property and enhance shareholder value.

We are taking further steps towards resource efficiency by partnering with Mobile Financial Solutions, in working out a model wherein Firstmonie and agent banking will be leveraged on to promote financial inclusion. Additionally, we plan to explore the benefits derivable from the use of these Firstmonie agents to solve the problem of overcrowding at identified branches, thereby enhancing service delivery.

USE OF TELEPRESENCE LOCATIONS FOR MEETINGS

Based on the success recorded with the use of telepresence locations for meetings, we increased the number of these locations to four. This has resulted in more cost efficient ways of holding meetings and reduced the incessant risks associated with travelling.

PAPERLESS MEETINGS

We continue to hold paperless meetings to further reduce cost and improve efficiency within our organisation.

POWERING DOWN TIMERS IN THE OFFICE BUILDING

With increasing energy costs, powering down lights in the office building at 8pm remains vital in our sustainability drive to reduce costs, improve efficiency and maintain a work-life balance.

FLEET MANAGEMENT

The use of the fleet management system (FMS) makes it easy to allocate available drivers and cars on a need basis and eliminates redundancies in the system.

OUR PERFORMANCE

In this section, we provide an overview of the Group's performance in 2013 with a breakdown of performance against strategy and the progress made in relation to Key Performance Indicators (KPIs). Our operational risks, opportunities, key priorities and the outlook for the business groups are all discussed in detail.

p83 Performance summary

p84 Operational review

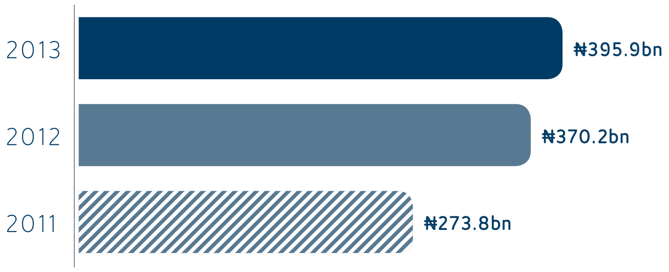
p89 Financial review

HOW IS OUR GROUP PERFORMING?

PERFORMANCE SUMMARY

GROSS EARNINGS

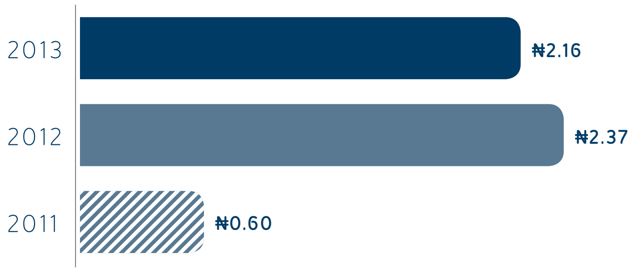
₦395.9bn



Slow growth in gross revenue hauled by increased interest expense

EARNINGS PER SHARE

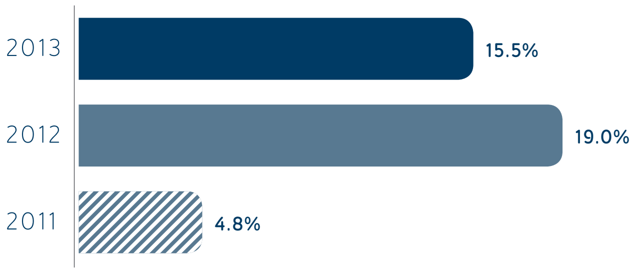
₦2.16



Earnings per share for 2013 stood at ₦2.16 per share (2012: ₦2.37)

RETURN ON EQUITY

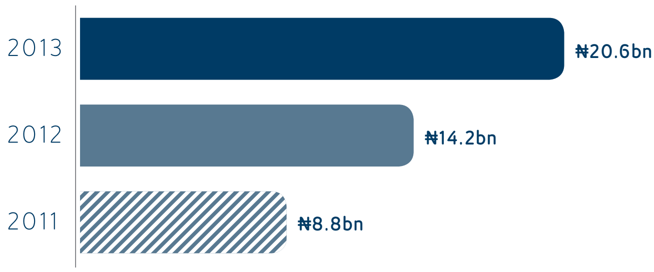
15.5%



Return on equity declined due to a reduction in revenue and muted by higher interest expense

NON-BANKING REVENUE

₦20.6bn



Non-banking revenue up 45% signifying improved impact of operating structure and enhances synergy between bank and non-banking subsidiaries

FBN Holdings Plc

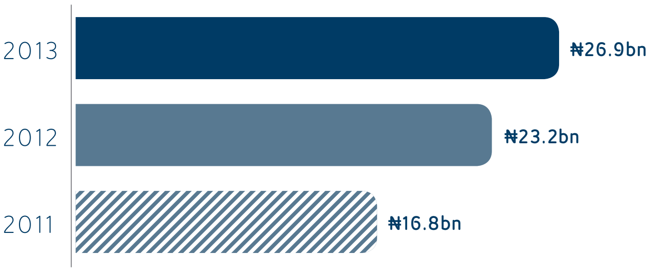
FBN Holdings Plc

FirstBank Group

PERFORMANCE SUMMARY

REVENUE OUTSIDE NIGERIA

₦26.9bn



Revenue outside Nigeria increased by ₦3.7bn showing increasing contribution from subsidiaries outside Nigeria including positive returns from our acquisitions

FEE AND COMMISSION INCOME

₦59.4bn

Fee and commission declined marginally by 2.5% as a result of regulatory headwinds in the year under revenue

NET OPERATING INCOME

₦296.1bn

Net interest income declined by 1.7% owing to pressure on increase interest expense and fee and commission income

FBN Holdings Plc

FBN Holdings Plc

FirstBank Group

OPERATIONAL REVIEW

OVERVIEW

The scale and scope of our business, brand portfolio and geographic reach, coupled with the diversity of our business portfolio, creates highly valuable scale benefits that are difficult to replicate. The diversification and strong natural synergies, in turn, reduce risk and improve the quality of our earnings.

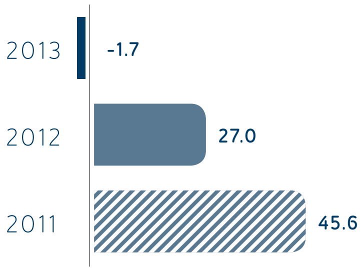
With the recent acquisition of ICB banks across four West African countries, the acquisition of Oasis Insurance and our ongoing effort to strengthen the investment banking and asset management business through the acquisition of a merchant banking licence, the Group is on track to deliver on its promises to its various stakeholders. As we look ahead to the future, we will continue to enhance the contribution of the non-bank subsidiaries to the Group through deepening market penetration in each of our business lines, investments in other growing sub-sectors of financial services and driving cross-sell and synergy realisation across the Group and consolidating our position as the leading commercial banking franchise in sub-Saharan Africa.

Strategic Progress against KPIs

GROWTH

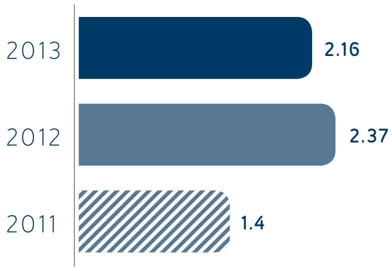
REVENUE GROWTH

% increase in net revenue



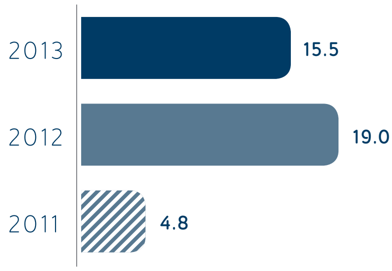
EARNINGS PER SHARE

₦ measure of PAT/share



RETURN ON AVERAGE EQUITY

% measure of post-tax return on average equity deployed



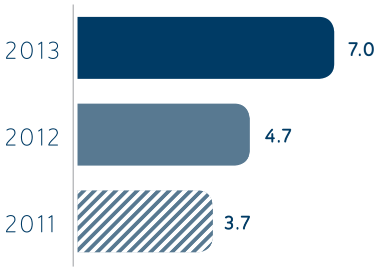
	Revenue Growth	Earnings per Share	Return on Average Equity
TARGET	Aggressively grow revenue to meet/ exceed market growth rate	To lead in total returns to shareholders, profitability, capital efficiency	Exceed cost of capital and deliver market competitive returns
OUTCOME	Slow growth due to increased pressure on net revenue from regulatory pronouncements disproportionately affecting our businesses	Decline in EPS driven by a corresponding decline in profitability	Decline due to reduced profitability from tougher operating environment

OPERATIONAL REVIEW

EXPANSION

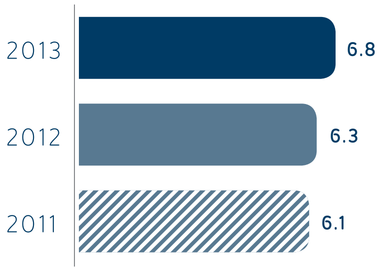
NON-BANKING REVENUE

% of net revenue from non-banking businesses



REVENUE OUTSIDE NIGERIA

% of total revenue from non-Nigerian businesses



FEE INCOME

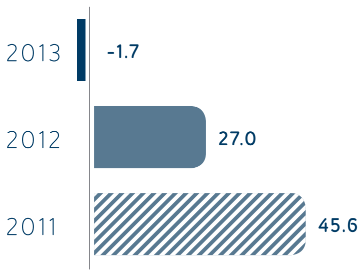
% of net revenue

	Non-banking revenue	Revenue outside Nigeria	Fee income
TARGET	Leverage faster-growing NBFS (non-banking financial services) segments	Strengthen Group's competitive positioning and maximise shareholder value	Outperform industry to enhance yields
OUTCOME	Improving contribution of other subsidiaries revenue to Group revenue	Increased diversification from the international expansion strategy	Slight decline in fee income

GROUP SYNERGIES & CROSS-SELLING

REVENUE GROWTH

% increase in net revenue



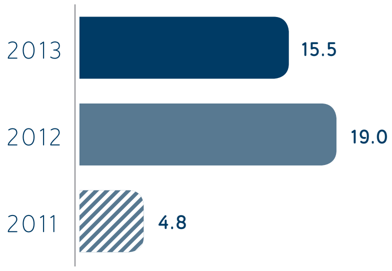
TARGET Aggressively grow revenue to meet/exceed market growth rate

OUTCOME Slow growth due to increased pressure on net revenue from regulatory pronouncements disproportionately affecting our businesses

SEQUENCING GROWTH

RETURN ON AVERAGE EQUITY

% measure of post-tax return on average equity deployed



TARGET Exceed cost of capital and deliver market competitive returns

OUTCOME Decline due to reduced profitability from tougher operating environment

OPERATIONAL REVIEW

GROUP PERFORMANCE HIGHLIGHTS

COMMERCIAL BANKING

The Commercial Banking group offers banking services to both individual and corporate clients. The entities that fall under this business group are: First Bank of Nigeria, FBN Bank (UK), Banque Internationale de Crédit (BIC), ICB West Africa (Ghana, Guinea, Sierra Leone, Gambia), our representative offices in Abu Dhabi, Beijing, Johannesburg and Paris as well as First Pension Custodian, and FBN Mortgages.

FirstBank maintained its leadership position in the number of ATMs (2,437), point-of-sale (POS) terminals deployed (>13,000) and number of branches, making it the financial institution with the widest retail footprint in the country and subsequently best placed to serve the retail, unbanked/under-banked segments of the Nigerian market. FirstBank ATMs dispensed over ₦1.6 trillion in 2013, an increase of 23% year on year (December 2012: ₦1.3 trillion), with over 82% of the transactions conducted by our customers. This increase is attributable to the 8.8% growth in the total number of cards to 6.45 million (December 2012: 5.93 million), as well as card active rate of 87% (industry average: 78%). FirstBank also accounted for over 33% of completed transactions and about 31% of total Verve cards issued on the InterSwitch network – the dominant switching and payment processing platform controlling about 75% of the electronic payment market in Nigeria. This gives FirstBank a large and increasing base from which it will continue to grow its service fees and commissions, especially as it migrates more services onto the ATM platform. The Bank's large active customer accounts base of over 8.5 million, coupled with the rapid expansion in the electronic banking business, market leadership position in number of issued cards, high card active rate and continued migration of additional services onto electronic platforms all provide a base for sustainable growth going forward. In addition, the Bank is focused on growing its presence in the retail and SME segment as well as increasing the number of products/customers, which should drive improved revenue in coming periods. Reflecting the above dynamics, e-business revenues had a good impact in the overall results of FBN Holdings growing by 76% year on year to ₦7.6 billion from ₦4.3 billion in 2012.

Our mobile financial services solution Firstmonie®, targeted at extending banking services to the unbanked and under-banked segments of the market, in addition to enabling existing customers of the Bank to conveniently perform banking transactions from their mobile phones, recorded significantly improved performance and closed the year with c.499,000 subscribers (December 2012: c.28,000). Firstmonie as at the end of the year had registered c.10,000 agents, presenting a viable, reliable and growing network to help grow its customer base, access low-cost deposits without the burden of huge capital investments, and drive float and fee income growth in the medium to long term. The USD12 million grant by the Bill and Melinda Gates Foundation is focused on agent network building, marketing consulting and other market studies aimed at ensuring FirstBank exploits the inherent opportunities presented by the mobile money business whilst at the same time driving financial inclusion for the unbanked and under-banked.

The Bank made progress in driving fee-based deposit products with high propensity for float income. This is reflected in over 40 new collections and 55 new e-payment mandates being won in 2013, underscoring additional progress and success from the on-going operational transformation.

The Commercial Banking group expanded geographical coverage across Africa in 2013 through acquisition of the West African operations of ICB in Ghana, Guinea, Sierra Leone and Gambia. A dedicated integration team has been set up to extract the expected synergies from this transaction, and harness the full potential of the Group in delivering value to customers, staff and shareholders. The integration effort will span all five subsidiaries, and will focus on four key areas: Synergy Realisation; Risk, Process & Governance; Human Resources Integration; and Back-end Systems Integration. All subsidiaries will also be re-branded in line with the overall Group branding architecture. A number of quick-wins have been addressed including targeted staff exchange programmes, functional capability assessment and knowledge transfer, development of an interactive 'Africa' portal for staff engagement and knowledge exchange, attraction of new business leveraging on the Group's financing capacity and relationships, and introduction of new e-products.

Even outside the shores of Nigeria, we are committed to treating customers fairly. We provide regular Treating Customers Fairly training for employees, who must also pass a test to ascertain their understanding of this important business principle.

During the year, FBN UK delivered products and services to its customers in the most cost-effective manner possible, while still ensuring the high quality of its products, service and support. We have been able to streamline FBN UK's core processes and strategy in order to effectively respond to continued changing market conditions. As part of this initiative, FBN UK embarked on the upgrade of its core banking software, which will suitably enhance its internal process, its e-business offering and general customer experience.

FBN UK upgraded its internal banking software in 2013. This was a significant undertaking in light of incorporating the old and the new software, while making sure disruptions to its banking activities were kept to a minimum. The software upgrade has been hugely advantageous to FBN UK in the sense that it has sped up its internal processing system; it is also more up to date and in line with other technological advances in the banking system. The system is also more tailored to FBN UK's current banking requirement and needs, with its functionality adaptable to its future requirements.

INVESTMENT BANKING AND ASSET MANAGEMENT

The Investment Banking and Asset Management (IBAM) group arranges finance, provides advisory services, administers assets, manages funds and invests capital, for both institutional and individual clients. FBN Capital is the arrow-head for this business, with First Funds, First Trustees, FBN Securities and FBN Capital Asset Management as its subsidiaries.

SYNERGY ACROSS THE SUBSIDIARIES

The culture of cross selling across the Group is gradually being established; key examples include the collaboration between the Asset Management business and Private Banking Group, Investment Banking and Institutional Banking Group. Key initiatives such as incentivising (revenue sharing) and performance tracking and recognition are being implemented to institutionalise cross-selling within the Group.

There was continuous improvement in the key processes as well as an enhanced use of technology to drive efficiency. In addition, work force increased across the various divisions to fill new vacancies as businesses grew. Graduate Management Trainees programmes were carried out with the aim and commitment to developing the next generation of thoroughbred professionals.

Another successful investor conference was organised unifying key players from various industry segments for the purpose of creating economic empowerment.

OPERATIONAL REVIEW

THE FBN INSURANCE GROUP

The Insurance business group offers insurance brokerage and composite insurance business (life and general insurance) services to customers.

Insurance business group performance was negatively impacted by the 'No premium, no cover rule' in 2013. This caused a reduction in policy covers as all policies were to be cash backed according to new regulations.

2013 saw the launch of new insurance products by the life business; Padi-4-Life, a mobile insurance product, was launched in conjunction with major telecommunications companies.

FBN Insurance uses cost-effective distribution channels that include a direct sales force, direct and focused marketing, independent intermediaries and Bancassurance multi-channel distribution, making use of FirstBank's extensive branch network.

The insurance market holds significant potential. A large population, significant under-penetration in the market and increasingly supportive regulation with emphasis on local risk retention and non-discretionary (compulsory) insurances, all aimed at deepening market penetration, make for an attractive industry. The industry continues to witness stiff competition with further consolidation deemed likely. The recent acquisition of Oasis insurance company expanded the insurance portfolio to include the general insurance business, with FBN Insurance (previously FBN Life) now a composite insurance company.

The operations are IT-driven enabling generation of online underwriters' premium requisition, customers' receipts and credit advice, thereby facilitating prompt remittance of premium to the various underwriters as well as promoting efficient customer service delivery.

Over the years, FBN Insurance Brokers Limited has increased its branch network from two (Abuja and Port Harcourt Regional offices) to six. The additional four branches are Onitsha, Benin, Akure and Ibadan, and we have renewed efforts to establish other branches in the northern part of the country.

In 2014, the growth opportunities in the insurance sector will be harnessed, driving volumes via bancassurance and leveraging on the extensive footprint in Nigeria.

FBN MICROFINANCE BANK LIMITED

The microfinance sector is highly fragmented with over 800 microfinance banks and a market size of over 34 million potential customers. It is estimated that only 3.5 million people have been reached at the moment.

FBN MFB has approximately 2% of the market share making it the third largest microfinance provider in Nigeria. The sector has witnessed significant growth in deposit liabilities, loans and advances, as well as assets over the years and it is projected to continue to grow at a significant rate.

During the year, FBN Holdings injected additional capital of ₦1 billion into the Microfinance business which brought the paid-up capital to ₦2 billion in compliance with the revised regulatory minimum paid-up capital of ₦2 billion for microfinance banks with national licences. The increased financial capacity of our Microfinance Bank will enhance its ability to compete for the largely untapped 'unbanked' informal sector of the Nigerian economy in line with the promoted financial inclusion project of the Central Bank of Nigeria, which recommends an increase in the share of microfinance credit as a percentage of total credit extended to the private sector.

OPERATIONAL REVIEW

OUTLOOK

The outlook for the financial services sector in sub-Saharan Africa remains promising. With a population count of over 1 billion across sub-Saharan Africa (76% without access to formal financial services – Global Findex, 2013) and rapid growth in trade flows, the opportunities to deepen FBN Holdings' business across the sub-region are very attractive. Nigeria remains the template and we shall leverage on the deep knowledge of the Nigerian market to drive our expansion strategies within the region, using our foray into the DRC as a case study. In Nigeria, we have continued to tailor our business model to tap existing and emerging growth segments. The Group's wide distribution network provides a strong platform for the mobile money business to grow while also improving service delivery and the accessibility of our banking services to the customers, and ultimately enhances customer acquisition. The demographic distribution of the Nigerian market, with its youthful, predominantly rural population, high rural-urban migration, the sustained expansion of the middle class and the emergence of new economic centres across the country, are all key dynamics that drive our positioning.

The size and structure of the Nigerian population ensures a continuous pipeline of new customers for the banking industry. The low level of banking penetration creates the opportunity for the commercial bank in Nigeria to capture a fair share of new bank customers and increase wallet size for current customers. The various economic reforms of the government will provide significant opportunities for banks to take advantage of significant credit opportunities.

In addition to business-specific priorities, we will focus on Group-wide initiatives such as the enhancement of our pricing strategy, cost containment strategies and efficient capital management. Across all businesses, we will continue to put our customers first, delivering on our value proposition to our clients in the most cost-effective manner. Opportunities abound to us, not only from the current operational level but also from new product offerings and the gains that will be derived from effective cross selling across the Group.

2014-2016 STRATEGIC ASPIRATIONS

To ensure progress on the strategic themes and priorities can be objectively measured, they have been further distilled into goals/metrics set out as the Group's aspirations for the next strategic cycle.

In order to ensure Group-level aspirations are achieved, the individual subsidiaries have developed detailed strategies to achieve their business aspirations, which rolled up together will ensure the Group delivers on its objectives. A summary of each of the subsidiary plans is presented below.

Strategic themes and priorities for the non-banking subsidiaries 2014-2016

TO BECOME THE PRE-EMINENT FINANCIAL SERVICES GROUP IN MIDDLE AFRICA, PROVIDING VALUE TO OUR CUSTOMERS AND DISTINCTIVE RETURNS TO OUR SHAREHOLDERS

Themes	INVEST TO DRIVE TANGIBLE GROWTH IN EACH SUBCO	INCREASE RELATIVE CONTRIBUTIONS OF NON-BANK SUBCOS	FOSTER COLLABORATION ACROSS AND WITHIN SUBCOS
Strategic priorities	• Obtain a merchant banking licence • Build a credible broad-based sales and trading platform for IBAM • Expand the distribution network for microfinance • Diversify Brokerage to serve new segments and increase footprint.	• Drive step change improvement in salesforce productivity – Refocus Asset Management sales effort – Increase sales force effectiveness in Insurance and Brokerage – Improve staff capabilities in microfinance.	• Institutionalise collaboration across IB and CBG, IBG and PSG • Drive cross-sell between bancassurance and the Bank's retail network • Ensure more FirstBank loans are brokered internally.

FINANCIAL REVIEW

FBN Holdings Plc (FBN Holdings) is a leading Nigeria-based financial services group providing a wide range of banking and financial services. Headquartered in Lagos, the Group operates in Nigeria, West Africa, and the United Kingdom in addition to representative offices in China, France and the UAE serving over 8.5 million active customer accounts. The Group's principal business activities are banking, asset management, pension custody and insurance. Our services are offered through various brands which include FirstBank, FBN Bank UK, FBN Capital, FBN Insurance[6] and FBN MFB.

FBN Holdings Plc is the premier and largest financial services group in Nigeria by total assets, gross earnings, deposits and loans & advances to customers. The Holding Company emerged from the erstwhile FirstBank Group in November 2012 and maintains a strong capital position with shareholders' equity at ₦467 billion, a 7% growth from ₦439 billion in 2012.

FBN Holdings' activities are structured along business groups: Commercial Banking, Investment Banking and Asset Management, Insurance and Other Financial Services.

CONTRIBUTION TO GROUP NET REVENUE

COMMERCIAL BANKING

93.7%

This is the Group's core business, which provides both individual and corporate clients/customers with financial intermediation services. This business segment includes the Group's local, international and representative offices offering commercial banking services.

INVESTMENT BANKING AND ASSET MANAGEMENT

4.9%

Arranges finance, provides advice, manages funds and sells investment products to clients.

INSURANCE

0.9%

Offers insurance brokerage and composite assurance services to customers.

OTHER FINANCIAL SERVICES

0.5%

This includes the Group's non-operating holding company and other non-banking financial services businesses including a microfinance bank, FBN MFB, which provides microfinance services to the mass-market retail segment.

6 Previously FBN Life Assurance and now a composite insurance company.

FINANCIAL REVIEW

FBN HOLDINGS PERFORMANCE

FBN Holdings delivered resilient results in spite of the challenging macro-economic and regulatory environment it operated in 2013. The Nigerian financial services sector recorded a mixed performance during the 2013 financial year.

The Commercial Banking sub-sector experienced a difficult operating environment in the year under review, which negatively reflected in the financial performance of the banking sector. The operating environment has been difficult, particularly with a number of far-reaching regulatory changes such as the huge increase in Cash Reserve Ratio (CRR) on public sector funds from 12% to 50%, increased interest on savings accounts, removal of ATM fees and reduction of commission on turnover on banking transactions.

The Investment Banking sub-sector experienced improved growth during the year under review, bolstered by the ongoing reforms in the power sector and divestments of oil and gas assets by International Oil Companies (IOCs). On the capital market front, the Nigerian Stock Exchange (NSE) made an appreciable impact in 2013 compared to 2012 as all market indicators rose with definable gains. The All-Share Index closed at 41,329.19 points recording a gain of 47.19%. Our Investment Banking franchise, FBN Capital, consolidated its position in the market, particularly the Project and Structured Finance unit closing a healthy number of landmark deals in power, oil and gas and infrastructure.

The insurance sector also experienced major changes in the year, as the industry started to witness the positive impact of the 'no premium, no cover' policy of the Nigerian Insurance Commission in line with Section 50 of the Insurance Act, 2003. This policy, which was introduced in January 2013, has strengthened the liquidity position of the insurance industry, thereby enhancing the ability of underwriters to meet their financial obligations including claim settlements. FBN Insurance continues to leverage its relationship with Sanlam of South Africa and the retail chain of FirstBank to deepen its market reach. Furthermore, the recent acquisition of Oasis Insurance will create a speedy in-road into the general insurance segment of the insurance sector.

Gross earnings increased by 7% year on year to ₦395.9 billion (2012: ₦370.2 billion); as performance was primarily driven by the Commercial Banking group with a contribution of 93.7% to the Group's gross earnings. Increased gross revenue was largely driven by interest income from loans and advances to customers as well as loans and advances to banks. Net interest margin stood at 8.0% (2012: 8.8%) and this was attributable to a higher interest rate environment which saw the average yield on interest-earning assets remaining flat at 11.3% (December 2012: 11.4%). In addition, net interest income increased by 1.5% to ₦230.1 billion (December 2012: ₦226.6 billion), profiting from growth in interest income given the higher interest rate environment but tougher regulatory environment. Net interest income growth was on the other hand muted by a substantial rise (+36%) in interest expense over the period driven by an increase in CRR on public sector deposits from 12% to 50% and interest on savings deposit rate from 1% to 3.6%, while increase in interest expense resulted in a 1.7% dip in net revenue to ₦296.1 billion (2012: ₦301.1 billion). Non-interest income dipped by 9.3% to ₦67 billion (2012: ₦73.9 billion) owing to a considerable reduction in fee and commission income, especially from the Commercial Banking group which constitutes the bulk of the non-interest income of the Group. Operating expenses dipped by 4.4% to ₦185.0 billion (2012: ₦193.5 billion) and this was on the back of a 4.4% decline in personnel costs (inclusive of cost impact from first time consolidation of ICB), adverts and promotions (-20.3%), other operating expenses (-32.1%), donations and subscriptions (-49.0%) as well as stationery and printing (-52.7%), which represented 35.6%, 4.5%, 17.4%, 1.0% and 1.1% respectively of total operating expenses. This reflects benefits from the various transformation and business repositioning initiatives we have put in place over the course of the past year, a focus on optimising our expenditure, slower new branch deployment, coupled with the restructuring of the compensation structure for long-term sustainability. Pre-provision operating profits rose 3.3% to ₦110.6 billion (2012: ₦107.1 billion), highlighting improvements in our core operations and better cost management in spite of the operating and regulatory environment. Pre-tax profit stood at ₦91.3 billion (2012: ₦93.9 billion), while profit after tax dipped by 8.0% to ₦70.6 billion (2012: ₦76.9 billion).

Total assets grew by 20% year on year to ₦3.87 trillion (2012: ₦3.22 trillion). Balance sheet growth was largely driven by a 22.3% growth in customers' deposits to ₦2.93 trillion (2012: ₦2.40 trillion) which generated a 14.8% growth in loans and advances to customers to ₦1.77 trillion (2012: ₦1.54 trillion) while Investment securities increased by 14.3% to ₦877.7 billion. Cash and balances with the CBN increased by 97.7% to ₦594.2 billion (2012: ₦300.5 billion) due to an increase in cash reserve ratio on public sector deposits from 12% to 50% in the year under review. In general lending activities focused on oil and gas, manufacturing, construction, power and information & communication, whilst we gained traction and increasing penetration of our emerging corporate business which is now a standalone business unit known as Commercial Banking. The Commercial Banking business unit exists to drive heightened focus and increased penetration of the larger SME space. Asset quality increased marginally as cost of risk stood at 12% from 0.9% as the non-performing loan (NPL) ratio moved slightly to 3.0% (2012: 2.6%).

Shareholders' funds increased by 6.5% to ₦467.3 billion (2012: ₦438.8 billion) resulting from a 51.7% improvement in retained earnings as return on average assets stood at 2.0% (2012: 2.5%) and return on average equity stood at 15.5% (2012: 19.0%).

The Commercial Banking group contributed 94% (₦370.2 billion, 2012: 93% ₦344.2 billion) of the holding company's gross earnings and 95% (₦86.7 billion, 2012: 90% ₦84.5 billion) of profit before tax for the period under review. The Investment Banking and Asset Management business group made modest progress with 5% (₦19.2 billion, 2012: ₦16.0 billion) of gross earnings and 7% (₦6.8 billion, 2012: ₦4.1 billion) of profit before tax to the Group's contribution. This contribution was largely driven by increased activity in the Investment Banking and trusteeship businesses via several IOC divestments and the sale of Power assets contributing 33% and 21% respectively to the IBAM group's revenue for the period under review. Insurance group contributed 1% (₦3.4 billion) and 1% (₦1.1 billion) to the Group's gross earnings and pre-tax profit respectively. Growth in the Insurance group's revenue was majorly driven by increased earnings by FBN Insurance from introduction of new products like mobile insurance called Padi-4-Life which was launched in conjunction with a major telecoms company; higher business volumes and improved market penetration of the Life Assurance business. Other Financial Services group, contributed 0.5% (₦2.1 billion) and -3% (₦3.20 billion) of the Group's gross earnings and profit before tax.

FINANCIAL REVIEW

BUSINESS GROUPS PERFORMANCE AT A GLANCE

Business groups	Gross revenue (₦'bn)			Profit before tax (₦'bn)			Total assets (₦'bn)		
	2013		% of 2013 total	2013		% of 2013 total	2013		% of 2013 total
Commercial Banking	371.1	343.7	93.7%	86.7	84.5	94.9%	3,712.6	3,095.0	95.9%
Investment Banking and Asset Management	19.2	16.0	4.9%	6.8	(4.1)	7.4%	106.1	78.9	2.7%
Insurance	3.4	4.0	0.9%	1.1	0.7	1.2%	8.7	6.7	0.3%
Other Financial Services	2.2	6.5	0.5%	(3.1)	4.6	(3.5%)	43.6	47.8	1.1%
	395.9	370.2		91.3	93.9		3,871.0	3,228.4	

FINANCIAL REVIEW

BUSINESS GROUP PERFORMANCE

COMMERCIAL BANKING

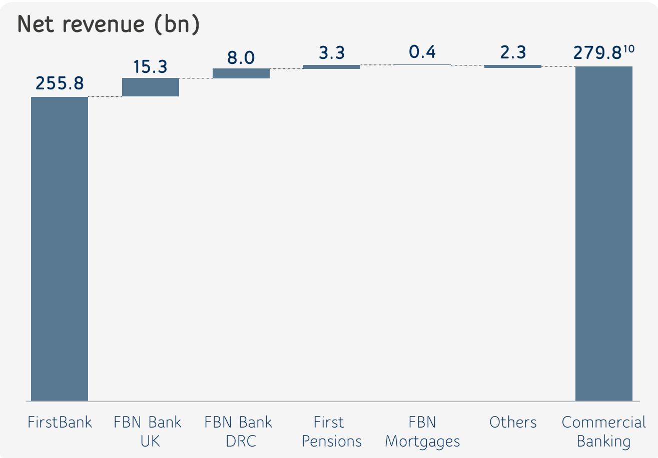
The Commercial Banking business group is responsible for offering banking services to both individual and corporate clients in Nigeria and internationally.

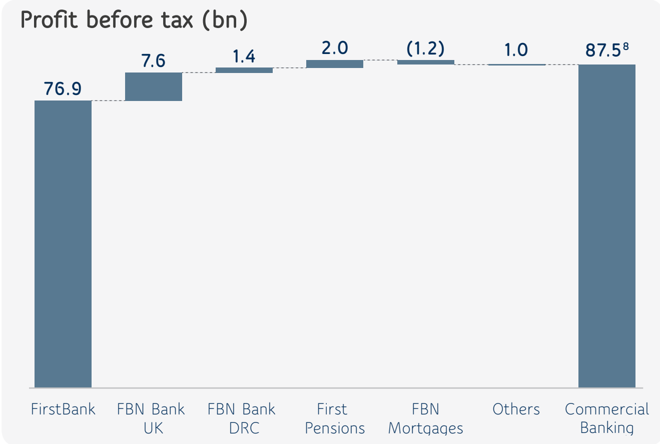
The Commercial Banking business group recorded decent revenues and profits largely driven by increased earnings from FBN Bank UK Ltd, First Pension Custodian and higher contribution from BIC Congo supported by the continued focused implementation of corporate strategies, including but not restricted to innovative product development (First Current Business account and Me First account), expanded market reach (acquisition of the ICB West Africa operations) and responsive ways of meeting our customers' needs (improved customer service). Revenue and profit growth were muted by FirstBank of Nigeria Limited's performance following regulatory pronouncements (CBN's revised guide to bank charges, cash reserve ratio (CRR) increase, increased AMCON levy, etc.) and a tougher operating environment. Some of the regulatory pronouncements include hike in savings deposit rate, phased reduction in commission on turnover (COT) from ₦5 per mille to ₦3 per mille in 2013, ₦2 per mille in 2014 and complete phasing out in 2015, and increased CRR from 12% to 50% on public sector deposits. These pronouncements have led to a more challenging operating environment than ever before, putting pressure on our revenues and profitability. Supporting this performance was the contribution from our international subsidiary, FBN Bank (UK), resulting from expanded business volumes in corporate loans, project loans, mortgage, trade finance assets as well as various cost efficiency strategies during the period under review. The pension custody business performance also improved during the period under review as a result of increased volume of business and better customer management.

Gross earnings for the Commercial Banking group grew by 10% to ₦373 billion in spite of various regulatory, operating and socio-economic challenges such as: including increasing security concerns, especially in the northern region of the country.

In the UK, the economy showed some traction with recovery in the euro area, with increasingly stringent regulatory requirements introduced in its operating environment to combat the causes of the credit crisis. The Democratic Republic of Congo (DRC) remains one of the fastest growing economies in Africa estimated at 8.1% (2012: 7.2%) and in spite of the conflict in the eastern part of the country recorded improved business via focus on business and loan growth.

Overall, profit before tax stood at ₦86.7 billion (2012: ₦90.1 billion) for the Commercial Banking business group driven mainly by increased contribution from the UK, DRC and pension custody business but muted by First Bank of Nigeria's performance.





FIRST BANK OF NIGERIA LIMITED

Gross earnings of First Bank of Nigeria stood at ₦339 billion in 2013, the highest recorded in the Nigerian banking industry with an increase of 8.0% year on year. This was driven largely by interest income growth of 10.5% to ₦284.4 billion and muted by the 50.1% growth in interest expense supported by the high interest rate environment in the period under review. Profit before tax stood at ₦76.9 billion in 2013 (2012: ₦83.3 billion). Operating expenses declined by 5.8% year on year to ₦159 billion (2012: ₦169 billion) on the back of reduction in some external fees, stationery and printing, donations and subscriptions in spite of an increase in regulatory cost. Return on average equity and average assets stood at 16.4% and 2.4% respectively while cost-to-income ratio stood at 65.3%. In 2013, deposits and loans grew by 18.4% and 12.0% to ₦2.57 trillion and ₦1.47 trillion respectively in the year under review.

Total assets grew by ₦476 billion to ₦3.25 trillion (2012: ₦2.77 trillion), an increase of 17.2% year-on-year, benefiting largely from strong growth in volume of loans and advances funded from increased strong liability generation. Deposit liabilities constitute 79% of funding[9] (2012: 78%) as equity and long-term borrowings respectively represent 11% and 4%, while other liabilities made up 6%. FirstBank maintains a very stable and relatively inexpensive funding base providing an appropriate platform for competitive pricing advantage in assets and liabilities as well as flexibility in operations. Cost of funds stood at 3.1%%, (2012: 2.3%) reflecting reaction to a higher interest rate environment and increased interest rate on savings accounts.

Deposit liabilities grew by 18.4% year-on-year to ₦2.57 trillion (2012: ₦2.17 trillion) driven by a 14% growth in CASA[7], which constitutes 82% of FirstBank's deposits. The balance of 18% of deposits is made up of tenored deposits. Tenored deposits grew significantly during the period by 43% to ₦458 billion (2012: ₦321 billion) reflecting response to customer preferences given the higher interest rate environment.

Across strategic business units, deposit growth was driven by the Retail Banking business unit, with a growth of 24.1% to ₦1.2 trillion (2012: ₦1.0 trillion) primarily due to an increased focus on innovative product development, aggressive marketing, improved service delivery, acquisition of new customers and a series of promotional campaigns undertaken during the period. Retail banking remains the major driver of low-cost current and savings account deposits, contributing 48.7% of deposits to the Bank as at

7 CASA – Current Account, Savings Account.

8 The summation of the individual business group adds up to ₦87.7 billion. However there are intercompany adjustment including profit from associate companies making the aggregate sum of commercial Banking group ₦87.5 billion.

9 Funding here refers to total assets

10 The summation of the individual business group adds up to ₦285.1 billion. However, there are intercompany adjustments making the aggregate sum of the Commercial Banking business group ₦279.8 billion.

FINANCIAL REVIEW

BUSINESS GROUP PERFORMANCE

31 December 2013. We have begun to reap benefits of our strategic branch expansion from previous years as it has enabled us to deepen our retail footprint to generate low-cost deposits, and has also served as a platform to build a wide agency network for the Bank's mobile money business. In addition, the Private Banking SBU recorded a 113.2% increase in its deposits to ₦49 billion (2012: ₦23 billion). Public sector deposits increased by 13.8% year on year to ₦698.7 billion (2012: ₦614.21 billion) while our Commercial Banking SBU grew its deposit by 92.2% to ₦19.7 billion (2012: ₦10.2 billion).

Current accounts remain the largest proportion of our deposit base (33%) and increased by 10.3% year on year to ₦834 billion due to existing products such as First Current Plus account and new product offerings such as First Current Business account, new customer acquisition, deepening existing relationships with our customers and better understanding of their needs. Also the focus on Commercial Banking for the small and medium enterprises (SME) has helped in building up balances towards executing trade-finance transactions. Savings accounts, representing 25% of deposit liabilities, grew by 20% year on year as a result of existing products and the introduction of new products such as the First Instant Savings account targeted at the unbanked/under-banked, as well as savings promotions held during the period under review. Improvement and acceptability of the Firstmonie product has grown the number of customers to over 500,000 with significant growth transaction volume and value. As a result of the sustained high interest rate environment and customers' preference for increased rate, tenored funds grew by 43% year on year and represent 18% of our deposit base.

FirstBank's gross loan book increased by 12% year on year to ₦1.52 trillion in 2013 (2012: ₦1.35 trillion), while the net loan book also grew by 12% year on year to ₦1.47 trillion (2012: ₦1.32 billion). Loan growth was driven by a 144.3% growth in Commercial Banking SBU loans followed by 108.5% in Private Banking and 23.1% in Corporate Banking SBU loans. Institutional Banking constitutes 46.2% of the Bank's loan book, while Corporate and Retail Banking make up 24.1% and 18.3% respectively. Public Sector, Commercial Banking and private banking make up the balance of FirstBank's loan book. Increases in the gross loan book primarily driven by the Bank's increased exposure to the oil and gas, power, information and communication, construction as well as manufacturing sectors.

The Bank closed with NPLs of ₦46.9 billion (2012: ₦28.1 billion) while NPL ratio as at year end closed at 3.1% (2012: 2.8%) with an 88.3% (2012: 99.1%) NPL coverage while cost of risk stood at 1.3% (2012: 0.7%).

FBN BANK (UK) LIMITED

FBN UK operated in an economy which showed optimism with the services sector continuing to lead the economic recovery. The manufacturing sector has benefited from stronger trends recently in key European export markets while the construction sector has also seen gradual growth and is expected to strengthen further in 2014.

UK GDP growth for 2013 was 0.8%, and is projected to increase to 2.4% in 2014 while inflation rate declined to 2.2% in 2013 (2012: 2.7%). The regulatory environment, particularly in the UK, remained very challenging. This general negative public perception of the banking industry, made worse by the LIBOR fixing of 2012, remains unabated. Global regulators continued to put in place stringent rules in an effort to ensure banks are better prepared for any future financial crisis. Some of the rules are quite restrictive and costly but are to become effective in the medium term. However, the UK regulator has compelled UK-based banks towards early compliance. It is strongly evidenced that the application of the liquidity rules has frustrated the supply of credit to the economy.

It is hoped that current pronouncement and policies of the current Bank of England leadership will restore some confidence into the industry.

In spite of the challenging operating environment, FBN Bank UK grew gross earnings by 17% year on year to ₦22.4 billion. The increase in gross earnings in comparison to the prior year resulted from expansion of customer lending activities. Net interest income grew 41.1% to ₦12.6billion resulting from increased interest income driven by a combination of increased customer lending activities in the structured finance assets, mortgages, short-term structured trade and commodity-related assets, as well as project finance segments. Net fee and commission income stood at ₦1.6 billion recording a 24% dip. The dip in fee and commission income is attributable to a reduced level of trade financing resulting from slow global economic recovery.

Operating expenses increased by 13.7% to 5.8 billion (2012: ₦5.1 billion) as a result of a rise in staff costs, business travel, communication and premises costs. This was all in a bid to improve the operational framework and systems that were put in place by the Bank to support increased business and safeguard assets. Cost-to-income ratio which stood at 34.1% (2012: 43.3%) as a result of an increase in amount of impaired loan charge, which stood at ₦1.96 billion (2012: ₦118.7 million) for the period under review. Consequently, FBN Bank UK posted pre-tax profit of ₦7.6 billion, an increase of 15.7% over ₦6.6 billion in 2012.

Total assets rose by 4.3% to ₦535.9 billion (2012: ₦514.0 billion) driven by an increase in customer deposits generated to support increased lending activities. Loans to customers increased by 25.4% to ₦291.1 billion (2012: ₦232.1 billion) while loans to banks stood at ₦126.5 billion (2012: ₦229.4 billion) as exposure to European banks reduced. NPL ratio remained low at 0.38% and was fully provisioned net of collateral.

Deposit liabilities grew by 7.7% to ₦295.7 billion (2012: ₦274.6 billion) and this was strategically driven through wholesale and retail deposit liabilities to achieve an optimal funding mix. The Bank achieved an improved deposit tenor profile, as its deposit liabilities were composed of more tenored funds adding duration to our deposit profile compared to the previous year.

Total shareholders' equity increased by 10.7% to ₦52.3 billion (2012: ₦47.2 billion), resulting from a combination of high profit retention and reduction in revaluation reserve account. Return on shareholders' equity increased to 17.4% (2012: 15.7%) while return on assets recorded a considerable improvement to 1.3% (2012: 1.1%). Capital adequacy ratio stood at 18.2% (2012: 18.0%) with a core tier 1 capital of 14.3% (2012: 14.0%) reflecting the contribution from a high percentage profit retention and optimal balance sheet management. These were in excess of regulatory requirements as at year end, indicative of the strong capital position of the Bank.

It is expected that with the strength of our current capital ratios, our ability to retain future profit and our optimal mix of risk-weighted assets, the Bank will be able to meet its regulatory capital requirements in future.

BANQUE INTERNATIONALE DE CRÉDIT

Banque Internationale de Crédit (BIC) in the Democratic Republic of Congo was positively impacted by its economy. The economy remained strong in 2013 as one of the fastest growing, with growth in gross domestic product (GDP) of 8.1% (2012: 7.2%), driven by mining, trade, construction and agriculture. Growth has benefited from the improvement in some aspects of the business environment, the reconstruction of infrastructure and strong demand. Mining has been the main driver of growth, and several mining companies moved from exploration to production stage in 2013.

Growth is expected to remain at 8.5% in 2014 and will be driven by mining (copper, cobalt and gold), reconstruction of roads and energy infrastructure as well as the impact of the agricultural campaign. Lower growth in emerging markets could result in a fall in foreign direct investment and a decline in demand for minerals.

FINANCIAL REVIEW

BUSINESS GROUP PERFORMANCE

BIC's gross earnings increased by 1.8% to ₦8.4 billion (2012: ₦8.2 billion), operating income rose by 1.7% to ₦6.0 billion (2012: ₦5.9 billion) while interest income rose by 33.7% to ₦3.8 billion (2012: ₦2.8 billion) and net interest income stood at ₦3.4 billion (2012: ₦2.5 billion). Profit before tax increased by 60.8% year on year to ₦1.4 billion. Total assets of ₦53.6 billion (2012: ₦46.1 billion) impacted by 19.6% increase in deposits, resulting in 16.2% increase in loans and advances to customers.

FIRST PENSION CUSTODIAN NIGERIA LIMITED

During the year 2013, the Nigerian pension industry consolidated on its efforts to create awareness of the contributory pension scheme. The industry was beleaguered with numerous challenges during this period, which had significant negative impact on the industry. However, in spite of all the challenges, one of the remarkable achievements of the pension industry during the year was the successful decentralisation of the operations of the industry regulatory body, the National Pension Commissions into six zonal offices. The reason for the decentralisation was necessary in order to bring the commission closer to contributors and retirees.

First Pension Custodian Nigeria Limited (FPCNL), the pension fund custody business of First Bank of Nigeria Limited and one of the foremost pension custodians in Nigeria, recorded another year of progress as total income rose by 28% year on year to ₦3.29 billion (2012: ₦2.56 billion) and profit before tax rose by 54% to ₦2.03 billion (2012: ₦1.32 billion). This performance benefited from growth in custody fees in addition to interest income and was muted by a dip in investment income. Increased custody fees were as a result of new relationships commenced and existing relationships with clients that were further deepened to extend our market leadership in the pension fund custody business, which remains at 35%. Operating expenses for the year increased marginally by 1.4% to ₦1.26 billion (2012: ₦1.24 billion) as a result of stringent management of expenses during the year whilst we sustained our investment in technology in line with our strategy to support future growth of the business.

Total assets of FPCNL grew by 31% to ₦6.37 billion (2012: ₦4.88 billion) principally due to an increase in earning assets, with total assets under custody increasing by 33.1% to ₦1.45 trillion (2012: ₦1.09 trillion) resulting from fresh injection of funds and organic growth.

FBN MORTGAGES LIMITED

In line with regulatory guidelines requiring Primary Mortgage Banks (PMBs) to divest from real estate development, FBN Mortgages is transitioning to a full-fledged mortgage institution. Within this context, we are increasing strategic partnerships with established mortgage financing institutions with (possibility of joint venture arrangements) landowners, developers, real estate investors and State Governments/parastatals while seeking innovative ways to leverage the opportunities they offer.

The floating of the Nigeria Mortgage Refinancing Company and its enabling legislation will offer a financing framework to boost the supply side of the market and bridge the huge housing deficit in the country and the bank has invested in this vehicle as part of its long-term commitment to playing a leading role in the Nigerian mortgage market.

Business activities slowed down in 2013 as FBN Mortgages continued to transit from a predominantly real estate development company to a mortgage focused business. The business also witnessed a change in management and sold off inventory while positioning for future growth through restructuring. The loan book witnessed a slowdown in loans during the year. A loss of ₦1.2 billion was recorded for the period and the total assets stood at ₦15.5 billion.

INTERNATIONAL COMMERCIAL BANK (ICB) WEST AFRICA

The West African banking sector remained challenging with low banking penetration as measured by the banked population ratio, regulatory/bureaucratic bottlenecks, constraints in legal framework, weak technology infrastructure and a dearth of local skilled manpower. Driven by a rise in commodity prices and general improvement in socio-economic factors, the resurgence in West African economies has attracted businesses aiming to foster growth through active collaboration with governments and private sector partners.

Gambia is the smallest country in Africa and operates a liberal market-based economy with tourism being its largest source of foreign exchange. There has been steady improvement in infrastructure over the years. ICB Gambia accounted for about 72% of industry profits in 2011 (as most banks recorded significant provisioning on the loan books in that year).

Ghana ranked as the fastest growing economy in the world by the IMF in 2011 with a stable and peaceful political climate. The country is, to an extent, still dependent on international financial and technical assistance. The economy is strengthened by sound economic management and continuous reduction in poverty levels. Oil discovered in 2007 at Jubilee Oil Field is expected to strengthen the country's earnings and production is now, on-going at this field.

Guinea is richly endowed with mineral resources and the economy is mainly dependent on agriculture and mineral production. It is the world's second largest producer of bauxite with rich deposits of diamond, iron ore and gold. Agriculture employs about 80% of the labour force.

Sierra Leone is rich in mineral resources and has relied on the mining sector for its economic base. Sierra Leone's economy is predominantly agriculture based with about half of the workers engaged in subsistence farming. It has an important mining industry producing diamonds, iron ore, gold, bauxite and titanium. Diamond mining remains the principal source of foreign exchange earnings.

Combined operating income and operating expenses for ICB stood at ₦837 million and ₦407 million respectively while profit before tax for the year was ₦353 million.

INVESTMENT BANKING AND ASSET MANAGEMENT (IBAM)

IBAM grew gross revenues to ₦19.2 billion (2012: ₦16.2 billion) and recorded profit before tax of ₦6.8 billion (₦4.1 billion). Performance was driven by a strong rebound in the investment banking business; bolstered by the ongoing reforms in the power sector and divestments of oil & gas assets by International Oil Companies as well as improved performance of the Nigerian Stock Exchange. The IBAM businesses seized the opportunities presented by a benign macro-economic environment, fairly stable financial markets, and reform and market transformation initiatives in the power and oil & gas sectors. The Nigerian stock exchange recorded a strong performance in 2013; approximately 47.19% return. This activity was driven by the foreign institutional investors who were attracted by the relatively cheap valuation of Nigerian stocks. Despite the challenging interest rate environment, and spread contraction in the flagship product – Liquidity Management – the Asset Management business grew its AUM by 64.3% to ₦148 billion.

The IBAM group is beginning to see the benefits from investments in its retail sales platform, and the continuous collaboration efforts to leverage the FirstBank retail network. Strong population dynamics, high GDP growth, and a fairly stable financial and macroeconomic environment attracted the interest of institutional investors in search of high returns and portfolio diversification. A significant number of new investments (investments cut across various sectors including food and beverages, hospitality, travel and leisure, healthcare, leasing, telecommunications, real estate and oil and gas) were made in Nigeria and across Africa in 2013. Competition increased with the influx of new players, however key strategy alliances has strengthened our position as the leading Trustee business. The Corporate Trust segment grew in tandem with greater activity in the syndicated loan segment; the Public Trust segment remained quiet with only a handful of bond issues

FINANCIAL REVIEW

BUSINESS GROUP PERFORMANCE

during the year; the Private Trust business continues to be constrained by the perceived negative sentiment associated with setting up wills, etc. but this is being managed through client education.

In 2013, we continued to improve our key processes and enhance the use of technology to drive efficiency. In addition, IBAM group increased its work-force across the various divisions to fill new vacancies as our businesses grew.

IBAM recorded an impressive performance in 2013 with an 18.5% growth in gross earnings compared to 2012. The strong year on year growth was driven largely by an upsurge of activities in the Investment Banking business during the year. The group also achieved a remarkable growth in profit before tax; 65.9% year on year through a combination of increased revenues and pragmatic cost containment as evidenced by a decline in cost-to-income ratio by 8% to 46% (2012: 54%). The impressive performance indicates that we have grown shareholder value as return on equity (ROE) also grew significantly to 21% (2012: 13%).

IBAM GROUP PERFORMANCE

FBN CAPITAL LIMITED

FBN Capital Limited the arrow-head for the Investment Banking and Asset Management Group, recorded a 55% year on year increase in net revenue to ₦5.89 billion relative to 2012. Operating expenses declined by 31% year on year to ₦2.0 billion Profit before tax for FBN Capital increased by 344% to ₦3.9 billion (2012: ₦871 million) This performance was driven largely by the Investment Banking division benefiting from increased market activities in the Power and Oil & Gas sectors. This drove the strong rebound in the revenues generated by the Investment Banking division; with transactions in this sector contributing about 85% of Investment Banking revenues. .

The financial advisory business was also very active across several sectors and participated in several IOC divestments and the sale of power assets. However the primary capital markets (both debt and equity) remained quiet for most of the year, with only a handful of transactions (mostly private energy capital market (ECM) transactions).

Total assets increased by 109% year on year to ₦44.0 billion (2012: ₦41.3 billion); this was largely impacted by a 458% increase in other assets which rose to ₦9.2 billion (2012: ₦1.7 billion) while shareholders' funds increased by 5.7% to ₦40.1 billion (2012: ₦37.9 billion) arising from increased retention of earnings.

FIRST TRUSTEES NIGERIAN LIMITED

First Trustees, which acts as a custodian of assets for public, corporate and private entities in addition to administering, managing and transferring assets on behalf of beneficiaries, recorded a 16% year on year increase in its net revenue to ₦1.9 billion (2012: ₦1.6 billion) in the year under review. Increased net revenue was driven majorly by a 62% decrease in interest expense to ₦1.96 billion (2012: ₦5.17 billion) and a 19% increase in fee and commission income in addition to a 54% decrease in interest income to ₦2.1 billion (2012: ₦4.53 billion. Interest income reduction was as a result of reduction in interest from treasury bills and investment securities and placements.

Profit before tax for the period under review closed at ₦986 million (₦1.0 billion). A 3% decline year on year was impacted by a 60% increase in operating expenses in the period under review; this was driven by an increase in staff costs and other operating expenses.

FIRST FUNDS LIMITED

First Funds is the private equity which serves as a platform for providing growth capital to firms to finance their expansion plans. Activities in this business span across a broad spectrum of sectors in Nigeria such as telecoms, leasing, oil and gas, travel and tourism, Information and communication technology.

The business recorded a 95% year on year increase in its net revenue to ₦349 million (₦179 million), driven by growth in interest income but muted by increased interest expense of 242% to ₦779 million. Operating expenses increased by 92% to ₦468 million as a result of increase in staff costs and cost of operations.

The business recorded a loss before tax of ₦119 million (2012: (₦65 million)) resulting from a higher operating expense and interest expense in the year under review. Total assets increased by 26% to ₦7.1 billion (2012: ₦5.6 billion) driven by a 30% growth in investment securities to ₦6.0 billion (2012: ₦4.6 billion). Growth in assets was financed by additional borrowings bringing the total borrowings to ₦4.3 billion (₦3.5 billion), a 22% increase year on year while shareholders' funds increased by 19% to ₦2.4 billion (2012: ₦2.0 billion).

FBN SECURITIES LIMITED

FBN Securities is engaged principally in the business of stock brokerage and other financial services including fund management and investment advisory. It is host to the distribution platform, comprising sales, trading, structuring and research activities, across various asset classes (equity, fixed income and foreign exchange).

Our services are offered to a broad range of customers which includes a broad segment of institutional investors comprising, pension fund administrators (PFAs), insurance companies, banks and financial institutions, local and offshore portfolio managers, large corporations, endowment funds, foundations and cooperative societies, high net worth individuals (HNIs) and other retail clients. We also distribute public offerings on behalf of issuers and ensure a seamless process of listing companies on the floor of the exchange. We also conduct qualitative research covering macroeconomics, fixed income and equities, offering timely market commentary and detailed analyses of the local economy, major sectors/companies listed on the NSE and the Nigerian bond market.

Net revenues increased by 140% to ₦781 million (2012: ₦326 million), which was primarily as a result of the strong performance recorded by the Nigerian Stock Exchange (NSE) in 2013; 47.19% return. This activity was driven by the foreign institutional investors who were attracted by the relatively cheap valuation of Nigerian stocks. The sales team has made significant progress in securing offshore institutional clients, and the Company was placed fourth in the league table of NSE brokers.

Interest income increased by 33.2% year on year to ₦292 million (2012: ₦219 million) as fee and commission income increased by 354% to ₦485.4 million (2012: ₦107 million). Increased interest income benefited from higher interest income from placements, treasury bills and investment securities. Operating expenses increased by 292% to ₦770 million (2012: ₦196 million) as FBN Securities recorded a profit before tax of ₦34 million (2012: ₦271 million) and profit after tax of ₦558 million (2012: ₦131 million).

Total assets closed at ₦6.1 billion from ₦2.8 billion, driven largely by an increase in loans and advances to banks as well as investment securities.

FINANCIAL REVIEW

BUSINESS GROUP PERFORMANCE

FBN INSURANCE LIMITED

The FBN Insurance business group includes both our legacy insurance brokerage business and the more recent full underwriting business, FBN Insurance from a Life Assurance business. The underwriting business is performed by FBN Insurance Limited, a partnership with South African-based Sanlam Group.

The Sanlam Group is the second largest non-banking financial services group in South Africa. FBN Insurance is a business relationship that leverages the technical life insurance skills and expertise of Sanlam Group and the FirstBank knowledge of the Nigerian financial services market and distribution network to deliver tangible value to clients.

The recent acquisition of Oasis insurance company expanded the insurance portfolio to include the general insurance business after year end, with FBN Insurance (previously FBN Life[11]) now a composite insurance company. In 2014, we intend to harness the growth opportunities in the insurance sector after year end, driving volumes via bancassurance and leveraging on our extensive footprint in Nigeria.

FBN Insurance Brokers combines expert brokering knowledge and capabilities for risk assessment, analysis, structuring and overall servicing. FBN Insurance Brokers provides insurance advisory services, risk management and placement of risks for FBN Holdings Plc and the general public (individuals, private and public sectors). It renders specialist services as an intermediary in all classes of insurance.

The revenue base of the Insurance group recorded contraction in the review period, reducing by 13.5% to ₦3.4 billion from ₦4.0 billion, driven by the adoption of the 'no premium, no cover rule' adopted in the year, under review. Profit before tax rose to ₦1.1 billion from ₦642 million the previous year a 66.8% year on year increase. This growth in profit was driven by a strong bottom line growth experienced by the Life Assurance business benefiting from improvements in business volumes driving through market penetration and continued profitability of the Brokerage business.

The Insurance group's total assets closed the year at ₦8.7 billion, an increase of 30.9% (December 2012: ₦6.7 billion) from increased investment.

INSURANCE GROUP PERFORMANCE

FBN INSURANCE LIMITED

FBN Insurance's gross premium income grew by 35% year on year to ₦3.9 billion (2012: ₦2.9 billion) which is projected to be faster than the insurance industry growth rate estimated at 28% in the same period. Claims expense decreased by 22% to ₦499 million (2012: ₦642 million) while it made a pre-tax profit of ₦520 million (2012: ₦426 million). Growth in revenue and pre-tax profit was driven by growth in premium income, interest income and fees and commission income.

This improved performance was mainly from increased business volume, improved market penetration and an innovative product offering to suit clients' needs. To further enhance performance, FBN Insurance uses cost-effective distribution channels which include a direct sales force, direct and focused marketing, independent intermediaries and bancassurance multi-channel distribution, making use of FirstBank's extensive branch network.

Total assets increased by 99% to ₦11.3 billion resulting from a 145% growth in investment securities as well as a 102% increase in cash and bank balances. Shareholders' funds closed at ₦3.7 billion representing an increase of 39%.

FBN INSURANCE BROKERS LIMITED

FBN Insurance Brokers, the insurance brokerage business, recorded gross revenue of ₦836 million from ₦794 million in 2012, an increase of 5.2%. The growth in gross revenue was supported by a 36% growth in interest income and a marginal 0.5% increase in fee and commission income.

Operating expenses closed at ₦460 million from ₦578 million, a 20.4% year on year decrease. Decrease in operating expenses was due to decrease in staff costs and other operating expenses. Profit before tax stood at ₦337 million (2012: ₦216 million) as a result of increased interest income and reduction in operating expenses in the year under review.

Total assets increased to ₦1.64 billion (2012: ₦1.42 billion) recording a 15.7% increase year on year. Total equity improved to ₦903 million as a result of an increase in retained earnings.

OTHER FINANCIAL SERVICES

FBN MICROFINANCE BANK LIMITED

Our other financial services group currently serves as a quasi-incubator for our smaller non-banking financial services businesses including a microfinance bank.

FBN MFB, which provides microfinance services to the mass-market retail segment. FBN MFB gross earnings stood at ₦1.13 billion (2012: ₦1.19 billion) resulting from a 10.2% dip in interest income. Interest income reduction resulted from reduction in interest income from loans and advances to customers due to a slowdown in lending activities in the year 2013, despite growth in interest income from placements and treasury bills and investment securities. Interest expense increased by 214% to ₦45 million as a result of the increase in interest rate on savings deposits from 1% to 3.6%. Net interest income reduced year on year by 14.0% as a result of the combination of higher interest expense and lower interest income earned in the year under review. Non-interest income, largely made up of investment income, fees and commissions and other operating income increased by 2.2% to ₦252.4 million (2012: ₦247 million); this was driven by an increase in placements with banks and sales of Joint Admissions and Matriculation Board (JAMB) cards as well as SMS alerts on customers' transactions.

Operating expenses increased from ₦813 million to ₦1 billion, a growth of 27% largely from staff costs and other operating expenses. Profit before tax stood at ₦64 million from ₦307 million in 2012; this decrease was attributable to reduced interest income from loans and advances to customers resulting from suspension of lending activities and concentration on recovery in the first quarter of the year under review.

Total deposits increased by 24% to ₦1.0 billion (2012: ₦821 million); these deposits are majorly placements with a marginal spread of 0.5%. Net loans and advances reduced by 9.7% to ₦1.36 billion (2012: ₦1.51 billion). Total assets grew by 42% to ₦8.2 billion (2012: ₦5.7 billion) as a result of increase in deposits to ₦1.0 billion (2012: ₦0.8 billion). Shareholders' funds increased by 85% to ₦2.31 billion (2012: ₦1.36 billion) resulting from injection of additional capital of ₦1 billion and capitalisation of profits.

11 A joint venture with Sanlam Emerging Markets.

HOW ARE OUR BUSINESS GROUPS PERFORMING?

The Bank remains a clear market leader in Nigeria with the highest market share[12] of 15%, 21% and 14% in total assets, gross loans and customer deposits respectively. In the past, the Bank has efficiently leveraged its robust and extensive branch and ATM infrastructure to mobilise deposits from its large retail client base. This has helped translate into a competitive cost of funds for the Bank vis-à-vis competition.

However, CBN's recent focus on reducing the cost of banking to customers via various policies – especially the review of guidelines on bank tariffs – has led to a near elimination of the already disappearing cost of funds advantage. It has also shrunk revenue streams. In addition, a dependence on interest income – at the expense of other ancillary income – has made the Bank susceptible to significant margin compression.

In challenging times for our industry, we have identified some opportunities in which the Bank can leverage revenue growth. An expanding middle class, the growth of the mid-corporates and SME, multichannel expansion, growing demand for credit and the need for greater financial infrastructure have given renewed hope for expansion.

12 Bank Annual Reports, Renaissance Capital, McKinsey Global Banking Pools, Team Analysis.

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

BUSINESS GROUP OVERVIEW

FirstBank is the commercial banking subsidiary of FBN Holdings Plc. The FirstBank group also includes our international operations, both the fully licensed banks – FBN UK and Banque Internationale de Crédit (BIC) – with our representative offices in Abu Dhabi, Beijing, Johannesburg and Paris, and other subsidiaries such as First Pension Custodian and FBN Mortgages. In 2013, the Bank also successfully completed its acquisition of the International Commercial Bank (ICB), expanding its operations to four West African countries – Ghana, Gambia, Guinea and Sierra Leone, where it operates as FBN Bank.

NET REVENUE[14]

₦278.7bn

(2012: ₦280.5bn)

PROFIT BEFORE TAX[14]

₦86.7bn

(2012: ₦84.5bn)

2013	Net revenue (₦bn)[13]	Profit before tax (₦bn)[13]
First Bank of Nigeria Limited	255,810	76,852
FBN Mortgages Limited	356	(1,246)
BIC	7,985	1,437
First Pension Custodian Nigeria Limited	3,286	2,026
ICB	837	353
FBN UK	15,325	7,585
Others	1,512	662

PERFORMANCE OVERVIEW

Despite the challenging macroeconomic and market conditions, the Commercial Banking group showed resilience to post an improved performance in 2013. Gross earnings for the Commercial Banking group for the financial year end 2013 stood at ₦372.6 billion, a 10% increase from ₦338.9 billion in 2012. Profit before tax (PBT) also increased by 1.5% from 2012, closing the year at ₦87.5 billion.

This performance was all the more notable, given the significantly negative impact on our business of the increased reserve requirements as well as changes in the banking tariffs. The performance was underpinned by the disciplined and focused implementation of mitigating steps taken to limit the impact of the policy pronouncements, as well as expanded market reach and responsiveness to meeting customers' needs.

We sustained our predominantly low-cost funding base, achieving a year-on-year deposit growth of 22% as at the year-end December 2013. The Retail Banking business continues to be the major driver of low-cost deposits, while the recently implemented value chain management framework within the Institutional and Public Sector banking businesses ensures higher retention of deposits.

13 The net revenue and profit before tax for the individual entities sums up to ₦285.1 billion and ₦87.7 billion. The difference on the Commercial Banking business group net revenue and profit before tax is as a result of intercompany adjustments of ₦5.3 billion and ₦0.2 billion for the net revenue and profit before tax respectively.

14 This includes consolidated adjustments at the Holding Company level.

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

NON-FINANCIAL HIGHLIGHTS

The Commercial Banking group expanded geographical coverage across Africa in 2013 through acquisition of the West African operations of ICB.

The integration effort will span all five subsidiaries, and will focus on four key areas: Synergy realisation; Risk, Process & Governance; Human Resources Integration; and Back-end Systems integration. All subsidiaries will also be re-branded in line with the overall Group branding architecture. A number of quick-wins have been addressed including targeted staff exchange programmes, functional capability assessment and knowledge transfer, development of an interactive 'Africa' portal for staff engagement and knowledge exchange, attraction of new business leveraging on the Group's financing capacity and relationships, and introduction of new e-products.

The Bank's large active customer accounts of over 8.5 million, coupled with the rapid expansion in the electronic banking business, market leadership position in number of issued cards, high card active rate and continued migration of additional services onto electronic platforms all provide a base for sustainable growth going forward.

The Bank made progress in driving fee-based deposit products with high propensity for float income; this is reflected in over 40 new collections and 55 new e-payment mandates being won in 2013. This provides customers with more options to carry out their transactions through alternative channels (POS, Internet etc), underscoring additional progress and success from the ongoing operational transformation.

The Bank upgraded its software to the improved Finacle 10, which will not only improve turn-around time for customers but improve customer relationship management tools giving the opportunity to determine customers' needs and offer better services.

To drive heightened focus and increased penetration of the larger SME space, FirstBank established and has scaled up the Commercial Banking strategic business unit (formerly emerging corporate). This is expected to increase transaction velocity, especially within the trade finance business benefiting from the high import dependency of the Nigerian economy, through attractive pricing dynamics, thus improving the contribution of non-interest income. As the leading bank in Nigeria with the most diverse portfolio of small and medium enterprises (SMEs), we recognise that SMEs are the bedrock for the development of any economy. Thus strengthening the SME offering enables the Bank to effectively meet their changing needs. A robust and added-value engagement model for SMEs nationwide was launched. This focuses on non-financial services in order to deepen the existing customer relationships while acquiring new SME customers that wish to start, grow and sustain their businesses with the Bank.

Our mobile financial services solution Firstmonie®, targeted at extending banking services to the unbanked and under-banked segments of the market, in addition to enabling existing customers of the Bank to conveniently perform banking transactions from their mobile phones, recorded significantly improved performance and closed the year with c.499,000 customers (December 2012: c.28,000). Firstmonie as at the end of the year had registered c.10,000 agents, presenting a viable, reliable and growing network to help grow its customer base, access low-cost deposits without the burden of huge capital investments, and drive float and fee income growth in the medium to long term. The USD12 million grant by the Bill & Melinda Gates Foundation is focused on agent network building, marketing consulting and other market studies aimed at ensuring FirstBank exploits the inherent opportunities presented by the mobile money business whilst at the same time driving financial inclusion for the unbanked and under-banked.

The implementation of cost initiatives such as reduction in deployment of new branches in the current year; maintaining an appropriate staffing structure and workforce alignment; optimising procurement and operational spend; branch transformation by making them more sale centres including rationalisation of rural branches and unprofitable locations. Other initiatives include further automating our activities by migrating more processes and branches to the centralised processing centre (CPC), leveraging shared distribution platforms across the Group.

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

FIRST BANK OF NIGERIA LTD

FirstBank aspires to be the 'clear leader and Nigeria's bank of first choice'. With this in mind, the Bank's focused transformation programme is designed to deliver on its aspirations.

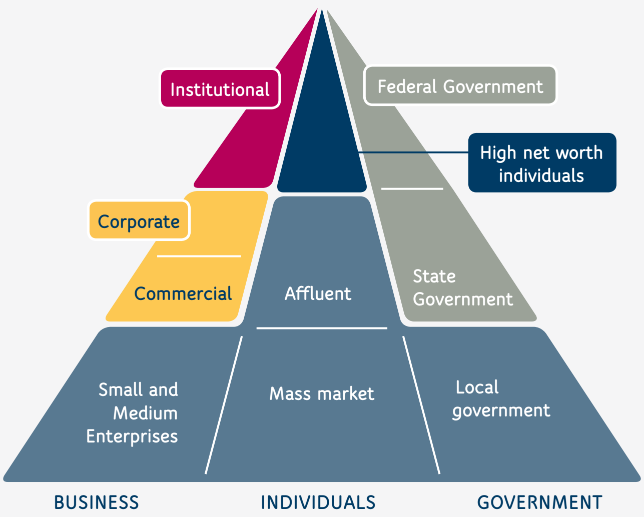
The focus of our strategy over the medium term is to defend our position as industry leaders, while extending it across other key dimensions (i.e., customers, brand, service, etc.). We hope this will achieve superior and sustainable financial results benefiting the long term. Our value proposition is anchored on the provision of integrated product and service suites and deep insights into the key needs of our customers. Hence, at the corporate level, we concentrated our talents on a narrow list of high-value strategic levers (both financial and non-financial) aimed primarily at optimising our shareholders' returns.

BUSINESS MODEL

The Retail Banking Strategic Business Unit (SBU) remained the highest contributor to the Bank's revenue and deposits, translating to industry leadership in the retail market space. The Bank's strategy is hinged on exploiting the immense retail banking franchise to trap and grow low-cost and sustainable deposits as a platform for Institutional and Corporate Banking SBUs, thereby creating quality risk assets. As part of the process to ensure the Bank's business model is continually optimised, there has been clear delineation of segments within the Retail Banking SBU to ensure a proper match of value proposition to our customer profile.

To enable effective uptake and use of deposits generated by Retail Banking, Institutional and Corporate Banking SBUs have put in place mechanisms to drive the value chain approach and provide a one-stop shop for customers' needs. This demands a holistic approach to customer engagement, which provides huge opportunities for referrals and cross-selling across the various SBUs in the Bank.

FirstBank customer segments served by each Strategic Business Unit



I INSTITUTIONAL BANKING GROUP

- Caters to the top end of the business banking value chain and consists of the largest organisations across our target industries e.g. Nestle, Dangote Industries, etc.
- Target customers are structured multinationals with annual turnover in excess of ₦10 billion, NSE-quoted companies, multinational agencies, etc.

C CORPORATE BANKING GROUP

- Serves the upper middle segment of the business banking value chain.
- Companies with annual turnover of more than ₦5 billion and unrated and or unlisted.

C COMMERCIAL BANKING GROUP

- Serves the lower middle segment of the business banking value chain.
- Companies with annual turnover of more than ₦500 million and up to ₦5 billion.

P PRIVATE BANKING GROUP

- Private banking serves HNIs and families in our network, providing them with wealth management services through privileged service and financial advisory services.
- Value proposition is focused on quality relationship management and seamless interface for services.

R RETAIL BANKING GROUP

- Cuts across private individuals, businesses (SMEs) and public sector clients (LGAs).
- Offers a differentiated value proposition to each customer sub-segment and has tailored products and services in line with segment characteristics.
- Customer base of over six million and the Bank's 700+ strong branch network, 1,800+ ATMs, and 18,000+ POS terminals.
- Convenient multi-channel access to our services.

PS PUBLIC SECTOR BANKING GROUP

- FBN public sector provides a full range of integrated banking products, financing and collection services for federal and state governments and agencies.
- Well-developed versatile multi-level products and services to serve these customers effectively across regions.
- Overarching goal to be a strong partner to the Government in economic development projects, achieve transaction excellence by improving internal processes and create/maintain an enabling environment for enhanced relationship management.

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

FIRST BANK OF NIGERIA LTD

STRATEGY FRAMEWORK

FirstBank's business model remains dedicated to optimising the growth potential in all our core businesses. The Bank realises market leadership can only be achieved through an integrated and sustainable business model. The main ingredients of the Bank's growth strategy have been to:

1. STRENGTHEN OUR FOUNDATION

There are three key themes to this:

- Redefining our cost and revenue portfolio – FirstBank worked towards boosting ROE by significantly improving its leverage (with a strong emphasis on low-cost deposit mobilisation) and on improving its share of fee and commission income;
- Improving service delivery – The Bank created several key initiatives to address the delivery of superior service; and
- Comprehensive talent management.

2. EXPLOIT POCKETS OF PROFITABLE GROWTH

As a market leader, the Bank is at a crucial juncture. For each of our Strategic Business Units, we developed straightforward, distinctive value propositions that have a good understanding of the underlying economics and dynamics of the market. This is demonstrated in the product portfolios, channel strategy, marketing, communications and go-to-market strategies, etc.

3. HARNESS SYNERGIES WITHIN THE BANK AND ACROSS THE GROUP

There has been a conscious effort to leverage natural synergies and cross-selling opportunities between the Bank and the other banking subsidiaries (i.e., FBN UK, BIC), specifically Institutional Banking and Corporate Banking, and Public Sector and Private Banking. We have developed a framework for the Strategic Business Units and subsidiaries to cross-sell and collaborate in selling their products, thus improving overall profitability.

MEDIUM-TERM STRATEGY

The Bank has set out a strategy designed to deliver clear industry leadership and restore operational excellence. Having successfully conducted a Strategic Planning Process (SPP), we are embarking on new initiatives for the 2014-2016 cycle which are embodied in a seven-point plan of how we intend to build a more dominant banking group. Our strategy is designed to make FirstBank more competitive by playing to its strengths – its optimal distribution network and resulting funding advantage, rich legacy, and deep customer relationships. The Bank puts emphasis on both financial and non-financial priorities and has defined a number of important drivers for each SBU that will be integral to retaining the aspirations outlined in our 2014-2016 strategy cycle.

Branch transformation

- Decrease branch congestion and increase cross-sell leads;
- Focus on transaction migration, shorter TAT, and improved sales capabilities
- Drive improvements across targeted range of cost drivers and levers (e.g. unprofitable branch closures, procurement synergies, etc.)

RM sales excellence

- Improve RM productivity through account planning and performance management tools
- Develop structured approach to sales process with focus on wholesale banking
- Key success factors include entrenching performance management dialogues and implementing operational efficiency levers to create additional RM capacity

Cost containment

- Significantly contain cost growth and drive efficiency by maximising the use of the Bank's assets
- Focus on managing non-people cost and staff productivity

Transaction banking

- Enhance transaction banking (revenue from cash collections, liquidity management, payments, trade, etc.), which holds a significant revenue and client-franchise upside opportunity for FirstBank; Opportunity to regain lost income from recent policy
- Design and implement new operating model to build distinctive transaction banking capability; New roles include Technical sales, Product design, and Implementation specialists

Commercial banking

- Commercial banking is an attractive, fast-growing segment within wholesale banking
- Drive growth through tailored value proposition and strong operational excellence

NPL management

- Strengthen RM capabilities; improve early warning signals
- Review processes, systems and organisational set-up currently supporting collection management
- Trigger management process to augment ongoing non-performing loan (NPL) management

Service excellence

- Continue to deliver outstanding customer experience for every customer segment
- Focus on ensuring clear service proposition, managing customer expectations, and creating a culture that empowers employees to own customer experience

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

FIRST BANK OF NIGERIA LTD

STRATEGIC PROGRESS

FIRSTBANK (COMMERCIAL BANKING GROUP) – PROGRESS AGAINST LONG-TERM VISION

In the last few years, the Bank has demonstrated the discipline required to execute its medium-term strategy in a structured and phased manner. Specifically, the Bank developed a robust engagement model for the Strategic Business Units to match their refined value proposition. This medium-term strategy is premised on a set of prioritised financial and non-financial initiatives to ensure we achieve rounded growth across key metrics.

CONSOLIDATED LEADERSHIP POSITION IN NIGERIA

- Be number one in every business segment
- Continue aggressive Bank transformation
- Representative office expansion; initial SSA exploration/foray.

DIVERSIFY AND TRANSFORM BANK

- Drive Bank transformation to completion
- Build scale in IBG, CBG leverage Group synergies
- Commence SSA regional expansion in earnest.

BUILD SCALE INTERNATIONALLY

- Significant SSA expansion and growth in banking with selective international foray in Bank financial services
- Focus on driving economies of scale and scope across international network and portfolio businesses.

PROGRESS

SHORT TERM | MEDIUM TERM | LONG TERM

FINANCIAL PRIORITIES

Financial priorities have largely been channelled through the SBUs. There has been increased emphasis on a holistic approach toward managing customers of the Institutional Banking SBU with the value chain approach and enhanced relationship management model to provide 360-degree coverage for our customers in this segment of the market. We continue to build capacity in transaction and value chain banking to harness the share of businesses and improve transaction volumes from new and existing relationships.. The Corporate Banking SBU set out to be the leading provider of integrated banking products and services for mid-cap corporates in Nigeria by expanding our customer base in the corporate segment; deepening penetration in trade finance transactions; and growing medium-sized ticket lending to a large number of corporate customers. During the year the Emerging Corporates division formerly within the Corporate Banking SBU is now a full-fledged SBU called the Commercial Banking SBU. This is providing the necessary platform to succeed in the mid-tier corporate market in Nigeria. The key focus of the Commercial Banking SBU is to create an environment where trade business thrives establishing the Bank as a leader in the commercial banking business. The SBU does this by driving aggressive customer acquisition and penetration to drive Demand deposit growth towards growing the commission/fee-based transactions.

During the year ended 31 December 2013, the Commercial Banking SBU recorded net revenue of ₦4.1 billion. This represents 12% of total Corporate Banking SBU net revenue in the period under review.

With the increase in the Cash Reserve Ratio (CRR) for public sector funds by the Central Bank from 12% to 50% and then to 75% in January 2014, it became imperative to review our public sector banking model to appropriately bank this segment of the economy and remain competitive. While the Bank remains the preferred financial service provider to many state governments, we are exploiting ways to harness significant cross-selling, deepen value chain banking services, and further drive referral opportunities from public sector relationships (i.e. referrals between Public Sector SBU (government contractors) and Corporate Banking SBU; HNIs in Public Sector SBU and Private Banking SBU; and structured finance in Public Sector SBU and Institutional Banking SBU).

The Retail Banking SBU remains key to the Bank with respect to the provision of low-cost stable deposits. We have continued to deepen our banking penetration to the mass market, improving financial inclusion through services on alternative and mobile channels. As at March 2014 there are currently about 1 million subscribers on our Firstmonie® platform with increasing volume and value of transactions. Firstmonie received the Mobile Payment Product of the Year 2013 in Nigeria award from Cards and ePayment Africa Awards in March 2014. This award is a clear demonstration of the leading strategies and initiatives put in place for Firstmonie.

FirstBank contributed 92.6% of the Commercial Banking group's operating revenue.

NON-FINANCIAL PRIORITIES

The various non-financial initiatives are targeted at enhancing the efficiency of the Bank and also providing a backbone for growth. During the period under review, the Bank continued the implementation of various initiatives aimed at enhancing cost efficiency. This includes optimising operational spend, branch manning review, etc.

The Emerging corporates sub-SBU previously under Corporate Banking is now a fully fledged commercial banking SBU. This is with a view to carve a niche in the middle market segment of the economy.

As it relates to service excellence, the Bank upgraded its banking application to Finacle10 with improved customer relationship management tools giving the opportunity to determine customers' needs and offer better services. It has not only improved turn-around time but gives the opportunity to determine customers' needs and offer better services. The implementation

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE
FIRST BANK OF NIGERIA LTD

of cost initiatives such as reduction in deployment of new branches in the current year; maintaining an appropriate staffing structure and work force alignment; optimising procurement and operational spend; and branch transformation by making them more sale centres including rationalisation of rural branches and unprofitable locations. Other initiatives include further automating our activities by migrating more processes and branches to the central processing centre (CPC), and leveraging shared distribution platform across the Group.

Our mobile financial services solution Firstmonie®, targeted at extending banking services to the unbanked and under-banked segments of the market, in addition to enabling existing customers of the Bank to conveniently perform banking transactions from their mobile phones, recorded significantly improved performance. The USD12 million grant by the Bill & Melinda Gates Foundation is focused on agent network building, marketing consulting and other market studies with the aim of ensuring FirstBank exploits the inherent opportunities presented by the mobile money business whilst at the same time driving financial inclusion for the unbanked and under-banked.

Customers now have a better array of services transacted over alternative channels coupled with the enhancement of our brand shortly after year end.

The objective of the brand refresh was to:

- **Modernise the icon:** The Bank has evolved over time and continuously re-invents itself to remain dynamic and shed the perception of being slow, sluggish and unresponsive.
- **Expansion and growth:** This is one of the strategic thrusts of the organisation and has guided our strategic move into new markets across Sub-Saharan Africa: DR Congo, Ghana, Guinea, The Gambia and Sierra Leone.
- **More than a face lift:** The brand is more than a logo thus, the Bank has invested a lot in people, process, technology and touch points to achieve a complete overhaul
- **Revenue optimisation:** A stronger brand will help the business meet its targets.
- **International best practice:** Brands refresh every 7-9 years to remain relevant to their customers, in line with changing customer needs, taste and lifestyle.
- **Visibility:** To achieve visibility in the retail space for the retail facing components of the Group's business, the Bank, Insurance, and Microfinance.

TRANSFORMATION UPDATE

In the year under review, we have consistently followed through with the execution of strategic initiatives aimed at transforming the Bank, building scale in our core businesses and leveraging Group synergies to enhance shareholder value. Some of the key milestones we have recorded in our transformation journey include:

1. BUSINESS LINE EXPANSION

- Improved specialisation and deeper capabilities across the business groups; specific emphasis on IBAM and Insurance (Life/General); within Bank, focus on middle market corporates and driving electronic banking
- Strong multi-channel expansion with a current distribution network of:
  - 760 branches including 64 quick service points (714 in December 2012)
  - 13,283 POS; 2,437 ATMs (1,862 in December 2012); 8.5 million active accounts
- Launched Firstmonie mobile money business in Q3 2012
- Recently crossed the 1 million subscriber mark
- ₦1.6 billion in 2013 transaction value
- Over 10,000 registered agents by December 2013
- Secured USD12 million grant from Bill & Melinda Gates Foundation in 2011/2013
- Created a Transaction Banking unit to strengthen the Bank's proposition to our corporate clients and harness end-to-end business value chain opportunities in these segments.

2. RE-STRUCTURING FOR GROWTH

- Established holding company, FBN Holdings, with specialised subsidiaries – Commercial Banking, Investment Banking/Asset Management, Insurance, and Other Financial Services
- Re-structured operating model of Banking business along customer segments vs geography resulting in deeper specialisation
- Created strong IBAM platform by grouping four related, but disparate subsidiaries and aligning operating structure
- Added focus on high growth areas such as Retail resulting in an industry-leading retail banking franchise with largest distribution network and largest retail client base; Retail approximately 50% of Banking Group revenues
- Grew Insurance franchise from lone brokerage business to non-life and now composite insurance.

3. INTERNATIONAL EXPANSION

- Executed structured Sub-Saharan Africa expansion strategy with objective of creating long-term growth options while harnessing benefits of diversification and the increasingly international footprint of our major corporate customers
- Acquired 75% of Congo-based Banque Internationale de Crédit in October 2011
- Acquired 100% of ICB West Africa (Ghana, Gambia, Guinea, Sierra Leone) in 2013
- Opened UAE representative office in 2012
- International banking now 7% of Banking group revenue with expanded Africa footprint from two locations (Nigeria and South Africa) in 2010 to seven in 2013
- Successful launch of the Africa Integration Project designed to work with stakeholders to actualise expected synergies within the expanded Africa business.

4. SYNERGIES AND CROSS-SELLING

- Harness strong natural synergies and cross-selling opportunities between Banking and Other Financial Services sectors
- Designed enablers and formalised cross-sell agreements across business groups and within Strategic Business Units (SBUs). These include:
  - Investment Banking/Asset Management and Institutional/Corporate & Public Sector SBUs
  - Insurance Group and Retail Banking SBU (bancassurance)
  - FBN UK and Private Banking SBU.

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

FIRST BANK OF NIGERIA LTD – REVIEW OF STRATEGIC BUSINESS UNITS (SBUs)

2014 PRIORITY BANK STRATEGIC INITIATIVES

DRIVE RETAIL BANKING

- Leverage enhanced retail banking platform to increase sales volumes of electronic products (FirstTrade, Naira Credit Cards, e-Payment/ Collections, etc.).
- Deepen consumer lending (e.g., first-time mortgage, salaried lending) with credit scoring model.

VALUE CHAIN MANAGEMENT

- Develop structured Value Chain Management (VCM) model to bank downstream wholesale clients.
- Enterprise approach to VCM expected to unlock revenue pools and improve market share across SBUs through cross selling.

MID OFFICE TRANSFORMATION

- Establish a middle office to improve RM client interaction.
- Develop enhanced structures to improve loan origination, processing, and collections.

WORKFORCE REALIGNMENT

- Drive staff productivity with a focus on earnings per staff and optimal sales to mid/back office mix.
- Optimal structure (particularly at branches) eliminating redundancies/role overlaps and drive higher revenue per staff member.

CORPORATE BANKING GROUP (CBG)

OVERVIEW

The CBG serves the middle segment of the Nigerian corporate landscape; predominantly unrated and non-investment grade companies. The corporate banking market generally has a higher risk profile due to limited availability of company information and financial statements with limited disclosure. This segment typically feeds off the larger multinationals in the value chain and also constitutes the unstructured part of the corporate banking market space. The CBG in FirstBank operated for the most part of 2013 along two broad lines, i.e., CBG (formerly emerging corporates) serves customers with a turnover of a minimum of ₦5 billion per annum, but with key man risks. Given the unique demands of the customers of the CBG, it offers a broad spectrum of products required to serve the unique needs of this market segment and also provides the opportunity to:

- manage risk with large clients and drive fee income through payments, account turnover, trade finance etc.;
- grow small ticket lending at the right price to a large number of corporate customers; and
- adopt value chain strategies to harness opportunities within the universe of customers' business.

UPDATE ON BUSINESS OPPORTUNITIES

Corporate customers are present in all the key sectors of the economy. A lot of activities are centred on distributive services and mid-tier construction and manufacturing business. The focus is to increase market share.

The cutting edge of corporate banking is the ability to identify the specific needs of individual customers and develop tailor-made products to suit the needs of these customers. This requires a good knowledge of the customer's business, their operating environment, what competitors are offering and the available product suite within the Bank.

In 2014, the CBG will be exploring opportunities in the oil and gas and agriculture sectors with a focus on the distribution companies that operate in those sectors. These segments are pivotal to the medium-term strategic goals of the nation. They will be the catalyst for the anticipated resurgence of the economy in the near future. As a consequence, we have built capacity and significantly enhanced our backbone to serve customers in this market space, i.e., identified growth areas.

The CBG is also realigning its focus to deepen involvement in the trading, commerce and general business sector in a more structured manner. This will help achieve the twin objectives of growing the deposit and simultaneously earning additional fees on trade finance. It is expected that effective yields will be enhanced from earnings generated from the short tenured loans and advances.

Emerging opportunities in the power sector have been identified as well as its value chain as a result of the privatisation of industry. The bank that is able to finance any of the Distribution Company (DISCO) will have the opportunity to take their collections (deposits), which will serve as a primary source of repayment for the loan and also will have a fair share of the accounts of the contractors to the DISCO.

The implementation of the local content act is also opening up more opportunities for the local contractors in the oil and gas sector. With the vessel replacement strategies of the oil companies that aim to replace foreign vessels with vessels that carry Nigerian flags, more Nigerians are approaching their local banks for vessel finance. In the same way, contracts that were hitherto awarded to foreign companies are now being awarded to indigenous contractors who source their finance locally.

This opportunity is likely to be further widened when the Petroleum Industry Bill (PIB) is eventually passed. This is because indigenous companies will be encouraged to acquire marginal oil fields while the major oil companies will concentrate on new discoveries. The combined effect of these will increase the need for finance, both local and offshore.

As we draw closer to 2015, which is an election year, the various tiers of Government are expected to increase the spending on construction and infrastructural facilities. We are positioning to capture a sizeable portion of sector spending via critical value chain companies in the construction sector.

STRATEGIES AND OBJECTIVES

CBG business aligns with the overall enterprise objective of industry leadership position and extending this especially to profitability and efficiency. To ensure objectives are achieved, the following strategies are being adopted.

- Partner with existing customers on their strategic growth projection for 2014, emphasise products with cross-sell and ensure the Bank serves as a one-stop financial solution provider. This strategy is hinged on relationship.
- Building new relationships across the various sectors of the economy by increasing the number of corporate banking customers per team to a defined minimum and each team to have as many players as possible of the industry predominant in their location.
- Develop skill and competence in achieving set targets, including Relationship Manager (RM) exposure to emerging trends in the industry.

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE
FIRST BANK OF NIGERIA LTD – REVIEW OF STRATEGIC BUSINESS UNITS (SBUs)

In addition, we are committed to deepening existing clients' businesses and sharing a greater proportion of the customer businesses; reducing concentration risk through the deliberate focus on industry and customer dilution; and adopting the value chain approach to deepen, interlock and wrap around customers' businesses. This would involve exploiting the forward and backward integration of key customers, both at the purchasing and supplying ends of their business.

FINANCIAL PERFORMANCE

The CBG contributed 12.9% (FYE2012: 12.9%) of total net revenue for the Bank. CBG's contribution to the total loans of the Bank was 25% as the Bank total loans closed at ₦1.5 billion. Going forward, we will focus on deepening existing business, while exploring opportunities in the growth segments of the economy.

COMMERCIAL BANKING SBU

OVERVIEW

The Commercial Banking SBU serves mid to lower-end corporate customers with a turnover between ₦500 million and ₦5 billion. The Commercial Banking SBU is made up of 12 groups, which are located in key hubs in the country, and within each group there are four teams. The structure enables a deeper penetration into the target market and proffers solutions to customer needs in a timely way.

UPDATE ON BUSINESS OPPORTUNITIES

The recent upgrade of the emerging corporates operating model to a fully fledged Commercial Banking SBU has created a platform to carve a niche in the middle market segment of the economy. To achieve the core vision of the Group, the current operating model was upgraded from nine to 12 groups with relationship management teams operating from 48 locations nationwide to ensure efficient engagement of the customers in the various sectors.

STRATEGY

While there are progressive improvements in the global macro-economy, the middle market is on a sound footing to being the engine of growth for the economy as a whole. In this regard the Commercial Banking SBU's key priority in 2014 is to ride on these parameters and grow trade and commerce business with a view to capturing about 25% of the market share.

We intend to develop innovative products and deepen penetration of existing products to drive revenue growth.

The value chain of key multinationals, major oil and gas organisations and the key power sector players will be harnessed for better business dealings with FirstBank.

The key strategic targets are:

- assume market leadership in emerging corporates (mid-level infrastructural financing, distribution sub-segments in power industry, agriculture, etc.) through superior competence and market knowhow, buoyed by institutional capacity to consummate transactions. This is imperative given the vast opportunities in the market and the high-yield potential in emerging corporate sub-segments;
- consolidate the achievements in the lower markets of corporate banking space (emerging markets) through aggressive new account sign-ons, trade finance and channel migration. Robust cash management platform leveraging our coverage and IT solutions in addition to traditional e-banking offerings, i.e., POS, internet banking, etc; and
- focus on trade finance transactions. Given the significant impact of the trade finance strategies implemented in 2013 there is renewed confidence to implement these strategies throughout 2014 in order to increase overall profitability, especially through non-interest income. Enhanced data mining exercise to capture the full benefits of value chain tracking and management.

FINANCIAL PERFORMANCE

The Commercial Banking SBU contributed 1.5% of the Bank's net revenue. The SBU closed at ₦19.7 billion in deposits and ₦33.3 billion in loans, a 0.8% and 2.2% contribution to the overall deposits and loans respectively.

This performance evidences the use of key strategic levers of growth in non-interest income, better pricing of risk assets and zero tolerance for non-performing loans to achieve set targets.

INSTITUTIONAL BANKING GROUP (IBG)

OVERVIEW

Institutional customers represent the top end of the business banking value chain and are essentially made up of companies that are well structured. These companies have good and visible corporate governance, with a minimum annual turnover of ₦10 billion, requiring wide breadth of sophisticated products and product specialisation and are usually listed on their respective Stock Exchange. The customers targeted here comprise the largest organisations across our target industries (oil and gas, conglomerates and services, manufacturing, telecommunications, transport, financial institutions/multilaterals, construction and infrastructure). They traditionally provide the anchor for our value proposition and also:

- ensure linkage of lending to transaction banking and fee sources (e.g., cash management, trade finance, other risk products); and
- remain industry specialist and provide thought leadership and capabilities in growth sectors (e.g., infrastructure).

UPDATE ON BUSINESS OPPORTUNITIES

We have identified emerging opportunities in the power sector, and its value chain as a result of the privatisation of the industry. The bank that is able to finance any of the Distribution Company (DISCO) will have the opportunity to take their collections (deposits), which will serve as a primary source of repayment for the loan and also will have a fair share of the accounts of the contractors to the DISCO.

The implementation of the local content act is also opening up more opportunities for the local contractors in the oil and gas sector. With the vessel replacement strategies of the oil companies that aim to replace foreign vessels with vessels that carry Nigerian flags, more Nigerians are approaching their local banks for vessel finance. In the same way, contracts that were hitherto awarded to foreign companies are now being awarded to indigenous contractors who source their finance locally.

This opportunity is likely to be further widened when the Petroleum Industry Bill (PIB) is eventually passed. This is because indigenous companies will be encouraged to acquire marginal oil fields while the major oil companies will concentrate on new discoveries. The combined effect of these will increase the need for finance, both local and offshore.

STRATEGIES AND OBJECTIVES

The proposition for this segment is to provide bespoke end-to-end services to the top tier of the market, designed to address the unique needs of IBG customers. Given the depth of industry expertise in the Bank, we also partner our IBG customers in charting new growth platforms by providing advisory services.

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

FIRST BANK OF NIGERIA LTD – REVIEW OF STRATEGIC BUSINESS UNITS (SBUs)

The IBG is also realigning its focus to deepen involvement in the trading, commerce and general business sector in a more structured manner. This will help us to achieve the twin objective of growing our deposit and simultaneously earning additional fees on trade finance. Also because the loans and advances generated in the process are short tenured, they are more effective in terms of earning yield.

As we draw closer to 2015, which is an election year, the various tiers of Government are expected to increase the spending on construction and infrastructural facilities. We are positioning to capture a sizeable portion of sector spending via critical value chain companies in the construction sector.

To achieve this, we plan to ensure linkage of lending to transaction banking/ fee sources; and deepen capabilities for growth sectors.

FINANCIAL PERFORMANCE

The IBG remains one of the major contributors of net revenue for the Bank, with a contribution of 18.4% (FYE2012: 16.9%) of total net revenue. The IBG recorded a net revenue growth of 8% to ₦47.9 billion for the financial year ending December 2013 (FYE2012: ₦44.2 billion). The strategy deployed by the IBG is still to focus on the value chain of the customers' businesses as a tool for increasing the wallet share of customers. Going forward, we remain committed to continuous improvement in the provision of excellent customer service, optimal pricing and driving specific initiatives to grow business volume.

The IBG accounts for 46.2% (or ₦700.5 billion) of FirstBank outstanding loans and 12.6% (or ₦321.6 billion) of the Bank's deposits.

PUBLIC SECTOR GROUP (PSG)

OVERVIEW

FirstBank's PSG provides the full range of integrated banking products, financing and collection services for the Federal and State Governments. It also provides for Federal Government departments and agencies, which collectively account for significant deposits in the economy. The PSG is the largest provider of liquidity to the banking sector, hence, we have effectively developed versatile multi-level products and services for customers across these regions. The overarching goal of the PSG is to be a leading partner in the Government's economic development projects, achieving transaction excellence while harnessing the substantial deposit-generating capacity of the public sector. Consequently, the Bank has leveraged the PSG to:

- target revenue and expenditure accounts in the wealthiest states and businesses in key MDAs;
- drive value-added services (e.g., collections, payment services); and
- facilitate cross-selling synergies with FBN Capital as recorded in the issuance mandate from three states for bond in the period under review.

UPDATE ON BUSINESS OPPORTUNITIES

The Federal Government of Nigeria remains the largest provider of liquidity in the economy and presents significant business opportunities for the Bank. We have reviewed our public sector banking model, given the regulatory challenges in the year under review – increasing CRR of public sector deposit from 12% previously to 75% early in 2014. In addition to targeting the revenue and expenditure accounts of key MDAs among others, the Bank now has a renewed focus on capturing the value chain of key government relationships, e.g. contractors, salaried government personnel or ultimate beneficiaries of government funds. There is also the particular focus on lending opportunities from infrastructural development needs and cash management opportunities arising from the Bank's control of such clients' collection accounts.

STRATEGY AND OBJECTIVES

Aggregate revenues of and expenditure by all tiers of government present a compelling reason for an undiluted focus on the public sector. Having played a historical role in acting as banker to the Federal Government long before the creation of the Central Bank, it's understandable this should be FirstBank's focus.

One of the Bank's strategic objectives is to extend our market leadership across all frontiers. The PSG strives for synergy with other SBUs to unlock opportunities and bank government verticals.

In this regard, other SBUs in the Bank will benefit from the value chain of public sector relationships. For example:

- Retail and Private Banking Groups bank local governments, high net worth individuals (HNIs) and civil servants;
- CBG banks, contractors, service providers;
- Investment Banking provides financial advisory services, project financing bonds issues; and
- Electronic Business involved in taxes, levies and collections, etc.

The Government continues to emphasise private sector-led reform initiatives and our partnership with governments and MDAs has created a competitive advantage for the Bank in Nigeria and the allied subsidiaries of FBN Holdings.

THE PSG'S CORE STRATEGIC OBJECTIVES ARE:

- enhancing clients' internally generated revenue through formalised structures, robust and automated collection platforms;
- supporting accelerated economic development, utilising loans and funding from multilateral agencies;
- providing alternative funding options including public-private partnership, contractor financing and concessions;
- promoting prudent management of public resources through compliance with the Fiscal Responsibility Act;
- ensuring financial inclusion through deployment of electronic banking solutions for payment of social benefits;
- creating a best-in-class learning environment at universities by providing wireless internet access and edu-portals for ease of administration;
- advancing research and teaching by institutionalising endowment funds and professorial chairs; and
- providing a one-stop shop for financial services, leveraging subsidiaries of FBN Holdings.

FINANCIAL PERFORMANCE

The PSG contributed 16.1% of the total net revenue for the Bank and recorded a net revenue growth of 2% to ₦42.2 billion for the financial year ending December 2013 (FYE2012: ₦43.0 billion). The decline was mainly due to the apex body's requirement that increased CRR on the public sector funds to 50% in 2013. There is an anticipated increase in CRR for this sector to 100%. The PSG will continue to provide superior value proposition (covering revenue collections, cash management, loans and financial advisory services) to customers. The PSG accounts for 8.6% (or ₦130.9 billion) of FirstBank outstanding loans and 27.4% (or ₦698.7 billion) of the Bank's deposits.

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

FIRST BANK OF NIGERIA LTD – REVIEW OF STRATEGIC BUSINESS UNITS (SBUs)

PRIVATE BANKING GROUP (PBG)

OVERVIEW

The PBG has shown its relevance within the Group in the last three years, with consistent growth in its major indices and has come to stay as a viable business unit. The PBG is focused on the upper segment of the individual customer market space, providing wealth management services. Data shows an upward trend in wealth and savings in Nigeria, which supports the idea of creating the Bank's private banking unit specifically for high-value customers. 2013 lent more credence to the efficient business model of the PBG subsequent to its successful debut into the Nigerian financial services industry in 2011, engaging high net worth customers (HNIs) of FirstBank and consistently expanding its clientele base. The SBU continues to provide an ever-growing bouquet of products and services specifically tailored to meet the diverse financial services and lifestyle management needs of our wealthy clients. The current year recorded an increased level of activity in its wealth management services.

UPDATE ON BUSINESS OPPORTUNITIES

The premise for competition and opportunities in the private banking segment will always be on the quality and breadth of service and product offerings. Private Banking clients are the elite group of our society who are sophisticated and very sensitive about service. They are also willing to pay a premium for good quality service. These clients are considered to be within a premium bracket; they represent less than 1% of the Nigerian population and control a significant percentage of the nation's wealth.

The private banking business in Nigeria is no longer dominated by foreign banks due to the entrant of indigenous firms like ours into this space. This has increased our share of wallet and improved our brand image in this segment of the economy.

- **Opportunities:** though the private banking business in Nigeria has seen an increase in the number of indigenous banks in this space, the advantage will belong to those who are able to provide clients with bespoke wealth management solutions both on and offshore to meet their financial objectives. In a bid to exploit this opportunity, we have positioned ourselves to leverage on the expertise and extensive network of our Investment Banking and Asset Management (IBAM) group to provide our clients with investment outlets and instruments globally that would enable them to preserve the value of their wealth, while optimising upside returns potential on their investments.
- **Market risks:** a key determining factor with respect to guiding a client's decision to either maintain their relationship with the foreign banks or establish a relationship locally will be the ability to deliver premium service. This is key, especially in an environment with significant infrastructural challenges, such as Nigeria.

The long-term viability of the country, determined by the political and economic landscape will also play a major role in helping customers decide whether or not to relocate their assets.

STRATEGIES AND OBJECTIVES

1. Institute a global private banking platform that gives customers access to international markets, while providing coverage for their local investments.
2. Establish clear positioning as a trusted partner. Make and communicate strategic changes.
3. Aim for the right segmentation granularity to improve profitability.
4. Make products transparent and simple enough for the client to understand.
5. Enhance client advisory services with a major focus on wealth management.
6. Enhance business processes that facilitate client-centric service delivery.

While the launch of FirstBank Nigeria Private Banking has been reasonably successful, the PBG continues to improve towards achieving the vision of being the private bank of first choice, setting the pace in wealth management solutions in the Nigerian financial industry. As such, in addition to the previously stated strategic imperatives, the intention is to drive the following in 2014:

- **offshore and foreign currency-denominated investment:** capitalise on the success of partnering with our investment banking subsidiary and foreign partners with a view to providing customers with more efficient outlets to invest in offshore assets, as well as foreign currency-denominated instruments;
- **trustee business:** the average HNI in Nigeria has yet to understand the need for trust to be established for his/her dependants. However, it is a well-known fact that transfer of wealth can be a long and daunting task for survivors when the unexpected happens. We intend to leverage on the reputation gained by our trustee subsidiary to grow our share of activity in this segment;
- **continuous talent management:** we continually seek to attract and retain the best talents in the industry to help drive our business objectives through specialised head hunting and exposure of our staff to industry best standards. Local and international training programmes, will be structured to better enhance the perception of private banking by our staff. We will also engage in exchange programmes across our businesses in Nigeria, Europe and the United Arab Emirates to broaden and boost the confidence, skills and capabilities of our members of staff. We also intend to improve our portfolio management infrastructure through the acquisition of wealth management software to improve our business.

The PBG will continue to focus on acquisition of private banking clients and the provision of superior services leveraging the other entities under the holding company structure. This will expand our scope and the markets we can reach. It will also aid the provision of end-to-end relationship management to ensure the PBG becomes the first point of contact for clients seeking private banking services in Nigeria.

FINANCIAL PERFORMANCE

Notwithstanding the developing nature of the SBU, Private Banking achieved over 100% growth in total deposits to close the year at ₦48.8 billion compared to ₦22.9 billion in 2012, retaining 100% of existing accounts and opening over 350 new accounts in 2013. In 2014, we forecast significant improvements on the approximately 0.9% contribution to FirstBank's revenue and a 30% growth in our customer base across our product types.

Regardless of the tough business terrain of local and offshore financial markets characterised by constantly changing policy statements from local regulators, and the indication of bond purchase tapering by the United States treasury, the Private Banking SBU significantly improved on its major indices and lived up to its commitment to adopt robust wealth management services structures aimed at creating and growing financial value for our clients. Our market share of the Private Banking business in the Nigerian economy has been significantly increased, enabling the PBG to generate revenues in excess of ₦2.5 billion in 2013, a year-on-year increase of 39% compared to our 2012 figures. We have achieved this through a combination of accurately understanding our clients financial objectives, efficient asset/portfolio allocation and first class customer service delivery, consistently providing best-in-class solutions to our clients' investment needs and objectives. Over the course of 2013, we engaged our staff in specialised wealth management training programmes aimed at improving their appreciation of the concept of private banking and wealth management

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

FIRST BANK OF NIGERIA LTD – REVIEW OF STRATEGIC BUSINESS UNITS (SBUs)

RETAIL BANKING GROUP (RBG)

OVERVIEW

FirstBank's RBG is focused on offering financial products and services to individuals and corporate customers with a turnover below ₦500 million per annum. This includes local governments and their parastatals. We provide various products and services under a number of highly specific value propositions for our customers.

- Convenience: various channels for customers to conveniently manage their financial activities and access their funds including online banking, mobile banking, ATMs and physical branches. We also have a number of card products that allow for online purchases and channels for bill payments.
- Loan products: loan products include credit cards for customers, consumer loans and Small and Medium Enterprises (SME) loans addressing specific customer needs like mortgages and household equipment purchase.

A deep focus on our customers in order to understand the needs of each individual is what sets FirstBank's Retail Banking SBU apart from the competition. Based on their profile and market segment, we aim to consistently deliver products and effective services to our customers quickly and efficiently. In addition, we have ensured all customers have a dedicated relationship manager based on a graduated model. Our products and services provide strong value to customers by meeting their needs.

The RBG also plays some other strategic roles for the Group. These include:

- increasing non-interest income: we intend to aggressively drive the sale of non-interest income products to our affluent and SME segments through a further deepening of our Relationship Managers' interaction with customers;
- low-cost liability generation: this is to ensure we continue to increase our deposit contribution to the Bank's balance sheet through attracting low cost funds from our large customer base;
- growing market share of all retail segments: we are carefully profiling our customers to better discover needs and sales points in order to drive increased business volume and increase 'share of wallet' of each customer;
- focusing on specific industries to drive business growth: retail intends to partner with stakeholders in various industries to develop systems and processes for profitable loans and advances (LAD) business in those areas. Some of these areas include healthcare, e-commerce and online retail;
- improving product sales to all customers across segments;
- cross-selling of FBN subsidiary products; and
- cost optimisation initiatives in all activities/processes.

UPDATE ON BUSINESS OPPORTUNITIES

The assumptions for our initial projections for 2013 were re-based earlier in the year when the CBN introduced a raft of regulations directly impacting the retail business; these included reduction in COT fees, increase in the cost of savings deposits and increased ATM charges, among a host of other regulator-induced costs. The implication of this is a potentially large reduction in the revenue base of the retail business. Rate reduction will likely continue in the coming year. The expansion of the CBN cashless policy nationwide will also negatively impact the Retail Banking SBU. The security situation in the northern part of the country continues to adversely affect our branches in that area, as well as the client businesses in certain locations within the geopolitical zone. Also the increase in the Cash Reserve Requirement for public sector funds by the CBN from 50% to 75% means that banks require their retail businesses to provide more of their deposits and therefore heightens competition in that regard. We are also witnessing increased sensitivity of customers to bank charges, which threatens income.

Deepening of the cross-selling activities between the Bank and its subsidiaries will provide opportunities for increased revenues. Improvement in our technology platform (online banking, mobile banking, etc.) will allow retail to increase revenue from non-interest income. The Bank is also working on rolling out its agency banking network, which will allow the retail business to actually increase the Bank's share in the financial inclusion drive and increase geographical footprints in further locations than branch network would presently allow.

STRATEGIES AND OBJECTIVES

Our key strategic priority for 2014 is to increase our share of the affluent SME and mass markets in order to drive up our profitability and deposit base, based on meeting customer needs and product sales.

Summarised below are our focus points:

- accelerated growth in priority customer segments (i.e. retail banking and emerging corporate) and continued implementation of modified service models for customers categorised as either affluent, young or SME;
- the drive of operational excellence to attain a top three position in service levels and customer satisfaction across the board. This will ensure strong links to corporate aspiration through all levels and functions via service-level agreements; and
- enhance cost efficiency by implementing tactical initiatives.

FINANCIAL PERFORMANCE

The retail banking business is the highest contributor to the Bank's Net Revenue with 57.9% (or ₦151.3 billion), a 6% increase from the previous year (2012: ₦142.8 billion). Loans from this business unit are 18.3% of the Bank's outstanding loans while it remains the source of low cost liability generation, 48.7% (or ₦1.24 billion) of the Bank's deposit is from the retail banking business unit.

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

FBN BANK (UK) LTD

OVERVIEW

FBN Bank UK (FBN UK) personal services and products are tailored to meet the needs of international business executives, professionals and entrepreneurs, with an in-depth understanding of global markets, whereas its corporate banking business targets companies with a demand for cross-border transactions including trade finance, treasury services and FX-related products. It also offers a wide range of correspondent banking facilities, covering all major currencies.

OPERATING ENVIRONMENT

Following a challenging 2012, the UK economy grew by 0.8% in the third quarter of 2013 as the euro area moved towards a more stringent and safer financial sector. The global financial system is still undergoing a series of transitions along the path towards better financial stability as stringent regulatory requirements are put in place. In its bid to ensure a stronger Europe, the European Central Bank (ECB) has made commitments to reduce sovereign liquidity risk, and together with the ongoing advance towards banking union, have greatly reduced redenomination risk. Despite moderate improvements in some eurozone countries, the political and economic environment remains challenging as unemployment rates remain high and debt projections continue to be revised upwards.

The regulatory environment in the UK has changed significantly with the introduction of new bodies replacing the Financial Services Authority (FSA). This was aimed at protecting consumers while ensuring the industry remains stable and promotes healthy competition between financial services providers. The financial services regulatory structure went through substantial reform as the FSA was replaced by new regulatory bodies - the Financial Policy Committee (FPC) of the Bank of England, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The Bank is authorised by the PRA and regulated by the FCA and the PRA, and continues to work closely with both to ensure we meet the high standard required.

In June 2013, the European Commission published the final Regulation and Directive, known collectively as CRR/CRD IV, which underpinned the implementation of Basel III on 1 January 2014. This regulation plays a significant role in determining how the Bank and other financial institutions globally undertake their business going forward. Basel III includes the requirement for the Bank to meet an increased level of minimum capital in relation to risk-weighted assets. In turn this means an increase in capital for the Bank to support both its existing business and future balance sheet growth.

There is additional regulatory concern over Europe's focus on the proposed transfer of prudential supervisory powers to the European Central Bank, as well as the debate over structural reforms of the European banking sector based on the recommendations of the Liikanen report. Furthermore, numerous technical guidance and implementation standards by the European Banking Authority (EBA) are pending and lending further uncertainty on the precise regulatory requirements.

The increasing cost of regulation is a major concern for the whole financial sector. However, there is no alternative to adherence and we have therefore increased our resources in our regulatory reporting and compliance areas to ensure our reputation remains intact.

The Bank is well placed strategically in an environment where there are vast business opportunities. The challenge going forward is to retain our existing customers, while trying to attract new customers in the face of increasing competition. Being a UK entity means we cannot ignore the current economic climate both at home and abroad. However, we believe that despite these issues if we maintain our level of service and performance while not taking undue risk the Bank will continue to prosper.

Whilst the economic climate is likely to remain challenging, we are well positioned to succeed. Our strength is built on our loyal and excellent staff and our priority remains to work closely with customers to ensure we are meeting their demands.

STRATEGY

The overall vision of FBN UK is to continue to be the first choice UK and European bank for Africa, offering excellent service to African countries through the integration of the various strategic business units within the Group. Our strategic intent is to extend our leadership position as the foremost Nigerian-owned bank in the UK, continuing to be the first African bank in the UK that balances its performance with its long-term health, while we continue to strategically position ourselves to take advantage of opportunities and mitigate risks resulting from changes in global economic and regulatory changes.

Our competitive differentiators are in the provision of:

- world-class services, delivered with a high degree of professionalism and flexibility;
- operational excellence, supporting the capacity to offer bespoke products to meet individual clients' needs; and
- a strong asset base with substantial shareholder support to pursue FBN UK's market penetration strategy.

FINANCIAL PERFORMANCE

FBN UK delivered a remarkable profit performance with marginal growth in balance sheet footing in 2013, despite a continued difficult trading environment in the year. Our capital position was strengthened through increased retention of profit, while funding and liquidity positions remained healthy throughout 2013.

Gross earnings increased by 17.2% to ₦22.4 billion. The increase in gross earnings compared to the prior year resulted from the expansion of customer lending activities.

Net interest income grew by 41.1% to ₦12.6 billion, resulting from increased interest income driven by a combination of increased customer lending activities and improved asset yield. Interest costs decreased marginally, as a result of favourable deposit liability mix. Total commissions and fee income generated in 2013 declined by 24% to ₦1.6 billion. The decreased commission and fee income is attributable to a low level of trade finance activities resulting from slow global economic recovery. Our Private Banking SBU continued to show good potential and made great strides in the year. However, the lacklustre global equity market coupled with a low interest regime affected investors' appetite for further investment.

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

FBN BANK (UK) LTD

Operating costs rose by 13.7% to ₦5.8 billion (2012: ₦5.1 billion). Appropriate levels of an operational framework and systems were put in place by FBN UK to support increased business and safeguard assets. This led to a rise in staff costs, business travel, communications and premises costs. These additional expenses generated stronger growth in operating income. However, increased amounts of impaired loan charges resulted in a 37.7% cost-to-income ratio compared to previous years. Credit impairment charges significantly increased to ₦1.9 billion in the last financial year.

Consequently, FBN UK earned a profit before tax of ₦7.6 billion, representing an improved profit performance of 15.7% compared to the same period in 2012. Operating income of ₦15.3 billion was recorded in FY 2013, a 30.4% increase from the ₦11.7 billion achieved in 2012. The balance sheet expanded by 2.0% year-on-year, driven by customer deposits generated and retained earnings, to support increased lending activities.

The balance sheet expanded by ₦21.9 billion to ₦535.9 billion (2012: ₦514.0 billion), driven by marginal growth in customer deposits generated to support increased lending activities. Loans to customers increased by ₦58.9 billion (25.4%) to ₦291.1 billion as FBN UK expanded its lending business to the productive sectors, including exposure to short-term trade and commodity related assets, mortgages and structured finance assets. Customer deposit grew by 7.7% (₦21.3 billion) to ₦295.7 billion (2012: ₦274.4 billion) in 2013. The growth in deposits recorded was strategically driven through both wholesale and retail deposit liabilities to achieve an optimal funding mix and interest cost reduction.

As at 31 December 2013, FBN UK recorded a capital adequacy ratio of 18.24% (2012: 18.01%), with a core Tier 1 capital ratio of 14.30% (2012: 13.98%), reflecting the contribution from a high percentage profit retention and optimal balance sheet management. The capital ratios were in excess of regulatory requirements as at the reporting date, and demonstrated the strong capital position of FBN UK.

As at 31 December 2013, FBN UK had ₦451.8 billion in liabilities composed of ₦156.1 billion in wholesale funding and ₦295.7 billion in retail customer deposits. Liquidity remained strong during the year as FBN UK continued to hold high-quality unencumbered liquid assets in line with the regulatory buffer asset requirements. In addition, significant highly liquid money market instruments were held to support liquidity requirements.

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE
FIRST PENSION CUSTODIAN NIGERIA LTD

OVERVIEW

First Pension Custodian (FPCNL) holds pension fund assets in trust for our clients, executes transactions and undertakes activities relating to the administration of pension fund investments upon instructions from Pension Fund Administration (PFA) clients. The focus is driving performance to ensure the needs of customers are met, as well as delivering value to stakeholders.

OPERATING ENVIRONMENT

In 2013, the Nigerian pension industry consolidated its efforts to create awareness of the contributory pension scheme. In spite of all the challenges, one of the remarkable achievements of the pension industry during the year was the successful decentralisation of the operations of the industry regulatory body, the National Pension Commission (PenCom), into six zonal offices. The decentralisation was necessary in order to bring PenCom closer to contributors and retirees. The industry is optimistic that this will attract both informal and state government workers into the scheme, thereby tripling the present level of pension assets.

The increase in pension assets is expected to ease liquidity problems that have dogged the stock market since 2008. The call for investment of the huge pension asset to build requisite infrastructure for development continues. The stakeholders are, however, working on the appropriate framework and structure on which the pension assets can be channeled in order to finance the nation's infrastructure

STRATEGY

The strategy to achieve the vision of being 'The custodian of first choice' is to be the market leader in the pension custodian business by superior customer service delivery and satisfaction, and to deliver better shareholder returns.

Our business model is focused on building a sustainable business as a pension fund custodian, simultaneously creating long-term value for our shareholders and supporting our clients to achieve their operational objectives. Achieving excellent customer service and high business performance is driven by our structure and people. Our commitment to our people is to create a self-sustaining culture that strives for continual improvement, which will ensure the growth of the Company into the future. Our leading edge in IT keeps us well positioned to sustain our offering of operational and service excellence.

The strategy is being delivered through key drivers outlined below:

- **engage our people** – create an inclusive, high-performance culture by developing our employees. We are focused on building robust succession plans and aligning the content of our development programmes with our business strategy. Our ability to align human capital resources with the business strategy and improve workforce skills through strategic training and development are paramount for our success;
- **engage externally** – work with customers, regulators and wider industry is critical to understanding their expectations and delivering service that meets their needs. Policy decisions by regulators, government and others affect our business performance. Consequently, we engage all stakeholders to ensure that our position and perspective shape the future direction of the industry and seek to ensure operational excellence. We equally seek to understand the expectations of all our stakeholders so we can deliver a service that meets their needs;
- **drive operational excellence** – achieve excellent levels of reliability and customer service as customers demand efficient and effective service delivery. Excellence in operational processes will ensure efficient asset management and provide services that meet the changing demands of our customers. We are committed to achieving leadership position in the delivery of excellent customer service;
- **stimulate innovation** – initiate new ideas to work more efficiently and effectively. We always explore new ways of thinking and working to improve and benefit every aspect of how we deliver our customer commitments. This is through enhancement of our complaint management framework, prompt issue resolution and performance reporting. Embedding innovation and new technology into our operations makes sure we deliver continuous improvements in the quality of our services; and
- **drive profitable growth** – we continue our aim of gaining the best possible value from our existing core business portfolio, while exploring opportunities for growth. Combining this with operational efficiencies and disciplined procurement efficiencies gives us the best possible opportunity to drive strong returns and meet our shareholders' expectations.

The key strategic initiatives are to:

- work with PFAs, to leverage FBN Group relationships, to aggressively pursue state pension fund RSA accounts;
- work with PFAs to aggressively grow Retirement Savings Accounts (RSA) business in the private sector;
- grow Defined Benefit Scheme business;
- achieve targeted cost savings on major cost heads – staff costs, Board expenses and other expenses;
- deploy an effective customer engagement/relationship management model;
- leverage technology to drive service delivery excellence to customers; and
- create a high performance culture within the Company.

FINANCIAL PERFORMANCE

Revenue was up by ₦727 billion, or 28%, driven by an increase in core custody business income relative to the previous year. The contribution from core custody business income increased to 86.5% from 79.9% in the previous year. Investment income fell by 17.9% due to a drop in the average interest rate and the impact of reduced investible fund arising from significant investment in property, plant and equipment. We continue to invest in technology and other infrastructures in line with our strategy to support the future growth of the business. Operating expenses marginally increased by 1.4% year-on-year from ₦1.24 billion to ₦1.26 billion. This is due to the tight management of expenses during the year, though we sustained investment in information technology and property during the year. The above performance resulted in a cost-to-income ratio of 38.3% (2012: 48.6%) and a 54% increase in profit before tax to ₦2.03 billion in 2013 (2012: ₦1.32 billion).

Total assets increased by 30.4% year-on-year to ₦6.31 billion (2012: ₦4.84 billion). The growth in balance sheet was driven by growth in profitability. Shareholders' funds increased by 33.3% to ₦4.67 billion (2012: ₦3.51 billion), as a result of a 76.2% increase in retained earnings. This is due to profit accretion. The year's performance translated to a return on assets of 23.8% (2012: 16.9%), improved return on equity of 32.2% (2012: 23.5%) and earnings per share of 75 kobo (2012: 41 kobo). Total assets under custody grew by 31% year-on-year to ₦1.45 trillion (2012: ₦1.09 trillion), resulting from a fresh injection of funds and organic growth. The total asset of ₦1.45 trillion comprises pension assets of ₦1.35 trillion and AMCON assets of ₦0.10 trillion which is an increase of 54%.

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

BANQUE INTERNATIONALE DE CRÉDIT (BIC)

OVERVIEW

Banque Internationale de Crédit (BIC) was acquired in 2011 as part of our Sub-Saharan growth plan and in line with our international expansion strategy. BIC is a leading banking institution in the Democratic Republic of Congo (DRC), with a proud history dating back to 1960.

Continuing the drive to expand its range of products and services to better meet customer requirements, BIC has launched an array of electronic banking services, including the deployment of ATMs throughout its extended network of branches in the DRC.

OPERATING ENVIRONMENT

The banking environment in the DRC is characterised by low banking penetration with a small size of banked customers relative to the total bankable population. The Congolese market has seen an increase in the competition among banks seeking customer funds that are dominant and largely composed of demand deposits in foreign currencies. The banking sector is still comparatively nascent, with segmentation, electronic channels and personalised services and products still seen as key differentiators.

STRATEGY

In order to re-align BIC and fully leverage the opportunities in the market, we are embarking on a series of initiatives to reposition the bank and capacitise it for improved profitability. Some of these initiatives are to:

- deploy additional tools for deposits mobilisation (new branch operating model, profile accounts and engage relationship officers for account management);
- grow scale with e-business and develop strategy that focuses on additional deployment of ATMs, POS, internet banking, ATM reconfiguration for funds transfer, airtime sales and bills payment;
- process efficiency and effectiveness (new department for process efficiency)
- leverage IT to reduce human intervention;
- reposition branches for better ambience;
- move customers (mass market) to alternative channels;
- develop a strong pipeline of the best industry's talents; and
- rejuvenate the brand.

PERFORMANCE HIGHLIGHTS

BIC contributed 2.8% in operating income to the Banking Group, resulting in ₦7.9 billion at the end of FY 2013. Total assets grew 16.1% to close at ₦53.6 billion in 2013 (FY2012: ₦46.1 billion), while achieving a Loan to Deposit Ratio (LDR) of 55% in 2013 up from 59.1% the previous year. BIC's profit for the year was ₦1.4 billion.

Net revenue performance improved in 2013 due to a sustained increase in average yield on earning assets as a result of recognition of income on recovered loans, increase in volume of underlying assets (loans and advances to customers), increased fees and commissions earned on credit related transactions and fund transfer and commissions earned on payment of salaries of civil servants in the review.

Total operating cost increased mainly due to higher staff cost (harmonisation of salary and recruitment of additional staff) and other operating costs (marketing expenses and operational losses).

Overall, for the year ended 2013, pre-tax profit surpassed the prior year's position by 92%, despite the increase in cost incurred during the year.

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

FBN MORTGAGES LIMITED

OVERVIEW

FBN Mortgages Limited is a wholly owned subsidiary of First Bank of Nigeria, with locations in Lagos and Abuja. FBN Mortgages was licensed by the Central Bank of Nigeria in March 2004, under the Mortgage Institution Decree No 53 of 1989, to carry out the business of mortgage banking in Nigeria. Its goal was to provide integrated real estate and mortgage finance solutions.

FBN Mortgages commenced operations fully in 2006 as an ambitious and innovative property development company, committed to excellence in contemporary design and construction, with a team of leading professionals to deliver high-quality, tastefully finished properties in prime locations across the country and provision of mortgage solutions to individuals, estate developers and property investors. Its current focus is the provision of mortgages solutions such as refinancing, outright purchase mortgage, equity release mortgage, construction mortgage and financing and balance transfer.

OPERATING ENVIRONMENT

In line with regulatory guidelines requiring Primary Mortgage Banks (PMBs) to divest from real estate development, FBN Mortgages is transitioning to a full-fledged mortgage institution. Within this context, we are increasing strategic partnerships with established mortgage financing institutions and the possibility of joint venture arrangements with landowners, developers, real estate investors and state governments/parastatals, while seeking innovative ways to leverage the opportunities they offer.

The floating of the Nigeria Mortgage Refinancing Company (NMRC) and its enabling legislation will offer a financing framework to boost the supply side of the market and bridge the huge housing deficit in the country; the Bank has invested in this vehicle as part of its long-term commitment to playing a leading role in the Nigerian Mortgage market.

STRATEGY

As we approach the deadline for compliance for full divestment and recapitalisation of Primary Mortgage Banks (PMBs) by June 2014, we have fully down-scaled our real estate development portfolio and as part of our plan to re-structure the business as a pure-play mortgage bank, we are embarking on a joint venture arrangement with a leading mortgage provider in a partnership that will re-capitalise the bank, expand its operations significantly and capacitise it for growth.

PERFORMANCE HIGHLIGHTS

Business activities slowed down in 2013 as FBN Mortgages continued to transit from a predominantly real estate development company to a mortgage focused business. The business also witnessed a change in management and sold off inventory while positioning for future growth through restructuring. The loan book witnessed a slowdown in loans during the year. A loss of ₦1.2 billion was recorded for the period and the total assets stood at ₦15.6 billion.

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

ICB WEST AFRICA

OVERVIEW

The acquisition of the International Commercial Bank (ICB) established FBN presence in four West African countries - Ghana, The Gambia, Guinea and Sierra Leone. In line with our expansion strategy, the West Africa portfolio will leverage opportunities and serve the business needs of our customers across the region.

OPERATING ENVIRONMENT

The West African banking sector is challenging, often characterised by low banking penetration as measured by banked population ratio, regulatory/ bureaucratic bottlenecks, constraints in legal framework, weak technology infrastructure and a dearth of local, skilled manpower. Driven by a rise in commodity prices and the general improvement in socio-economic factors, the resurgence in West African economies has attracted businesses aiming to foster growth through active collaboration with governments and private sector partners.

The Gambia is the smallest country in Africa, and operates a liberal market-based economy, with tourism being the largest source of forex. Over 70% of the workforce is engaged in agriculture, which accounts for a third of Gross Domestic Product (GDP). There has been steady improvement in infrastructure over the years. ICB Gambia accounted for about 72% of industry profits in 2011 (as most banks recorded significant provisioning on the loan books in that year).

ICB Gambia operates from four branches located within one of six regions in The Gambia.

Ghana ranked as the fastest growing economy in the world by the International Monetary Fund (IMF) in 2011, with a stable and peaceful political climate. The country is, to an extent, still dependent on international financial and technical assistance. The economy is strengthened by sound economic management and continuous reduction in poverty levels. Oil was discovered in 2007 at Jubilee Oil Field and production is ongoing.

ICB Ghana has 17 branches across five regions; in addition to two cash agencies all the branches are under lease and have ATMs installed.

Guinea is richly endowed with mineral resources and the economy is mainly dependent on agriculture and mineral production. It is the world's second largest producer of bauxite, with rich deposits of diamond, iron ore and gold. Agriculture employs about 80% of the labour force.

All five branches of ICB Guinea are located in Conakry, the country's capital.

Sierra Leone is rich in mineral resources and has relied on the mining sector for its economic base. Sierra Leone's economy is predominantly agricultural, based with about half of the workers engaged in subsistence farming. It has an important mining industry producing diamonds, iron ore, gold, bauxite and titanium. Diamond mining remains the principal source of foreign exchange earnings.

ICB Sierra Leone operates from two branches located within the Western Region of Sierra Leone.

STRATEGY

The risks and opportunities underpin our strategic approach for FBN in West Africa. Innovative solutions, such as branchless banking through electronic platforms, are the key to addressing the challenges of accessibility and cost to serve and synergies are being built across the business through our Africa Integration Project, to ensure we deliver inclusive and technology-based customer-centric banking services across the region.

PERFORMANCE HIGHLIGHTS

With 2013 as the first financial year post-acquisition, FBN West Africa recorded a loan and advance figure of ₦12.4 billion in 2013, ₦837 million in operating income and ₦353 million as the profit before tax (PBT). Total asset stood at ₦37.7 billion.

INVESTMENT BANKING AND ASSET MANAGEMENT BUSINESS GROUP PERFORMANCE

BUSINESS GROUP OVERVIEW

The Investment Banking and Asset Management (IBAM) Group arranges finance, provides advisory services, administers assets, manage funds and invests capital, for both institutional and individual clients. FBN Capital is the arrow-head for this business, with First Funds, First Trustees, FBN Securities and FBN Capital Asset Management as its subsidiaries.

The culture of cross-selling across the Group is gradually being established; key examples include the collaboration between the Asset Management business and Private Banking Group, Investment Banking and Institutional Banking Group. Key initiatives such as incentivising (revenue sharing) and performance tracking and recognition are being implemented to institutionalise cross-selling within the Group.

NET REVENUE

₦12.3bn

(2012: ₦9.6bn)

PROFIT BEFORE TAX

₦6.8bn

(2012: ₦4.1bn)

OPERATING ENVIRONMENT

There was continuous improvement in the key processes as well as an enhanced use of technology to drive efficiency. In addition, the work force increased across the various divisions to fill new vacancies as businesses grew. Graduate Management Trainees programmes were carried out with the aim and commitment of developing the next generation of thoroughbred professionals.

Another successful Investor conference was organised unifying key players from various industry segments for the purpose of creating economic empowerment.

STRATEGY

STRATEGIC ALLIANCES

The Group established various strategic alliances in order to achieve growth objectives as well as create value for clients. Key alliances established during the course of the year include alliances with development financial institutions, local and foreign banks, local and foreign institutional investors and law firms.

GROUP COLLABORATION

One of the primary objectives of the holding company is to drive group collaboration and synergy generation. The culture of cross-selling across the group is gradually being established; key examples include the collaboration between the Asset Management business and Private Banking Group, Investment Banking and Institutional Banking Group. Key initiatives such as incentivising (revenue sharing) and performance tracking and recognition are being implemented to institutionalise cross-selling within the group.

FINANCIAL HIGHLIGHTS

IBAM recorded an impressive performance in 2013 with a 20% growth in gross earnings to ₦19.2 billion (2012: ₦16.0 billion). The strong year-on-year growth is driven largely by an upsurge of activities in the Investment banking business during the year. The group also achieved significant growth in profit before tax by 64% (2012: 4.1 billion) through a combination of increased revenues and cost containment as evidenced by the drop in the cost-to-income ratio by 6% (from 54% in 2012 to 48% in 2013). We have therefore grown shareholder value measurably, as return on equity (ROE) grew from 13% to 21%.

Investment banking division revenues grew threefold relative to 2012 driven by increased activities in the Power, and Oil and Gas sectors. The division effectively leveraged the opportunities presented by regulatory reforms in these sectors. As a result, contribution to group revenues doubled in one year.

INVESTMENT BANKING AND ASSET MANAGEMENT BUSINESS GROUP PERFORMANCE

Revenues from the Trusts business also grew by 18% in[15] 2013 despite rising competition. Key alliances strengthened our position as the leading Trustee business.

The Markets business also grew in 2013 by 4% compared to 2012, due to an increase in market share of equity and fixed income secondary market trading and the number of key accounts opened for both offshore and onshore investors.

Asset Management's revenues dropped by 16%[16] due to the challenging interest rate environment and spread contraction in a flagship product – Liquidity Management.

The Alternative Investments division also achieved a satisfactory financial performance, growing revenues by -7% relative to the prior year.

NON-FINANCIAL HIGHLIGHTS

CUSTOMER ACQUISITION

The group significantly grew its customer base both at the institutional and retail levels.

In recognition of outstanding performance, various awards were received during the course of the year.

- Best Investment Bank in Nigeria 2013 by Global Finance (second consecutive year)
- Best Investment Bank in Nigeria by the World Finance Banking Awards (2013)
- Best Local Investment Bank in the EMEA Finance Banking Awards (2013)
- Best Telecoms & Oil & Gas Deal of the Year by Euromoney Project Finance
- Ranked 4th position on the Nigerian Stock Exchange (NSE) Broker league table (2013).

15 Comprises core fees and Trust related interest income only, investment income has been included in the proprietary income.

16 Year-on-year variance stated here is net of business development pay-outs.

INVESTMENT BANKING AND ASSET MANAGEMENT BUSINESS GROUP PERFORMANCE

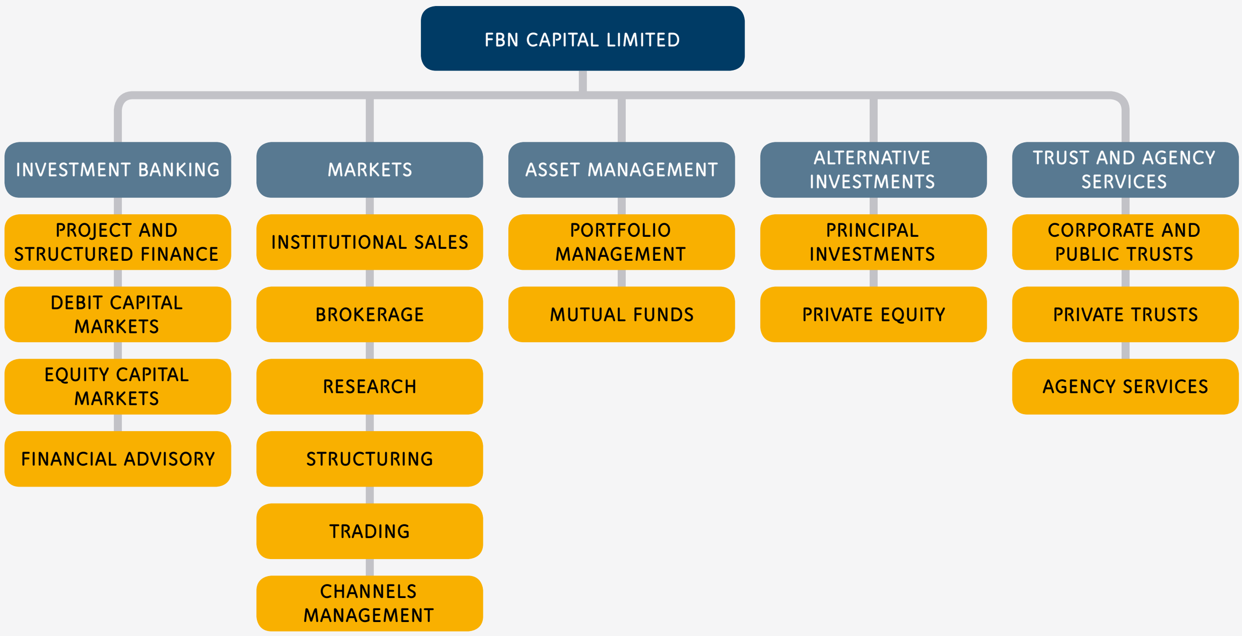
FBN CAPITAL LIMITED

BUSINESS GROUP OVERVIEW

FBN Capital Limited is a wholly owned subsidiary of FBN Holdings, and the parent company for our Investment Banking and Asset Management (IBAM) business group. Our vision is to be a world-class investment bank and asset manager, and our mission is to create value and wealth for all our stakeholders.

The following legal entities are all subsidiaries of FBN Capital; FBN Securities, FBN Asset Management, First Trustees, and First Funds. These legal entities are operationally integrated into five divisions comprising Investment Banking, Markets, Asset Management, Alternative Investments and Trust & Agency services. These divisions are supported by an integrated operations platform, including the requisite functions such as Human Resources, Information Technology, Financial Control, etc.

FBN Capital Group Structure



BUSINESS MODEL

FBN Capital is a leading investment banking and asset management (IBAM) business group with offices in Lagos, Nigeria and London in the UK. Client focus is an integral part of the strategy and focus is on creating value for all clients and ultimately the shareholders. Our primary business activities include; arranging finance, providing strategic advice, managing funds and selling investment and risk management products to our esteemed clients in various industry sectors. We do this by leveraging our rich pool of highly skilled staff, strategic partnerships with various multilateral, international and domestic financial institutions and our strong distribution platform. We earn fees, commissions and investment income for providing these services to our clients.

We believe in establishing and maintaining enduring mutually beneficial relationships. We have a rich heritage of service excellence, integrity and innovation, which, combined with significant financial capacity, distinguishes us from our competitors. Our strong leadership team and governance frameworks ensure we operate with best practices and create sustainable value for our clients.

The following section presents a brief overview of our five business divisions.

Investment banking overview and operating environment

Within our Investment Banking division, we arrange finance through the banks and capital markets, and provide strategic advice. Our strong investment banking capabilities and deep knowledge of the terrain ensures we are able to propose tailored solutions for each client. We have a strong track record across the key product areas and have advised on several transformational transactions in the telecommunications, financial services, power, infrastructure, oil and gas and manufacturing sectors of the economy. We remain an industry leader in deal origination, execution and distribution.

The IBAM business group, particularly the Debt Solutions team, benefited from increased market activities in the Power and Oil & Gas sectors. This drove the strong rebound in the revenues generated by the IBAM business group; revenues grew by approximately threefold compared with the preceding year. Transactions in these sectors contributed about 85% of investment banking revenues. The financial advisory business was also very active across several sectors and participated in several IOC divestments and the sale of power assets. However, the primary equity capital markets (ECM) (both debt and equity) remained quiet for most of the year, with only a handful of transactions (mostly private ECM transactions).

INVESTMENT BANKING AND ASSET MANAGEMENT BUSINESS GROUP PERFORMANCE

Markets (sales and trading) overview and operating environment

The Markets division (FBN Securities) facilitates the sales and trading of various asset classes, namely equities-fixed income, foreign exchange and structured products. The division comprises the structuring, sales, trading and research teams. Our structuring team works closely with sales, trading and investment banking to provide structured products across different assets to enable clients to achieve their investment and financing needs. The Institutional Sales team serves a broad segment of institutional investors, including pension fund administrators (PFAs), insurance companies, banks and financial institutions, local and offshore portfolio managers, large corporations, endowment funds, foundations and cooperative societies. Our Channels Management (Retail sales) team is committed to building and maintaining relationships with our high net worth individuals (HNIs) and other retail clients. Our trading businesses include acting as Market Maker for selected equities listed on the Nigerian Stock Exchange (NSE), and an agency trading capability for both equities and fixed income products. As stockbrokers on primary issues, we serve as the intermediary between the issuers/financial advisors and the Nigerian Stock Exchange. We distribute public offerings on behalf of issuers and ensure a seamless process of listing companies on the floor of the exchange. Lastly, research is at the heart of our value proposition to our clients. Our in-depth and qualitative research covers macroeconomics, fixed income and equities, offering timely market commentary and detailed analyses of the local economy, major sectors/ companies listed on the NSE and the Nigerian bond market.

The NSE recorded a strong performance in 2013 with a 47% return. This activity was driven by the foreign institutional investors who were attracted by the relatively cheap valuation of Nigerian stocks. Primary activity however remained subdued for most of the year.

Asset management overview and operating environment

The Asset Management division (FBN Capital Asset Management) provides specialist portfolio and fund management services. Our services include; managing investment accounts of high net worth individuals and institutional clients (including insurance companies, pension funds), public and private Mutual funds, endowment and charity funds, as well as segregated and special accounts.

Despite the challenging interest rate environment, and spread contraction in our flagship product – Liquidity Management – the IBAM grew its assets under management (AUM) to ₦148bn as at year end. We are beginning to see the benefits from investments in our retail sales platform, and the continuous collaboration efforts to leverage the First Bank retail network.

Alternative investments overview and operating environment

Our Alternative Investment division (First Funds Limited) is our platform for private equity. We provide growth capital to firms to finance their expansion plans. Our investments cut across various sectors including food and beverages, hospitality, travel and leisure, healthcare, leasing, telecommunications, real estates and oil and gas.

Strong population dynamics, high GDP growth, a fairly stable financial and macroeconomic environment has attracted the interest of institutional investors in search of high returns and portfolio diversification. A significant number of new investments were made in Nigeria and across Africa in 2013.

Trustee services overview and operating environment

Our Trust division (First Trustees Nigeria Limited) is a leading Trust services provider with a strong track record and market position. The Trust and Agency unit acts as a custodian of assets for public, corporate and private entities. We also administer, manage and transfer assets on behalf of beneficiaries.

Competition increased with the influx of new players, however key strategic alliances have strengthened our position as the leading Trustee business. The Corporate Trust segment grew in tandem with greater activity in the syndicated loan segment; the Public Trust segment remained quiet with only a handful of bond issues during the year; the Private Trust business continues to be constrained by the perceived negative sentiment associated with setting up wills, etc. but this is being managed through client education.

STRATEGY AND 2014 PRIORITIES

STRATEGY

FBN Capital's primary objective is to attain and maintain a leadership position in the specific areas of focus. Our strategy during the course of the year comprised the following:

- organic growth through client acquisition (deepening and expansion of our client base, and leverage of the group's clients);
- differentiation through industry specialisation and 'best in class' execution capabilities;
- focus on key sectors and customer segments;
- strengthening of our distribution capabilities; and
- establishment of strong relationships with key regulatory organisations such as the securities and exchange commission (SEC) and NSE.

The IBAM developed a three-year strategic plan (covering 2014 to 2016) with bold ambitions to significantly grow the business platform, revenues and PBT. In 2014, we will continue to implement our growth strategy. In addition, we will focus on institutionalising IBAM collaboration; re-positioning our IBAM; product and business line expansion to achieve our objectives. Key aspirations in 2014 include:

- no 1 position in flagship/established businesses (Investment Banking/Trust business) by deal participation and revenue – Debt Solutions, DCM, ECM, Advisory;
- product innovation across IB & AM;
- rank in top 5 on NSE top 10 broker list by market share;
- establish credible Sales and Trading fixed income business by volume and value traded;
- develop strategic fundraising relationships for the Alternative Investment business;
- re-position the Asset Management business (top 3 SEC registered funds); and
- maximum cost to income ratio of 50%.

2014 OUTLOOK

The 2014 outlook is influenced by the expected impact of the 2015 elections (most analysts predict a reform slowdown, much higher fiscal spending) and the tapering of quantitative easing in the US. Some outflow is expected as foreign institutional investors re-price the cost of risk.

Analysts also expect some macro volatility based on expectations of mild currency devaluation, slow growth in external reserves, weak growth in the stock market and fixed income segments. Notwithstanding, inflation is expected to remain in the single digit region and GDP is expected to grow by 6.8%[17].

Competition is set to intensify due to the influx of foreign players and the scramble for market share in the Financial Services industry. We expect funding gaps across the power sector (PHCN and NIPP asset privatisation and reforms), oil and gas (divestment by IOC's; investment post PIB), financial services, real estate (the roll-out of the Mortgage Refinance Company, recapitalisation of Mortgage banks) and infrastructure financing needs (roads, bridges, airports, real estate) to generate market activity, especially within Corporate and Investment banking.

17 Source: FBN Capital Research – Economic Outlook (2014).

INVESTMENT BANKING AND ASSET MANAGEMENT BUSINESS GROUP PERFORMANCE

FBN CAPITAL ASSET MANAGEMENT LIMITED

OVERVIEW

At FBN Capital Asset Management (FBNCAM) we offer specialist portfolio and fund management services; mutual funds for retail investors and investment portfolios and structured products for institutional and high net worth individuals. We also provide access to both local and international markets through simple yet innovative products. Our dynamic yet disciplined investment process positions us favourably to deliver superior performance over all market cycles.

The Asset Management division's products include mutual funds and structured products, as well as discretionary and non-discretionary portfolio management across various asset classes including fixed income, equities and real estate. The company has expertise across the various asset classes of fixed income, equities, real estate and other financial instruments.

BUSINESS MODEL

Asset Management's products and services offerings have been broadly divided into two major areas, in order to ensure delivery of the highest quality to our customers.

PORTFOLIO MANAGEMENT

Asset Management provides discretionary and non-discretionary portfolio management to HNIs and corporate and institutional investors. In collaboration with FirstBank's Private Banking division, it provides tailor-made investment solutions for the HNI. For corporate and institutional investors, we provide fund and investment management solutions targeted to meet specific goals and investment objectives.

MUTUAL FUNDS (COLLECTIVE INVESTMENT SCHEMES)

Asset Management's mutual funds provide investment solutions to retail, corporate and institutional investors by providing access and diversification to various asset classes and investment strategies, and to meet investment objectives within their risk parameters. These products also act as investment vehicles to which they can indirectly acquire holdings in investments they may not ordinarily have access to, at a fraction of its cost.

The division earns management fees on the assets under management (AUM).

OPERATING ENVIRONMENT

The Asset Management industry in Nigeria remained fragmented in 2013 with numerous players and participants. The industry lacks established distribution channels and pension funds continue to be the most significant portion of the industry. Total AUM for the Securities and Exchange Commission (SEC) registered mutual funds ended the year at ₦150 billion with the top five asset managers continuing to dominate the market. In our view, Nigeria will remain popular with offshore investors due to the monetary policy and is likely to remain popular with all investors who like the Nigerian investment story (strong GDP, consumption growth and population demographics).

We recognise there is a lack of understanding when it comes to the market potential of the asset management industry and are actively promoting knowledge and awareness of investing using a number of media outlets. In addition, FBN Capital Asset Management (FBNCAM) is working closely with regulatory bodies and associations to develop national strategies that will promote awareness of the expertise of Nigerian Fund Managers.

2013 STRATEGY REVIEW

During the year, we revised our strategy to focus on investing, as well as fund mobilisation. In the fourth quarter of 2013, we strengthened our team and created a new Strategy and Corporate Development function specifically for the IBAM, and we also invested in building our retail distribution platform.

The positive impact of building and restructuring our business was immediately evident. By the end of 2013, our AUM had grown by 40%, closing the year at ₦98.23 billion. Our client base had increased by 19%, the deal closure rate of our retail sales force considerably improved and throughout the year, we maintained our position as a top five SEC registered Fund Manager in Nigeria.

2014 STRATEGY

Our strategy going into 2014 is to build scale by driving volume through distribution, product breadth, and the First Bank brand. We believe distribution and awareness are key enablers for success in the Nigerian asset management market in 2014.

FBN SECURITIES LTD – MARKETS DIVISION

OVERVIEW

FBN Securities is a subsidiary of FBN Capital and it is the legal entity through which activity in the Markets division takes place. We provide excellent brokerage and advisory services in the Nigerian capital market to both domestic and international clients. Our main product lines include: Brokerage, (Institutional, Retail), Corporate Broking and Market Making.

BUSINESS MODEL

The Markets division (FBN Securities) earns fees and commission by engaging in the structuring, sales, trading of equities, fixed income and foreign exchange. Our value proposition is to provide our clients with excellent services while ensuring that we adhere to the regulatory policies. Our main business drivers are:

- **people:** our team consists of brokers and sales traders who are knowledgeable about the market and brokerage operations;
- **execution:** excellent execution of trades, provision of volume flows and also timely dissemination of market and economic information that will aid decision-making;
- **distribution:** strong sales and distribution platform of domestic and international clients and also access to a large clientele base by leveraging the FBN Group platform;
- **research:** strong research team that covers key sectors in the economy; and
- **operational efficiency:** leveraging on technology to streamline processes and procedures in line with global best practice.

Key achievements during the course of the year include the production of the Purchasing Managers Index (PMI), research the first of its kind in Nigeria. The PMI is an economic indicator that gauges the performance of the sector at monthly intervals. We also attained the 4th position on the NSE Top Broker's league table with a market share of ~3.8%, moving from the 11th position in 2012.

INVESTMENT BANKING AND ASSET MANAGEMENT BUSINESS GROUP PERFORMANCE

OPERATING ENVIRONMENT

For the second year in a row, Nigerian equities rallied strongly in 2013 to finish the year among the top 10 best performing markets globally. Having gained 35.5% in 2012, the Nigerian Stock Exchange All Share Index (NSE ASI) added a further 47.2% (43.4% in USD terms) in 2013 to close at 41,329.19 points. We witnessed low primary market activities in 2013, while the impact of global activities such as expected US Federal tapering also affected the flow of funds into the Nigerian capital markets.

STRATEGY

In 2013 our strategy was centred on:

- building and developing human capital;
- growing our clientele base; and
- improving operational efficiency.

In 2014, we plan to:

- drive product development;
- increase visibility both domestically and internationally with institutional and retail clients;
- grow market share by establishing strategic alliances and building stronger relationships with relevant stakeholders; and
- leverage the FBN franchise across the Group.

OUTLOOK

Nigeria remains a favourite investment destination for international investors. MSCI increased Nigeria's percentage in the frontier market index from 14% to 20%, which we expect will increase fund flow into Nigeria.

The following factors would positively impact the Nigerian economy and sustain investor sentiments – foreign exchange stability, stable inflation rate, political changes constantly evolving and GDP re-basing.

Equities market are expected to close positive, up by 7-10% at the end of 2014.

Domestically – growth in pension funds should increase flow into equities market. Also, with the positive return of the equities market in 2013, retail investors are gradually participating in the market.

FBN Securities should remain among the top five stockbrokers in Nigeria at the end of 2014 with a targeted share of 7% of market turnover.

FIRST FUNDS LTD – ALTERNATIVE INVESTMENTS DIVISION

OVERVIEW

Alternative Investments (First Funds Limited) is a subsidiary of FBN Capital and the primary platform for providing capital for firms looking to finance the growth of their businesses.

The Alternative Investment division of FBN Capital currently manages a portfolio of investments estimated at hundreds of million dollars spanning across a broad spectrum of sectors in Nigeria. These include telecommunications, leasing, oil and gas, travel and tourism, and information and communication technology.

BUSINESS MODEL

Private equity is a potentially important source of much-needed capital for businesses in Nigeria. We focus on providing risk capital to high-growth, medium-sized companies. We make minority equity and quasi equity investments in businesses across Nigeria, and seek to partner with companies backed by strong and experienced management teams, with scalable business models and products that enjoy a large addressable market. Our team of specialists work towards unlocking shareholder value through partnerships with entrepreneurial management teams. Our returns are driven by management fees charged on our funds, dividends, coupons, liquidation premiums and gains on realised investments.

OPERATING ENVIRONMENT

With Nigeria's GDP growing at an average of 7.1% between 2007 and 2012, and the government's policy initiatives targeted towards an improved investment climate, many opportunities exist for players in private equity (PE). We expect opportunities to arise across various sectors in the Nigerian economy driven by factors such as divestments of marginal fields by IOCs, the friendly regulatory environment for agricultural-focused investments and the establishment of the Nigerian Mortgage Refinancing Company. Recent changes in PenCom regulations, including private equity as an allowable asset class for pension funds, should also significantly increase the pool of funding for PE Funds.

2013 STRATEGY

During the course of the year, we made significant progress in our attempt to transition from a captive to a third party private equity fund manager.

The division achieved revenues of ₦1.125 billion from its core and noncore operations – an increase of 160% compared to the corresponding period of 2012. This was largely driven by returns from our existing investments by way of coupons and liquidation premiums, in addition to fair value gains on these assets.

2014 OUTLOOK

We expect increased investment opportunities in Nigeria and Sub-Saharan Africa (SSA) to continue to drive demand for SSA focused PE funds.

In light of this, we expect to commence the process of raising a new PE fund to take advantage of these opportunities. To facilitate this, we envision a movement from our historically captive model, to a third party independent fund management model. We are currently in discussions with potential partners with a view to entering into joint ventures to realise our objectives.

INVESTMENT BANKING AND ASSET MANAGEMENT BUSINESS GROUP PERFORMANCE

FIRST TRUSTEES NIGERIA LTD – TRUST AND AGENCY SERVICES DIVISION

OVERVIEW

FBN Trustees provides Trust and Agency services to three distinct segments of the Trust industry:

- **Private Trust:** individuals, families, endowments, foundations and privately held businesses;
- **Corporate Trust:** syndications, corporate bonds, escrow agencies, share warehousing; and
- **Public Trust:** State bonds, funds (collective investment schemes, reserve funds).

BUSINESS MODEL

The Trust and Agency Services division is organised into Private Trusts, Corporate Trusts and Public Trusts. The trust business is typically a fee-generating business, driven predominantly by securities servicing. Consequently, growth in AUM is a key business driver. The agency function works very closely with the Public and Corporate trust team acting as a facility agent in major bank syndications. They generate fees for the services they provide.

The division's innovative product offering, tailored to meet clients' current and future requirements coupled with the very strong FirstBank brand, are the unique factors that differentiate it from its competitors, making it the preferred trust and agency business in Nigeria.

OPERATING ENVIRONMENT

In 2013, we sought to extend our reach and increase assets under custody, enhance group collaboration and form strategic alliances with key partners in the banking and non-banking space of the financial system. In a keenly competitive market, the division maintained its strong industry position through its business development activities.

OPPORTUNITIES

- Growth of the middle class and improvements in the economy
- Untapped Private wealth management market
- Undeveloped Private Trust market amidst crisis among family members
- New product initiative in unknown niche market
- Substantial infrastructural developments in states
- Reforms in the power, oil and gas, and financial services sectors of the economy
- Private Trust offers a particularly exciting market to play in. Key indicators for the business remains as strong as ever. Although growth may remain limited in the short term due to cultural and religious issues, the prospects in the long term remain very strong.

STRATEGY AND 2014 PRIORITIES

Our strategy in 2013 was driven by strategic alliances, group collaboration and client education. We intend to continue with these strategies in 2014.

2014 OUTLOOK

Our focus in 2014 is to identify better ways to servicing our clients across our various businesses. This will involve deploying more resources across various distribution channels, new relationships with key PFAs and providing novel approaches to Estate Planning offerings. Additionally, we intend to leverage other members of the First Bank group in order to capture a significant share of new deals for our various businesses during the year, specifically collaboration with the Retail and Private Banking businesses.

While we do not see major regulatory announcements that will shape the trusteeship business in 2014, the recent increase in the recapitalisation of trustee companies in Nigeria (from ₦40m to ₦300m) will reduce the influx of new entrants, and significantly improve fees and the negotiating powers of well-established players.

INSURANCE BUSINESS GROUP PERFORMANCE

BUSINESS GROUP OVERVIEW

The Insurance business group covers the insurance related subsidiaries i.e. FBN Insurance Brokers and FBN Insurance (previously FBN Life). Previously, the FirstBank Group held only an insurance brokerage business, but in partnership with South African-based Sanlam (65%/35% - FBN Holdings/Sanlam respectively), established a life insurance business that is now a composite insurance company.

INSURANCE

FBN INSURANCE LIMITED

FBN INSURANCE BROKERS LTD

NET REVENUE

₦3.5bn

(2012: ₦2.9bn)

PROFIT BEFORE TAX

₦1.1bn

(2012: ₦0.64bn)

The Sanlam Group is the second largest non-banking financial services group in South Africa. In its 92 years, the Sanlam Group has grown from a small life insurance company to a diversified financial services group focusing mainly, but not exclusively, on wealth creation, investment management and protection, and offering solutions to clients across the broad financial services spectrum. The Group comprises a number of mutually interdependent and complementary business entities, and currently functions via three main clusters of business – life insurance, general insurance and asset management. FBN Insurance is a business relationship that leverages the technical insurance skills and expertise of Sanlam Group and the FirstBank knowledge of the Nigerian financial services market and distribution network to deliver tangible value to clients.

FBN Insurance commenced business as FBN Life from its Lagos head office in September 2010, and now has an increased number of branches strategically spread across the country. Its vision is to be Nigeria's first choice in wealth creation and financial security. It offers a wide range of products and services that cater for the needs of both the corporate and retail ends of the insurance market.

FBN Insurance Brokers Limited is a fully owned subsidiary of FBN Holdings. FBN Insurance Brokers combines expert brokering knowledge and capabilities for risk assessment, analysis, structuring and overall servicing that has resulted in increased insurance portfolios since the commencement of the Insurance Brokerage business in 2000. Its core mandates include providing insurance advisory services, risk management and placement of risks for FBN Holdings and the general public (individuals, private and public sectors).

A high level of awareness and improved regulatory framework remains a major driver in addition to the success of the bancassurance model, leveraging the retail banking strength of the Commercial Banking business. Going forward, we hope to grow the general insurance business and continue to experience growth in the Individual Life Premium as more distribution channels open and increase the number of agents.

PERFORMANCE HIGHLIGHTS

Revenue for the Insurance group reduced by 13.4% to ₦3.4 billion from ₦3.9 billion while pre-tax profit rose to ₦1.1 billion, a 66.8% year on year increase from ₦642 million in 2012. Total assets closed at ₦8.7 billion, an increase of 30.9% (Dec 2012: ₦6.7 billion). This improvement in performance was driven by strong bottom line growth in the life assurance business benefiting from improvements in business volumes driving improved market penetration.

FBN INSURANCE

OVERVIEW

FBN Insurance is a life insurance business providing coverage for individual and corporate clients. It is the youngest start-up insurer in Nigeria with a presence in strategic geographical locations across the country, capitalising on its relationship with FBN Holdings. The products help customers enjoy the peace of mind that comes from managing the risks of everyday life. With FBN Insurance, they can save for a comfortable future and protect the people that are most important to them. One primary objective is to help people, businesses and communities get back on their feet when the unexpected happens.

As a specialist life insurance organisation offering a range of investment and risk insurance products, all operations are anchored on innovation, efficient service delivery and high standards of professionalism.

FBN Insurance pioneered mobile insurance in Nigeria, with the aim to continue to expand its influence across the country, while being committed to conducting all business within the framework of applicable professional standards and regulations together with its core values.

INSURANCE BUSINESS GROUP PERFORMANCE

BUSINESS MODEL

Established in 2010, FBN Insurance is one of Nigeria's fastest growing insurance companies with a license to transact in life insurance businesses. FBN Insurance creates value for our shareholders, employees, customers and communities as follows:

- **providing life insurance products and services to individual and corporate clients:** help customers manage risks by pooling and redistributing these risks, helping them save for a more secure future. In addition, income is made from investing the premiums collected
- **offering our products and services through structured distribution channels** including:
  - direct sales force;
  - agents and brokers; and
  - alternative distribution:
    - mobile; and
    - bancassurance.
- **leveraging the brand strength and expertise of shareholders:** the brand strength of the shareholders takes the business closer to our individual and corporate clients. Jointly owned by FBN Holdings (65%) and the Sanlam Group (35%) – one of the largest financial institutions in South Africa. With over 200 years of combined existence, has the advantage of being able to draw from an extensive depth of financial services experience in Nigeria and across Africa. Specifically, the benefit of drawing on Sanlam Group's technical expertise and FirstBank's distribution network, thus delivering tangible value to clients and being positioned as the best option for potential customers.

STRATEGY

The goal of FBN Insurance is to be among the top five in the country in revenue and profitability. The key strategic focus areas are to:

- **exploit the retail growth potential in Nigeria** – strengthen retail insurance capabilities with a view to taking advantage of the low insurance penetration in Nigeria;
- **expand the business focus** - acquisition of a non-life insurance business in order to broaden the product and service offerings; and
- **enhance synergy within the Group** - maximising the synergy and cross-selling opportunities across the Group, with particular emphases on bancassurance.

To achieve this aspiration of becoming a top five insurance company in Nigeria, FBN Insurance's approach remains focused on the business segments where we have a competitive edge, specifically by carving a niche in the retail insurance market through the provision of best-in-class, innovative and solution-driven products that create value for all stakeholders. The strategy is aimed at delivering profitable results by making the most of available resources and building a reputation as a trusted brand.

STRATEGIC PRIORITIES FOR 2014

- **Exploit the retail growth potential in Nigeria**

  This goal is simple. We intend to exploit the significantly low market penetration of retail insurance in Nigeria by leveraging FirstBank's extensive retail network and other distribution channels. As the pioneers of mobile insurance transactions in Nigeria, increasing the impact on the retail market remains the aim. The positive results generated from this and other retail distribution channels will be consolidated in 2014 and our agency distribution network strengthened accordingly, with a view to improving the productivity of our agents. The target is to become the reference point in the Nigerian retail insurance market in the medium to long term.

- **Expand the business focus**

  The goal is to expand service offering to feature general insurance products with the potential of producing attractive returns. To this end, the process of acquiring a general insurance company to complement the existing life insurance business with a range of general insurance products has been initiated, and all requisite regulatory approvals to conclude the transaction and initiate a comprehensive integration process ensuring a seamless union of the life and general insurance businesses will be obtained by the second quarter in 2014.

- **Enhance synergy within the Group**

  In line with the Group's strategy of harnessing the cross-selling potentials among its subsidiaries, there will be a continuous focus on identifying and exploring synergistic opportunities between FBN Insurance and other subsidiaries, with particular attention on FirstBank. We will continue to strengthen our bancassurance capabilities by improving the existing model to drive sales of more insurance products via the Bank's extensive retail network. Similarly, the relationship with FBN MFB also presents a viable platform for the distribution of our micro-insurance products.

FBN Insurance uses cost-effective distribution channels that include a direct sales force, direct and focused marketing, independent intermediaries and bancassurance multi-channel distribution, making use of FirstBank's extensive branch network.

OPERATING ENVIRONMENT

The insurance market holds significant potential; a large population, significant under-penetration in the market and increasingly supportive regulation with emphasis on local risk retention and non-discretionary (compulsory) insurances, all aimed at deepening market penetration, make for an attractive industry. The industry continues to witness stiff competition with further consolidation deemed likely. The recent acquisition of Oasis insurance company, expanded the insurance portfolio to include the general insurance business, with FBN Insurance now a composite insurance company.

The operations are IT-driven enabling generation of online underwriters' premium requisition, customers' receipts and credit advice, thereby facilitating prompt remittance of premium to the various underwriters, as well as promoting efficient customer service delivery

PERFORMANCE

Despite the sustained apathy and cautiousness of customers to the insurance industry in Nigeria, gross premium grew by 35% to ₦3.9 billion in 2013 from ₦2.9 billion in 2012. Corporate, retail, credit life and alternative business lines contributed 19%, 59%, 20% and 1% respectively to our premium income for the year. Profit before tax also grew by 21.3% from ₦426 million in 2012 to ₦516.9 million. This growth is attributable to disciplined underwriting practices, cost optimisation initiatives and improved returns on strategic investments.

This improved performance was mainly from increased business volume, improved market penetration and innovative product offering to suit clients' needs. To further enhance performance, FBN Insurance uses cost-effective distribution channels, which include a direct sales force, direct and focused marketing, independent intermediaries and bancassurance multi-channel distribution, making use of FirstBank's extensive branch network.

Total assets increased by 99% to ₦11.3 billion resulting from a 145% growth in investment securities, as well as a 102% increase in cash and bank balances.

INSURANCE BUSINESS GROUP PERFORMANCE

NON-FINANCIAL HIGHLIGHTS

Key achievements in 2013 was the launch of the flagship mobile insurance product 'Padi-4-Life' – the first such product of its kind in the Nigerian insurance industry. 'Padi-4-Life' gives customers a convenient way to access affordable life protection plans through their mobile phones. The product, which is part of the long-term retail strategy, was born out of our commitment to championing innovation in the industry and the promotion of insurance penetration through efficient and low cost channels. This will gradually drive financial inclusion by granting access to formal financial services to customers in remote locations.

Customer centricity influences our approach to innovative product development and drives the tailoring of our services to key customer segments.

OUTLOOK

DEEPENING FOOTPRINTS IN RETAIL INSURANCE

FBN Insurance is currently in the advanced stages of launching a new mobile insurance product with another telecommunications company in Nigeria, and anticipates all necessary modalities for this product to go live in the first quarter of 2014. Through this and other innovative initiatives, there is room to deepen our footprints in mobile insurance service offerings and maximise the opportunity to leverage the extensive branch network of FirstBank to reach yet more retail customers.

EXPANSION INTO THE NON-LIFE INSURANCE SEGMENT

In line with the initiative to expand the range of services to include the non-life insurance services, such as motor, marine, and oil and gas, the process of acquiring a non-life insurance company has been initiated. This is to complement the existing life insurance business with a wide array of non-life insurance products.

FBN INSURANCE BROKERS LIMITED

FBN Insurance Brokers Limited is a fully owned subsidiary of FBN Holdings. FBN Insurance Brokers combines expert broking knowledge and capabilities for risk assessment and analysis, as well as structuring and overall servicing. It has resulted in increased insurance portfolios since it started insurance brokerage on 1 July 2000.

With a total of 48 core staff across the growing branch network, FBN Insurance Brokers focuses mainly on the clients and provides services that exceed their expectations. Team members are qualified professionals poised to bring genuinely fresh propositions to risk management using their expertise, knowledge and successful track records to provide the clients with the best solutions.

There also exists a range of value-added risk management services through foreign re-insurance brokers, such as United Insurance Brokers(UIB) UK and Dubai, and Marsh Insurance Brokers UK, to handle some of the group's off-shore and complex risks. These international re-insurance brokers are reputed for their expertise and unrivalled experience in special risk management and re-insurance services. This operational and corporate alliance with the international brokers is geared towards building infrastructure for the industry in terms of capabilities, skills, knowledge, professionalism and best business practices.

All operations are IT-driven. This enables the generation of online underwriters' premium requisition, customers' receipts and credit advice, thereby facilitating prompt remittance of premium to the various underwriters, as well as promoting efficient customer service delivery.

Over the years, FBN Insurance Brokers has increased its branch network from two (Abuja and Port Harcourt Regional offices) to six. The additional four branches are Onitsha, Benin, Akure and Ibadan, and there are renewed efforts to establish other branches in the northern part of the country.

FBN Insurance Brokers also manages Sinking Fund Motor Insurance schemes for both First Bank Limited and the University of Port Harcourt.

Finally, as part of its commitment to all shareholders, FBN Insurance Brokers has continued to meet its dividend obligation.

BUSINESS MODEL

The corporate headquarters is located in Lagos, with branches in five states of the Federation including the Federal Capital Territory, namely Akure, Port Harcourt, Ibadan, Onitsha, Benin and Abuja.

The Organisation comprises four departments:

- Operations/Special Risks;
- Finance and Accounts;
- Human Resources/Admin Department; and
- Information Technology.

FBN Insurance Brokers is the insurance brokerage arm of FBN Holdings.

It was restructured in 2006 with the prime objective of revenue growth, adequate coverage of FirstBank and subsidiaries insurance risk, branch network expansion and full automation of our operations. The strategic plan formulated by the Board of Directors resulted in consistent growth in the brokerage/investment income and profit before tax.

The insurance risk of the Bank and other subsidiaries in the areas of Property, Money, Liability, Group Life, Motor insurance and others were adequately covered and the claims due from underwriters were promptly processed.

The manual operations as at 2006 have been fully automated with functional Sage Pastel Evolution and Power Enterprise Software.

Core responsibilities include providing insurance advisory services, risk management and placement of risks for FBN Holdings and the general public (individuals, private and public sector). FBN Insurance Brokers combines expert broking knowledge and capabilities for risk assessment, analysis, structuring and overall servicing that has resulted in increased insurance portfolios since its commencement.

Specialist services as an intermediary in all classes of insurance is rendered including, but not limited to, the following:

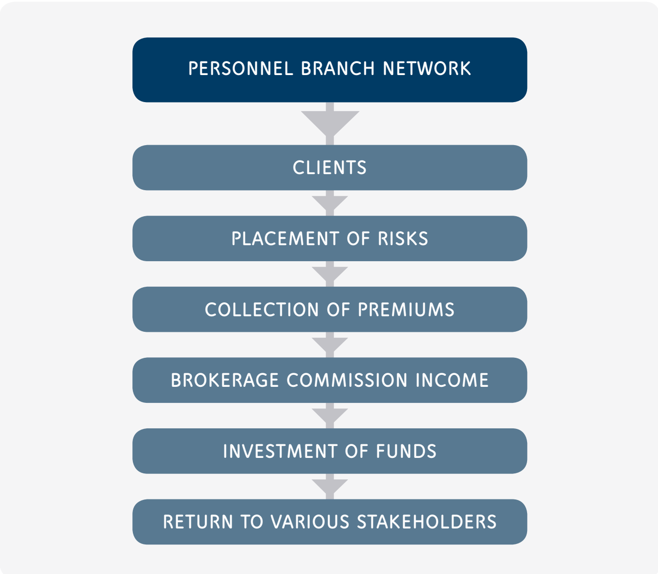
- **Agriculture Insurance:** Energy (Oil and Gas) Insurance; Fire and special perils Insurance; Burglary/housebreaking; Fidelity Guarantee; Accident Insurances – group, personal accident, transit, etc;
- **Group life scheme:** Professional indemnity; Directors and officers liability; Motor vehicle Insurance; and
- **Bonds/guarantee:** Engineering and construction insurance; General Third Party liability; Marine/Aviation; Insurance – Hull and Cargo, etc.; Sabotage and Terrorism; Health/Medical Insurance; Travel Insurance.

FBN Insurance brokers operates a model that offers clients professionalised insurance brokerage and risk management services. A dedicated team of relationship officers and branch network is the platform on which the group reaches out to the clients and all operations are IT driven.

INSURANCE BUSINESS GROUP PERFORMANCE

The core operating income is primarily derived from brokerage commission on premium. They are paid by clients on various classes of insurance placed on their behalf with reputable and secured insurance companies.

Gross income growth is a function of prompt and efficient services delivered to clients in the area of risk identification and placement, effective claims management and return on investments – both money and capital market and management fees.



The retention of existing clients and winning of new accounts are inherently connected to the level of profitability. These are achieved through continuous improvement in the internal processing methods, continuous personnel training and massive IT deployment.

STRATEGY

FBN Insurance Brokers aspires to be the leading insurance broking company in Nigeria in terms of excellent customer service delivery, income generation, profitability and reward to the shareholders. The following strategies have been adopted to achieve these goals:

- continuous penetration of the public sector for increased revenue generation;
- increased marketing and business development drive on special risks policies such as political violence, terrorism, kidnap and ransom, and medical insurances;
- continuous capacity building and knowledge update both locally and internationally;
- continuous compliance with regulatory authorities' (NAICOM, PenCom, FIRS and various State Board of Internal Revenue Service) directives/guidelines;
- continued leverage on the FBN Holdings to increase revenue growth and obtain maximum synergy on the spread of offices across Nigeria and beyond;
- restructuring of internal operations for effective marketing, claims management and programme administration;
- creation of comprehensive customer data base to increase the retention portfolio; and
- improved cross-selling within the FBN Holdings.

PERFORMANCE

FINANCIAL HIGHLIGHTS

The implementation of NAICOM regulation on 'No Premium, No Cover', which compels all registered Insurance Brokers to recognise income strictly on a cash basis had a negative impact on revenues. This is different from the previous practice of accrual income regulation.

Overall operating expenses of ₦460 million was incurred and a profit before tax of ₦336.9 million was recorded for the period ended 31 December 2013.

An improved performance across all benchmarks over the next year is expected by the insuring public while adjusting to the new NAICOM regulation and optimising the cross-selling synergy of FBN Holdings for improved revenue generation.

NON-FINANCIAL HIGHLIGHTS

Service delivery and operational excellence

The three-year financial statement (2011-2013) was successfully converted from NGAAP to IFRS in compliance with the Financial Reporting Council of Nigeria roadmap. The services of PricewaterhouseCoopers (PwC) were engaged for the exercise.

Branch network expansion

As part of the branch expansion project, we envisaged opening branches in Kano and Kaduna. However, it has had to be put on hold due to security concerns in the country.

Compliance with NAICOM regulation on 'No Premium, No Cover'

FBN Insurance Brokers was the first insurance brokerage firm to automate the notification of premium collection and credit note generation to underwriters in the country and this has projected the image of the Company positively during 2013.

Performance management

The Company is among the few insurance brokerage outfits to adopt the balanced scorecard appraisal system. Management attaches a predetermined weight to the KPIs of staff at the beginning of the year, which forms the basis of appraisal for promotion and other rewards at the end of each financial year.

On a quarterly basis, performance review meetings are held to measure the overall performance of the Company for necessary management action.

OUTLOOK FOR 2014

The assumption is that income on FirstBank direct assets will rise by 21.05%. This assumption is based on the projected increase in overnight cash holding limits of some major branches and the proposed synergic benefits to come from the newly-approved holding structure.

There is a plan to increase the commission income on other policies by 61% based on the assumptions that there will be an increase of income on FirstBank corporate clients following the restructuring of FirstBank branches, based on the increase of transaction capacity at the various branch levels. We also base this on an increase of commission via the implementation of compulsory insurances by NAICOM and expansion by increasing our branch network.

We intend to carry out two key activities for more efficient service delivery - recruitment of additional manpower and benefits and promotions for staff.

OTHER FINANCIAL SERVICES BUSINESS GROUP PERFORMANCE

The Other Financial Services business group currently serves as a quasi-incubator for our smaller non-banking financial services businesses including a microfinance bank, FBN MFB. This business group contributes 0.5% to the Group's net revenue.

OTHER FINANCIAL SERVICES[18]

FBN MICROFINANCE BANK LTD

NET REVENUES[19]

₦1.7bn

(2012: ₦8bn)

PROFIT BEFORE TAX[19]

(₦3.2bn)

(2012: ₦4.6bn)

BUSINESS GROUP OVERVIEW

This includes the Group's non-operating holding company and other non-banking financial services businesses including a microfinance bank, FBN MFB, which provides microfinance services to the mass-market retail segment.

FBN MICROFINANCE

OVERVIEW

The Bank operates from 23 locations in Lagos state and offers a wide number of services to the economically active poor, including:

- deposit mobilisation;
- risk assets/credit creation;
- electronic banking; and
- business advisory services.

FBN MFB also offers numerous other specialised products and services specific to the financial needs of micro enterprises.

The vision is to be Nigeria's first choice when it comes to microfinance services providers and the mission is 'to consistently develop a new generation of micro-entrepreneurs by providing market-driven products and services in a profitable and sustainable manner, thereby boosting economic development'.

FBN MFB – in line with the parent company's stance – is committed to implementing initiatives that would improve corporate governance principles for the benefit of all its stakeholders. In this regard, the FBN MFB Board of Directors has the primary responsibility for ensuring adherence to rules and regulations, fostering good ethical practices. The Board is responsible for establishing strategic objectives, policies and procedures that will guide and direct the activities of the Bank and the means to attain them, as well as the mechanism for monitoring management performance.

FBN MFB renders financial services to micro-entrepreneurs, as well as the poor and low-income population, on a sustainable basis. In line with the Central Bank of Nigeria's (CBN) objective of economic development and poverty reduction, the Board strives to promote entrepreneurship by granting loans to small and micro businesses for their improvement and expansion.

The board's compliance with the CBN directive is to increase the Bank's share capital to ₦2 billion and convert its license from 'state' to 'national'. With this recapitalisation compliance, growth aspirations, as well as expansion into other value-adding business opportunities beyond Lagos, will be achieved.

BUSINESS MODEL

FBN MFB operates from 23 locations in Lagos state and is involved in the provision of microfinance products and services (loan and deposit products) to the economically active poor, small and micro entrepreneurs, and salary earners. Its service offerings to the micro enterprises include banking services such as deposit mobilisation, risk assets and credit creation, electronic banking, business advisory services and numerous other specialised products and services unique to the financial needs of the micro enterprises.

The Bank has invested in a robust IT infrastructure across its network of functional, friendly and cost-effective service outlets from where it serves its growing client base. With the capital injection of an additional ₦1 billion from FBN Holdings and conversion of license from 'State' to 'National', the Bank intends to further expand its customer base by increasing its branch network in Lagos, and open branches in five other states of the Federation. This will make the Bank the second largest microfinance bank in Nigeria in terms of branch network.

18 FBN MFB and Other Financial Services

19 The net revenue and PBT relates to the Other Financial Services group

OTHER FINANCIAL SERVICES BUSINESS GROUP PERFORMANCE

STRATEGY

Given the low-income nature of the country, as well as its largely informal structure, the market for microfinance services is huge. With a market of more than 34 million potential customers and total loans across the industry of more than ₦81 billion, there has been the need to selectively increase risk assets, strengthen risk review process and increase customer base by opening new branches and enhance My Daily Savings Account (MDSA) product.

The Bank is focused on increasing its reach and the number of clients it serves through branch expansion, enhancement of products, features aggressive marketing and mobile banking. Our growth strategy seems to be paying off as evidenced by increase in loan portfolio. The sum of ₦3.3 billion has been disbursed to 8,949 loan customers as at 31 December 2013 against ₦4.3 billion disbursed in 2012 to 10,008 customers. Following the reduction of microfinance banks from the withdrawal of licenses in 2010 and the introduction of a more comprehensive reporting and monitoring framework, the Bank has developed enhanced risk management requirements for loans, strengthened the control function with the appointment of a substantive Head of Internal Audit and recruitment of additional Internal Control Officers, while a new loan recovery unit was created to help support Legal Services recovery activities. The Bank also introduced a number of measures to retain and expand its customer base and increase its market share, including improved service delivery, robust product offerings, fund transfers across the country using the First Bank of Nigeria platform and online real-time banking services across all the branches.

Through customers' forums, we hear directly from our clients and respond to their challenges. We have also introduced incentive and reward systems for loyal customers such as quicker and easier repeat loans, negotiation or waivers of some fees, recognition, scholarships to wards of loyal customers and the opportunity to win various prizes from savings promotions raffles. The CBN policy on cash-based transactions (cashless economy) equally presented an opportunity for the Bank to market products such as ATMs, cheque books, internal transfers, POS transactions and the FirstBank mobile money – 'Firstmonie'.

There was a slowdown in the Bank's performance in 2013, underpinned by very challenging market conditions and increasingly stiffer competition. Given our recent re-capitalisation and re-organisation, we are of the opinion that the Bank is better positioned to harness the growing opportunities in the microfinance market.

In the discharge of its oversight functions, the Board ensures management runs the Bank or Company in the most efficient manner that safeguards the interests of all stakeholders. In between scheduled meetings, management is sometimes requested to provide details via email on crucial issues for the attention of Board members and appropriate measures.

Industry practice is often relied upon or used as a benchmark before a proposal is approved. Most importantly, there is a cordial relationship between Board members that enhances teamwork. The management and Board members have unhindered access to the management of the parent company. This is in addition to the quarterly meetings (Group Management Committee) where the performances of the subsidiary companies are reviewed to ensure compliance with the Group's goals.

OPERATING ENVIRONMENT

The microfinance sector is highly fragmented, with over 800 microfinance banks and a market size of over 34 million potential customers. It is estimated that only 3.5 million people have been reached. FBN MFB has approximately 2% of the market share, making it the third largest microfinance provider in Nigeria.

The following CBN initiatives aimed at promoting financial inclusion are also driving growth in the sector:

- increase access to financial services of the economically active poor by 10% annually;
- increase the share of microcredit as a percentage of total credit to the economy annually;
- ensure state and local government participation in microfinance activities by 2015; and
- eliminate gender disparity by ensuring that women's access to financial services increases by 15% annually.

CHALLENGES

The revised Microfinance Policy and Supervisory Guidelines, which raised the paid-up capital for a National Microfinance Bank from ₦1 billion to ₦2 billion, have presented new challenges.

They restricted expansion in 2012, as the CBN categorically stated that further approvals for branches within Lagos or other states for state microfinance banks would depend on capital injection, while unit microfinance banks were mandated to close all their cash centres (customer meeting points). The attraction of investors to the microfinance sector is a result of the huge potential for profitability while contributing to alleviating poverty. Competition has therefore increased as new microfinance banks and non-governmental organisations (NGOs) with international affiliations have been licensed.

The sector has also witnessed the entrance of international microfinance organisations with good track records and experience in the sector. While there is increased competition among the 'state licensed banks', there has been a reduction of 'unit licensed' microfinance banks due to capital requirements and the high cost structure. Consequently, we expect to see more consolidation in the sector over coming periods. The Boko Haram bombings and other security issues in the country equally impacted on the quality of risk assets as consumer demand declined, funds were trapped with suppliers in the north, and business was lost.

PERFORMANCE HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Within the context of a fragmented market, heightened security risks, an increased unemployment rate, and tighter regulatory environment, 2013 was a challenging year.

As a result of the strategic initiatives embarked upon to reduce the volume of non-performing loans and improve portfolio quality, the operating income dropped by 0.83% from ₦1.2 billion in 2012 to ₦1.1 billion in 2013. This was in spite of a deliberate halt on booking new loans during the entire first quarter of the year. The Bank delivered a profit before tax of ₦64 million for the year ended 31 December 2013. This represents a 23% decline compared to the previous year's profit of ₦307 million.

OTHER FINANCIAL SERVICES BUSINESS GROUP PERFORMANCE

Consequently, while ensuring our business remains profitable, we are committed to supporting the economy through the advancement of credit to our defined market segment. We have done this while comprehensively reviewing our credit policy and processes towards meeting our growth imperative. In this regard, ₦3.3 billion was disbursed to 8,949 customers in 2013 compared to ₦4.3 billion disbursed to 10,008 customers in 2012. To further enhance the Bank's capacity to participate stronger in this market, we have strengthened our shareholders' funds by 85% through capital injection from FBN Holdings to ₦2.44 billion as we reposition to play as a national microfinance bank.

For the financial year ended 31 December 2013, gross earnings declined by 0.83% to ₦1,124 million compared to ₦1,190 million the previous year. Net operating income similarly declined by 0.08% to ₦1,079 million (FY 2012: ₦1,179 million), while profit before tax dropped by 19% to ₦64 million (FY 2012: ₦307 million).

Net interest income declined by 14% to ₦802 million (FY 2012: ₦934 million). This was due to a decrease in total loan disbursement in 2013 (+17% year-on-year) and increasing interest expense (+62% year-on-year). Decrease in interest income was due to management's strategic decision to reduce lending in the first half of the year and concentrate on recovery to improve portfolio at risk (PAR) to less than 5%. Interest income on investments increased by 60% to ₦11.9 million compared to ₦7.4 million for FY 2012, due to increased treasury activities in the period under review as a result of increased deposit mobilisation.

NON-FINANCIAL HIGHLIGHTS

We comprehensively reviewed our credit policy and process efficiency towards meeting the Bank's growth imperative and established a new recovery structure to focus on the prompt workout of delinquent accounts.

We also commenced customer forum sessions during the year to ensure we have a quick understanding of what the customers want and are able to meet those expectations appropriately. We are able to improve service delivery and provide suitable product offerings through these sessions. We expect this initiative to support retaining and expanding our customer base towards increasing market share.

Our customers are self-employed, low-income entrepreneurs such as traders, farmers and street vendors in rural and urban areas. Our service providers include hairdressers, motorcycle riders, and artisans. Hence, we are mindful of the inherent risks of extending credit facilities to applicants or customers, particularly as repayment defaults are on the increase.

We have thus put in place appropriate measures that will safeguard the interests of the Bank, such as the use of point of sale (POS) by staff members to receive deposits from customers, intensifying loan recovery efforts by the recovery team, and the granting of Group loans so as to reduce the risks. In addition, the adoption of a loan strategy of 60% Group loans, 20% small and medium enterprises, and 20% individual loans is in place. We were, however, able to grow our deposits to ₦2.4 billion as at 31 December 2013, against a balance of ₦822 million for the financial year ended 31 December 2012. The increase was attributed to the enhanced deposit mobilisation strategy and My Daily Savings Account (MDSA) promotion.

OUTLOOK AND 2014 PRIORITIES

In 2014, we will continue to improve the structural foundations we have laid over the years for growth. Among these are effective internal control measures, deployment of effective business strategies, branch expansion, strict adherence to regulations and improved processes for an effective customer service delivery. Staff welfare (training inclusive) will also be given priority while we will invest in developing a strong performance culture to boost productivity.

We will strive to make FBN MFB a leader in the sector (in terms of branch expansion, deployment of information technology in service delivery and recruitment of competent hands) by leveraging the strengths and capabilities that exist across our diverse Group. We are, however, mindful of the associated challenges, such as the high cost of operation, repayment problems, inexperienced credit staff and deploying effective strategies that will ultimately edge out our competitors.

The Bank is fully committed to providing financial access to the unbanked and under-banked poor. These include very small businesses, petty traders, artisans and individuals. We will look to meet their day-to-day business aspirations while also creating wealth and employment.

We have leveraged on the FirstBank brand, its unique products, well-trained and experienced personnel, customer-centric approach to business and strong risk management policies to achieve our goals. In 2013, we achieved profit before tax of ₦64 million against ₦317 million in 2012 and return on equity deteriorated from 17.6% in 2012 to 10%. The drop in PBT is the result of a deliberate review of business processes to address loan repayment default in the first half of 2013.

GOVERNANCE

With good corporate practices demonstrating our commitment and dedication, we raised the bar and set the tone for other companies in our industry.

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CHAIRMAN'S INTRODUCTION

Oba Otudeko, CFR
Group Chairman

DEAR SHAREHOLDER,

Over the course of 2013, despite challenging circumstances, we endeavoured to hold true to our long- term values. We were unrelenting in our adoption of a sustainable approach to governance, while striving to do the right thing for our stakeholders. We recognise the strength of our culture and values are more important than ever.

We understand our brand's perception is steeped in the knowledge of our strong corporate values and governance. With good corporate practices demonstrating our commitment and dedication, we raised the bar and set the tone for other companies in our industry.

We fully comprehend our responsibilities to clients, customers, staff, communities in which we operate and the general public. We shall remain unrelenting in our discharge of these duties and continue to meet and exceed the expectations of our stakeholders.

OUR CULTURE

Culture is brought to life by values and it encompasses the consequential strategic growth of our Group. Just as with strategy, the Board plays a major role in shaping our culture and in setting out the principles and values that will drive long-term success. In addition, we believe it is the duty of the Board to ensure these common objectives of both the management and the Board are implemented throughout the institution.

Within the Group, we recognise the value of diversity in our colleagues from a broad and representative mix of backgrounds and experiences as different perspectives allow us to see and develop new opportunities. We promote internal initiatives to support diversity and inclusion within the Group and we realise we can only achieve our strategic objectives by building a sound reputation founded on the highest standards of responsible behaviour.

OUR GOVERNANCE FRAMEWORK

All companies within the Group have distinct boards and comply with the statutory and regulatory requirements of the industries in which they operate. They align their respective governance frameworks to that of the Group.

Considerable time and effort was spent in 2013 in putting in place structures to ensure strict observance of global best practices in corporate governance, including making key appointments from inside and outside the Group to aid coordination within the Group.

In last year's report, we outlined our Board succession plan and have taken a long-term approach to refreshing the Board, balancing both our need to maintain longevity and stability of the Board, while regularly refreshing its composition. As part of this plan, in the year under review, we announced the appointment of an independent director – Mr Chidi Anya – a seasoned legal practitioner to the Board. His appointment has added significant legal experience to the Board, as well as bringing fresh perspectives and diverse experience.

Throughout the transition period, we are mindful to ensure the overall size of the Board remains at an effective and manageable level, although we recognise it is likely to increase in the coming year.

We appreciate and encourage diversity and inclusion in all its forms – including gender, age and ethnicity – underpinned by a strong ethos of meritocracy. It is important our employees and leadership teams are representative of our markets, stakeholders and client profile. Although not in favour of quotas, in formulating our Board succession plan we have been mindful to ensure we continue to enhance the Board's diversity through future appointments.

We are regulated by the Securities and Exchange Commission's (SEC) Code of Corporate Governance and the Central Bank of Nigeria's (CBN) Code of Corporate Governance on 'other financial institutions'. The latter is yet to come into effect, hence the Group will be principally governed by the former code. We shall however use the CBN Code of Corporate Governance for Banks (CBN Code) as a guide from time to time.

We are pleased to state that for the year under review, we had no breach or sanctions imposed by any of our regulatory bodies.

HOW IS GOOD GOVERNANCE ACHIEVED?

Good and effective corporate governance is, to a large extent, dependent on the skills and experience of individuals on the Board and how well they work together as a whole to achieve long-term value for shareholders. A great deal is demanded and expected of our directors, particularly given the systemic importance of financial institutions such as ours to the global economy and the impact we have on the societies in which we operate.

As Chairman, I am responsible for the effective performance of the Board and, in that regard, one of my areas of focus since joining the Board has been to ensure we have a strong and well-functioning Board, comprised of individuals not only with the right abilities in terms of technical or business experience, but also with the personal qualities required to be effective, dedicated and committed stewards to the Company, particularly in times of stress. I was closely involved in the process of appointing the Group Chief Executive Officer and I am confident that, in appointing Bello Maccido, we have the right person to lead the Company, to deliver on our strategies and objectives and to implement the significant cultural and behavioural changes that we, as a Board, want to achieve.

We have revisited the range of skills and competencies we require around the boardroom and what the Board needs to have are non-executive directors with financial services experience and also access to other skills and experiences, particularly in the management of various companies across the Group.

HOW DO WE GOVERN FOR LONG-TERM SUSTAINABILITY?

We acknowledge that good governance practices are best initiated and observed in the boardroom. Hence, we shall ensure that the 'tone at the top' promotes good corporate governance. As a Board, we will continue to demonstrate good corporate governance practices and ensure this permeates through the business structure.

We further recognise that the task of embedding high standards of corporate governance is never complete; yet, we remain committed to implanting the same across the Group. This, we believe, will help us perform well in our chosen markets, ultimately resulting in a higher return on capital.

Across the Group, we shall continue to ensure that ethical practices are not substituted with sharp dealings and we will also remain unrelenting in upholding values whilst doing business. These practices not only keep us ahead of the competition, they also ensure the sustainability of our business.

ESTABLISHMENT OF A STATUTORY AUDIT COMMITTEE

As promised in the 2012 report, in order to achieve accountability to our shareholders, we established the Statutory Audit Committee (SAC) in accordance with the Companies and Allied Matters Act (CAMA). The SAC is composed of the following:

- Waheed Adegbite
- Abubakar Yahyah
- Job Onwughara
- Lt. General Garba Duba, (rtd)
- Oye Hassan-Odukale, MFR
- Chidi Anya

The SAC is tasked with overseeing financial reporting and disclosure and has met three times since its inauguration.

REPORTING STANDARDS AND QUALITY OF FINANCIAL DISCLOSURE

We continue to attach great importance to disclosure. As part of enhancing transparency and disclosure in our financial reports, the Group has adopted the International Financial Reporting Standards (IFRS); thus aligning with the strongest global standards of transparency in financial reporting. The adoption of IFRS will enhance shareholder value and bring added benefits to our business relationships with our overseas correspondent banks, multilateral organisations and international investors who require financial statements to make informed decisions about the Group.

THE NIGERIA STOCK EXCHANGE/CONVENTION FOR BUSINESS INTEGRITY CORPORATE GOVERNANCE RATING SYSTEM

In 2013, we became one of the first companies to participate in the pilot stage of the Corporate Governance Rating System, anchored jointly by The Nigeria Stock Exchange and The Convention for Business Integrity. The rating system is intended to strengthen good corporate governance practices in the financial industry by publishing to the public a company's level of compliance with governance practices. Our participation reiterates our unwavering commitment to transparency and accountability.

CONCLUDING REMARKS

On behalf of the Board, I reaffirm our commitment to adopting the highest standards of corporate governance practices as we bid to ensure the Group's long-term sustainability. In recognising the immense impact that good governance has on the performance and operations of the Group, we will go to great lengths to ensure the continual observance of good corporate governance practices at all levels across the Group.

Oba Otudeko, CFR
Group Chairman

LEADERSHIP

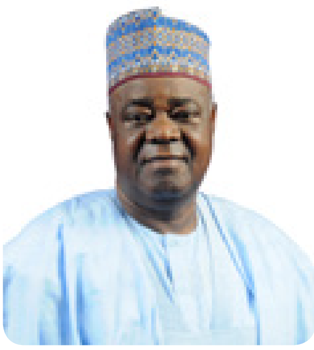
BOARD OF DIRECTORS

Dr Oba Otudeko, CFR
Group Chairman

Bello Maccido
Group Chief Executive Officer

Abdullahi Mahmoud
Non-Executive Director

Bisi Onasanya
Non-Executive Director



Lt. General Garba Duba, rtd
Non-Executive Director

Oye Hassan-Odukale, MFR
Non-Executive Director

Chidi Anya
Independent Director

Tijjani Borodo
Company Secretary

The Group's Board (the Board) is a considered blend of experience and knowledge and is composed of seven directors, made up of six non-executive directors and one executive director who is the Chief Executive Officer (CEO). This is in line with international best practice, which stipulates the number of non-executive directors should be more than that of executive directors. With 86% of the Board's composition independent of the Company's management, the FBN Holdings' Board is positioned to be independent, devoid of management's influence and uphold its proper supervisory role over FBN Holdings' management.

THE BOARD IS MADE UP OF THE FOLLOWING:

Dr Oba Otudeko, CFR
Group Chairman

Oba Otudeko (CFR) is Chairman, FBN Holdings Plc and Honeywell Group Limited. He is a foremost and visionary Nigerian entrepreneur reputed for his highly successful domestic and foreign investments cutting across diverse sectors of the economy. He served on the board of FirstBank between May, 1997 and December, 2010 when he retired as Chairman. He was also the Chairman of FBN Bank (UK) Limited. He has, at various times, served on the Boards of Central Bank of Nigeria (1990-1997), Guinness Nigeria Plc (1999-2003), British American Tobacco Ltd (2001-2004) and Ecobank Transnational Incorporated, headquartered in Lome, Togo (2002-2010). Between September 2006 and August 2009, he was the 16th President and Chairman of Council of the Nigerian Stock Exchange. He holds the Nigerian National Honour of Commander of the Order of the Federal Republic (CFR) awarded in 2011. He is a Chartered Banker, Chartered Accountant and Chartered Corporate Secretary. He was Chancellor of the Olabisi Onabanjo University, Ogun State and currently serves as a member of the Office of Distinguished Friends of London Business School (UK). Dr Otudeko is the founder of Oba Otudeko Foundation (OOF), a not-for-profit organisation. He is happily married with children.

Bello Maccido
Group Chief Executive Officer

Bello Maccido was until this appointment, the Executive Director, Retail Banking, North at First Bank of Nigeria Plc. As Chief Executive, he brings over 24 years financial services experience covering Retail, Corporate and Investment Banking at various institutions such as Ecobank Nigeria Plc, New Africa Merchant Bank Limited, and at FSB International Bank Plc, where he rose to become Acting Managing Director/Chief Executive. He left FSB International Bank Plc to set up Legacy Pension Managers, a Pension Fund Administration (PFA) company as pioneer Managing Director and Chief Executive, a position he held before joining the Board of FirstBank in January 2011. His broad and diverse experiences in financial services are also evident in other national assignments he has handled which include sitting as a Council Member of The Nigerian Stock Exchange between March 2009 and June 2012. He was also a member of the Finance Committee, National Council on Privatisation, the Implementation Committee, Financial System Strategy (FSS) 2020, and Presidential Monitoring Committee on NDDC, among others. A Chartered Stockbroker, Bello is happily married with children. He holds the traditional title 'Wakilin Sokoto' and loves basketball.

Bisi Onasanya
Non-Executive Director

Bisi Onasanya is the Group Managing Director/Chief Executive Officer of First Bank of Nigeria Limited, the Commercial Business Group of FBN Holdings Limited. He was previously Executive Director, Banking Operations & Services and the MD/CEO, First Pension Custodian Nigeria Limited, a subsidiary of FirstBank. He joined FirstBank in 1994 and coordinated the Century 2 Enterprise Transformation Project for the Bank. He is a highly respected and personable executive who has established a reputation at FirstBank for solid performance and sound judgment. Bisi is a Fellow of the Institute of Chartered Accountants of Nigeria, Fellow of the Chartered Institute of Bankers of Nigeria with 30 years post-qualification experience and Associate Member of the Nigerian Institute of Taxation. He sits on the Board of several companies and has served as a member of the Chartered Institute of Bankers' Sub-Committee on Fiscal & Monetary Policies as well as the Presidential Committee on Reduction of Interest Rates. He has attended various executive programmes at London Business School, Harvard Business School and Wharton Business School. He loves swimming and is married with children.

Lt. General Garba Duba, rtd
Non-Executive Director

Lt. General Garba Duba, (rtd) currently serves as the Chairman of SGI Nigeria Limited, PW Nigeria Limited and Leadway Pensure PFA Limited. He has been a Non-Executive Director of Honeywell Flour Mills Plc since August 1998. He was one time Chairman of New Nigerian Development Company Limited and served as a non-executive director of First Bank of Nigeria Plc until December 31, 2010. Garba Duba is a retired Lieutenant-General of the Nigerian Army and has served as the Chief of Operation and Plans in the Ministry of Defence, the Military Administrator of Bauchi State, Military Governor, Sokoto State, and Commandant of Nigerian Defence Academy. General Duba is a farmer and a business man, and has played several political and economic roles as the leader of the Niger State delegation to the National Political Reform Conference. He brings his immense experience in administration and business to bear on the board. He is happily married with five children and loves reading, hockey, and squash.

Oye Hassan-Odukale, MFR

Non-Executive Director

Oye Hassan-Odukale has since 1994 held the position of Managing Director/CEO of Leadway Assurance Company Limited, a foremost underwriting firm in Nigeria. His appointment was preceded by over 14 years of experience in insurance brokerage, underwriting, investments and general management. Oye is a recipient of the national honour, Member of the Order of the Federal Republic (MFR) and sits on the board of FBN Bank (UK) Ltd, Seawolf Oilfield Services Limited, Leadway Pensure PFA Limited and Governing Council, Babcock University. His experience in investments and as a director on several boards informs his detailed insight which keeps the Board ahead of competition in the financial services industry. Oye is a Munich Re scholar, Securities and Exchange Commission accredited Investment Manager and Portfolio Advisor and was a non-executive director on the Board of First Bank of Nigeria Plc. He is married with children and enjoys listening to music, reading and travelling.

Abdullahi Mahmoud

Non-Executive Director

Abdullahi was the pioneer New York Representative/General Manager of the United Bank for Africa in the USA from 1982 to 1986. He held the position of Managing Director/CEO of the African International Bank Limited from 1991 to 1995. He was the pioneer Executive Director (Operations) of the NDIC. Abdullahi served as Group Managing Director of New Nigeria Development Company and as Non-Executive Director of NAL Bank from 1998 to 2004. As a Non-Executive Director on the Board of First Bank of Nigeria from 1998 to 2010, he served on the Boards of several of its Subsidiaries. He is a Fellow of the Association of Chartered Certified Accountants of the UK (FCCA), the Institute of Chartered Accountants of Nigeria (FCA), the Chartered Institute of Bankers of Nigeria (FCIB) and the Institute of Directors, Nigeria (F-IOD). He is married with four sons and loves scouting, travelling and photography.

Chidi Anya

Independent Director

Chidi has over 20 years post call experience within the Nigerian legal system and is the Managing Partner of The Channings Law Firm, established in 1997. He provides leadership and strategic direction for the firm, and has for many years been recognised as a leading commercial and corporate law specialist by his clients and peers. His initial pupillage was with LN Mbanefo SAN, followed by a period as an Associate Counsel at Akin Delano & Company, Ibadan, Nigeria and Senior Associate Counsel at Debo Akande & Company, Lagos, Nigeria, prior to the setting up of the firm. His legal career has equipped him with high level skills in negotiation, administration, communication, management, advocacy and ethical leadership, which he brings to the Board. Mr. Anya also acts as Company Secretary to a number of leading indigenous conglomerates operating in strategic sectors of the Nigerian economy, where he provides guidance on corporate governance and compliance matters. He is a member of the Nigerian Bar Association (NBA). Chidi is married with three children and loves gardening, reading, writing, intellectual debate and philanthropy.

Tijjani Borodo

Company Secretary

Tijjani Borodo was appointed Company Secretary, FBN Holdings Plc in September 2012. Before this appointment, he was the Company Secretary of First Bank of Nigeria Limited (FirstBank). His career at FirstBank spans over 25 years and he has occupied various managerial positions within the Bank. He was in charge of the Bank's Secretariat as well as the Secretary to the Board of Directors and Annual General Meeting for 14 years. Before joining FirstBank, he served with the Ministry of Justice, Kano State and rose to the position of Director, Public Prosecutions. Tijjani brings his wealth of experience to bear on the Board of FBN Holdings Plc. He is a Fellow, Institute of Directors, a Member, Nigerian Bar Association, International Bar Association, Society for Corporate Governance, and an Honorary Senior Member, Chartered Institute of Bankers. He has attended courses and programmes in various first-rate business and management schools abroad, including Harvard Business School, USA. Tijjani is married with children and loves swimming, listening to music and travelling.

A COMMITMENT TO GOOD GOVERNANCE

The Board is committed to achieving long-term success for the Group, and governance plays an integral part in ensuring consistency and rigour in decision-making to ensure shareholder value is maximised over time.

This remains uppermost in our minds when applying the principles described in relevant provisions relating to the combined code on corporate governance published by the Financial Reporting Council.

The Board aims to exceed these requirements as we believe good governance is a key contributor to the Group's long-term success.

THE ROLE OF OUR CHIEF EXECUTIVE OFFICER

The Chief Executive Officer (CEO) is responsible for leading the development and execution of the Company's long-term strategy with a view to creating sustainable shareholder value. The mandate of the CEO is to manage the day-to-day operations of FBN Holdings and ensure that operations are consistent with the policies developed by the Board of Directors and are carried out effectively. The CEO's leadership role also entails being ultimately responsible for all day-to-day management decisions and for implementing the Company's long- and short-term plans. The CEO acts as a direct liaison between the Board and management of the Company and communicates to the Board on behalf of the management. The CEO also communicates on behalf of the Company to shareholders, employees, Government authorities, other stakeholders and the public.

More specifically, the duties and responsibilities of the CEO include the following:

- to lead, in conjunction with the Board, the development of the Company's strategy;
- to lead and oversee the implementation of the Company's long- and short-term plans in accordance with its strategy;
- to ensure the Company is appropriately organised and staffed and to have the authority to hire and terminate staff as necessary to enable it to achieve the approved strategy;
- to ensure that expenditures of the Company are within the authorised annual budget of the Company;
- to assess the principal risks of the Company and to ensure that these risks are being monitored and managed;
- to ensure effective internal controls and management information systems are in place;
- to ensure that the Company has appropriate systems to enable it to conduct its activities both lawfully and ethically;

- to ensure that the Company maintains high standards of corporate citizenship and social responsibility wherever it does business;
- to act as a liaison between management and the Board;
- to communicate effectively with shareholders, employees, Government authorities, other stakeholders and the public;
- to keep abreast of all material undertakings and activities of the Company and all material external factors affecting the Company and to ensure that processes and systems are in place to ensure that the CEO and management of the Company are adequately informed;
- to ensure that the Directors are properly informed and that sufficient information is provided to the Board to enable the directors to form appropriate judgements;
- to ensure the integrity of all public disclosure by the Company;
- in concert with the Chairman, to develop Board agendas;
- to request that special meetings of the Board be called when appropriate;
- in concert with the Chairman, to determine the date, time and location of the annual meeting of shareholders and to develop the agenda for the meeting;
- to sit on committees of the Board where appropriate as determined by the Board;
- to abide by specific internally established control systems and authorities, to lead by personal example and encourage all employees to conduct their activities in accordance with all applicable laws and the Company's standards and policies, including its environmental, health and safety policies;
- manage the Group within established policies, maintain a regular policy review process, and revise or develop policies for presentation to the Board;
- ensure the Group operates within approved budgets and within all regulatory requirements of a holding company;
- keep abreast of issues that may significantly impact the Group; and
- develop and recommend to the Board, the annual operating and capital budget, and upon approval of the service plan and annual budget and with fully-delegated authority, implement the plan in its entirety.

THE ROLE OF OUR CHAIRMAN

The principal role of the Chairman of the Board is to manage and to provide leadership to the Board of Directors of the Group. The Chairman is accountable to the Board and acts as a direct liaison between the Board and the management of the Company, through the Chief Executive Officer (CEO).

The Chairman acts as the communicator for Board decisions, where appropriate. The concept of separation of the role of the Chairman from that of the CEO implies that the Chairman should be independent from management and free from any interest and any business or other relationship that could interfere with the Chairman's independent judgement other than interests resulting from Company shareholdings and remuneration.

More specifically, the duties and responsibilities of the Chairman are as follows:

- to act as a liaison between the management and the Board;
- to provide independent advice and counsel to the CEO;
- to keep abreast generally of the activities of the Company and its management;
- to ensure that the directors are properly informed and that sufficient information is provided to enable the directors to form appropriate judgements;
- in concert with the CEO, to develop and set the agenda for meetings of the Board;
- to act as chairman at meetings of the Board;
- to recommend an annual schedule of the date, time and location of Board meetings;
- to review and sign minutes of Board meetings;
- to call special meetings of the Board where appropriate;
- in concert with the CEO, to determine the date, time and location of the annual meeting of shareholders and to develop the agenda for the meeting;
- to act as chairman at meetings of shareholders;
- to assess and make recommendations to the Board annually regarding the effectiveness of the Board as a whole, the Committees of the Board and individual directors; and
- to ensure that regularly, upon completion of the ordinary business of a meeting of the Board, the directors hold discussions without management present.

THE ROLE OF OUR BOARD

The principal responsibility of the Board is to promote the long-term success of the Group by creating and delivering sustainable shareholder value. The Board leads and provides direction for the management by setting strategy and overseeing its implementation. The Board seeks to ensure that, while the ultimate focus is long-term growth, the management also delivers on short-term objectives, striking the right balance between the two. In setting and monitoring the execution of our strategy, consideration is given to the impact that those decisions will have on the Group's obligations to various stakeholders, such as shareholders, employees, suppliers and the community in which the Group operates as a whole.

The Board is also responsible for ensuring an effective system of internal control is maintained and that the management maintains an effective risk management and oversight process across the Group, so growth is delivered in a controlled and sustainable way. In addition, the Board is responsible for determining and promoting the collective vision of the Group's purpose, values, culture and behaviours. Specific key decisions and matters have been reserved for approval by the Board. These include decisions on the Group's strategy, approval of risk appetite, capital and liquidity matters, major acquisitions, mergers or disposals, Board membership, financial results and governance issues, including the approval of the corporate governance framework.

OUR BOARD – CHANGES DURING THE YEAR

The Board initially comprised five non-executive directors and a Chief Executive Officer appointed to the Board on 10 September 2012. The non-executive directors were reappointed by the members of FBN Holdings at its Annual General Meeting (AGM) in May 2013 and they are Oba Otudeko, CFR, Lt. General Garba Duba (rtd), Oye Hassan-Odukale, MFR, Abdullahi Mahmoud and Bisi Onasanya.

An Independent director, Chidi Anya, was also elected at the AGM in May 2013.

Additionally, in line with the provisions of the Companies and Allied Matters Act (CAMA) and the interests of good corporate governance, all directors were required to submit themselves for re-election at the AGM. We are committed to ensuring we have the right balance of skills and experience within the Board, and we annually review its composition and the diversity of backgrounds of its members.

BOARD EXPANSION

There are currently plans to increase the Board composition from the current seven members to nine. The appointment of two additional directors, one non-executive director and one independent director, which will include female(s), is designed to improve the Board's gender diversity and ensure more independence of the Board.

Whilst the Standard Entry Class (SEC) Code prescribes the appointment of one independent director on the Board, by the proposed appointments, we would have been able to exceed the regulatory threshold required for holding companies. This underscores our resolve to meet and exceed regulatory and global corporate governance demands.

BOARD OVERSIGHT – KEY TOPICS

Throughout 2013 the Board has continued to review the corporate strategy, the operation of the business and results within a framework of prudent and effective controls, including the assessment and management of risks. This framework has allowed us to deal with key issues arising throughout the year, including making new appointments and putting emphasis on embedding a culture of 'doing the right thing'.

BOARD ROTATION/BOARD STAGGERING

Directors are required to hold office subject to retirement by rotation or removal. Section 259 of the Companies and Allied Matters Act, Cap C20, LFN, 2004 (CAMA) provides that unless there is a contrary provision in the Articles of Association of a Company, all the directors of the company shall at the first Annual General Meeting (AGM) retire from office and at subsequent AGMs, one third of the directors, or if their number is not three or a multiple of three, the number nearest to one-third shall retire. However, if the number of directors is reduced to two then neither need retire.

In addition to the power to remove directors under Section 262 of CAMA, the retirement by rotation process affords members of a company the opportunity of not re-electing a director at the expiration of his period of office.

FBN Holdings' Articles of Association contains similar provisions, hence one third of the Board will be up for re-election at the company's Annual General Meeting.

HOW DO OUR BOARD MEETINGS WORK?

The Board meets quarterly and extra meetings are convened as required. The annual calendar of Board meetings is approved in advance at the first meeting of the Board in each financial year, and all directors are expected to attend each meeting. Material decisions may be taken between meetings through written resolutions as provided for by the Company's Articles of Association. The following highlights may be noted with regards to Board meetings:

- the Board meets quarterly and as required;
- the annual calendar of Board meetings is approved in advance at the first meeting of the Board in each financial year;
- the annual calendar of Board activities usually includes a Board retreat at an offsite location, to consider strategic matters and review opportunities and challenges facing the Group;
- urgent and material decisions may be taken between meetings through written resolutions;
- all directors are provided with notices, agendas and meeting papers in advance of each meeting;
- the Group's Board met four times in 2013;
- notices for meetings are usually sent out at least 14 days before the scheduled meeting;
- the Company Secretary is responsible for setting the agenda of topics to be covered in the meetings and does so through consultations with the Chairman and the CEO; and
- the Group operates an electronic circulation of memoranda to members of the Board exemplifying the Group's cost efficiency, dynamism and embrace of technology.

All directors are provided with notices, an agenda and meeting papers in advance of each meeting, and where a director is unable to attend a meeting he/she is still provided with the relevant papers for the meeting. Such director reserves the right to discuss with the Chairman matters he/she may wish to raise at the meeting. The meeting takes an average of three hours per session. Any director may request a topic be considered at meetings. In addition, any director may bring up any issue deemed deserving of discussion and the same is usually taken under any other business (AOB) during the course of the meeting. The number of issues identified for deliberation and, above all, the complexity of the issues, are major factors in determining the duration of the meetings. Board memoranda are dispatched in advance to enable directors to have adequate time to review and prepare for meetings.

WHAT ARE THE RESPONSIBILITIES OF THE BOARD?

The Board has a formal charter that is reviewed and re-assessed at least every three years or earlier, as required, to ensure it remains consistent with the Board's purpose and responsibilities in a changing and dynamic environment. The charter covers policies regarding Board memberships and composition, Board procedures, conduct of directors, risk management, remuneration, Board evaluation and induction. Some of the Board's tasks as enumerated in the charter shall be:

- overseeing, guiding and monitoring the performance of management against Key Performance Indicators (KPIs);
- reviewing and approving KPIs and tracking progress towards targets;
- planning for succession of key positions and developing senior executive management;
- overseeing risk and internal controls;
- protecting shareholders' rights;
- preparing and conducting AGMs and EGMs;
- ensuring compliance with corporate ethical standards;
- selecting and reviewing the External Auditor;
- approving related-party transactions;
- promoting disclosure and transparency;
- ensuring prompt and timely discussions of all material information, including financial results, the Company's corporate governance practices, codes and charters for the Board and its committees and details of compliance or non-compliance with those codes and charters;
- approving strategic direction and policies;
- approving, reviewing and monitoring corporate strategy, following the lead of the management; and
- other ancillary matters.

FBN HOLDINGS' REMUNERATION STRUCTURE

INTRODUCTION

This section provides stakeholders with an understanding of the remuneration philosophy and policy applied at FBN Holdings for non-executive directors, executive directors and employees.

REMUNERATION PHILOSOPHY

FBN Holdings' compensation and reward philosophy represents the values and beliefs that drive compensation decision-making in the organisation. Compensation philosophy is in line with FBN Holdings' quest to attract and retain highly-skilled personnel that will keep the Group ahead of competition. In reviewing our compensation, some of the triggers for compensation review include organisational policy, market positioning, financial performance of FBN Holdings', government policies and regulations, industry trends, inflation and cost-of-living index.

REMUNERATION STRATEGY

FBN Holdings' compensation and reward strategy is aimed at attracting, rewarding and retaining a motivated talent pool to drive the FBN Holdings' core ideology and strategic aspirations. FBN Holdings' compensation strategy supports its corporate strategy and is reviewed as required to reflect changes in internal and external environmental conditions. The compensation and reward strategy seeks to position the Group as an employer of choice within its pay market by offering an attractive and sustainable compensation package. Compensation is equitable and rewards officers based on relative worth of jobs (within the system), competencies and performance.

Compensation is also differentiating and it is used as a tool for retaining high potential talent and driving desired culture/values.

REMUNERATION POLICY

FBN Holdings' compensation policy includes remuneration, perquisite and benefits. The remuneration includes base pay and allowances, as well as performance-based bonuses and incentives, as follows:

- base pay – includes the salary component for the defined job grade and is mainly cash-based. It is guaranteed and payable monthly in arrears as per the employment contract. It is the basis for the computation of some allowances and most benefits;
- allowances – other pay items outside base pay. They are structured to support a standard of living for respective grades. These allowances include housing, furniture, lunch, clothing, etc. They shall be payable in cash and shall be paid monthly, quarterly or yearly for tax planning, liquidity planning and staff convenience. Allowances are segregated into two i.e., those that form part of staff salary and those categorised purely as allowances; and
- bonuses/incentives – these are related to achievement of certain targets and may be cash or non-cash such as additional stock option or paid holidays. Profit sharing also includes payments made for organisational achievements, e.g., profit sharing/end-of-year bonuses.

Perquisite/perks are usually lifestyle-induced and designed to ensure comfort, motivation, commitment and retention of staff, particularly at the senior level, or high-potential staff, e.g., status cars. They are acquired by FBN Holdings' for the employee's use, or reimbursements are given to any employee who acquires them on his own.

Benefits are entitlements usually attainable subject to organisational conditions. They include leave, medical allowance, subscriptions and deferred benefits such as pensions and gratuity. Benefits may be present (in service) or deferred payments (outside service).

To guarantee staff convenience and that, in line with the Group's ethical stance of being socially responsible and a good corporate citizen, payments are structured so that while staff remains liquid, the Group does not run contrary to tax laws and other statutory regulations.

REMUNERATION STRUCTURE

The pay structure, i.e., the Group's adopted methods of administering its pay philosophy, recognises and differentiates along the following lines:

- Pay for Position/Role – each job is properly evaluated and compensation for the position is in line with similar benchmarked jobs. Salaries are graded, i.e., consist of a series of pay bands on each grade that represent elevations within the same grade. There are five bands within each grade;
- Pay for Person – in this case, the Group pays a premium for special skills, experience or competencies. This may require sign-on bonuses, repatriation fees, special contracts, etc;
- Pay for Performance – these shall include special bonus and incentive schemes and differentiating pay for performance level/career tracks; and
- Pay for Role – pay is structured to recognise the role types within the Group. For example, marketing roles that have strategic impact on business revenue and customer facing roles will have a greater portion of their pay at risk while back-office roles that require functional expertise would have more of their pay guaranteed.

EXECUTIVE REMUNERATION

As a Group, we are aware of the views of our various stakeholders on executive remuneration. We seek to motivate, incentivise and retain our talent while remaining mindful of the current economic outlook.

As examples of the justified restraint in the current circumstances, we have made no changes for 2013 in senior executives' pay. Additionally, the Board is committed to maintaining alignment between our senior executives and shareholders and we continue to operate a stringent deferral policy to ensure individual reward is aligned with the Group's performance, the interests of its shareholders and a prudent approach to risk management.

The remuneration for executive directors is determined by the Board and usually reflects the industry average whilst ensuring the remuneration will be such as to adequately attract and retain the best and most experienced individuals for the role. The same principle applies to the non-executive directors who are entitled to director fees, reimbursable expenses and sitting allowances.

BOARD COMPENSATION

NON-EXECUTIVE DIRECTORS

In line with the SEC Code, non-executive directors receive fixed annual fees and sitting allowances for service on boards and board committee meetings. There are no contractual arrangements for compensation for loss of office. Non-executive directors do not receive short-term incentives, nor do they participate in any long-term incentive schemes.

EXECUTIVE DIRECTORS

Remuneration for executive directors is performance-driven and restricted to base salaries, allowances, performance bonuses and share options. Executive directors are not entitled to sitting allowances.

The amounts specified below represent the total remuneration paid to executive and non-executive directors for the Group in the period under review.

	31 December 2013 ₦ million	31 December 2012 ₦ million
Fees and sitting allowance	54	11
Executive compensation	104	22
Total	158	33

In 2012 the Directors' fees represent fees for only one quarter of the year after FBN Holdings was registered and commenced business. Directors' fees in 2013, however, represent a full financial year; in addition, an independent non-executive director was appointed in the year under review.

The Group will continue to ensure its remuneration policies and practices remain competitive, incentivise drive performance and are in line with its core values.

OPERATIONAL STRUCTURE

The Group's organisational design was driven by the following key guiding principles:

- lean holding company – in line with the regulators mandate to be a non-operating entity;
- critical corporate centre functions – Finance, Risk Management, Company Secretariat, Strategy, Internal Audit, Investor Relations, Marketing and Corporate Communications;
- focus on setting Group standards and monitoring compliance for the Group e.g. HR and IT standards;
- synergy benefits from operating structure to be balanced against incremental costs; and
- oversee the bank and non-bank subsidiaries to ensure proper capital utilisation across subsidiaries.

These principles were the central considerations for the identification of the Group's functions, and the roles and responsibilities of each of those functions.

Below is the organisational structure and operating model of FBN Holdings.

BOARD DISCUSSION IN 2013

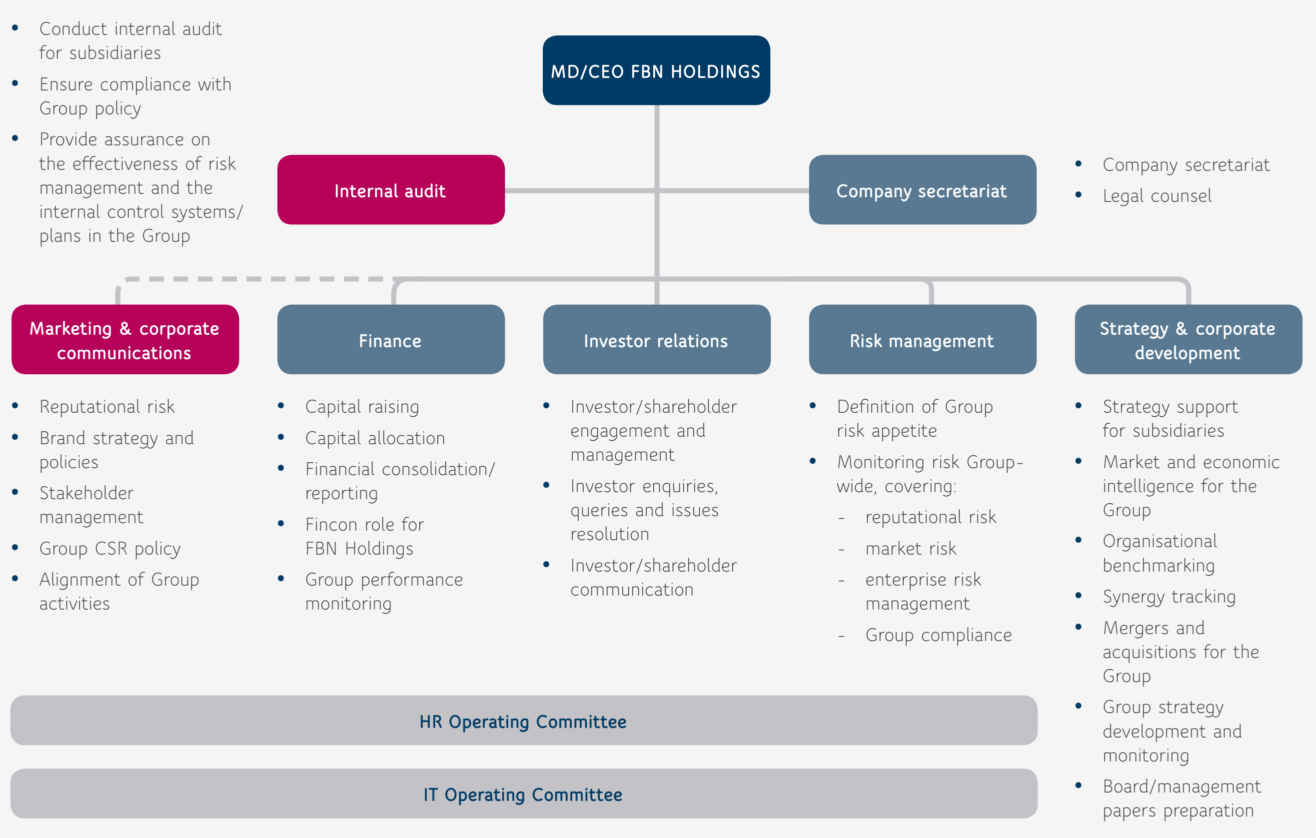
WHAT KEY THEMES DID WE FOCUS ON?

Over the course of the last financial year, considerable time and effort were channelled into discussions on actualising the operating model of the holding company structure including giving adequate time to issues involving capital allocation of resources. The major strategic goal for the Group has been to maximise shareholder value, and we recognise that the major way this may be achieved is to use appropriate resources across the Group. We aim to ensure more capital is injected to viable sectors whilst reducing capital injection into non-viable sectors.

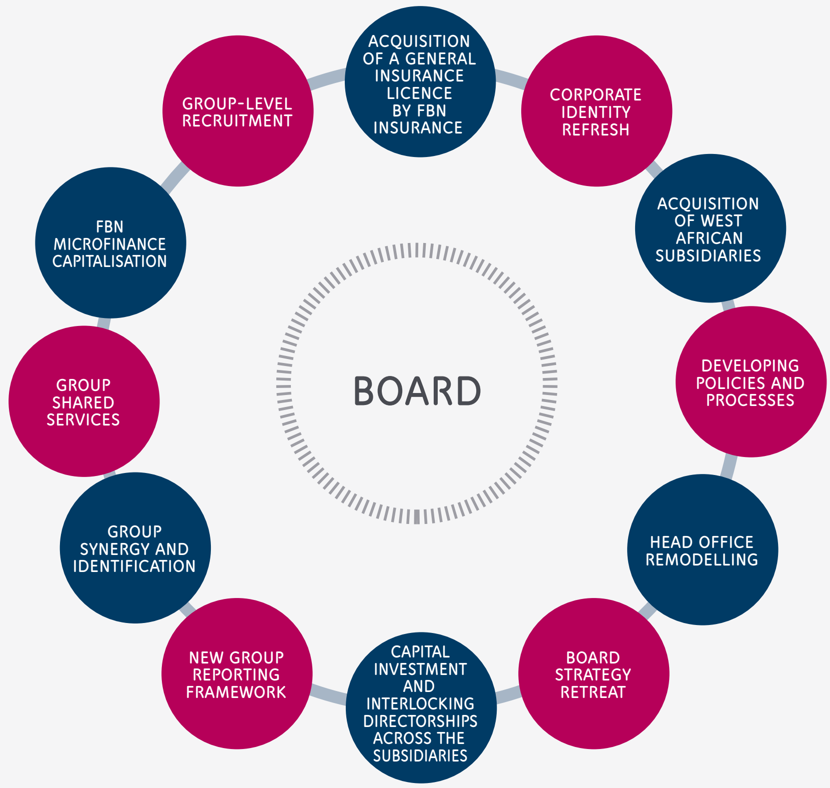
WHAT SPECIFICALLY DID WE SPEND OUR TIME ON?

- The Group's corporate identity refresh. This was undertaken and driven by the Group's brand value, which put customers at the centre of our activities. It renewed our brand visibility, reflected our strategic direction and will position the Group to meet the future needs of the market.
- FirstBank's acquisition of the West African operations of International Commercial Bank (ICB) in Ghana, Gambia, Guinea and Sierra Leone. This was a big step in furtherance of our long-term vision to be the leading international financial services Group in Africa.

Organisational structure and operating model of FBN Holdings



How the Board spent its time in 2013



- Consideration of group Policies and Standard Operating Procedures. Time was spent on considering the various policies upon which the operations of the Group would be based. Due to the nascent operations of the Group and the absence of the policies in place, there was a need to develop a guidebook on the Group's processes and procedures.
- The acquisition of a General Insurance licence by FBN Insurance Limited. This was a furtherance of one of the Group's strategic objectives of providing general insurance services to the public.
- Remodelling of the 11th floor of the FirstBank Head office that will serve as FBN Holdings Group office. Considerable time was spent on this project to ensure speedy relocation of members of staff and FBN Holding Plc's operations to a centralised office space for ease of operations and logistic expediencies.
- Board strategy retreat held as planned at an off site location. The Group's strategy, focus and challenges were discussed in detail on the retreat. This was borne out of the need for the Group to strategise and establish the focus of its next three-year strategic cycle.
- Development of a Group Reporting Framework aimed at defining the nature, frequency and content of reports from the subsidiaries. We spent considerable time on this as part of defining the Group's reporting framework.
- Identification of synergies across the subsidiaries as well as modes for optimal cross-selling. This became expedient in order to identify synergies that can be leveraged upon across the Group to enhance the overall shareholder value for the Group.
- Focus on shared services across the Group. Consideration on this became necessary to minimise cost across the Group.
- Injection of funds into FBN MFB. Discussion on this was necessary to enable FBN MFB to embark on branch expansions, thereby acquiring more market share and visibility.
- Conclusion of the recruitment of key staff for FBN Holdings. This became necessary to ensure that key strategic positions and human capital needs of FBN Holdings is met going into the 2014 financial year.
- Efficient capital investment and interlocking directorships across the subsidiaries. This was concluded in 2013 as the Managing Director of FirstBank, Bisi Onasanya, now sits on the Board of FBN Holdings, while the Group CEO of FBN Holdings also sits on the Board of FirstBank. Similarly, Tokunboh Abiru, a director of FirstBank now sits on the Board of FBN Capital, a subsidiary of FBN Holdings. This assists the Group with effective supervision and ensures Group focus and strategic direction is filtered through all the businesses within the Group.

WHAT IS OUR ACTION PLAN FOR 2014?

The priorities of the Group for the coming year shall focus on consolidating and maximising the synergies across the Group. Therefore, the primary focus of the Group shall be to allocate financial, capital and human resources effectively across companies within the Group to ensure the Group, as a whole, maximises shareholder value.

We plan, where necessary, to restructure some of our subsidiary companies to ensure they provide adequate contributions to consolidated earnings and to adjust our equity exposure to such companies based on our assessment of whether or not they are able to meet centrally-defined operational and financial targets.

2014 BOARD PRIORITIES

The priorities of the Board for 2014 shall be as follows:

- fostering increased collaboration in order to exploit the strong natural synergies and cross-selling opportunities that exist between banking and other financial services sectors we are active in;
- unveiling of a new brand across the Group;
- the maximisation of revenue through the monitoring of the Group strategy;
- implementation of the Group-wide risk management framework;
- overseeing the management of reputational risk;
- ensuring effective capital allocation and capital investment among the subsidiaries; and
- increasing the contribution of our non-banking businesses.

ATTENDANCE AT BOARD MEETINGS

The Group's Board met seven times in 2013. The record of attendance is provided below:

Name	29 Jan	15 March	29 April	27 May	12 Aug	31 Oct	17 Dec
Dr Oba Otudeko, CFR	✔	✔	✔	✔	✔	✔	✔
Bello Maccido	✔	✔	✔	✔	✔	✔	✔
Lt. General Garba Duba, rtd	✔	✔	✔	✔	✔	✔	✔
Abdullahi Mahmoud	✔	✔	✔	✔	✔	✔	✔
Oye Hassan-Odukale, MFR	✔	✔	✘	✔	✔	✔	✔
Bisi Onasanya	✔	✘	✔	✔	✔	✔	✔
Chidi Anya	Not yet appointed	✔	✔	✔	✔	✔	✔

COMMITTEE REPORTS

BOARD AND COMMITTEE GOVERNANCE STRUCTURE

The Board carries out its oversight function through its five standing committees, each of which has a charter that clearly defines its purpose, composition and structure, frequency of meetings, duties, tenure and reporting lines to the Board. The Board monitors these responsibilities to ensure effective coverage of, and control over, the operations of the Group. In line with best practice, the Chairman of the Board does not sit on any of the committees.

The SEC Code and other codes like the Central Bank of Nigeria's (CBN) Code require banks to have at least three board committees constituted. Although not a bank, FBN Holdings has in place five board committees which operated within FBN Holdings in 2013 namely:

BOARD GOVERNANCE COMMITTEE

ROLE AND FOCUS

The primary purpose of the Board Governance Committee is to:

- oversee and advise the Group Board on its oversight responsibilities;
- determine the composition of the Board and board committees;
- design and execute the process for appointment of new Board members; and
- removal of non-performing Board members.

KEY RESPONSIBILITIES

The responsibilities of the Committee are to:

- develop and maintain an appropriate corporate governance framework for the Group;
- develop and maintain an appropriate policy on remuneration of directors, both executive and non-executive;
- evaluate the role of the Board Committees and Boards of subsidiary companies, and ratify the performance appraisals of the executive directors as presented by the Group CEO;
- ensure proper succession planning for the Group; and
- ensure compliance with the SEC Code of Corporate Governance and other global best practices on corporate governance.

MEMBERSHIP

- Three non-executive directors (including Group Chairman)
- One independent director

BOARD AUDIT AND RISK COMMITTEE

ROLE AND FOCUS

The overall purpose of the Committee is to protect the interest of the Group's shareholders and other stakeholders by overseeing on behalf of the Board the:

- integrity of financial reporting;
- adequacy of the control environment;
- management of risk;
- internal and external audit function; and
- compliance function.

MEMBERSHIP

- Two non-executive directors
- One independent director
- Chief Executive Officer

BOARD FINANCE AND INVESTMENT COMMITTEE

ROLE AND FOCUS

- Considering and approving the Group's capital expenditure plan and specific capital projects above the approval limit of the Operational Committee and make recommendation for the consideration of the Board.
- Advising the Board on its oversight responsibilities in relation to recruitment, compensation and benefits, promotions and disciplinary issues affecting senior officers of FBN Holdings and across the Group.
- Advising the Board on investment opportunities and allocation of capital across the Group.

KEY RESPONSIBILITIES

The Committee is responsible for the following:

- approval of capital expenditure within the monetary amounts specified by the Board;
- regularly reviewing and recommending to the Board, limits of capital expenditure for the various levels of management, subsidiaries and Committees;
- recommending capital expenditures exceeding the approval limits granted to the committee to the Board;
- recommending approval of the Group's procurement policy to the Board;
- ensuring that the Group complies with all laws and regulations in respect of director-related party transactions;
- reviewing and recommending the Group's organisation structure, remuneration policy, and the Group's policies covering the evaluation, compensation and provision of benefits to employees and any other human capital issues for approval by the Board;
- reviewing and recommending the Group's human resource strategies for approval by the Board; and
- reviewing and recommending the Group's Secondment and Mobility Policy and any proposed amendments for approval by the Board.

MEMBERSHIP

- Chief Executive Officer
- FirstBank Group Managing Director
- One non-executive director
- One independent director

GROUP EXECUTIVE COMMITTEE (GEC)

The GEC usually invites to its meetings any attendee, as may be required, and meets bi-annually, or as required; they met once in 2013.

ROLE AND FOCUS

The Group Executive Committee is responsible for the following:

- ensuring overall alignment of Group strategy and plans;
- reviewing strategic and business performance against approved plans and budget of the Group, and agreeing recommendations and corrective actions;
- promoting the identification of synergies and ensuring the implementation of synergy initiatives;
- monitoring progress of Group synergy realisation initiatives and making recommendations in respect of the same;
- discussing and monitoring compliance with Group policies such as risk management, internal audit etc.; and
- reviewing and recommending modifications to Group policies.

MEMBERSHIP

The CEO of FBN Holdings serves as Chairman, while other members are:

- FirstBank GMD;
- Managing Directors of other FBN Holdings subsidiary companies
  - FBN Capital
  - FBN Insurance
  - FBN Insurance Brokers
  - FBN MFB;
- FirstBank Chief Risk Officer;
- FirstBank Chief Finance Officer;
- FirstBank Chief Strategy Officer; and
- FBN Holdings Company Secretary.

STATUTORY AUDIT COMMITTEE (SAC)

Section 359(3) of the Companies and Allied Matters Act (CAMA) requires every public company to establish a SAC composed of an equal number of directors and representatives of its shareholders, provided there shall be a maximum of six members of the SAC.

INDEPENDENCE OF THE STATUTORY AUDIT COMMITTEE

Recognising that the independence of statutory auditors is fundamental to upholding public confidence in the reliability of the SAC's reports and the Company's financials, we have strived to ensure the independence of our SAC.

No executive director sits on the SAC. Of the six members of the committee, as is required under CAMA, three are shareholder representatives; including the Chairman of the SAC. The shareholder representatives are independent and answerable to the shareholders.

The other three members usually comprise two non-executive directors independent of the management of the Company and the last being an independent director. With this composition, it is clear that the SAC's independence is not in doubt.

FINANCIAL EXPERTS ON THE STATUTORY AUDIT COMMITTEE

All the shareholder representatives on the SAC are financial experts as may be gleaned from their educational qualifications below. The Chairman of the Committee is a Fellow of the Institute of Chartered Accountants of Nigeria (ICAN). The other members are non-executive directors with extensive board experience. One of the three non-executive directors is also a financial expert.

ROLE AND FOCUS

The statutory duties and role of the SAC are clearly encapsulated in Section 359 (3) and (4) of CAMA. In addition, the various Codes of Corporate Governance – the CBN, SEC and NAICOM Codes – set out the corporate governance role and responsibilities of the SAC to include the following:

- ascertain whether the accounting and reporting policies of the Company are in accordance with legal requirements and agreed ethical practices;
- review the scope and planning of audit requirements;
- review the findings on management matters in conjunction with the external auditor and departmental responses thereon (management letter);
- keep under review the effectiveness of the Company's system of accounting and internal control;

- make recommendations to the Board in regard to the appointment, removal and remuneration of the external auditors of the Company, ensuring the independence and objectivity of the external auditors and that there is no conflict of interest which could impair the independent judgement of the external auditors;
- authorise the internal auditor to carry out investigations into any activity of the Company which may be of interest or concern to the committee; and
- assist in the oversight of the integrity of the Company's financial statements and establish and develop the internal audit function.

The SAC has a responsibility to ensure that the Company's financials are void of any misrepresentation or misleading information. The SAC may also play a significant role in the oversight of the Group's risk management policies and programmes where there is no Board Risk Management Committee charged with this function.

The SAC was established in accordance with the Companies and Allied Matters Act (CAMA) and below are details of the SAC, including the Joint Auditors.

STATUTORY AUDIT COMMITTEE: SHAREHOLDER REPRESENTATIVE PROFILES

Waheed Adegbite (Chairman)

Waheed hails from Ogun State. He is an Alumnus of the Lagos Business School and a Fellow of the Institute of Chartered Accountants of Nigeria. He is an Associate Member of the Chartered Institute of Marketing, London, Chartered Institute of Taxation, and Nigeria Institute of Management. He has attended several courses, including a course on Operational Costing/Financial Management organised by Carnaud Metal Box, Kenya. He also attended the Senior Management Course (SMP3) organised by the Lagos Business School, IESE University, Barcelona, Spain. He was Chief Examiner, ICAN Accounting Technical Scheme Examination and Reviewer, ICAN Examination (MA & MDCS). He was Chairman, Audit Committee of Lasaco Assurance Company Plc. His accounting experience spans over four decades. He was Accounting Assistant with Comsac Telecom Nigeria Limited (1971-1973); Assistant Accountant with Brossettee Nigeria Limited and Chief Accountant with Upjohn Nigeria Property Limited (1981-1987). He served as the Finance Manager of Carnaud Metal Box Nigeria Plc between 1991 and 1997 and has commenced public practice as a Chartered Accountant from 1997 to date. He is married with three children.

Job Onwughara

Job hails from Abia State. He is a veteran banker, with considerable experience in corporate banking and branch operations. He has over three decades of banking experience garnered with African Continental Bank and Savannah Bank Plc. He is a Fellow of the Chartered Institute of Bankers, London and Nigeria (ACIB). He also holds a Master of Science (M.Sc.) degree in Banking and Finance from the University of Ibadan. He is an Associate of the Institute of Credit Management, London and a member of the British Institute of Management. Job also holds an LLB Degree in Law. He has served on the Audit Committee of several blue-chip companies for several years. He also worked in Crown Flour Mills from 1997-2003. He is currently a Management Consultant. He is married with children and enjoys writing, reading and travelling.

Abubakar Yahyah

Abubakar hails from Katsina State and holds a BSC Degree in Business Administration from Bayero University, Kano. He has extensive experience in construction and power projects and brings sectorial diversity to the SAC's cumulative business experience. He was Project Coordinator of the Rural Electrification Project for the Zamfara State 2.5 MVA/33KVA Substation at Maru, Zamfara State from 2004-2005. He was in charge of managing the provision of 33-11 KVA electricity to 19 villages in Zamfara from 2006-2008. He has acted as Supervisor in Empire Group, Jigawa State Modern Abattoir and Yobe State Modern Abattoir. He coordinated the construction of Deluxe Suites Superior Accommodation, Kaduna and is now Director with Rosehill Group. Abubakar is happily married.

Summary of Educational Qualifications of Audit Committee members

S/N	Name	Role	Status	Educational Qualification
1	Waheed Adegbite	Chairman	Shareholder Representative	FCA, ACIM, ACIT, AMNIM
2	Abubakar Yahyah	Member	Shareholder Representative	BSc Bus. Admin.
3	Job Onwughara	Member	Shareholder Representative	ACIB, FCIB, MSc (Banking & Finance),
4	Lt. General Garba Duba, rtd	Member	Non-Executive Director	PSC, FESS, DSS, mni
5	Oye Hassan-Odukale, MFR	Member	Non-Executive Director	BBA (BSc, Bus. Admin.) MBA Finance
6	Chidi Anya	Member	Non-Executive Director	LLB, B.L, MILD

JOINT EXTERNAL AUDITORS AND ROTATION

The Joint auditors for FBN Holdings are PricewaterhouseCoopers and PKF Professional Services.

Section 33 of the Standard Entry Class (SEC) Code (the Code) of corporate governance regulates the rotation of external auditors and provides that in order to safeguard the integrity of the external audit process and guarantee the independence of the external auditors, companies should rotate both the audit firms and audit partners.

It further provided that companies should require external audit firms to rotate audit partners assigned to undertake external audit of the company from time to time.

Audit personnel should be regularly changed without compromising the continuity of the external audit process.

The Code also stipulates that external audit firms should be retained for no longer than 10 years continuously. External Audit firms disengaged after continuous service to company of 10 years may be reappointed after another seven years since their disengagement.

Similarly, the Central Bank of Nigeria's (CBN) Code (CBN Code) of Corporate Governance for Banks (although inapplicable to FBN Holdings) provides that the tenure of the auditors in a given bank shall be for a maximum period of ten years after which the audit firm shall not be reappointed in the bank until after a period of another ten years.

FBN Holdings is in full compliance of the Code as its joint external auditors were both appointed starting from the 2012 financial year and hence have been retained for only a year. They are subject to re-election annually and hence will be considered for reelection at FBN Holdings' 2014 Annual General Meeting (AGM).

2014 AUDIT FEES

The audit fee paid to the joint external auditors for the 2014 FBN Holdings statutory audit was ₦35 million. The ratio of our audit fees to our non-audit fees is 100: 0 as there were no non-audit fees paid to the joint external auditors.

GOING CONCERN

On the recommendation of the SAC, the Board annually considers and assesses the going concern basis for the preparation of the financial statements at the year end. The Board continues to view the Company as a going concern for the foreseeable future.

The record of SAC attendance for year 2013 is provided below:

Attendance at Statutory Audit Committee (SAC) meetings

Name	25 September	28 November	25 March
Waheed Adegbite	✔	✔	✔
Abubakar Yahyah	✔	✔	✔
Job Onwughara	✔	✔	✔
Lt. General Garba Duba, rtd	✘	✘	✔
Oye Hassan-Odukale, MFR	✔	✔	✔
Chidi Anya	✔	✔	✔

AD HOC COMMITTEE ON REVIEW OF GROUP POLICIES AND STANDARD OPERATING PROCEDURES

The Board of Directors constituted an Ad Hoc Committee to review the management's submission on the under listed Group's Policies and Standard Operating Procedures.

- Human Capital Policy Manual
- Standard Operating Procedures for Company Secretariat
- Group Disclosure Policy.

MEMBERSHIP

Abdullahi Mahmoud, Chairman

Bello Maccido, Member

Chidi Anya, Member

During its only meeting held on 3 September 2013, the committee, with all the members in attendance, assisted by representatives of Human Capital Management and Development of FirstBank, and the Consultants Messrs KPMG Professional Services deliberated on the policies and procedures being recommended by the management on the above. The committee's recommendations have been presented to the Board.

Attendance at meetings

S/N	Name	Meeting of 3 Sept 2013
1	Abdullahi Mahmoud	✔
2	Bello Maccido	✔
3	Chidi Anya	✔

EFFECTIVENESS

HOW DO WE MAKE SURE OUR BOARD IS EFFECTIVE?

Today's boards have to contend with a host of new pressures, challenges and risks. Held ever more accountable for an organisation's performance and vitality, a board must set its strategic direction, often across diverse product markets and geographies, and monitor the firm's risk profile. It also must evaluate the performance of the CEO and other senior executives.

We recognise the fact that an effective board is one that observes good corporate governance principles. The Board is no doubt the most important body in ensuring an organisation's implementation of good corporate governance practices. The right attitude and approach towards good corporate governance practices are most appropriately cascaded through the organisation from the top – the Board of Directors. Therefore, our broad approach to ensuring our Board's effectiveness is principally threefold – composition, training and board appraisal.

COMPOSITION

The first step towards having an effective board is to ensure the right people, who have demonstrated excellent business knowledge and board experience, are appointed. We believe there is a close alignment between the effectiveness of the Board and the disposition of individual members of the Board towards the observance of sound corporate governance principles.

Effective observance of codes of corporate governance is possible only if complemented by an ethical board. It is essential members of the Board are persons of integrity, who are willing to comply not just with the letter of the codes, but also with their spirit. With an understanding of the above, we have ensured the composition of the present Board is an optimal mix of the competencies and experiences required for a company primarily designed for the enhancement of shareholder value.

WHAT IS OUR APPOINTMENT PHILOSOPHY AND INDUCTION PROCESS?

Our appointment philosophy is guided by relevant regulatory guidelines and laws. Our directors were selected for the skills, knowledge and experience the Group requires of the Board and the process of selection and appointment was, and will continue to remain, transparent.

Aside from Chidi Anya, who was only recently appointed, the initial directors were appointed by the subscribers to the Memorandum and Articles of Association of the Company, and were selected based on their skills, competencies and experience over the years on the Board of Directors of First Bank of Nigeria and other blue chip companies.

A formal induction programme for the directors was therefore not necessary, as they were already well acquainted with the Group's corporate governance standards. There are however, plans to constantly rejuvenate the skills and competencies of the Board through continuous training and development programmes.

PERFORMANCE MONITORING

As part of its oversight role, the Board continuously engages with management and contributes ideas to the Group's strategy from the planning phase to the execution phase. The Board usually holds an annual Board retreat wherein the strategy for the coming year is rigorously debated and agreed between management and the Board. Once a strategy is defined, updates on specific strategic objectives become part of the ongoing board agenda, providing the Board with access to sufficient detail to critique the implementation of the strategy. During this process, the Board will be continuously updated on significant issues, risks or challenges encountered in the course of strategy implementation across the Group, and steps being taken to alleviate those risks. On a quarterly basis, management will review the Group's financial and performance indicators with the Board, and the Board will assess progress and confirm alignment or otherwise with the strategic goals and objectives of the Group on a continuous basis.

The Group's actual performance is compared relative to planned/budgeted performance, to provide the Board with ongoing insight into the level of achievement. In addition, peer comparison forms a continuous part of our Board meetings in order to benchmark the Group against the performance of our competitors.

BOARD APPRAISAL

In compliance with the Securities and Exchange Commission (SEC) Code of Corporate Governance (the Code) and due to our commitment to strengthening the Group's corporate governance practices and enhancing the capacity of the Board in the effective discharge of its responsibilities, the Board engaged the services of an independent consultant, Messrs.' KPMG Professional Services (KPMG) to conduct an appraisal of the Board of Directors and individual director peer appraisal for the year ending 31 December 2013. The Board appraisal is expected to cover the Board's structure and composition, processes, relationships, competencies, roles and responsibilities. The scope of work performed covered the following activities:

- review of Board operations and existing governance documentation;
- observation of a meeting of the Board of Directors;
- facilitation of a Director peer; and
- feedback session with the entire Board.

The evaluation criteria also focused on the following five key areas of Board responsibility:

- operations (the Board's ability to manage its own activities)
- strategy (the Board's role in the strategy process)
- corporate culture (the Board's role in setting and communicating standards of ethical organisational behaviour)
- monitoring and evaluation (the Board's role in monitoring management and evaluating its performance against defined goals)
- stewardship towards shareholders and other stakeholders (the Board's responsibility towards shareholders and other stakeholders and responsibility for their interests).

WORK APPROACH

KPMG's work approach incorporated the following corporate governance models:

- the Central Bank of Nigeria's Code of Corporate Governance Post Consolidation (CBN Code);
- the Securities and Exchange Commission's (SEC) Code of Corporate Governance (Nigeria);
- King III Report on Corporate Governance (South Africa); and
- the UK Corporate Governance Code.

WHAT DO WE EXPECT TO LEARN FROM THIS PROCESS?

The appraisal process provides a mechanism whereby the directors' performance will be measured against expected performance. The appraisal report and recommendations on areas of improvement will be presented to the Board for deliberations. The outcome of the Board evaluation will feed back, as appropriate, into reviews of the Board's composition, the design of induction and development programmes and other relevant areas of the Board's operations.

In addition to the general Board evaluation, individual directors were also evaluated and the assessments communicated to the Chairman. The cumulative results of the performance of the Board and individual directors will be considered by the Board as a guide in deciding eligibility for re-election and other decisions. The evaluation report is being awaited as at the time of going to press.

HOW LONG DO OUR DIRECTORS SERVE?

NON-EXECUTIVE DIRECTORS

Non-executive directors are appointed for an initial term of three years and can be re-elected for a maximum of two subsequent terms of three years each, subject to satisfactory performance and approval of the members.

EXECUTIVE DIRECTORS

Executive Directors are appointed for an initial term of three years and their tenure can be renewed for another three years, subject to her/his performance as indicated in the result of his/her annual performance evaluation. Hence, the maximum tenure of an Executive Director is six years. The Board may grant a waiver of the tenure limit in the case of an Executive Director whose performance is deemed exceptional. This will, however, require formal justification and unanimous approval of the Board. Executive Directors are discouraged from holding other directorships outside the Group.

TRAINING

Regardless of the expected depth of knowledge and experience of persons who are appointed to the Board, we also ensure regular domestic and international training programmes are organised for members of the Board to enrich their decision-making capacity, thereby contributing to the overall effectiveness of the Board. It is expected each director undergoes two or three major training programmes within a financial year.

ACCESS TO INDEPENDENT PROFESSIONAL ADVICE

The Board has the power to obtain advice and assistance from, and to retain at the Group's expense and subject to the prior approval of the Chairman, such independent or external professional advisers and experts as it deems necessary or appropriate to aid the Board's effectiveness. This option was exercised within the 2013 financial year, particularly during the 2013 Board Strategy Retreat, which was held on 28-30 October 2013 at the Island Shangri La Hotel, Hong Kong.

ACCOUNTABILITY

RISK GOVERNANCE FRAMEWORK

Risk governance forms an integral part of the corporate governance of FBN Holdings and focuses on the structures, processes and approach to the management of risk exposure to the business objectives of the Group. The various components of risk governance include:

- clearly defined accountabilities and expectations of relevant parties in the risk management process;
- clearly defined policy for the management of various risks; and
- a system of internal control and appropriate assurance in the risk management process.

Presented below is a summary of the risk governance model in the Group:

Presented is a summary of the role of each party in the risk governance framework:

- **the Board:** at the top of the pyramid has ultimate responsibility for risk management, and is responsible for approving all risk management policies and associated amendments;
- **the Executive Committee:** is responsible for reviewing and challenging risk information and escalating issues to the Board;
- **Risk Management Directorate:** facilitating and co-coordinating risk management activities across the Group;
- **Business Units and other departments:** as the risk takers are responsible for identifying, assessing, measuring, monitoring and reporting risks associated with their respective function; and
- **Internal Audit & Resident Internal Control Officer:** responsible for independently assessing the effectiveness of risk management process and practices and for providing timely objective assurance and control of risk.

In reinforcing the risk governance framework of FBN Holdings, the three lines of defence model is also adopted, as presented below:

FIRST LINE OF DEFENCE	SECOND LINE OF DEFENCE	THIRD LINE OF DEFENCE
Day-to-day risk management and management control	**Risk oversight, policy and methodologies**	**Independent assurance**
a. Business units and support functions	a. Risk Committee b. Chief Risk Officer c. Risk Management Department	a. Audit Committee b. Internal Audit & RICO c. External Audit

The above three lines of defence in the risk governance process in FBN Holdings operate as follows:

- staff in the **First line of defence** have direct oversight and responsibility for the management and control of risk (i.e. staff and management working within or managing various business units and departments);
- staff in the **Second line of defence** co-ordinate, facilitate and oversee the effectiveness and integrity of the risk management framework (i.e. the risk committee and risk management departments); and
- staff in the **Third line of defence** provide independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the risk management framework (i.e. Internal Control, Internal Auditor, & External Auditor).

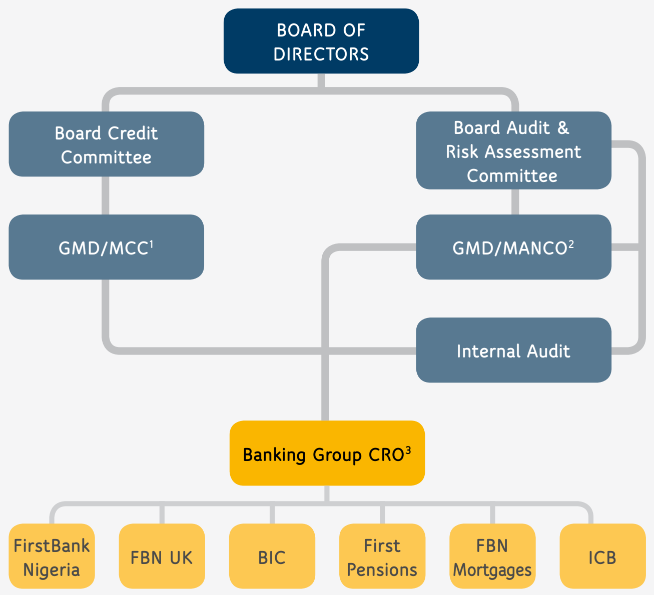
Responsibility and accountability for risk management resides at all levels within the Group, from the Board, down through the organisation to each business manager and risk owner.

Outlined in the subsequent section is the governance framework for each business group.

COMMERCIAL BANKING BUSINESS GROUP

RISK MANAGEMENT GOVERNANCE FRAMEWORK

The Banking Group risk management governance framework is outlined in the diagram below.



1 Group Managing Director/Management Credit Committee.
2 Group Managing Director/Management Committee.
3 Chief Risk Officer.

ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

- Approve and periodically review risk strategy and policies
- Approve the Group's risk appetite annually and monitor the risk profile against this appetite
- Ensure executive management takes steps necessary to monitor and control risks
- Ensure that management maintains an appropriate system of internal control and review its effectiveness
- Ensure risk strategy reflects the Group's tolerance for risk
- Review and approve changes/amendments to the risk management framework
- Review and approve risk management procedures and control for new products and activities
- Periodically receive risk reports from management highlighting key risk areas, control failures and remedial action steps taken by management.

BOARD COMMITTEES

The above responsibilities of the board of directors shall be discharged primarily by two committees of the board, namely:

- Board Audit & Risk Assessment Committee (BARAC)
- Board Credit Committee (BCC)

Without prejudice to the roles of these committees, the full Board shall retain ultimate responsibility for risk management.

Board Audit & Risk Assessment Committee (BARAC)

The primary role of the committee is to report to the Board and provide appropriate advice and recommendations on matters relevant to risk management, control and audit. The committee is made up of the Group Managing Director, three executive and two non-executive directors, with a non-executive director as chairman. The Chief Risk Officer (CRO) reports to this Committee and is a non-voting member.

Specific roles of the committee for risk management are:

a) Evaluating internal processes for identifying, assessing, monitoring and managing key risk areas, particularly:
   - important judgments and accounting estimates;
   - business risk in the areas of credit risk, market risk, operational risk, information security risk and legal risk;
   - specific risks relating to outsourcing; and
   - consideration of environmental, community and social risks.

b) Evaluating:
   - the adequacy of the Group's risk management systems and the adequacy of the Banking Group's control environment with management and the internal and external auditors;
   - evaluating the Group's risk profile, the action plans in place to manage risks and progress against plans to achieve these actions;
   - reviewing the processes the Bank has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.

c) Approving the provision of risk management services by external providers.

Board Credit Committee

Roles and responsibilities:

- ensure the effective management of credit risk in the Group;
- approve credit risk management policies and standard proposals on the recommendation of the Management Credit Committee (MCC);
- approve definition of risk and return preferences and target risk portfolio;
- approve credit risk appetite and portfolio strategy;
- approve lending decisions and limit setting;
- approve credit products and new processes;
- approve assignment of credit approval authority on the recommendation of the Management Credit Committee (MCC);
- approve changes to credit policy guidelines on the recommendation of the Executive Committee (EXCO);
- approve credit facility requests and proposals within limits defined by the Group's credit policy and within the statutory requirements set by the regulatory/supervisory authorities;
- recommend credit facility requests above a stipulated limit to the Board;
- review credit risk reports on a periodic basis;
- approve credit exceptions in line with Board approval; and
- make recommendations to the Board on policy and strategy where appropriate.

This committee is made up of the Banking Group Managing Director/Chief Executive, all the executive directors and five non-executive directors. The Chairman is a non-executive director.

SENIOR MANAGEMENT COMMITTEES

Roles and responsibilities:

- implement risk strategy approved by the Board of Directors;
- develop policies and procedures for identifying, measuring and controlling risk;
- provide appropriate resources to evaluate and control risk;
- review risk reports on a regular and timely basis;
- review periodic risk reports for operational and other risks separate from credit and market risks; and
- provide all reports required by the Board and its committees for the effective performance of risk management oversight functions.

The following management committees are directly responsible for risk management:

- Management Committee
- Management Credit Committee
- Assets & Liabilities Management Committee
- Business Risk and Compliance Committee

Management Committee (MANCO)

Roles and responsibilities:

- formulate policies;
- monitor implementation of risk policies;
- review risk reports for presentation to the Board/Board committees; and
- implement Board decisions across the Group.

Management Credit Committee (MCC)

Roles and responsibilities:

- review proposals in respect of credit policies and standards and endorse them to the Board of Directors for approval;
- approve credit facility requests within limits defined by First Bank's credit policy and within the statutory requirements set by the regulatory/supervisory authorities;
- agree on portfolio plan/strategy for the Bank;
- monitor on an ongoing basis, the Banking Group's risk quality and performance;
- review periodic credit portfolio reports and assess portfolio performance;
- establish and maintain an effective risk management environment in the Banking Group;
- review credit policy changes initiated by the management of the Banking Group and endorse to the Board of Directors for approval;
- define the Banking Group's risk and return preferences and target risk portfolio;
- define credit approval framework and assign credit approval limits in line with the Banking Group policy;
- review defined credit product programmes on recommendation of the relevant risk management units and endorse to the Board of Directors for approval;
- ensure compliance with the Banking Group credit policies and statutory requirements prescribed by the regulatory/supervisory authorities;
- request rapid portfolio reviews or sector/industry reviews from risk management units when deemed appropriate;
- review and recommend to the Board Credit Committee (BCC), credits beyond management approval limits;
- approve exceptions/write-offs, waivers and discounts on non-performing credit facilities within a specified limit; and
- review and approve the relevant risk management unit's response to material events that may have an impact on the credit portfolio.

Assets & Liabilities Management Committee (ALCO)

Roles and responsibilities:

Market risk

- approval of Asset and Liability Management (ALM) and market risk management policies;
- policy oversight for liquidity, interest rates, foreign currency and equity risks;
- approval of risk strategy in the money, forex and capital markets;
- monitoring liquidity, asset and liability mismatch, pricing and interest rates;
- development of policies, procedures, tools and systems for identifying, measuring, controlling and reporting market risks;
- evaluating market risk inherent in new products;
- ensure compliance with statutory and regulatory requirements;
- limit-setting for position, concentration, currency, dealing, gap, total portfolio and counterparty;
- appointment of dealers; and
- balance sheet management.

Business Risk and Compliance Committee (BRCC)

Roles and responsibilities:

- carries out the first level review and challenges developed operational risk and business risk frameworks, policies, procedures, processes and toolkits;
- ensures senior management become aware of, and more directly accountable for, risks in their jurisdiction;
- manages significant operational risks where they originate within the business function;
- ensures compliance with Group business/function operational and business risk policies and procedures;
- ensures operational risks identified within business are assessed in terms of implications for wider business risk and to ensure that the identified business risks are reviewed and reported accordingly through the operational risk reporting process;
- ensures implementation of the approved operational risk framework, policies procedures, processes and tool-sets;
- continually promotes risk awareness throughout the Bank so that complacency does not set in;
- will identify, report and manage the top 20 operational risks now and in six months' time;
- assists the MANCO to manage ongoing corporate governance issues;
- reports through MANCO to the BARAC on key business risk and compliance issues and decisions taken by the committee;
- reviews the reports from the Head of all risk areas in (Operational, Market and Credit) Management, business lines and their respective risk profiles and to concur on areas of highest priority and put in place the related mitigation strategies;
- reviews the reports of Internal Audit relating to operational risk and the appropriateness of the management's response thereto, and report as necessary to the BARAC and/or to the Board of Directors (BOD);
- ensures adequate resources are allocated at various levels to manage business risk across the Bank;

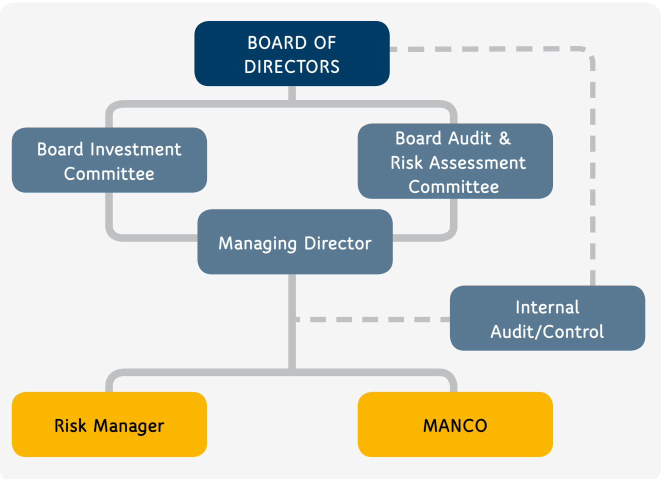
- receives copies of regulatory examination reports pertaining to matters that are within the purview of the Committee and Management's responses thereto; and
- performs other activities related to this charter as requested by MANCO and the Board.

Liquidity risk

- Responsibility for the implementation of sound policies and procedures for managing liquidity risk in line with the strategic direction and risk appetite specified by the Board
- Reviewing and articulating funding policy
- Development and implementation of procedures and practices that translate the Board's goals, objectives and risk tolerances into operating standards that are well understood by Bank personnel and consistent with the Board's intent
- Ensuring adherence to the lines of authority and responsibility that the Board has established for managing liquidity risk
- Overseeing the implementation and maintenance of management information and other systems that identify, measure, monitor and control the Bank's liquidity risk
- Establishment of effective internal controls and limits over the liquidity risk management process.

INVESTMENT BANKING AND ASSET MANAGEMENT BUSINESS GROUP

The Investment Banking Group governance framework is outlined in the diagram below.



ROLES AND RESPONSIBILITIES OF BOARD OF DIRECTORS

- Approve and periodically review risk strategies and policies
- Approve the Group's risk appetite and monitor the risk profile against this appetite
- Ensure senior management takes steps necessary to monitor and control risks
- Ensure that management maintains an appropriate system of internal control and reviews its effectiveness
- Ensure risk strategy reflects the Company's tolerance for risk
- Review and approve changes and amendments to the risk management framework
- Periodically receive risk reports from management, highlighting key risk areas, control failures and remedial actions taken by management.

ROLES AND RESPONSIBILITIES OF BOARD COMMITTEES

The Board discharges the above responsibilities primarily through two committees, namely:

- Board Audit & Risk Assessment Committee (BARAC)
- Board Investment Committee

The full Board retains the responsibility for risk management without prejudice to the roles of these committees.

Roles and responsibilities of the Board Audit & Risk Assessment Committee (BARAC)

The primary role of the committee is to report to the Board and provide appropriate advice and recommendations on matters relevant to risk management. It also includes the following:

- setting and approving the overall risk management framework and recommending the same to the Board;
- ensuring that all appropriate risk policies, controls and guidelines are set and maintained to ensure the business is run on a sound basis;
- ensuring that properly constituted responsibilities are formed, authorised and assigned to effectively manage risk throughout the business; and
- ensuring that the Board is notified of any significant risk issues that may arise.

Roles and responsibilities of Board Investment Committee

The role of the committee includes the following:

- ensuring the effective management of investment risk by the company;
- approving investment risk management policies and standard proposals on the recommendation of the Management Committee (MANCO); and
- approving investment risk appetite and portfolio strategy.

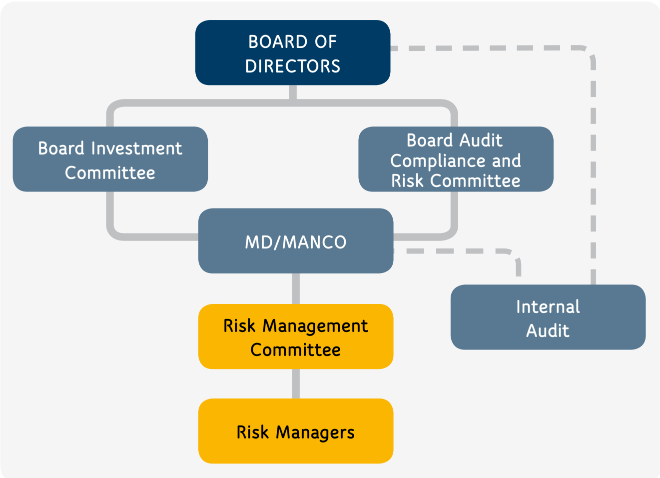
Roles and responsibilities of Risk Management Committee (RMC)

The Risk Management Committee will:

- be accountable to the Board Risk Committee and the Chief Executive Officer with respect to risk management in Investment Banking and Asset Management (IBAM);
- be responsible for providing oversight and assurance to the BARAC with respect to the implementation of IBAM's risk management framework;
- ensure that appropriate staff are in place to effectively manage risks across IBAM;
- provide an independent opinion on risk management within the Group to the Board and management;
- act as gatekeepers on behalf of the Board, to ensure businesses outside the Group's risk appetite are not introduced or engaged in; and
- maintain the integrity and quality of all data, systems and information required to manage risks within the Group.

INSURANCE BUSINESS GROUP

The insurance group governance framework is outlined in the diagram below.



The insurance group governance framework and responsibilities is outlined in the table below.

Role	Responsibilities
FBN Insurance Board	• Oversight of the Enterprise Risk Management (ERM) process; proposing and approving the risk appetite level for the business • Oversight and challenge to key business risks and delegating responsibility for detailed oversight and challenge to the BARAC • Establishment of a risk aware culture within the business to support the delivery of ERM • Providing necessary support to the Risk Management Team, to enable them to achieving their objectives.
Risk Management Committee	• Evaluating the risks inherent within the business and ensuring that they are captured appropriately within the business risk profile • Challenging the assessment of risks and ensuring that the individual risk target and collective residual risk exposure is appropriate to business need and market conditions • Monitoring residual risk exposures, gaining assurance as to adequacy of controls implemented to manage risks to the agreed level of appetite • Proposing the ERM framework to the FBN Insurance Board, receiving information regarding key internal loss events, ensuring rectification and preventative action has been taken and that financial loss data has been captured • Facilitating a risk aware culture within the business to support the delivery of the ERM.
Risk Management Function	• Ownership, development and delivery of the FBN Insurance's ERM framework • Ensuring complete linkage between ERM and the business strategy, planning and budgeting process, providing input from a risk and capital perspective • Facilitating an improved understanding of risk management throughout the organisation in order to embed and continuously improve a risk aware culture • Working with business management to review and update the risk and control matrices on a regular basis, challenge risk assessments and controls, and ensure that appropriate and timely actions are taken to manage all identified risks (see risk management terms of reference).
Actuarial Function	• Challenging to the pricing, reserving and other technical activities of the business, facilitating the development of the capital model and reporting directly to the Risk Management Committee.

Role	Responsibilities
Internal Audit	• Preparing an internal audit plan based on the result of the assessment of the risks faced by the company in line with the risk management framework • Providing independent assurance on the robustness and effectiveness of the company's risk management process
Regional managers, heads & other senior managers	• Actively supporting a strong risk aware culture • Organisation and management of business areas in a professional manner • Operating appropriate controls on a timely basis to manage business risks.
All staff & outsourced providers	• Identification and escalation of control weaknesses and emerging risks • Timely reporting on all control and regulatory breaches to the Risk Department and ensuring that the risk departments are advised of any material business changes.

ROLES AND RESPONSIBILITIES OF BOARD OF DIRECTORS

- Oversight of the ERM process; proposing and approving the risk appetite level for the business
- Oversight and challenge to key business risks; delegating responsibility for detailed oversight and challenge to the Risk Committee
- Establishment of a risk aware culture within the business to support the delivery of ERM
- Providing necessary support to the Risk Management Team, to enable them to achieve their objectives.

ROLES AND RESPONSIBILITIES OF BOARD COMMITTEES

The Board discharges the above responsibilities primarily through two committees, namely the:

- Board Audit, Compliance and Risk Committee (BARAC)
- Board Investment Committee.

Board Audit, Compliance and Risk Committee (BARAC)

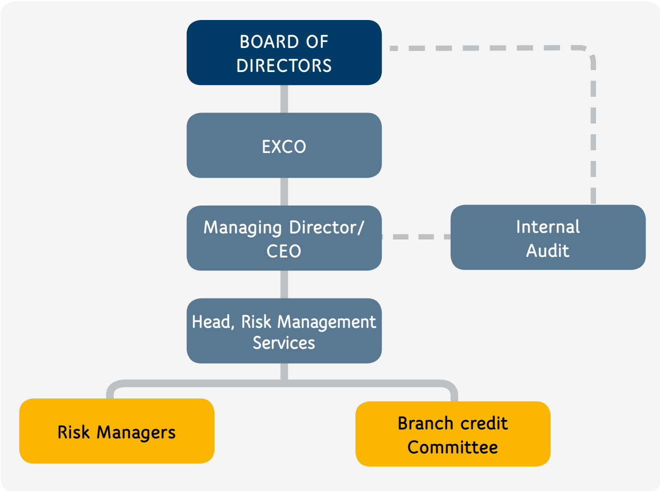
- Set and oversee the overall standard for financial and actuarial reporting, risk management and internal controls within the insurance group.
- Monitor the effectiveness of business risk management processes in the insurance group.
- Liaise with external and internal auditors on the quality and acceptability of the control environment and reporting structures.

Board Investment Committee

- Review policies and strategies for achieving investment objectives and review the outcome
- Review the investment and policies used by the insurance group to achieve its objectives, the performance attained and the risks related thereto
- Review the performance of the major assets in the investment portfolios
- Review and approve investments over and above limits delegated to management
- Monitor the performance of the Company's investments against relevant benchmarks
- Choose and monitor the use of any providers of investment advice or management, in particular ensuring that providers are reputable, financially stable and practice good governance
- Monitor the Company's asset liability matching position
- Set policy for and monitor credit and concentration risk in the portfolios
- Set requirements for and monitor the use of risky assets such as derivatives and unlisted investments
- Govern the unit pricing process to ensure that prices are calculated accurately and customers are treated fairly
- Review compliance with regulatory requirements on investments
- Monitor the investment process from a governance point of view e.g., avoiding conflicts of interest, insider trading and other ethically suspect practices.

OTHER FINANCIAL SERVICES BUSINESS GROUP (FBN MFB)

FBN MFB's governance framework is outlined in the diagram below.



RISK OVERSIGHT

A committee of senior management staff known as the Executive Committee (EXCO) shall provide a central oversight of risk management across the company to ensure that the full spectrum of risk facing the Company is properly identified, measured and controlled to minimise divergence between expectations and outcomes. It will be supported by the Compliance Department.

BOARD OF DIRECTORS

Generally, it is expected that the Board of Directors, among others, will play the following roles in the administration of the Company's risk management policies:

- review and approve the risk strategy and policies of the Company in line with current dictate of events in the industry;
- define and approve the Company's risk appetite and monitor the Company's risk profile against this appetite;
- ensure senior management takes steps necessary to monitor and control risks;
- ensure that management maintains an appropriate system of internal control and review its effectiveness;
- ensure that the investment strategy of the Company reflects its tolerance for risk;
- approve and monitor all changes and/or amendments to the risk management framework; and
- establish and monitor a feedback system with senior management to ensure that control failures are promptly reported and corrected.

EXECUTIVE COMMITTEE (EXCO)

Among other things, the EXCO will have the following responsibilities in corporate risk governance:

- The committee will be responsible for implementing Board decisions as outlined from time to time.
- It will review risk reports before presentation to the Board of Directors.
- It will monitor implementation of risk policies.
- It will guard against all actions that can cause the Company any embarrassment.

MANAGING DIRECTOR/CEO

- The MD/CEO will receive monthly reports from the Head, risk and management services for the consideration of EXCO
- Will have oversight function of all risk management processes.

RISK MANAGEMENT SERVICES

The following outlined will be roles of the Head, Risk Management Services:

- be the pivot of risk enterprise management processes in the entire organisation
- coordinate all training programmes and ensure all risk management processes are being duly adhered to
- receive monthly reports of risk management from the line managers and review them with the MD/CEO
- compile exception reports and forward them to the relevant line managers for appropriate action(s)
- attend to auditors and compliance officers from the Group's head office on matters of risk management.
- review the processes the Company has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.

INTERNAL CONTROL

Internal control in FBN Holdings and its subsidiaries refers to the overall operating framework of the practices, systems, organisational structures, management philosophy, code of conduct, policies, procedures and actions that exist in the Group and are designed to ensure:

1. essential business objectives are met, including the effectiveness and efficiency of operations and the safeguarding of assets against losses;
2. the reliability of financial reporting and compliance with general accounting principles;
3. compliance with applicable laws and regulations, including internal policies;
4. systematic and orderly recording of transactions; and
5. provision of reasonable assurance that undesired events will be prevented or detected and corrected.

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

GROUP INTERNAL CONTROL FRAMEWORK

This is predicated on Committee of Sponsoring Organisation (COSO) standards, which provide policies aimed at achieving internal control objectives of:

1. reliability of financial statements;
2. effectiveness and efficiency of operations; and
3. compliance with applicable laws and regulations.

It also aligns defence and controls the responsibilities of the Board of Directors, CEO, management and subsidiaries.

The Group has adopted the COSO framework for its internal control practices. This was created to address challenges by identifying critical activities in the Bank, assessing the risk exposures, determining appropriate preventive and detective control measures, and monitoring such measures to ensure compliance. The framework is supported by internal control policy and guidelines.

The Internal Control Policy outlines best-practice control standards, roles and responsibilities of directors, management, subsidiaries and staff of the Group, while the guidelines outline procedures for identification, management and documentation of relevant processes and sub-processes, including the mapping of specific risks and control mitigants. The mission statement of our guidelines includes:

1. proactively identifying key risks and responding with appropriate internal controls;
2. ensuring the quality of internal and external financial reporting;
3. ensuring compliance;
4. identifying and exploring opportunities for improving efficiency of processes and controls; and
5. effectively managing our business operations and achieving our strategic objectives.

GROUP OPERATIONAL PROCEDURE

Detailed Control Administrative and Accounting Procedure (CAAP) manuals have been developed for all processes, activities, products and services of the Group, including business continuity and disaster recovery.

These are updated regularly by the business owners as processes change. Internal control, as part of its daily review activities, monitors compliance with the CAAP manuals.

STRATEGY AND POLICY

FBN Holdings and its subsidiaries operate in an environment that is continuously exposed to uncertainties and change. Such risks may prevent the holding company from achieving its strategic business objectives. To effectively manage these risks, the Group has put in place internal control measures covering its subsidiaries, including the Bank.

The Group has also instituted effective and efficient internal control that ensures minimal operational losses from fraud, operational lapses, armed robberies, customer dissatisfaction and complaints, and other risk exposures.

Given the effect on the banking environment by advancing technology, IT control has been further strengthened to provide regular and frequent updates to the Group on activities that may constitute potential fraud.

INTERNAL CONTROL IMPROVEMENTS ACHIEVED IN 2013

We began the year with strategic priorities for improving the efficiency of internal control within the Group. Some of our achievements are as follows:

- successfully strengthening awareness of internal control and the responsibility of front-line staff in risk management. We carried out effective training, classroom simulation exercises and hands-on practical training, particularly for front-line staff. The outcome of our training has been remarkable over the last year. We started the credit training for BSMs on pre-disbursement document verification and are currently running the Control Awareness Campaign (CAC) for the Banking services Group. Operators are better informed about the control implication of their job functions and are better equipped.
- effectively deploying our exception resolution workflow and governance reporting software (Easy2Comply) for control issues with deadlines for operators to ensure prompt resolutions. The workflow also ensures effective monitoring and aggregation of control issues to aid the planning and reviewing of policies and procedures; Easy2comply also provides a data base for Control Exception Index of branches and good tracking mechanism which ultimately flows into Banking Services Group scorecard for Branch Service Managers (BSMs);
- monitoring branch and subsidiary activities to ensure policies and procedures are adhered to. In this regard, cross-functional monitoring teams were constituted and periodic surprise visits were made to branches and subsidiaries to evaluate compliance;
- expanding the scope of revenue assurance to additional income lines, thereby ensuring total elimination of income leakages. This is a planned activity on a quarterly basis. We intend to expand our review to cover Foreign Banking Services where revenue lines, such as Letters of credit, Bills for collections and other commission/charges, will be reviewed and collected to forestall any income leakage;
- strengthening and monitoring IT control to ensure adequate controls built around all the software used by the Group. During the year, user administration control was successfully extended to most user applications in the Group and this was effectively administered and implemented by internal control; and
- preparing and presenting monthly reports to Senior Management and the Board Risk and Compliance Committee (BRCC), and quarterly reports to the Board Audit and Risk Assessment Committee (BARAC) on control failures and the actions taken to address such failures. This, and the trend analysis are being tracked on a monthly basis to see how well recommendations are implemented.

INTERNAL CONTROL PRIORITIES FOR 2014

- Implementation and adoption of the Committee of Sponsoring Organisations of the Tread way Commission's (COSO) updated 2013 Integrated Internal Control Framework.
- Expanding the scope and increasing the frequency of control monitoring visits and review to ensure compliance to policies and procedures.
- Institution of Internal Governance Committees, consisting of Internal Control and operations staff, to enhance inter-departmental collaboration, with a view to enhancing service delivery within a control-conscious environment.
- Implementation of measurable processes to enhance and maintain high-quality documentation and reduce turnaround time (TAT) of External Audit Function in performance of their duties.
- Use of automated tools to monitor and improve TAT to issues, thereby improving control consciousness at all levels of management.
- Process review of Head Office key control points. We will commence with our culture of internal control improvements by reviewing Head Office processes to determine possible synergies between our head office control point and branch controls. This will hopefully minimise redundancies and improve efficiency.
- Creation of knowledge hubs to guide staff on control activities to ensure adequate communication and clarification of control policies and procedures are made easily accessible to all staff.

PROCEDURES TO ENSURE COMPLIANCE WITH EXTERNAL REGULATIONS

Internal control uses automated tools when complying with external regulations. For example, the introduction of the cashless policy in additional regions of Nigeria in 2013, as well as the reduction in commission on turnover (COT) rates, necessitated an automated process to ensure compliance and also apply regulatory penalties to defaulting customers as prescribed by the regulators. This and other measures are in place to ensure effective compliance by the Bank to regulatory policy. The Revenue Assurance Team within internal control represents the team in charge of ensuring compliance with regulations via automation, in order to minimise losses. Other compliance with regulation issues are handled by the process improvement team, control techniques and standards.

PROCEDURES TO LEARN FROM CONTROL FAILURES

While noting control failures is a daily activity for control officers, significant issues with major financial impact are also periodically reported through an incident reporting form by them. Such reports contain sections on remedial action taken to prevent recurring issues. As necessary, internal control, through its process improvement team, will modify controls in line with lapses observed or changes in our internal processes. Given the dynamic and electronic environment in which we operate, such reviews and changes are required to be implemented promptly. Changes are monitored through our post-monitoring visits to ensure adherence to the newly implemented control process.

RANGE OF CORPORATE POLICIES, PROCEDURES AND TRAINING

Training on corporate policies and procedures that impact internal control are conducted by a team of certified facilitators for both operation staff and internal control staff. For areas requiring specialised training outside the scope of the department, training programmes are arranged and agreed with First Academy (our internal learning institution), who is responsible for providing the required facilitators and ensuring that high-quality of training is maintained. For example, the implementation of International Financial Reporting Standards (IFRS) required specialised training for internal control staff during 2013.

REVIEWS OF CONTROL ACTIVITIES AND RESPONSE RESOLUTION

The use of our automated tool (Easy2Comply) to drive and monitor the activities of control officers has also provided a platform to monitor issues and resolutions raised via a workflow in the system. Control officers are required to document issues noted in branches related to cash, fund transfers and customer services, etc. Responses to such exceptions are also sent via the workflow, where issues can then be closed or escalated as appropriate.

ACTIVE ENGAGEMENT OF SENIOR MANAGEMENT IN CONTROL PROCESSES

Internal control periodically sends summary control reports to Senior Management and the Board Risk and Compliance Committee (BRCC), and quarterly reports to the Board Audit and Risk Assessment Committee (BARAC) on control failures and action taken to address such failures.

As an initiative for 2014, governance committees will also consist of internal control and operations staff at three different levels in the organisation: area operations level, regional level and executive level. This will enable timely discussions and resolutions of issues and quicker identification of similar minor issues, with the potential to aggregate significant issues at an earlier stage than previously experienced. This will also increase the control awareness of operations staff and highlight the benefits of maintaining an enhanced control environment at each operational level.

MAKING SURE OUR INTERNAL CONTROL IS EFFECTIVE

To ensure the effectiveness of internal control, more emphasis is being placed on automation both in the documentation of work and the guidance of control officers on potential issues. To this end, the use of the Internal Control and Anti-Fraud Automated System (ICAFAS) has been a great focus in 2013. ICAFAS provides the tools to achieve the effectiveness of internal control by providing a platform for automation.

During the year, additional fraud rules acting as red flags were implemented. Paper documentation in internal control has been minimised and the regrouping of control officers into teams has enabled knowledge sharing among team members. Training of control officers in performance of their functions were organised throughout the year to further sharpen the skills of officers.

In 2014, the COSO Integrated Internal Control Framework – the implementation of the widely accepted international standard for evaluation of internal controls – will be further used to identify areas of improvement. With the expansion of the Group, it is imperative to ensure the standard of internal control aligns with leading practices and can be independently assessed and evaluated by external bodies.

Practical implementation of the COSO framework will require the adoption of the five integrated components; Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities. For management to declare its system of internal controls effective, all components must be present (exist within the design and implementation of an entity's internal control) and functioning (continue to exist in the operation and conduct of the control system) to ensure the aggregation of deficiencies across the components does not result in one or more major deficiencies.

This updated framework will become the standard of measurement of the effectiveness of the internal control function.

While absolute assurance cannot be achieved as it relates to the non-existence of control failures, measures have been and will continue to be put in place to ensure reasonable assurance of control effectiveness in line with the achievement of the organisational objectives.

ENGAGEMENT

The Board is committed to engaging in constructive and meaningful communications with its owners: the Group's shareholders. We believe shareholder engagement, consistent with the Group's disclosure controls, is a fundamental and long-term aspect of the Board's oversight responsibility.

Shareholders, both large and small, are exerting their influence to demand greater roles in corporate decision-making. This is a growing international trend with many proponents and much momentum.

Our policy as a Board is that, as shareholder stewards, we should strive to build long-term, trust-based relationships with our investors by doing more than simply conveying factual information and projecting a positive image of the Company. Not only do these engagements prove beneficial to shareholders, they also enable members of the Board to better understand the shareholders' views on the Company, its management and its performance. Engagement is also an avenue to receive shareholder criticism and where such criticism is unfounded we are provided with the opportunity to respond constructively.

Similarly, engagement aids us in understanding external perspectives on the Group's performance and can provide us with an external measure of our Company's performance. Shareholders' views assist us in fine-tuning strategies and can provide validation of existing Company initiatives. Valuable insights may also be received from the Group's institutional shareholders, given their exposure to a broad spectrum of companies and business strategies in different sectors.

Our focus on building long-term relationships means regular meetings are important, as relationships and goodwill are built through repeated encounters. We will strive to promote direct interaction with our shareholders and conduct meetings in a spirit of candour, providing time for concerns to be addressed and not being afraid to admit to mistakes and differences of opinion.

In actualising the above, we will take steps to understand different views through the following means:

- engagement with analysts and investors across both executive and non-executive management teams;
- the Investor Relations department;
- the website;
- press releases;
- publications in newspapers;
- meetings with shareholder institutions;
- results conference calls;
- investor conferences;
- non-deal roadshows
- one-on-one meetings;
- social media; and
- Annual General Meetings or any extra general meetings.

WHO ARE OUR SHAREHOLDERS?

The Group is a publicly quoted company with a diverse shareholder profile and owned by nearly 1.3 million shareholders. FBN Holdings now has the largest shareholder base of any company listed on the Nigerian Stock Exchange.

With no shareholder owing more than 5% of the issued ordinary shares, this makes the ownership structure one of the most diversified. As at year end, the shareholding structure was 51.57% retail, 26.77% domestic institutional, 17.98% foreign institutional and 3.68% government-related holdings.

RIGHTS OF SHAREHOLDERS

The Companies & Allied Matters Act of 2004 (CAMA) provides several basic rights for shareholders relating to general meetings, which are as follows:

- subject to section 228 of CAMA of 2004, every shareholder shall have the right to attend any general meeting of the Company in accordance with the provisions of section 81 (CAMA). It does not matter the number of units of shares the person has in the Company. A shareholder has the right to query a company for not receiving notice to attend any general meeting;
- shareholders have the right to speak and vote on any resolution before the meeting in accordance with the provision of section 81 of the CAMA;
- shareholders have the right to vote in person or in absentia, and equal effect shall be given to votes whether cast in person or in absentia;
- shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of the general meetings, as well as full and timely information regarding the issues to be decided at the meeting;
- they shall be given the opportunity to ask the Board questions and to place items on the agenda at the general meetings, subject to reasonable limitations;
- they have the right to be informed of any resolution appointing or approving the appointment of a director for the purpose of section 256 of the CAMA;
- shareholders have the right to sue for dividends in accordance with section 385 of CAMA;
- the right to a copy of the memorandum and articles, if any, and a copy of any enactment that alters the memorandum in accordance with section 42 of CAMA;
- the right of a preference share to more than one vote in accordance with section 143, sub-section (1) (3) of CAMA;
- the right of conveying or transferring shares;
- rights of sharing in the residual profits of the Company;
- shareholders have the right to bonus and rights issue of the Company.
- shareholders have rights to inspect the register of members of the Company;

- shareholders have the right to be issued within three months without any payment a certificate after the close of offer (S. 146 (1&2);
- the right of shareholders vis-à-vis a prospectus that is being issued in an offer for sale or subscription of shares by an Issuer;
- the right of the shareholders to be represented in the Statutory Audit Committee of the Company;
- aggrieved shareholders have the right to seek redress. The Investment and Securities Tribunal (IST), the Administrative Proceedings Committee (APC) of the Securities and Exchange Commission mechanism can be used to address such grievances;
- the right to inspect the register of members and to a share certificate when a new share is bought;
- the right to transfer shares; and
- the right to request for an extra general meeting.

At FBN Holdings, we consider these rights sacrosanct and we always ensure these rights are upheld and observed.

WHAT ARE OUR SHAREHOLDERS' RESPONSIBILITIES?

The Statutory Audit Committee (SAC) acts on behalf of the shareholders in overseeing the operations of the Group.

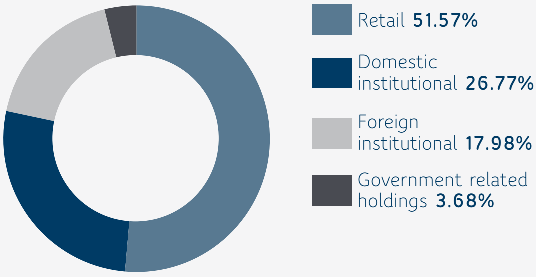
In an age of increasing transparency, our shareholders' perceptions of the Group, expectations and understanding of the Group's operations matter to our business value. Hence, it is important for our shareholders to understand some of their expected roles (among other things) through representatives in the SAC, as follows:

- to ascertain the accounting and reporting policies of the Group are in compliance with legal requirements and agreed ethical practices;
- to review the scope and planning of audit requirements;
- to review the findings on management matters in conjunction with the external auditor;
- to keep under review the effectiveness of the Company's system of accounting and internal controls;
- to make recommendations to the Board in regard to the appointment, removal and remuneration of external auditors to the Company; and
- to authorise the internal auditor to carry out investigations into any activities of the Company that may be of interest or concern to the Committee.

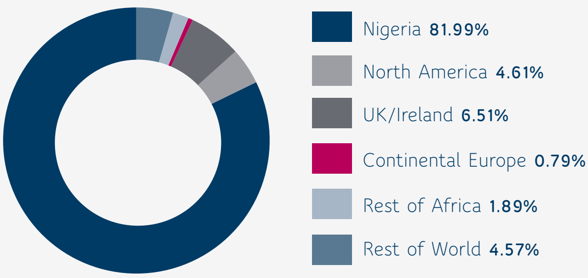
In addition, our shareholders' role extends to holding the Board accountable for the observance of effective corporate governance practices. They also have the responsibility of approving the appointment of the Board of Directors and the external auditors, as well as granting approval for certain corporate actions that are by legislation or the Company's articles of association specifically reserved for shareholders, such as approval of dividend payment. Decision-making is not restricted to the Board, but extends to shareholders who ultimately own the Group.

To improve the confidence of our shareholders/investors, we consider it a strategic objective for us to engage shareholders and investors in continuous dialogue. We are able to provide regular updates on our strategy, performance and outlook through these engagements. This forum provides an opportunity to gather feedback, which could be used in shaping business decisions.

Breakdown of shareholders by type



Geographical breakdown of shareholding structure



WHAT DOES INVESTOR RELATIONS DO?

The investor relations (IR) function for the Group sits at FBN Holdings, maintaining close contact with all subsidiary companies. In addition to the company secretariat, investor relations manages relationships between FBN Holdings and its shareholders and investors, ensuring shareholders' views are understood by both management and the Board. In addition, quarterly, half-yearly and annual financial results are published in national newspapers. Essentially, the investor relations function aims to:

- provide active communication to better align investors' expectations with corporate goals;
- expand the potential pool of capital the Group can access to finance its growth objectives;
- reduce the cost of capital;
- increase market confidence for the management team;
- promote the fair value of the Company's shares;
- increase the liquidity of the shares; and
- create initiatives to increase shareholder value and positively impact share price.

At FBN Holdings, there is a clear and carefully researched pool of potential investors, with a well-thought-out programme of events laid out to ensure effective engagement with shareholders, investors and analysts. These activities are outlined in a well-documented IR programme, which includes detailed information of planned investor engagements for the year. The financial reporting calendar is published on the IR website, as well as the annual report.

The various activities hosted by representatives of executive/senior management are found in the table below.

Activity	Description	Frequency	Channel	Target audience
Results press release	Press release describing the performance of the Group for the period under review.	Quarterly	Website Email Newspapers	Shareholders Investors Analysts Credit rating agencies
Quarterly conference call	This activity occurs after publishing the quarterly results. A results presentation is prepared and uploaded to the investor relations (IR) website providing details of the performance of the business during the quarter. A question-and-answer (Q&A) session is held after the presentation of the material by members of the executive management.	Quarterly	Telephone The audio recording of the call is usually available on the IR website 48 hours afterwards, while the transcript is available one week after the call.	Shareholders Investors Analysts Credit rating agencies Others
International non-deal roadshows	Enable engagement with and update key international institutional investors and shareholders on overall performance, outlook and key strategic objectives. Help to continually expand the available pool of capital leading to diversification of shareholder base, as well as a ready source of financing for strategic initiatives. Enhance international visibility. Key locations visited reflect where the majority of our international investors reside – largely the United States and Europe.	Semi-annually[14]	One-on-one meetings Group meetings	International investors
Key domestic institutional investor meetings	This is a forum where the Group's senior management interacts with and answers questions on the performance of the Group from shareholders/investors/analysts based in Nigeria. They create access to senior management.	Semi-annually[15]	One-on-one meetings Group meetings	Shareholders Investors Analysts
Pension fund administrators (PFA) day	This engagement is with top pension fund administrators in the country to ensure a better understanding of the Group's strategy, performance and outlook. It helps build confidence in the management team within this segment.	Annually	Group meeting	Pension fund administrators
Investor conferences	These are conferences organised by investment banks – locally and internationally. They create an avenue for the Group's senior management to interact with and answer questions on the performance of the Group from key shareholders/investors/analysts. Create access to senior management, build confidence in the management team and enhance visibility locally and internationally. Conferences attended during the year include: the Renaissance Capital Africa Conference, Lagos; Standard Bank Africa Conference, Lagos; FBN Capital Investor Conference, Lagos, Bank of America, Merrill Lynch GEMs Conference, California; Citi Conference – Frontier Markets Symposium, London.	At least once per quarter	One-on-one meetings Group meetings	Shareholders Investors Analysts

14 and 15 Typically held semi-annually, but held once in May 2013 due to the changes in the reporting structure in the third quarter of the year.

Activity	Description	Frequency	Channel	Target audience
Nigerian Stock Exchange (NSE) facts behind the figures	This event was hosted at the NSE to engage stockbrokers[3], in particular, on the Group's strategy and performance. Management presents the strategy and performance and also holds a Q&A session. During the year, one such session was held to discuss full year FBN Holdings 2012 results.	Annually	Physical visit to the NSE	Stockbrokers and indirect retail investors Media The rest of the financial community

3 These are professional securities experts trading on behalf of several retail shareholders.

In addition to those presented above, other regular updates on the Company's progress via interactive conference calls, local and international investor engagements with the financial community include:

- email correspondence;
- telephone conversations; and
- in-house meetings.

Information regarding FBN Holdings is provided to shareholders and, in addition, is found on the investor relations and corporate websites where there is opportunity to provide feedback.

To ensure effective shareholder engagement, an independent assessment of its quality is measured quarterly. Some of the feedback revealed that the activities are well-regarded providing reasonable, timely and adequate information to analysts and investors.

In addition to ongoing engagement being facilitated by the Company Secretary and the investor relations unit, the Group encourages shareholders to attend the AGM and other shareholder meetings where interaction is welcomed.

In ensuring we continue to develop and implement the feedback from shareholders, investors and analysts, executive management is provided with detailed information on the various engagement activities. In 2013, points of interest to investors and analysts focused on messaging, impact of regulatory pronouncements including traction in non-interest revenue, cost optimisation, clarity of guidance and performance, international expansion, capital management strategy and corporate governance.

WHAT HAPPENS AT OUR ANNUAL GENERAL MEETING (AGM)?

The usual practice at the Group's AGM is to have shareholder meetings duly convened and held in an open manner, and in line with the Group's Articles of Association and existing statutory and regulatory regimes, for the purposes of deliberating on issues affecting the strategic direction of the Group. This will involve a fair and transparent process, which will also serve as a medium for promoting interaction between the Board, management and shareholders.

Attendance at the AGM is open to shareholders or their proxies, and proceedings at the meeting will be monitored by members of the press, representatives of the Nigerian Stock Exchange, the Central Bank of Nigeria, the Securities and Exchange Commission and the Corporate Affairs Commission.

The Group's general meetings will afford shareholders the opportunity to appraise the Group's performance, especially as they are not actively involved in the day-to-day running of the Group. This medium affords them the chance to give approvals on certain decisions, assess the Group's performance and, by implication, the performances of the directors responsible for the effective management of stakeholders' interest.

ROLE OF THE COMPANY SECRETARY

The Company Secretary offers support to the Chairman in the engagement of shareholders by extending the necessary invitations to the retail shareholders through their respective Shareholder Associations and making adequate arrangements for beneficial meetings. The Company Secretary also ensures collation of the views expressed for escalation to the full Board and/or management for consideration.

In addition to the above, the Company Secretary plays an important role in ensuring the effectiveness of both the Board of the Group and the boards of the subsidiary companies. To this end, the Company Secretary:

- makes arrangements for the Board and Board Committee meetings and takes minutes;
- ensures Board procedures are followed;
- conveys information between members of the Board, members of the Board committees and the management;
- provides directors with guidance on their responsibilities, good governance and ethics; and
- coordinates directors' training and development programmes.

Moreover, the Company Secretary assists the Board in observing good corporate governance principles and is accountable to the management and the Board on all such matters. Though the Company Secretary does not sit on the Board, he contributes to the proceedings of the Board in his position as an adviser.

The Company Secretary provides directors with guidance on their responsibilities, good governance and ethics. He is responsible to the Board for ensuring Board procedures are followed and applicable rules and regulations are complied with. He plays an active role in training, strategic administrative planning and the directors' induction programme. The Company Secretary advises and updates the Board on relevant corporate governance codes and rules to ensure adequate compliance. The Company Secretary is involved in accountability, disclosure and ensuring transparency in the administration of FBN Holdings as the first source of legal advice to the Board. The Board has ultimate responsibility for the appointment and removal of the Company Secretary.

WHISTLEBLOWING PROCEDURES

The Group's Board of Directors prioritises high ethical standards and probity, and expects all its employees and officers to observe such standards in all their dealings within the Group.

The Group's whistleblowing policy spans both internal whistleblowers (staff, contract employees, management or directors, and external whistleblowers; customers, service providers, applicants, auditors, consultants, regulators and other stakeholders). The stakeholders include employees, customers, contractors and service providers. The process creates a work environment in which concerns about misconduct, irregularities or malpractices can be raised without fear of harassment and/or victimisation. Concerns are taken seriously and investigated, and the outcome communicated to all concerned parties.

Due to the Group's evolving processes, whistleblowers may report misconduct, irregularities or malpractices to the outlets developed by FirstBank.

The phone lines are 0700-34778-2668228,
01-4485500 and 07080625000,

the email address for the public is
firstcontact@firstbanknigeria.com

and members of staff may contact
Adeyemi.O.Ogunmoyela@firstbanknigeria.com
or **Internalaudit.Head@firstbanknigeria.com.**

In addition, whistleblowers can also log on to **www.firstbanknigeria.com** and click on the whistleblowing portal to report misconduct. Other avenues open to whistleblowers are through a letter to the Group's CEO or directly to the Chief Internal Auditor of FirstBank. We guarantee the confidentiality of the data revealed and the identity of the whistleblower.

DIRECTORS' REPORT

The Directors present their report on the affairs of FBN Holdings Plc ("the Company") together with the financial statements and auditors' report for the period ended 31 December, 2013.

A. LEGAL FORM

The Company was incorporated as a private limited liability company in Nigeria in 2010 and was converted to a public company in September 2012, when it commenced operations. The Company's shares were listed on the floor of the Nigerian Stock Exchange on 26 November 2012 after the shares of First Bank of Nigeria Plc were delisted on 23 November 2012.

B. PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the Company is the raising and allocation of capital and resources.

The Company is also saddled with the responsibility of coordinating Group-wide financial reporting to shareholders and managing shareholder, investor and external relations to the Group and the task of developing and coordinating the implementation of Group strategies.

The Company consists of four groups, namely:

- Commercial Banking business made up of First Bank of Nigeria Limited, FBN Bank (UK) Limited, FBN Mortgages Limited, First Pension Custodian Nigeria Limited, and FBNBank DRC, Ghana, Sierra Leone, Guinea and The Gambia;
- Investment Banking and Assets Management Group, made up of FBN Capital Limited, FBN Securities Limited, First Funds Limited and First Trustees Limited;
- Insurance Group made up of FBN Insurance and FBN Insurance Brokers Limited; and
- Other Financial Services with only FBN MFB, for now.

The Company prepares separate and consolidated financial statements.

C. DIRECTORS' SHAREHOLDING

The direct and indirect interests of directors in the issued share capital of the company as recorded in the register of directors' shareholding and/or as notified by the directors for the purposes of sections 275 and 276 of the Companies and Allied Matters Act and the listing requirements of the Nigerian Stock Exchange are noted:

Directors' shareholding

Name	Direct holdings	Indirect holdings
Dr Oba Otudeko, CFR	5,359,331	447,805,761
Bello Maccido	2,388,155	Nil
Abdullahi Mahmoud	50,870	Nil
Oye Hassan-Odukale, MFR	1,685,458,	43,428,798
Lt. General Garba Duba, rtd	14,940,903	Nil
Bisi Onasanya	7,518,059	Nil
Chidi Anya	Nil	47,426

D. OPERATING RESULTS

The directors recommend the approval of a final dividend of ₦1.10 per share, amounting to the sum of ₦35,895,292,791.60. Highlights of the operating results for the period under review are as follows:

	31 December 2013 ₦ million	31 December 2012 ₦ million
Gross earnings	395,942	370,167
Profit before tax	91,337	93,921
Taxation	(20,706)	(17,120)
Total profit for the year	70,631	76,801
Non-controlling interest	496	(220)
Appropriation:		
Transfer to statutory reserves	8,727	11,203
Transfer to statutory credit reserve	(8,114)	6,335
Transfer to contingency reserve	57	37
Transfer to retained earnings reserve	36,833	33,341

E. DIRECTORS' INTERESTS IN CONTRACTS

For the purpose of section 277 of the Companies and Allied Matters Act, CAP C20 LFN 2004, none of the directors had direct or indirect interest in contracts or proposed contracts with the Company during the year.

F. PROPERTY AND EQUIPMENT

Information relating to changes in property and equipment is given in Note 29 to the Accounts. In the directors' opinion, the market value of the FBN Holdings' properties is not less than the value shown in the financial statements.

G. SHAREHOLDING ANALYSIS

Range analysis as at 31 December 2013

Range	No of registered accounts	Accounts %	Units	Units %
1-1,000	308,869	25.26	219,444,202	0.67
1,001-5,000	528,517	43.22	1,360,940,843	4.17
5,001-10,000	139,323	11.39	1,034,711,328	3.17
10,001-50,000	204,893	16.76	4,143,731,299	12.7
50,001-100,000	20,524	1.68	1,440,119,175	4.41
100,001-500,000	16,843	1.38	3,323,752,558	10.19
500,001-1,000,000	1,951	0.16	1,370,567,133	4.2
1,000,001-5,000,000	1,503	0.12	2,872,553,036	8.8
5,000,001-10,000,000	191	0.02	1,342,565,676	4.11
10,000,001-50,000,000	174	0.01	3,354,390,608	10.28
50,000,001-100,000,000	30	0	2,062,186,119	6.32
100,000,001-500,000,000	27	0	6,319,933,817	19.37
500,000,001-1,000,000,000	3	0	2,087,188,562	6.4
1,000,000,001-32,632,084,356	1[16]	0	1,700,000,000	5.21
	1,222,849	**100**	**32,632,084,356**	**100**

Shareholding analysis as at 31 December 2013

Category	Holdings	Holdings %
Retail	16,827,055,239	51.57
Domestic Institutional	8,736,832,474	26.77
Foreign Institutional	5,866,383,896	17.98
Government related holdings	1,201,812,747	3.68
	32,632,084,356	**100**

H. SUBSTANTIAL INTEREST IN SHARES

According to the register of members as at 31 December 2013, no shareholder held more than 5% of the issued share capital of the Company.

I. HUMAN RESOURCES

EMPLOYMENT OF DISABLED PERSONS

It is the policy of the Company that there should be no discrimination in considering applications for employment including those from physically challenged persons. All employees, whether or not physically challenged, are given equal opportunities to develop.

In the event of members of staff becoming disabled, efforts will be made to ensure that their employment with the Company continues and appropriate training arranged to ensure that they fit into the Company's working environment.

J. HEALTH, SAFETY AND WELFARE AT WORK

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

Fire prevention and fire-fighting equipment is installed in strategic locations within the Company's premises.

The Company operates both a Personal Accident and the Workmen's Compensation Insurance covers for the benefit of its employees. It also operates a contributory pension plan in line with the Pension Reform Act, 2004, as well as a terminal gratuity scheme for its employees.

K. EMPLOYEE INVOLVEMENT AND TRAINING

The Company ensures, through various fora, that employees are informed on matters concerning them. Formal and informal channels are also employed in communication with employees with an appropriate two-way feedback mechanism.

In accordance with the Company's policy of continuous development, training facilities are provided in a well-equipped training school. In addition, employees of the Company are nominated to attend both locally and internationally organised courses. These are complemented by on-the job training.

16 This is a custodian account with several beneficiaries.

L. AUDITORS

Messrs PKF Professional Services will cease to be one of the auditors of the Company, having served in that capacity for the past ten tears. In that regard, with effect from 1 January 2014, Messrs. PricewaterhouseCoopers will be the single auditor for the Company, having indicated their willingness to continue to act in that office.

BY ORDER OF THE BOARD

Tijjani Borodo
Company Secretary
Lagos, Nigeria

REPORT OF THE EXTERNAL CONSULTANTS ON THE APPRAISAL OF THE BOARD OF DIRECTORS

KPMG

In compliance with the provisions of the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks in Nigeria Post Consolidation and the Securities & Exchange Commission Code of Corporate Governance ("the Codes"), FBN Holdings Plc ("FBN Holdings") engaged KPMG Advisory Services to carry out an appraisal of the Board of Directors ("the Board"). The appraisal covered the year ended 31 December 2013, the Board's first year of operation.

Codes mandate an annual appraisal of the Board and individual Directors with specific focus on the Board's structure and composition, responsibilities, processes and relationships, individual Director competencies and respective roles in the performance of the Board.

Corporate governance is the system by which business corporations are directed and controlled to enhance performance and shareholder value. It is a system of checks and balances among the Board, management, and investors to produce a sustainable corporation geared towards delivering long-term value.

Our approach to the appraisal of the Board involved a review of the FBN Holdings' key corporate governance structures, policies and practices. This included the review of the corporate governance framework and representations obtained during one-on-one interviews with the members of the Board and management. We also reviewed FBN Holdings' corporate governance report prepared by the Board and assessed the level of compliance of the Board with the provisions of the Codes.

On the basis of our review, except as noted below, FBN Holdings' corporate governance practices are largely in compliance with the key provisions of the Codes. Specific recommendations for further improving FBN Holdings' governance practices have been articulated and included in our detailed report to the Board. These include recommendations in the following areas: appointment of independent Director, creation of Board committees, Directors' remuneration, Directors' induction and training.

Olumide Olayinka
Partner, KPMG Advisory Services
FRC/2013/ICAN/00000000427
29 April 2014

RISK FACTORS

Our Group is exposed to certain risks, and we have robust policies and procedures in place to mitigate and manage these risks.

We proactively manage risks in a highly dynamic and competitive landscape to forestall credit and operational losses.

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RISK MANAGEMENT SUMMARY

FBN Holdings believes that effective risk management is of primary importance to its success and a key factor that ensures delivery of sustainable returns to the shareholders. Risk management is embedded in the Group's tactical and strategic decision-making.

Risk taking is an essential part of the Group's business and thus the Group explicitly recognises risk identification, measurement, assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which it operates.

PRINCIPAL RISKS

The Group is exposed to a number of risks that are inherent in its operations, key among which are; Credit Risk, Liquidity and Market Risk, Operational Risk, Information Security Risk, Regulatory Compliance Risk, Insurance Underwriting risk and Strategic Risk. Identifying, measuring, assessing, quantifying, pricing and managing these risks through an integrated and comprehensive Enterprise Risk Management framework are part of the risk management core competencies that have been developed across the Group.

BANKING SEGMENT

On banking, supervision of the industry was further reinforced to promote stability and resilience of the financial system. In its quest to comply fully with the Basel Core Principles on supervision and to create an enabling environment for the implementation of the New Basel Capital Accord, the Central Bank of Nigeria (CBN) has adopted a risk-based supervision approach (RBS), a proactive and sophisticated supervisory process based on risk profiling of a bank that enables the supervisor to prioritise efforts and focus on significant risks by channelling available resources to banks that have a high risk profile. In this respect FirstBank Nigeria has been subject to normal periodic review by regulators and appropriate steps have been taken to address issues arising from such examinations.

REGULATORY REFORMS

Other reforms initiated by CBN include tightening of monetary policy through an increase in the cash reserve ratio (CRR) on public-sector deposits from 12% to 50%, a revised guide to bank fees/charges, which became effective in the second quarter of 2013 to align tariffs within the industry to reflect current developments in the market. The introduction of these reforms have escalated the Bank's cost of funds, significantly reduced fees chargeable on loans and driven banks to explore more innovative ways of generating revenue.

Also, a draft framework for supervision of Systemically Important Banks (SIBs) in Nigeria was unveiled to monitor the operations of the country's eight SIBs due to their size, interconnectedness, substitutability and complexity and insulate them from the distress syndrome in compliance with Basel III requirements. The framework when effective would necessitate the SIBs to maintain a minimum capital adequacy ratio (CAR) of 15%, with a ceiling that tier 2 capital should not constitute more than 25% of the qualifying capital. In addition to the required CAR, SIBs would also be required to set aside an additional capital surcharge of 1%, to ensure that a higher share of their balance sheet is funded by instruments that reinforce the resilience of the institution as a going concern. To meet up with additional capital requirements as stipulated in the framework, SIBs may have several options; raise equity thereby dilute holdings, retain earnings (pay less dividends) or reduce risk-weighted assets through shrinking of trading activities and reduced lending.

SUSTAINABILITY PRINCIPLES

In the course of the year, the CBN also approved the adoption of the Nigerian Sustainability Banking Principles in line with global best practice. The objective of the policy is to ensure that all transactions that banks fund include adequate provision for actions and costs necessary to prevent, control and mitigate negative impacts on the environment and communities and to improve environmental quality. The three major sectors under focus include Oil and Gas, Power and Agriculture.

IMPACT OF MONETARY POLICY

Within the period, a high interest rate environment was sustained based on CBN's continued stance for tight monetary policy. The Monetary Policy Committee (MPC) outlook for 2014 also indicates some probable headwinds that may lead to further tightening in monetary conditions. It is expected that 2014 will be the year for quantitative easing in the US and interest rate rises in Europe, both of which will lead to some pressure on the naira exchange rate and stock prices due to the impact of this foreseen event on capital flows. Increase in spending as a prelude to the 2015 general election is likely to take place domestically, thus bringing more pressure to bear on the fiscal state of the economy.

INVESTMENT BANKING AND ASSET MANAGEMENT

The landscape in the Investment Banking and Asset Management segment has become more competitive with the licensing of new merchant banks. The liquidity squeeze that affected the money market in August 2013 led to the investigation and subsequent withdrawal of the operating license of some discount houses. The assurance by CBN of the solvency of the discount market avoided a run in the market.

INSURANCE

The Nigeria Insurance Commission's (NAICOM) enforcement of 'no premium, no cover' rule that became effective in the first quarter of 2013, coupled with other proposed regulatory reforms (including enforcement of compulsory insurance products, sanitisation and modernisation of insurance agency systems and the introduction of risk-based supervision), coupled with economic growth that resulted in increase in demand for commercial insurance and rising middle-class income, improved the insurance sector and by extension the premium pool.

In summary, the operating environment has been very challenging, notwithstanding, the Group has diligently pursued its strategic imperative to defend and extend its leadership position in key target markets, while ensuring conformity to international best practice.

RISK MANAGEMENT FRAMEWORK

THE KEY ELEMENTS OF OUR PHILOSOPHY AND CULTURE ARE AS FOLLOWS:

OUR RISK PHILOSOPHY

- Considers sound risk management as the foundation of a long lasting financial institution
- Adopts a holistic and integrated approach to risk management
- Risk officers shall be empowered to perform their duties professionally and independently without undue interference
- Risk management shall be governed by well-defined policies which are clearly communicated across the board
- Risk management shall be handled as a shared responsibility
- The risk management governance structure shall be clearly defined
- There shall be a clear segregation of duties between market facing business units and risk management functions
- Risk-related issues shall be taken into consideration in all business decisions, a conservative balance between risk and revenue considerations shall be maintained
- Risks are reported openly and fully to the appropriate levels once they are identified
- Risk officers shall work as allies and thought partners to other stakeholders within and outside the Group
- The entities within the holding company shall be guided by the principles enshrined in this risk management policy.

OUR RISK CULTURE

- The Board and senior management shall consciously promote a responsible approach to risk and ensure that the sustainability and reputation of the Group are not jeopardised while expanding its market share
- The responsibility for risk management in the Group is fully vested in the Board which in turn shall delegate such to senior management
- FBN Holdings shall pay adequate attention to both quantifiable and unquantifiable risks
- The Group's management shall promote awareness of risk and risk management across the board
- The Group shall avoid products, markets and businesses where it cannot objectively assess and manage the associated risk.

RISK APPETITE

The risk appetite of the Group is defined by the amount of risk exposure or potential adverse impact from an event that the group is willing to accept/ retain.

The risk appetite of each group entity is set by the Board of Directors annually, at a level that minimises erosion of earnings or capital due to avoidable losses in the banking, investment and trading books, or from frauds or operational inefficiencies.

The Group aims at minimising the following independent indicators of excessive appetite for risk:

- exception reporting by internal control officers, auditors, regulators and external rating agencies;
- adverse publicity in local and international press;
- frequent litigations;
- payment of fines and other regulatory penalties; and
- above average level of staff and customer attrition.

FBN Holdings will not compromise its reputation through unethical, illegal and unprofessional conduct. The Group also maintains zero appetite for association with disreputable individuals and entities.

Outlined in subsequent sections is the risk appetite of each business group;

COMMERCIAL BANKING BUSINESS GROUP

The appetite for risk is governed by the following:

- optimisation of capital deployed to every business line;
- high quality risk assets measured by the following three key performance indicators:
  - ratio of non-performing loans to total loans;
  - ratio of loan loss expenses to Interest revenue; and
  - ratio of loan loss provision to gross non-performing loans.
- Pre-defined portfolio limits that drive portfolio diversification and minimised concentration risk.
- The broad objective is to consistently strive to minimise overall cost of risk through effective risk mitigation practices and also ensure there are adequate provisions for all non-performing assets.
- Losses due to frauds and operational lapses should be a maximum of a specified percentage of gross earnings and in any case be lower than the industry average.
- Financial and prudential ratios should be at a level more conservative than regulatory requirements and better than the average of benchmark institutions.
- Aim to minimise the following independent indicators of excessive appetite for risk:
  - exception reporting by auditors, regulators and external rating agencies;
  - adverse publicity in local and international press;
  - incidents of frequent litigations;
  - regulatory/other infractions, breaches; and
  - above industry average staff and customer attrition rate.

INVESTMENT BANKING AND ASSET MANAGEMENT BUSINESS GROUP

The group's appetite for risk is governed by the following principles:

- to meet all regulatory requirements and expectations;
- to maintain an adequate level of capital to support the businesses it is engaged in;
- to deliver stable earnings with equally stable earnings growth;
- to minimise exposure to losses from stress events; and
- to ensure stability in funding and liquidity through sound balance sheet management.

The IBAM group has further defined risk appetite in terms of the key areas of its risk exposures in Credit, Market and Operational risks. These are:

- the IBAM group maintains low exposures to credit risk. The business model is one that focuses on the facilitation and intermediation of the investing and financing needs of clients.
- the IBAM group's appetite for fraud risk and other operational risks is extremely low. Maximum operational risk appetite is expressed as a ratio of earnings over a financial year and is required to be lower than industry average.

The IBAM group takes on market risk in some areas of its business. The appetite for this risk is expressed as a ratio of shareholders funds, which represents the maximum amount of capital the Group is willing to place 'at risk' of loss from market movements.

INSURANCE BUSINESS GROUP

The Group's risk appetite considers all risks across the business in an integrated manner, comprising both quantitative and qualitative elements and is aligned with the Group's business strategy:

Risk Appetite	Strategy
Regulatory capital target	To maintain a minimum of 25% over the required statutory capital of NG₦2 billion.
Investment risk appetite (shareholders)	Shareholders' funds must be managed in line with the approved Board mandates
Investment risk appetite (policyholders)	Policyholder's funds should be invested appropriately to match the liabilities and in accordance with the approved mandate.
Business target risk appetite	Achieve a minimum of 80% of the budgeted figures. Cumulative achieved figures must always be greater than 80% of the projected figures in the business plan.
Expense target	Maintain an expense that will not exceed the expense budget.
Return on embedded value	Maintain a minimum return on embedded value of 20%.
Reinsurance risk appetite	Reinsurance arrangement must be appropriate and reviewed regularly. The maximum claim per any one life must not exceed our retention limit.
Facultative business exposure	Minimise our facultative business recovering exposure. We will only transact businesses with reputable and sound insurance institutions.
Compliance target	100% compliance with all regulatory/statutory requirements.
Operational risk appetite	FBN Insurance has an overall low tolerance for control breakdowns resulting from aspects around processes, people, systems or external events. Such incidents should be escalated to the appropriate forum.
Business continuity risk	Key business operations and supporting resources must at all times be recoverable within times specified in Business Continuity Management Systems (BCMS) plans. BCMS plans must be signed off and tested every half year.
Liquidity risk	FBN Insurance must at all times maintain sufficient liquid assets in order to discharge its liabilities and contractual obligations
Strategic risk	No strategy outside the agreed objectives of the company will be implemented unless specifically approved by the board.
Reputational/brand risk	Low appetite for reputational/brand risk FBN Insurance will take immediate action to resolve: • policyholder complaints; • regulators' concern; and • high priority internal and external audit concerns. FBN Insurance employs a zero tolerance policy for any fraud. All instances of fraud that are discovered and/or reported (including potential fraud) shall be investigated and, if relevant, prosecuted.

RISK MANAGEMENT OVERSIGHT

The Group has a Risk Management Directorate (RMD) that provides central oversight of risk management across the Group to ensure the full spectrum of risks facing FBN Holdings are properly identified, measured, monitored and controlled to minimise adverse outcomes. The RMD is, however, complemented by other departments in the management of certain important risks, as illustrated below:

The RMD coordinates the monitoring and reporting of all risks across the holding company, and is headed by a skilled and highly competent executive level.

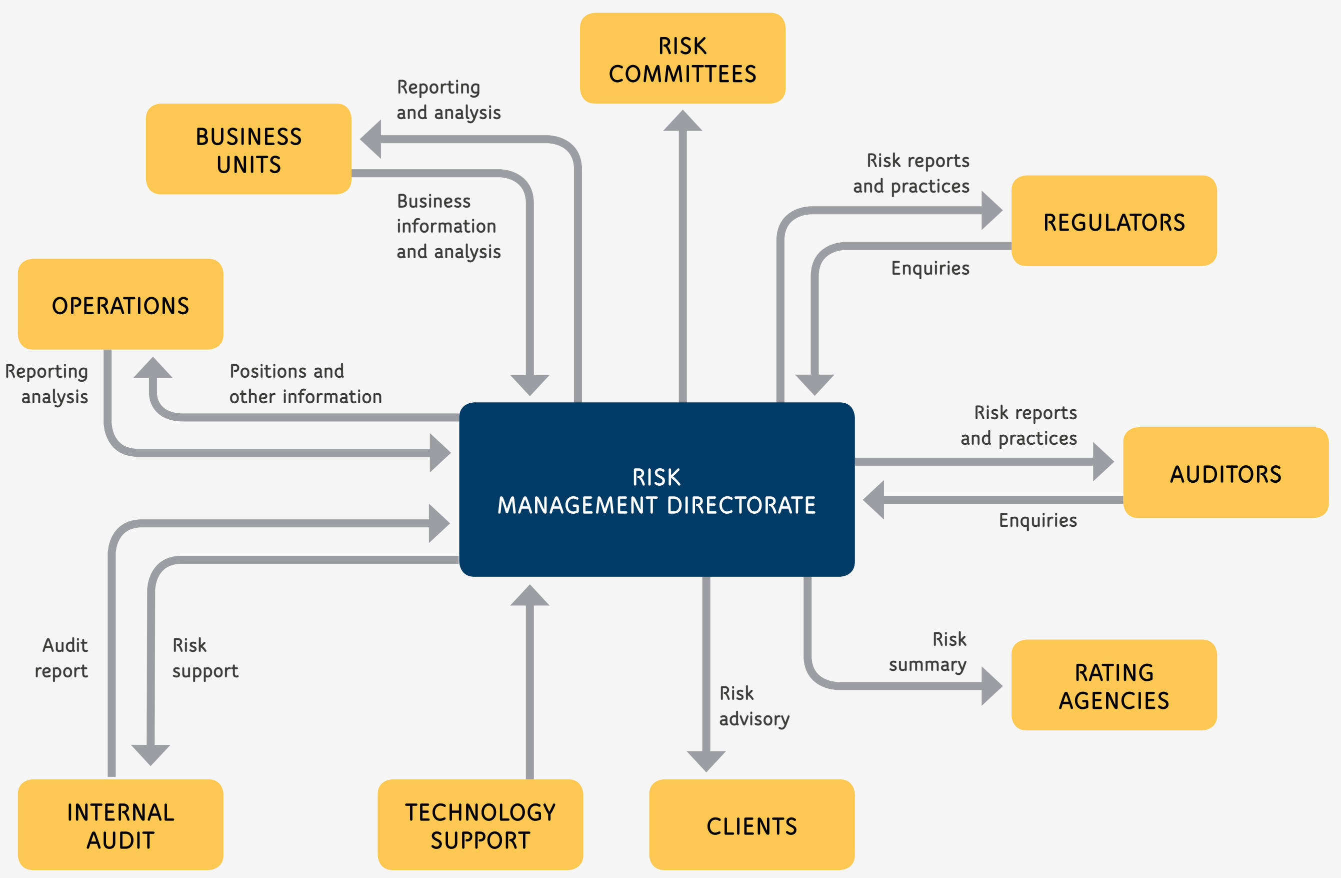
Without prejudice to the above, the internal control function performs second level verification of the holding company operations and testing of control measures across the Group. Furthermore, the internal audit has the responsibility of auditing the risk management function to ensure that all units charged with risk management perform their roles effectively on a continuous basis. Internal audit also tests the adequacy of internal controls and makes appropriate recommendations where weaknesses are identified with the view of strengthening the Group's risk management framework.

RELATIONSHIP OF RISK MANAGEMENT WITH OTHER UNITS

The relationships between the Risk Management Directorate (RMD) and other sections of the Group are highlighted below:

- sets policies and defines limits for other units in the Group;
- performs risk monitoring and reporting, and provides a framework for management of risk;
- other units provide relevant data to risk management for risk identification, monitoring and reporting, while risk management provides a framework for managing such risks;
- collaborates with market-facing units in designing new products;
- coordinates activities with internal audit to provide a holistic view of risks across the Group;
- makes recommendations with respect to capital allocation, pricing and rewards/sanctions based on risk reports; and
- collaborates with information technology support group to provide relevant automated credit operations process, such as credit scoring, loss databases, loan origination and management systems, etc.

Risk Management Directorate – relationships with other sections of the Banking Group



RISK MANAGEMENT DISCLOSURES

RISK FACTORS

The scope of risk impacting on FBN Holdings activities is as follows:

CREDIT RISK	Risk that an obligor will fail to perform its obligations under a trading or loan contract or when the ability to perform such obligations is impaired.
MARKET RISK	Risk that the value of on and off balance sheet positions of a financial institution will be adversely affected by movements in market rates.
LIQUIDITY RISK	Risk of loss to the Group arising from either its inability to meet its obligations or to fund increases in assets as they fall due.
OPERATIONAL RISK	Risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
LEGAL RISK	Risk of real or threatened litigation against the Group. It can represent significant costs, disrupt operations and reduce the earnings and capital of the Group.
COMPLIANCE RISK	Risk to earnings, capital or reputation occurring from violations of or non-conformance with laws, regulations, prescribed practices or ethical standards.
STRATEGIC RISK	Risk of loss arising from ineffective business strategies.

CREDIT RISK

OVERVIEW

Credit Risk Management (CRM) verifies and manages the credit process from origination to collection. In designing credit policies, due consideration is given to the Bank's commitment to:

- create, monitor and manage credit risk in a manner that complies with all applicable laws and regulations;
- identify credit risk in each investment, loan or other activity of the Banking Group;
- use appropriate, accurate and timely tools to measure and manage credit risk;
- adopt a risk-based approach for determining appropriate pricing for lending products and service offerings;
- set acceptable risk parameters;
- maintain acceptable levels of credit risk for existing individual credit exposures;
- maintain acceptable levels of overall credit risk for the Banking Group's portfolio; and
- coordinate credit risk management and other risks inherent in the Banking Group's business activities.

PHILOSOPHY

The following principles guide credit risk management across the Banking group:

- Deliberately manage its risk asset portfolio to ensure that the risk of excessive concentration to any industry, sector or individual customer is minimised.
- Ensure that exposures to any industry or customer are determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines.
- Extend credit only to suitable and well-identified customers.
- Never extend credit where the source of repayment is unknown or speculative, nor where the purpose/destination of funds is undisclosed.
- Risk considerations will take priority over business and profit considerations.
- Ensure that the primary source of repayment for each credit is from an identifiable cash flow from the counterparty's normal business operations or other financial arrangements; the realisation of security remains a fall-back option.
- Adopt a pricing model that reflects variation in the risk profile of various exposures to ensure that higher risks are compensated by higher returns.
- Ensure that products to be sold in the retail market are backed by approved product programmes.
- Ensure that the quantum of exposure, and quality and value of collateral required, are determined by the risk profile of the counterparty.
- Avoid all conflict of interest situations and report all insider-related credits to appropriate bodies.
- Ensure that there are consequences for non-compliance with the Bank's credit policies.

RESPONSIBILITIES AND FUNCTIONS OF KEY STAKEHOLDERS IN THE CREDIT PROCESS

In line with FirstBank Group's philosophy to entrench sound corporate governance in its operations, the credit division under risk management is structured to ensure the separation of policy, monitoring, reporting and control functions from credit processing functions. To this end, the functions of the division are handled at different levels by five departments, namely:

- Credit Analysis & Processing (CAP);
- Specialised Lending Department (SLD);
- Credit Risk Management (CRM);
- Remedial Business Unit (RBU) with a bias for proactive work-out of accounts showing early signs of weakness; and
- Classified Assets Management (CAM).

Credit Analysis & Processing (CAP) is responsible for the appraisal of non-specialised credit requests and processing to obtain requisite approvals in line with the Bank's policy. The department is constituted to handle requests from Strategic Business Units (SBUs) – Corporate Banking, Institutional Banking, Private Banking, Public Sector and Retail Banking. CAP also engages in the review of wholesale/retail/consumer credit product programmes.

Specialised Lending Department (SLD) is responsible for the appraisal of credit requests and processing through to final decisions of specialised types of credit, due to the peculiarity of such transactions in view of their size and complexity. Below is an outline of the portfolio being handled by SLD:

- project finance;
- power;
- oil and gas (upstream and downstream);
- utilities (water projects, etc.);
- transportation (mass transit, aviation);
- commercial real estate projects, i.e. projects conceived for commercial gain;
- infrastructure, including public assets concessions (roads, airports, etc.);
- agricultural credit product programmes;
- financial institutions credit requests; and
- public sector.

Credit Risk Management (CRM) is responsible for the planning, monitoring and reporting of the credit portfolio. The monitoring of loans on obligor and portfolio basis, as well as the reporting of these to Management and the Board, remains the core responsibility of CRM. The monitoring unit is delineated along the SBUs to provide independent support and guidance to the relationship teams in the management of facilities, by ensuring early

CREDIT RISK

warning signs of deterioration are promptly picked up and remedial action is set in motion. The credit control unit is responsible for ensuring adherence to control measures, confirming approval of credit, conveying approvals and ensuring conditions are satisfied. CRM has ownership of all rating systems/ scorecards and recommends and monitors the credit risk appetite for the year a well as reporting periodically to the Board and management. The department serves as the credit secretariat and manages the documentation and other credit process initiatives for the Banking Group.

Remedial Business Unit (RBU): In order to reduce the level of loan default in a tough operating environment, emphasis will continue to be placed on prompt identification of weak assets for active loan work-out and remedial management. Effort will be geared to independently follow up on customers with delinquent assets before the level of delinquency becomes irreversible and thereby reduce the level of potential loss in the portfolio.

Classified Assets Management (CAM) will remain responsible for the recovery of classified retail loans that are 90 days past due (DPD), wholesale accounts classified lost with DPD of over 540 days and accounts written off from on balance sheet into CAM Service Outlet SOL. CAM will continue to liaise with debt recovery agents, receivers/managers and solicitors to ensure effective recovery of bad loans.

INTERNAL RATINGS SCALE

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Banking 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; and
- credit history of the counterparty and likely recovery ratio in case of default obligations – value of collateral and other ways out.

The Banking 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 Banking Group regularly validates the performance of the rating and their predictive power with regard to default events.

OBLIGOR RISK RATING (ORR) SYSTEM

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

Description	Rating bucket			Range of scores	Probability of default (%)	Grade
Extremely low risk	AAA	1	1.00-1.99	90-100%	1	Investment
Very low risk	AA	2	2.00-2.99	80-89%	1	
Low risk	A	3	3.00-3.99	70-79%	1.5	
Low risk	BBB	4	4.00-4.99	60-69%	2	
Acceptable – moderately high risk	BB	5	5.00-5.99	50-59%	4	Non-investment
High risk	B	6	6.00-6.99	40-49%	6	
Very high risk	CCC	7	7.00-7.99	30-39%	9	
Extremely high risk	CC	8	8.00-8.99	10-29%	13	
High likelihood of default	C	9	9.00-9.99	0-9%	15	
Default risk	D	10				Default
Sub-standard	D				25	
Doubtful	D				50	
Lost	D				100	

CREDIT RISK

COLLATERAL RISK RATING (CRR)/FACILITY RISK RATING (FRR)

The Banking Group shall not lend to non-investment grade obligors without any form of collateral, except as specified under a product programme. Collaterals are rated from best to worst in order of liquidity, controllability and realisable value. The more liquid a collateral is, the lower the estimated portion of the exposure that may not be covered in the event of default. Therefore, for highly illiquid collaterals, a higher loss given default is assumed.

Under the internal rating systems, all facilities should have a facility risk rating (FRR), which is different from the ORR, to the extent of the perceived value of the collateral provided.

RISK LIMIT CONTROL AND MITIGATION POLICIES

The industry and portfolio limits are set by the Board of Directors on the recommendation of the Chief Risk Officer. Credit Risk Management monitors compliance with approved limits.

PORTFOLIO LIMITS

The Banking Group engages in a detailed portfolio plan annually. In drawing up the plan, the Bank 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 Bank's target loan portfolio is then distributed across acceptable target market industries, Strategic Business Units and approved product programmes. Portfolio limits are set on the following:

- aggregate large exposure limit as a percentage of shareholders' funds;
- public sector exposure; and
- industry/economic sectors based on risk rating and correlated industries.

GEOGRAPHIC LIMITS

The Banking Group takes a few exposures on counterparties domiciled outside its area of operation. Such exposures are mainly taken through the Bank in the UK, which operates within country limits defined by its Board of Directors. The Banking Group has a fully developed country risk rating system that is employed in defining limits for countries.

SINGLE OBLIGOR LIMITS

Limits are imposed on loans to individual borrowers. The Banking Group as a matter of policy does not lend above the regulatory lending limit for country of its operations. In addition, internal guidance limits lower than regulatory limits are set to create a prudent buffer.

Product programmes contain guidelines on single obligor limits in order to promote diversification of the loan portfolio.

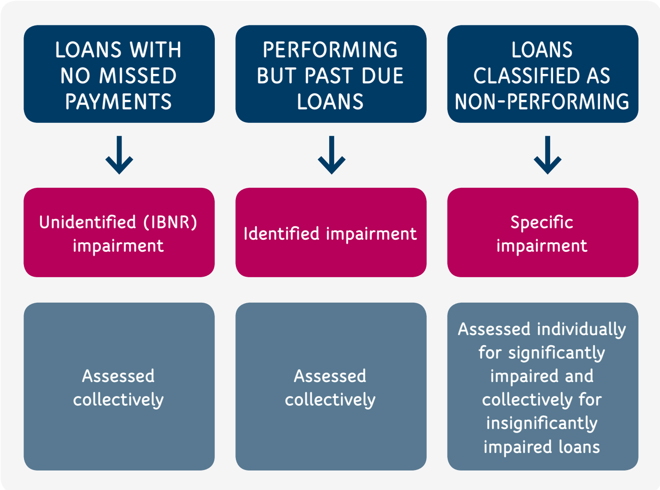
The Banking Group also sets internal credit approval limits for various levels in the credit process. Approval limits are set by the Board of Directors and reviewed from time to time, as market and risk conditions demand. Exposure to credit risk is also managed through regular analysis of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

CLASSIFICATION AND PROVISIONING POLICY

Classification and loan loss provisions are made in recognition of the requirements of International Financial Reporting Standard (IFRS) IAS 39, which estimates expected future losses based on an incurred loss model. Under this requirement, impairment provisions are made where the recoverable amount of a loan is less than the carrying amount.

Impairment is classified under three categories, namely:

- **Unidentified impairment:** collective impairment on a portfolio of performing loans where individual accounts cannot be identified as having experienced a loss event.
- **Identified impairment:** collective impairment on a portfolio of performing accounts where individual accounts can be identified as having experienced a loss event although default has not yet being established.
- **Specific/individual impairment:** individual impairment on a portfolio of non-performing loans where default has already been established.



Under the collective impairment methodology for identified and unidentified impairment, provision is calculated using a set of risk inputs determined by internal loan loss models. As a rule, a minimum of three years' data is used in model development for estimating the risk parameters namely; the Probability of Default (PD), the Loss Given Default (LGD) and the Incurred But Not Reported (IBNR) factor.

WRITE-OFF AND RECOVERIES

After a full evaluation of a non-performing exposure, in the event that either one or all of the following conditions apply, such exposure will be recommended for write-off:

- continued contact with the customer is impossible;
- recovery cost is expected to be higher than the outstanding debt;
- amount obtained from realisation of credit collateral security leaves a balance of the debt; or
- it is reasonably determined that no further recovery on the facility is possible.

CREDIT RISK

All credit facility write-offs shall require endorsement at the appropriate level as defined by the Bank. Credit write-off approval shall be documented in writing and properly initialled by the approving authority.

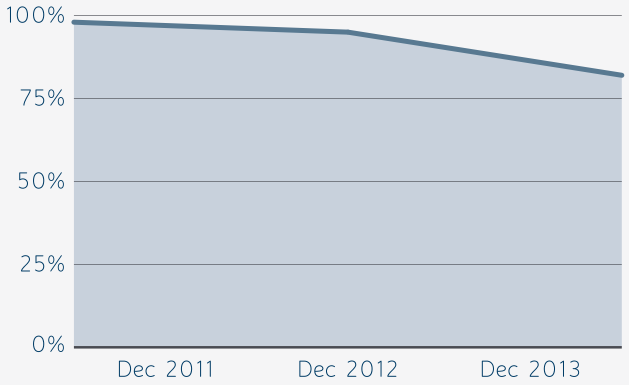
Whenever amounts are recovered on previously written-off credit exposures, the amounts recovered are recognised as income on a cash basis only.

PORTFOLIO RATIOS

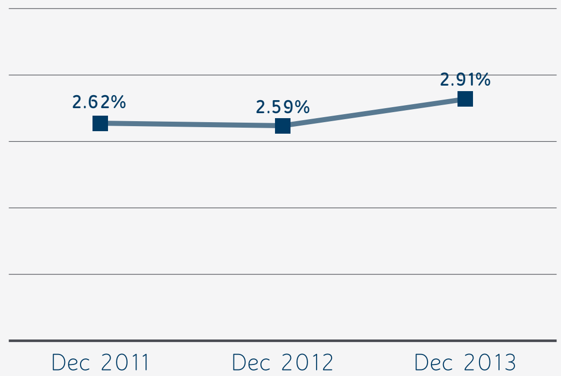
ASSET QUALITY RATIOS

Total non-performing loans (NPL) as at 31 December 2013 stood at ₦53.7 billion, with gross IFRS provisions of ₦45.2 billion resulting in loan loss coverage of 84%. Asset quality ratio for the period was 2.91% and is attributable to the recognition and classification of weak and delinquent assets in the portfolio.

Loan loss coverage



NPL ratio



PERFORMING BUT PAST DUE LOANS

Performing but past due loans are performing loans and advances where individual accounts can be identified as having experienced a loss event, but a default is yet to be ascertained. The gross amount of loans and advances by customer class that are past due but performing as at 31 December 2013 is as follows:

At 31 December 2013	Retail	Corporate	SME	Financial institutions	Total
Past due up to 30 days	26,558	49,410	172	42	76,182
Past due 30-60 days	4,988	62,777	100	40	67,905
Past due 60-90 days	1,008	7,420	31	-	8,460
	32,555	119,608	303	82	152,547

CREDIT RISK

INVESTMENT BANKING AND ASSET MANAGEMENT BUSINESS GROUP (IBAM)

The IBAM group's business model is primarily built on its strong facilitation and mediation capabilities, with respect to the financing needs of its clients. For this reason, it continues to maintain a very low credit risk profile. The credit exposures within the group are created through investments in financial instruments like bonds and commercial papers, as well as placements with financial institutions (FIs) within the money market.

The Risk Management Department manages these credit exposures, as part of its overall responsibility for stewardship of the group's risks. It achieves this through robust analysis of issuers as well as its FI counterparties, both internally produced and from reputable external sources. This analysis includes the use of ratings to determine credit quality and fit with the group's own appetite for credit risk. Limits on the size and type of exposure to counterparties as well as some types of issuers are used to control risks and these limits are reviewed at least annually.

As the group continues to expand its businesses and product offerings, opportunity for exposure to credit risk will increase. For this reason, the group is committed to developing its infrastructure to better equip it for these new challenges. Key to this is the development of its business and support staff to raise overall risk awareness and to provide new tools for the management of those risks.

INSURANCE BUSINESS GROUP

The Company's financial instruments do not represent a concentration of credit risk because the business deals with a variety of reinsurers. The regulator of the insurance industry, National Insurance Commission (NAICOM), enforced the 'No-Premium-No-Cover' law in 2013; hence there are no premium receivables as business was done on a cash basis. However, all premiums outstanding (2012 business) have been fully provided for and an appropriate level of provisioning is maintained. Exposure to outside financial institutions concerning deposits and similar transactions is monitored against approved limits. There are no material financial assets that are past due but not impaired.

The group reviews reinsurance companies that it conducts business with (co-insurer and reinsurer) to ensure they are also companies with high international or similar credit ratings.

OTHER FINANCIAL SERVICES BUSINESS GROUP (FBN MFB)

The entity derives its credit risk management function from the Banking Group, which also provides oversight for its risk management function.

CREDIT FUNCTIONS

- To review credit applications recommended by risk management and to provide independent risk assessment and recommendation to MD/CEO/ Board for approval
- To provide advice/assistance regarding all credit matters to line management/loan officers.

MONITORING FUNCTIONS

- Directly manage all substandard, doubtful and loss accounts to facilitate recovery and ensure that appropriate and timely facility loss provisions have been made.

CREDIT ADMINISTRATION

- To ensure that all security documentation complies with the terms of approval and is enforceable
- To monitor insurance coverage to ensure appropriate coverage is in place over assets pledged as collateral, and is properly assigned to the Bank
- To control facility disbursements only after all terms and conditions of approval have been met, and all security documentation is in place
- To maintain control over all security documentation
- To monitor borrowers' compliance with covenants and agreed terms and conditions, and generally monitor account conduct/performance.

ASSET QUALITY

Total non-performing loans as at 31 December 2013 stood at ₦586 million with gross provisions of ₦95 million resulting in loan loss coverage of 16.18%. Non-performing loans to gross loans ratio for the period was 15.7% against 15.5% recorded in December 2012. Decline in asset quality was occasioned by various socio-economic issues, including the tightening of the market environment, which led to the recognition and classification of weak and delinquent assets in the portfolio.

OUTLOOK

The outlook for the operating environment remains cautious. We expect the banking environment to be shaped by the pressures of increased regulation and heightened competition. With regard to economic growth, it is expected that production volumes will increase in the manufacturing and agriculture sectors as a result of likely improvement in electricity generation, thereby resulting in a possible year-on-year growth. The expected improvement in the supply of electricity is premised on the full privatisation of the power sector, which would have the attendant impact of reducing cost of production and increasing capacity. Small- and medium-scale enterprises are also expected to begin to experience a new lease of life, as cost of production attributable to power consumption begins to drop and access to finance improves.

The oil sector which remains the mainstay of the Nigerian economy requires reforms in the face of emerging threats to demand in the near future. The divestment by major international oil companies, coupled with a dearth of new major investments in the industry, were key concerns in 2013. The non-passage of the Petroleum Industry Bill, and increased crude oil theft and insecurity, constitute major challenges that the industry still has to contend with in 2014.

Key drivers for revenue growth in the coming year include increased transaction volumes and support for businesses with strong cash flows. We will remain focused on the quality and profitability of new businesses, and will continue to be more discerning about risk assets in our portfolio. We expect growth to be driven by power, oil and gas, retail, manufacturing, telecommunications and general commerce in the coming year. We will continue to promote sound portfolio management practices by ensuring a well-diversified portfolio to dilute any build-up of concentration that may expose the Group to unmitigated risks. Early remedial action will be emphasised to reduce delinquent exposures as we strive to achieve an optimal mix of assets in our portfolio.

MARKET RISK

OVERVIEW

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 comes from positions in currencies and securities held in our trading portfolio, arising from our assets management, insurance, commercial and investment banking business, as well from other non-trading activities.

The movement in market risk variables may have a negative impact on the Group's financial position or performance mainly as a result of:

- interest rate movements due to 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.

The objective of market risk management in the Group and across member entities is to manage exposures and optimise returns, while maintaining a market profile consistent with our status in the various industries in which we operate.

PHILOSOPHY AND RISK APPROACH

FBN Holding's market risk management philosophy is disciplined risk-taking within a framework of well-defined risk appetite that aims to deliver value advantage to superior shareholders through effective use of risk capital.

FBN Holding's market risk management framework is evolving and is deeply rooted in the following principles:

- well-defined market risk appetite in each entity;
- market risk exposure maintained at levels consistent with available capital; and
- stable, reliable and consistent methodology for identifying, measuring, controlling, monitoring and reporting market risk across the individual entities.

GOVERNANCE

Oversight of the market risk management framework in the Group is vested in the Board of Directors of member entities, operating through the Board Audit & Risk Assessment Committee (BARAC).

The BARAC is responsible for the:

- approval of market risk management framework, policies, strategies, guidelines and philosophy;
- provision of oversight for the implementation of market risk management policies; and
- approval of market risk-related limits for the Commercial Banking business.

Management oversight is provided by the Assets & Liabilities Management Committee (ALCO) in various institutions and is the highest technical body responsible for market risk management.

The ALCO, made up of executive directors and other relevant divisional heads, is responsible for:

- reviewing policies relating to market risk management and making recommendations to the Board;
- providing management oversight for the implementation of market risk policies;
- reviewing market risk strategy and recommending it for Board approval;
- developing policies, procedures, tools and systems for identifying, measuring, controlling and reporting market risks;
- evaluating market risk inherent in new products;
- ensuring compliance with statutory and regulatory requirements relating to market risks;
- reviewing and recommending for approval market risk-related limits, i.e., position, concentration, currency, dealing gap, total portfolio and counterparty limits; and
- approving the appointment of dealers.

The ALCO performs its technical functions through a Market Risk Policy Committee (MRPC).

The responsibilities of the MRPC as an advisory technical body responsible for market risk management include the following:

- recommending policies and guidelines for market risk measurement, management and reporting;
- ensuring that market risk management processes (including people, systems, operations, limits and controls) are in line with market risk framework;
- reviewing and recommending for approval or amendments, the market risk limits package (MRP), liquidity risk package (LRP), management action triggers (MATs) and triggers for accrual portfolios (TRAP) for all the risk taking units (RTUs);
- ensuring the certification of financial models and the effectiveness of the market risk systems and other systems used to calculate market risk;
- recommending changes in the market risk framework for ALCO's approval;
- recommending policies for identifying, measuring, monitoring, controlling and reporting market risk for ALCO's approval;
- providing oversight on limit exceptions and trigger breaks;
- recommending for approval the volatilities of risk factors, correlations of securities or currencies and credit risk factor tables (i.e. this will be a function of the type of contract, its tenor and the volatility of the underlying market factors) for different products;
- reviewing capital allocation, charge computations and stress tests reports;
- recommending steps to protect the Bank's capital ratios from the effects of changes in market risk factors;
- reviewing the market risk strategy periodically; and
- endorsing the appointment of the Head of Market and Liquidity Risk Department.

The day-to-day implementation of the market risk management policies, procedures and systems in the Commercial Banking business is delegated to the Head of the Market and Liquidity Risk Management Department who reports to the Executive Director and Chief Risk Officer. The Market and Liquidity Risk Department is responsible for:

MARKET RISK

- implementation of the framework and establishment of the market risk policy;
- defining identification standards and independent measurement, monitoring, controlling and reporting of market risk;
- definition, approval and monitoring of limits;
- performance of qualitative risk assessments; and
- performance of stress tests and scenario analyses.

PERFORMANCE

COMMERCIAL BANKING BUSINESS GROUP:

The Commercial Banking business uses VaR (value at risk) to estimate potential losses that could occur on its positions as a result of movements in market factors.

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.

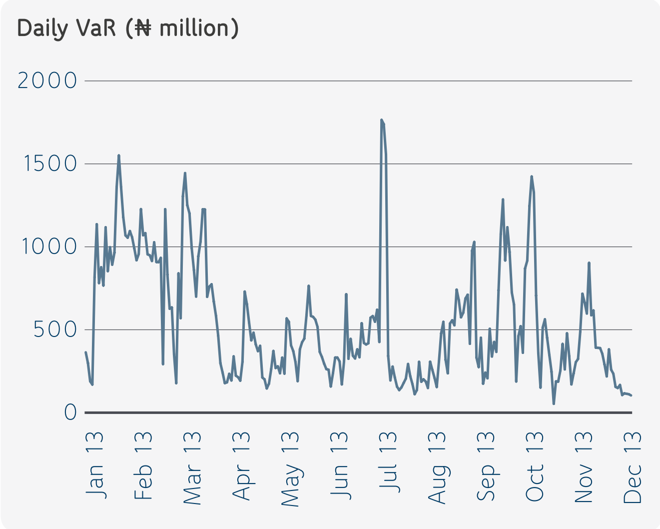
VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 99% and a 10-day holding period. The confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced three times per year in every 250 days.

The parametric method is used as the VaR methodology, with an observation period of two years obtained from published data from pre-approved sources. VaR is calculated on the daily position.

The table and graph below shows the trading VaR of the Commercial Banking business. The major contributors to the trading VaR are Treasury Bills and Foreign Exchange due to volatility in those instruments impacting positions held by the Bank during the period. The yield on various maturities for Treasury Bills declined by about 300 basis points on the average compared to the previous financial year, while the naira depreciated by about 2% in the interbank market.

DAILY VaR (@ 99%, 10-DAY) TRADING

	Average (₦ million)	High (₦ million)	Low (₦ million)	Actual (₦ million)
Bonds	30.14	301.00	-	-
Treasury Bills	497.55	1,714.39	26.25	100.72
Foreign Exchange	15.78	52.35	0.11	3.37



Stress testing

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

Stress testing is an integral part of the market risk management framework and 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 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 Commercial Banking business's holdings in rate-sensitive assets and liabilities, the Bank 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 the interest rate changes.

MARKET RISK

The Bank uses a variety of tools to measure non-tradable interest rate risk such as:

- interest rate gap analysis (which allows the Bank 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.

10

FBN Securities Limited is one of the 10 market makers appointed by the NSE

INVESTMENT BANKING & ASSET MANAGEMENT BUSINESS GROUP

The group is exposed to equity and interest rate risk in its portfolio management, proprietary trading portfolio, money market activities and its investment activities in general.

In equities, market risk is the exposure to adverse changes in equity prices as a result of market forces. There have been no approved parameters for trading on the Company's shareholders' funds and as such no proprietary trading is currently being undertaken in equities. However, the Company retains some of its capital in quoted equity investments. These holdings form part of our investment book, with no active trading done on those positions in the course of the year.

Market making on the Nigeria Stock Exchange (NSE) officially commenced in September 2012. FBN Securities Limited is one of the 10 market makers appointed by the NSE.

As opposed to traditional investors in equity markets who seek to profit from directional moves in equity prices, market makers seek to profit by providing trading liquidity in the stocks for which they make markets. The presence of market makers enhances the ability of investors to execute a trade (either buy or sell) in a stock, whenever they decide to do so. As an approved market maker, FBN Capital adds liquidity in the trading of designated stocks by posting prices at which we will buy the stock (bid prices) and prices at which we will sell the stock (offer prices) all through the trading day.

By virtue of the specific activity undertaken in market making, there is a need to maintain a holding of stocks in inventory. As such, the primary risk faced by the market making operation is equity market risk – the risk of losses arising from adverse movements in market prices for securities held in inventory. To mitigate this risk, a multi-tiered approach to risk management is employed. We:

(i) ensure risk diversification by making markets in a selection of stocks in different sectors and apply explicit limits to positions in each sector;

(ii) define position limits for each stock in which we make markets based on market activity levels; and

(iii) detail stop-loss limits that restrict loss of capital over a period of time in a given stock.

The Group has no active trading position in any fixed income securities that can give rise to traded market risk, however, fixed income securities holding in the investment book exposes the group to interest rate risk. We continue to manage these associated interest rate risks through a comprehensive balance sheet management process.

INSURANCE BUSINESS GROUP

Market risk in the Insurance group arises from the uncertain movement in fair value or net asset value of the investments that stem principally from potential changes in sentiment towards the investment, the variability of future earnings that is reflected in the current perceived value of the investment and the fluctuations in interest rates and foreign currency exchange rates. Policyholders' investments in equities are valued at fair value and are therefore susceptible to market fluctuations.

Policyholders' funds are invested in line with the approved mandates based on the design of the product and marketing descriptions. The funds are invested with the aim of maximising return on the funds and ensure that the policyholders' reasonable expectations are met. The focus of risk measurement and management is to ensure that the potential risks inherent in an investment are reasonable for the future potential reward, exposure to investment risk is limited to acceptable levels, premium rates are adequate to compensate for investment risk and an adequate reserving policy is applied for long-term policy liabilities.

The diverse product range requires a variety of approaches to the management of risk; these range from portfolio management practices and techniques, such as optimisation of expected risks and rewards based on investment objectives, to asset-liability matching in support of statement of financial position obligations.

An investment management contract exists with FBN Capital Limited to ensure investment income stability and asset security, and appropriately manage associated risks.

MARKET RISK

OUTLOOK

The year 2013 turned out to be a pleasant surprise for global markets due to smooth navigation through many potential shocks and high instability that culminated to a downbeat outlook for the global economy in the year. The coherent growth recorded for the major global economies in the twilight of the year spurs a positive backdrop for the year ahead; we expect year 2014 to be a better year for global growth.

The Nigerian economy will likely continue to record modest growth in 2014 despite the expectation of relative political dysfunction being a pre-general election year. The re-basing of the Nigerian Gross Domestic Product (GDP) is expected to push the economy's size to be the largest in Africa with an estimated size of about $400 billion; from its current level of $285 billion while the implementation of the Nigerian Financial Inclusion Strategy (NFIS) will engender necessary fillip to the banking sector and further strengthen the financial market.

There will be a reprising of risk globally in 2014 as abundant liquidity due to quantitative easing (QE) starts to get rolled back by the US Federal Reserve. The tapering decisions will pull funds from the emerging market including Nigeria and continue to remain imminent on prices in the fixed income market, but strong local demand for government bonds is expected to support prices. It is our expectation that short-term interest rates will gyrate around the contemporary level to maintain reasonable USD inflows into the fixed income market. We believe most of the foreign inflows into the debts securities will be channelled towards the short-end of the curve (treasury bills).

50%

Increase in CRR on public sector deposits

For the second consecutive year, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) kept the monetary policy rate unchanged all through the year 2013 but altered some policy tools to accomplish effective liquidity management. The funding benchmark rate was kept on hold to consolidate the success achieved so far in attaining price and exchange rates stability. With the huge redemption of OMO bills issued in the half of 2013 and the inflation target of 6-9% in 2014 (amid expected increase in government spending), we expected further monetary tightening. Hence, the possibility of the MPC further increasing the Capital Requirement Regulation (CRR) on government deposits and/or that of private sector in 2014 cannot be ruled out, in a bid to curtail inflation.

While we believe the 6-9% inflation target will be achieved in the half year 2014, the growing potential for fiscal slippage amid weakening oil revenue and expenditure overruns ahead of the 2015 general election and some state elections in 2014, as well as pressure on local currency, will likely spark inflationary tendencies towards the upper band of the CBN's projections later in the year.

The frantic efforts of the CBN, continuous monetary tightening and huge portfolio inflows (due to the high interest rate environment which endears incentives to hold NGN assets domestically) have helped to boost the naira's resilience against the US dollar compared to other emerging market currencies, though largely at the expense of dwindling external reserves. We anticipate more pressure in the Nigerian FX market due to strong demand amid the US Federation's cutting back on its monthly assets purchases in 2014. However, we are also more optimistic that the CBN will step in to address any short-term pronounced weakness of the naira through the remaining tenure of the present CBN governor ending in June 2014. The CBN will likely keep the interbank exchange rate around 159-161/USD in 2014.

The equity market recorded remarkable advancement in 2013 to further boost the bullish trend witnessed in 2012 as improved corporate earnings among highly capitalised companies in the preceding year were sustained despite the challenging interest rate environment (50% increase in CRR on public sector fund) in the third quarter of the year. We are positive that the equity market will remain attractive in 2014; though the gain in prices will be capped as institutional investors are likely to cut down on their investments due to the usual uncertainties associated with the nation's general elections while the impact of the cut in US stimulus is also significant.

We expect oil prices to remain elevated in 2014. Though there is an expectation of a supply glut (due to a plausible rise in supply from the US, Iran and Libya) we believe the rising global growth will equally boost demand and absorb the impact of supply.

We anticipate a sustained stability in the financial system in 2014 as the Apex Bank continues to pursue its reforms in the banking sector. The successful completion of sales of the nationalised banks in 2014 could enhance competitiveness in the banking industry. However, possible alterations to recent policies of the Central Bank by the new governor that will take over in June remain unclear and could be make the regulatory environment challenging in 2014.

FirstBank will continue to monitor financial market activities to guide our strategic decisions, stay atop of competition and seek ways to exceed expectations. It is obvious that regulatory changes around the globe are presenting new strategic and potentially systemic risks while economic and financial market conditions will continue to pose both short- and long-term risks. The Bank will proactively track macroeconomic fundamentals, adapt to the rapid changing business environment and maintain profitability.

LIQUIDITY RISK MANAGEMENT

OVERVIEW

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

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

The objective of FBN Holding's liquidity risk management is to ensure that all anticipated funding commitments within the Group and member institutions can be met as and when due and that access to funding sources is coordinated and cost effective.

RISK APPROACH

FBN Holding's liquidity risk management ensures the maintenance of an optimal level of liquidity through the active management of both assets and liabilities, while complying with regulatory requirements and optimising returns.

Liquidity risk management is primarily undertaken in our various operating entities in compliance with policies and limits set by the entity's risk management oversight committee. These policies are usually adapted to the markets and industry sectors in which the entities operate. Our general policy is that each entity must manage its liquidity and on a standalone basis.

The following principles guide liquidity risk management across the Group:

- a robust liquidity risk management framework that ensures maintenance of sufficient liquidity to withstand a range of stress events;
- clearly articulated liquidity risk tolerance appropriate for the Group's business strategy and its role in the financial system;
- alignment of risk-taking businesses with resultant liquidity risk exposure in fund transfer pricing, performance measurement and new product approval process.
- sound process for identifying, measuring, monitoring and controlling liquidity risk including a robust framework for projecting cash flows arising from assets, liabilities and off balance sheet items over appropriate set of time horizons;
- a clear funding strategy that provides effective diversification in the sources and tenor of funding;
- ranking and prioritisation of funding sources by stability;
- early warning indicators of liquidity risk to aid the prompt identification of liquidity risk, such as concentrations either in assets or liabilities, deterioration in quality of credit portfolio, a large size of off balance sheet exposure; and
- a comprehensive contingency funding plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations.

GOVERNANCE

FBN Holding's risk governance structure is evolving; the overall philosophy is to institutionalise sound world-class risk management practices across the member companies.

Executive management oversight for all risk types will be delegated by the Group Executive Committee, the MANCO, to a Group Risk Oversight Committee, which will implement a homogenous risk management framework across the Group by recommending for approval by the relevant board committees:

- levels of risk appetite;
- stress testing requirements;
- risk governance standards for each risk type;
- risk strategy and key risk controls across the Group; and
- utilisation of risk appetite, as well as the usage and allocation of economic capital.

Executive management in each business unit will be responsible for ensuring the implementation of Group risk governance standards.

Governance structures are currently maintained at individual business group levels, in order to aid coordination across analogous business lines and regulatory environments.

COMMERCIAL BANKING BUSINESS GROUP

The Assets & Liabilities Management Committee (ALCO) provides oversight for the Commercial Banking business's liquidity risk management function.

The ALCO, made up of Executive Directors and other relevant divisional heads, is responsible for the following:

- review of policies relating to liquidity risk management;
- recommendation of liquidity risk policies to the Board;
- review of liquidity risk strategy and recommendation of the same for Board approval;
- provision of management oversight on the implementation of policies relating to liquidity risk;
- monitoring of liquidity risk inherent in the maturities mismatch of assets and liabilities;
- development of policies, procedures, tools and systems for identifying, measuring, controlling and reporting liquidity risks;
- ensuring compliance with statutory and regulatory requirements relating to liquidity risks;
- review of and recommendations on liquidity risk-related limits for approvals; and
- approving stress scenarios and contingency funding plan assumption.

Implementation of market and liquidity risk management policies, procedures and systems is delegated to the Head of the Market and Liquidity Risk Management department who reports to the Executive Director and Chief Risk Officer.

LIQUIDITY RISK MANAGEMENT

INVESTMENT BANKING & ASSET MANAGEMENT BUSINESS GROUP

The Management Committee (MANCO) provides oversight for the liquidity risk management function in the IBAM Group.

The MANCO is made up of senior management and heads of the Company's various divisions and has the following responsibility:

- managing the implementation of the Company's strategic policies as approved by the Board;
- making proposals to the Board Committees on the Company's policies, including liquidity risk management;
- reviewing of policies relating to liquidity risk management;
- recommending of liquidity risk policies to the Board; and
- provision of management oversight to implement liquidity risk management policies.

INSURANCE BUSINESS GROUP

The Investment Committee is responsible for providing oversight to the liquidity management function. They are responsible for:

- ensuring that insurance and investment contract liabilities are matched with appropriate supporting assets based on the type of benefits payable to the contract holders;
- ensuring that the long-term investment return on assets supporting policy liabilities are sufficient to fund policyholders' reasonable benefit expectations and shareholders' profit entitlement; and
- the implementation and monitoring of the asset management process to ensure that the risks arising from trading positions are effectively managed within pre-determined risk parameters.

OTHER FINANCIAL SERVICES BUSINESS GROUP

Top management provides oversight for the liquidity risk management function in the Group in line with the Central Bank of Nigeria's microfinance policy guidelines.

PERFORMANCE

COMMERCIAL BANKING BUSINESS GROUP

The Commercial Banking business operates within the regulatory Liquidity Risk Management framework of the Central Bank of Nigeria and other regulatory bodies in the host countries. The regulatory guidelines stipulate:

- the eligible liquid assets or instruments;
- minimum liquidity ratios and limits;
- illiquidity determination and intervention; and
- maintenance of liquidity reserves.

The principal mechanism for implementing the liquidity policies within the Commercial Banking business is the maintenance of liquid assets to deposit ratio over and above the defined regulatory minimum.

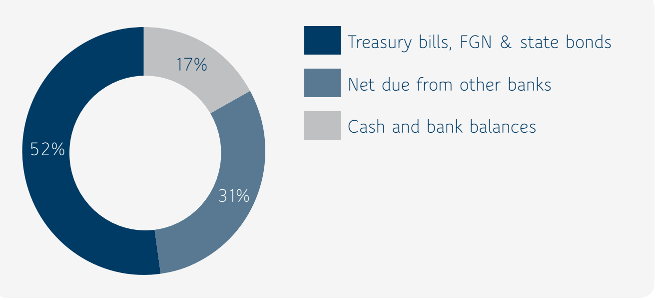
The liquidity ratio is interpreted in conjunction with cash flow projection and liability concentration ratios to measure exposure to liquidity risk. The cash flow technique used is the maturity ladder, which assesses all cash inflows against outflows to identify the potential for net shortfalls or net funding requirements.

The liquidity and funding management process also includes the preparation of multi-currency balance sheets, assessing cash flows by major currencies and projecting cash flows under stress scenarios.

The use of concentration ratios prevents the Banking Group from relying on a limited number of depositors or funding sources.

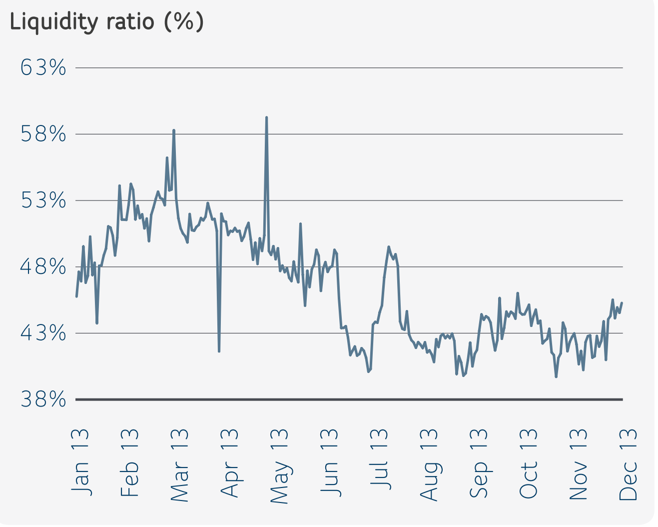
Liquid assets portfolio composition

Commercial Banking business group	₦ billion
Cash and bank balances	210.43
Net due from other banks	369.22
Treasury bills, FGN & state bonds	629.27
Total liquid assets	**1,208.92**



Liquidity sources, diversification, trend

The Commercial Banking business is funded primarily by a well-diversified mix of retail and corporate deposits; a funding base that ensures stability and low funding cost with minimal reliance on higher cost time deposits and interbank takings as significant sources of funding. The Group places considerable importance on demand and savings deposits, which provide over 85% of its funding base. Although these accounts are contractually repayable on demand, in reality, they are stable and have formed a core component of the Group's liabilities.



LIQUIDITY RISK MANAGEMENT

The Bank maintained a stable liquidity position during the year, with an average liquidity ratio of 46.49%.

FBN UK is regulated in the United Kingdom by the Financial Services Authority (FSA) who set the required liquidity mismatch parameters. The liquidity structure of its assets, liabilities and commitments are managed so that cash flows are appropriately balanced to ensure that all funding obligations are met when due and the required mismatch parameters by the FSA are not breached. The policy of the Group is to match the maturities and currencies as far as practicable for all (and particularly large) exposures or placements.

Maturity analysis of liabilities is based on the contractual cash flow and on the earlier of the periods to the next interest rate pricing date or the maturity dates.

INVESTMENT BANKING & ASSET MANAGEMENT BUSINESS GROUP

The Group ensures the maintenance of ample liquidity to meet the various financial obligations, as and when due, by actively managing its funding and cash flows within approved limits in order to maintain an optimal funding profile and manage liquidity costs.

INSURANCE BUSINESS GROUP

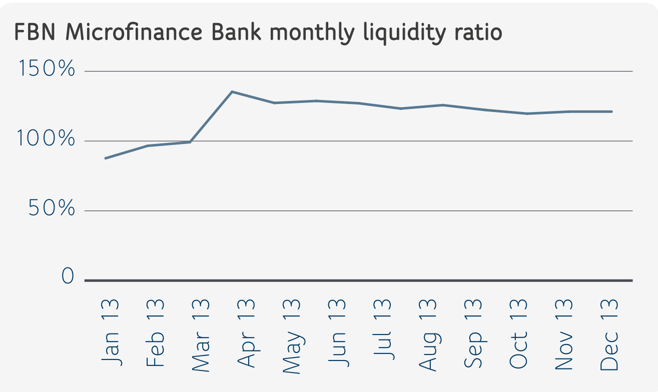
Liquidity risk is the risk that the business will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk arises when there is a mismatch between the maturities of liabilities and assets.

Liquidity mismatches are managed by ensuring that all policyholders' funds are invested in appropriate assets to meet the reasonable benefit expectations of policyholders, which include the expectation that funds will be available to pay out benefits as required by the policy contract.

The Insurance group was able to pay all benefits as and when due during the year.

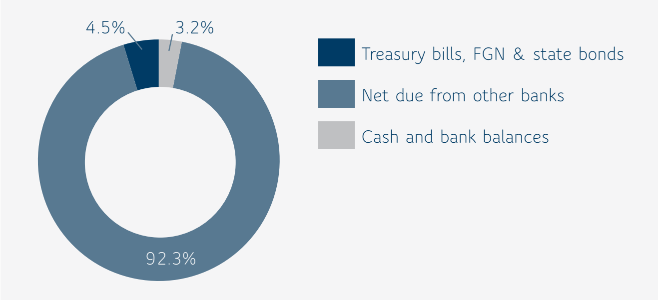
OTHER FINANCIAL SERVICES BUSINESS GROUP

FBN MFB is primarily funded by micro savings and corporate deposits. The micro savings are short term, but the Bank's concerted efforts at maintaining good liquidity, aggressive drive for savings through introduction of schemes, like My Daily Savings Account (MDSA) and mandatory deposits on loans, have helped in maintaining stability of liquidity. These deposits come at a very minimal cost.



Liquid assets composition

FBN Microfinance Bank	₦ billion
Cash and bank balances	0.07
Net due from other banks	1.97
Treasury bills, FGN & state bonds	0.10
Total liquid assets	**2.13**



The Bank ensures there is no mismatch of funds; fixed deposits are strictly invested in the interbank money market while risk assets are funded from the pool of stable savings deposit and part of unused paid-up capital.

OUTLOOK

The Group is positioned to consolidate its strong liquidity position in 2014, ensuring that financial obligations are met as and when due at minimal cost, by maintaining a well-diversified funding base sourced from economical and stable sources.

Increased market penetration and value chain banking will be key strategies for providing a stable, low-cost deposit base for the Group, especially as the banking industry becomes stronger and offers fortified brands to customers on the back of recent business combinations.

Deposit cost may trend higher than 2013 levels as competition intensifies. Maintaining deposit stability will be key to stable liquidity positions across the Commercial Banking business sector especially as the velocity of money transfer increases with the availability of non-conventional electronic transaction channels.

General market liquidity will be largely dependent on the fiscal and monetary policy directions of the government in 2014. We expect sustained attention to fiscal discipline throughout the tiers of government, and continuous support for the local currency underpinned by the CBN's regular liquidity mop-up to keep a lid on demand for FX and inflationary pressures.

LIQUIDITY RISK MANAGEMENT

CAPITAL MANAGEMENT

OVERVIEW

FBN Holding's capital management framework is aimed at ensuring that the Group and its members are capitalised in line with the risk profile, economic capital standards and regulatory requirements.

RISK APPROACH

The Group's capital management approach will aim to achieve a functional balance between capital levels that support business growth while maintaining depositor confidence and providing sustainable returns to shareholders.

FBN Holding's capital management strategy will aim to allocate capital to businesses based on their economic profit targets, with due consideration of cost of capital and within regulatory and economic capital requirements.

GOVERNANCE

FBN Holdings will establish a Capital Management Committee that will ensure the maintenance of discipline over its investment and capital allocation decisions, while seeking to ensure that returns on investment are appropriate.

PERFORMANCE AND OUTLOOK

The Commercial Banking business operates within the regulatory capital management framework of the Basel Committee on Banking Supervision, the Central Bank of Nigeria and other regulatory bodies in the host countries. The regulatory guidelines stipulate minimum capital requirements and capital measurement.

The Commercial Banking business's capital management policies are in tandem with the relevant regulatory frameworks, ensuring the maintenance of capital over and above the regulatory minimum, and maintenance of economic capital that is sufficient for the members' risk profiles.

CAPITAL COMPOSITION AND ADEQUACY

	Dec 2013	Dec 2012
Capital adequacy ratio	16.95%	18.63%
Capital composition:	₦ million	₦ million
TIER 1:		
Paid-up capital	16,316	16,316
Reserves	336,141	329,863
TIER 2:		
Long-term debt stock	48,898	41,916
Reserves	6,534	2,560
Total qualifying capital	407,888	390,655
Qualifying risk weighted assets	2,405,831	2,097,256

The capital management framework for the non-banking entities within FBN Holdings ensures discipline over investment and capital allocation decisions that protect shareholders' investments as well as customers' funds, and guarantees continuous profitable operations within the stipulated regulatory environment.

OPERATIONAL RISK

OVERVIEW

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. This definition includes legal risk, but excludes reputational risk. Therefore, in line with the Basel II risk management framework and best practices, operational risk in FirstBank is composed of the following risk types: operations risk, legal risk, regulatory compliance risk, financial crime risk, people risk, property, technology, vendor, financial, and social and environmental risk.

The Group recognises the significance of operational risk which is inherent in all areas of our business. Operational risk is managed within acceptable levels through an appropriate level of management focus and resources.

Components of operational risk

OBJECTIVES

The Group is committed to the management of operational risks. The Group's operational risk management framework aims to:

- reduce losses arising from operational risk – a key role of operational risk management in the Group is to reduce losses from operational failure and, in particular, avoid potentially large or catastrophic risk losses;
- improve performance measurement – the Group's improved understanding of its operational risk profile will enable appropriate allocation of risk and economic capital to individual lines of business, which will improve performance measurement and evaluation of activities;
- ensure better control of operations – the Group expects that increased understanding of risk activities within various business units, the Board and senior management will lead to improvements in the control of operations and the emergence of a more proactive operational risk management culture;
- provide early warning signals of deterioration in the Bank's internal control system; and
- raise awareness of operational risk in the Bank from top to bottom through the implementation of an enterprise-wide operational risk approach.

PHILOSOPHY AND PRINCIPLES

The following philosophy and principles govern the management of operational risk in FirstBank:

- The Board of Directors is responsible for setting the operational risk strategy of the Group and its implementation.
- The Board approves and periodically reviews the operational risk management framework.
- Operational risk in the Bank is coordinated through a centralised and independent operational risk management function.
- Ownership, management and accountability for operational risk is decentralised with businesses and functional units.
- There are consistent standards for defining, evaluating, measuring, monitoring and reporting operational risk.
- The Group's operational risk management practices are in line with Basel II.
- The Group's operational risk management practices are subject to regular independent review by internal and external auditors.
- Operational risk management is governed by well-defined policies and procedures, which are communicated clearly across the Bank.
- Operational risk-related issues are taken into consideration in business decisions, including new product and process designs.
- Operational risk and loss events are reported openly and fully to the appropriate levels once identified.
- Adequate processes and systems for identifying, measuring, monitoring, reporting and controlling operational risks are being implemented by the Bank.

OPERATIONAL RISK

METHODOLOGIES

In order to meet its operational risk management objectives, each business function within the Banking Group is required to identify, assess, measure and control its operational risk in line with the policy set by the Board.

Operational risk management process

The following are some of the key tools and techniques used by each business unit, in line with the nature and scale of the business risks.

Operational risk issues reporting using the issue and action module of SAS OpRisk monitor

This is used for operational risk issues reporting on an online real-time basis. Issues to be reported using this tool range from significant operational risk exposures, exceptions to key risk indicators (KRIs) analysis and trending, exception from control risk self-assessment (CRSA), operational and fraudulent losses incidences, significant control breakdowns rectified during the month, all exceptions to corporate governance standards and outstanding audit issues, and any other issues with operational risk implications.

Real-time incidence reporting

This is for reporting urgent and significant operational risk issues and events that have to be escalated to relevant senior management stakeholders within 48 hours of the incidence in addition to being reported through the issue and action module of SAS OpRisk monitor. Examples of significant operational risk issues are: armed robbery attack, fraud and losses.

Risk and control self assessment (RCSA)

RCSA is a key component of the Group's operational risk framework and involves, on a periodic basis, each business unit and support unit within the Banking Group proactively carrying out a self-check of their compliance with key controls put in place by management and a view to identifying areas of weakness and implementing remedial actions. The purpose of RCSA is to assess if specific controls are operating as intended. Exceptions, whether due to control lapses or human error, can highlight inherent procedural weaknesses that need to be addressed. Early detection of control weaknesses can help prevent systemic and recurring risks.

RCSA is used to check:

- compliance with relevant Bank policy and procedure manuals;
- compliance with regulatory requirements; and
- whether the key controls are effective in managing the risks.

Internal loss data

The tracking of internal loss event data is a key component of FirstBank's operational risk framework. Internal loss events and data are analysed with a view to focusing attention on where they are needed and to forestalling recurrence through sharing lessons learnt.

Key risk indicators (KRIs)

KRIs are measures that track the risk profile of the Banking Group. Each business unit within the Group develops and monitors KRIs for its significant risks, which:

- target key operational risk exposures for the business unit;
- enable management of the underlying causes of risk exposures;
- use thresholds aligned to FirstBank's risk appetite and enable risk-based decision-making;
- are monitored with a frequency that matches the nature of the risks;
- complement the self-assessment and loss-event collection processes; and
- are reported as part of monthly management reporting.

OPERATIONAL RISK

KEY OPERATIONAL RISKS

Major operational risks faced by the Group are financial crimes (internal fraud, external fraud and money laundering). Each incident is analysed, control failures are identified and new controls designed. Analysis also revealed that the quality of people and their integrity is a critical panacea to mitigating these key operational risks. As a result, the Group has adopted and developed a competency-based recruitment framework in which attitude, skills and knowledge are tested through background checks, psychometric tests and personality checks before engaging any employee. Also, the Bank has invested in enhanced physical security measures and collaborating with the security agencies to improve the protection of the Bank's assets. Other key counter-measures put in place include:

- enhanced staff training;
- enhanced Know Your Customer (KYC) drive and background checks on employees;
- issuance of appropriate and deterrent circulars;
- job rotation and segregation;
- dissemination of email and SMS alerts to the Bank's customers for each debit on their accounts;
- imposition of stiff disciplinary measures, including prosecution of fraudulent staff;
- installation of a panic alarm system, CCTV and deadman doors; and
- implementation of a rules-based anti-fraud solution.

STRATEGY

Failure to manage operational risk effectively often results in significant financial losses, regulatory fines or censure, reputational damage, brand erosion or even the loss of the banking licence, all of which directly impact shareholder value. Accordingly, the Banking Group's operational risk strategy aims to minimise the impact of operational risk on its shareholders' value. In more specific terms, the Group's strategy is to:

- reduce the likelihood of occurrence of unexpected events and related cost by managing risk factors and implementing loss prevention or reduction techniques to reduce variation in earnings;
- minimise the impact of unexpected and catastrophic events, including related costs through risk financing strategies that support the Group's long-term growth, cash flow management and balance sheet protection; and
- make all managers responsible for the management of operational risk and thus minimise actual or potential losses. The Bank recognises that some losses, such as operational errors, are inevitable and are normal business cost, but will ensure these costs are kept within acceptable levels and potential losses are minimised.

IN IMPLEMENTING THIS STRATEGY, THE GROUP:

- has put in place best-practice operational risk management policies and procedures. These include toolkits to help identify, assess, control, manage and report on operational risk within the Bank;
- ensures that roles and responsibilities are agreed and clearly understood by employees at all levels;
- ensures that all staff in business and support functions are aware of their responsibilities for operational risk management;
- considers the potential operational risk impact of its activities and products at the outset with a view to minimising these as far as possible;
- has put in place structures and processes for reporting control failures to designated individuals and escalating material issues to the Business Risk and Compliance Committee (BRCC), the MANCO and the BARAC;
- ensures that staff are provided with appropriate operational risk management training that is commensurate with their roles;
- establishes a workable business continuity plan (including disaster recovery and crisis management procedures) that minimises the impact of unexpected and catastrophic events on business operations and customer service;
- minimises the financial impact of operational losses, through management of risk factors and utilisation of insurance or other risk transfer strategies; and
- ensures that staff responsibility with respect to operational risk management is communicated through ongoing risk awareness workshops and management action.

OPERATIONAL RISK

GOVERNANCE

The overall responsibility for operational risk management in the Banking Group resides with the Board. The responsibility of the day-to-day management has been delegated as described in this section. On a regular basis, the Board receives reports on the Group's operational risk profile.

To ensure consistency and prudent management of operational risks, the responsibility for managing operational risk has been split as follows:

- the overall governance owned by the Board and Board Committees (Board Audit & Risk Assessment Committee (BARAC) and Management Committee (MANCO));
- the approval of operational risk Group policies and standards for risk identification, measurement, assessment, monitoring and reporting is the responsibility of the Board and Board Committees (MANCO and BARAC);
- the operational risk management framework owned by Group Operational Risk Management (ORM); and
- the implementation of the operational risk framework within the SBUs, SRFs, BDOs, branches, departments/business units and control and support units and the day-to-day management of operational risks is owned by their respective management and executed through their management structure, supported by operational risk relationship managers and nominated coordinators reporting to their respective senior management officials or their designates.

Operational risk governance structure

OPERATIONAL RISK

THE BOARD AND BOARD COMMITTEES

The Board of Directors, BARAC and the MANCO have overall oversight for operational risk management. It is their responsibility to ensure effective management of operational risk and adherence to the approved operational risk policies.

Board of Directors

The Board:

- sets the Bank's operational risk strategy and direction in line with the Bank's corporate strategy;
- gives final approval for the Bank's operational risk management framework, policies and procedures; and
- periodically reviews the framework to ensure its relevance and effectiveness and ensures that senior management is performing its risk management responsibilities.

Board Audit & Risk Assessment Committee (BARAC)

BARAC:

- ensures that the operational risk management framework is comprehensive and in line with the Bank's strategy;
- approves the operational risk management framework and oversees its implementation; and
- establishes a management structure capable of implementing the framework with clear lines of responsibility, accountability and reporting and reports significant operational risk issues to the Board of Directors.

Management Committee (MANCO)

- ensures that the framework is implemented consistently across the Bank;
- ensures policies and procedures are developed for managing operational risk in the Bank's products, activities, systems and processes;
- ensures that all levels of staff understand their responsibilities with respect to operational risk management;
- reviews the Bank's risk profile and assesses potential impact on the activities of the Bank or business unit;
- ensures the Bank's risk profile is within established risk parameters;
- ensures that staff are adequately trained and have access to the necessary resources;
- obtains and reviews periodic reports on operational loss events, risk profiling and control failures Bank-wide and monitors corrective measures being implemented;
- ensures that the outputs from the operational risk management process are factored into the day-to-day management decisions of the Bank; and
- ensures that the Bank's operational policies and procedures promote the desired risk culture.

Business Risk and Compliance Committee (BRCC)

The BRCC, as a sub-committee of the MANCO, ensures the effective and efficient management of operational and business risks within the Bank. It reports through the MANCO to the BARAC, which serves as a link between the Board of Directors and senior management with respect to business risk management and audit function.

The BRCC:

- carries out the first-level review and challenging of developed operational risk and business risk frameworks, policies, procedures, processes and toolkits;
- ensures senior management become aware of, and more directly accountable for, risks in their jurisdiction;
- manages significant operational risks where they originate within the business function;
- ensures compliance with Group business/function operational and business risk policies and procedures;
- ensures operational risks identified within the business are assessed in terms of implications for wider business risk and that the identified business risks are reviewed and reported accordingly through the operational risk reporting process;
- ensures implementation of the approved operational risk framework, policies, procedures, processes and tool-sets;
- continually promotes risk awareness throughout the Bank so that complacency does not set in;
- will identify, report and manage the top 20 operational risks now and in six months' time;
- assists the MANCO to manage ongoing corporate governance issues;
- reports through the MANCO to the BARAC on key business risk and compliance issues and decisions taken by the committee;
- reviews the reports from the heads of risk in operational, market and credit management, business lines and their respective risk profiles, concurs on areas of highest priority and puts in place the related mitigation strategies;
- reviews the reports of internal audit relating to operational risk and the appropriateness of the management's response thereto, and reports as necessary to the BARAC and/or to the Board of Directors (BOD);
- ensures adequate resources are allocated at various levels to manage business risk across the Bank;
- receives copies of regulatory examination reports pertaining to matters that are within the purview of the committee and management's responses thereto; and
- performs other activities related to this charter as requested by the MANCO and the Board.

OPERATIONAL RISK

OPERATIONAL RISK MANAGEMENT FUNCTION

The Group operational risk management function is independent of the BDOs, branches, departments/business units and control and support units, and reports to the Chief Risk Officer, a member of the MANCO.

The core responsibility of the Group operational risk management function is the development and implementation of operational risk management across the Group.

This entails:

- drafting operational risk management policies, standards, processes and procedures;
- playing the role of a thought partner with businesses and support functions to manage their operational risk;
- developing and driving the implementation and maintenance of the operational risk management framework;
- developing and distributing tools, techniques, methodologies, common risk language, risk frameworks, analysis, reports, communication and training;
- coordinating, aggregating and facilitating operational risk management activities across the Bank;
- monitoring the operational risk profile, including accumulations of risk, trends and risks from internal and external market changes;
- escalating high-priority issues to senior management and the Board;
- collating, challenging and reporting on aggregate risk profile, control effectiveness and actions to risk committees and the Board;
- analysing BDOs, branches, departments/business units and control and support units' operational risk to derive emerging themes for the Bank;
- defining yearly operational risk limits and appetite for the Bank, business and support units respectively; and
- liaising with external parties, e.g., regulators, analysts and external auditors on the Bank's operational risk management practices.

MILESTONES

ISO 22301 (SOCIETAL SECURITY: BUSINESS CONTINUITY MANAGEMENT SYSTEM) CERTIFICATION SUCCESS STORY

Further demonstrating its leadership position in the Nigerian banking industry, FirstBank Nigeria achieved another milestone by being the first banking institution in Nigeria to achieve the new certification for business continuity management, known as the ISO 22301 (Societal Security: Business Continuity Management System), from the British Standards Institute (BSI).

The Bank's attainment of this feat is a demonstration of the Board and management commitment to the business continuity management system (BCMS), delivering sustained, consistent and exceptional services to our customers and meeting the expectations of all stakeholders even in the event of any disruptions.

OUTLOOK

The Group continues on its journey to embed robust operational risk management practices, culture and environment not just complying with regulatory requirements, but as a value driver that enhances and contributes to stakeholder value and the long-term survival of the institution. To this end, a number of initiatives and projects are currently ongoing that, when completed, will enhance the risk management culture and practices within the organisation and by extension, significantly reduce the Banking Groups' operational risk exposures and incidences.

Some of these key initiatives and projects are as follows:

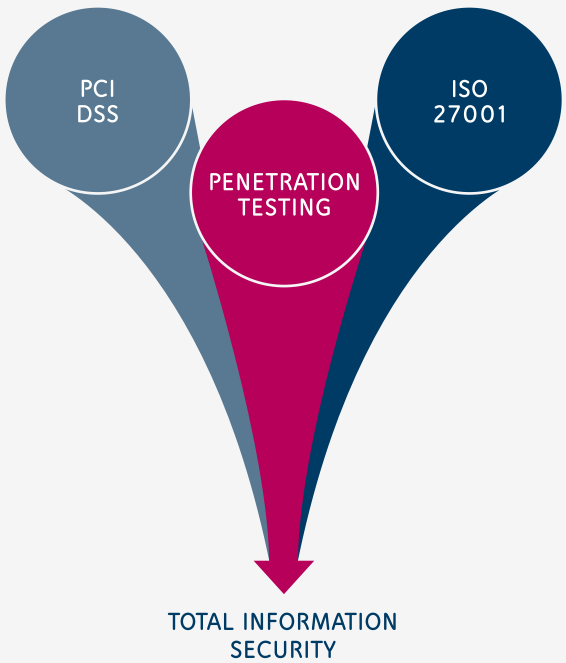
- the implementation and roll-out of the world-class risk intelligence solution to the Group's local and international subsidiaries;
- collaborating with internal audit to help embed the culture of control and risk self-assessment (CRSA) in all activities and across all levels in the Group;
- extend and embed business continuity management culture to the branches and subsidiaries;
- review and update existing operational risk management toolsets and processes, and introduce new ones; and
- a capacity-building and aggressive Group-wide operational risk awareness campaign to increase employees' risk-awareness level and competence in managing risks.

INFORMATION SECURITY RISK

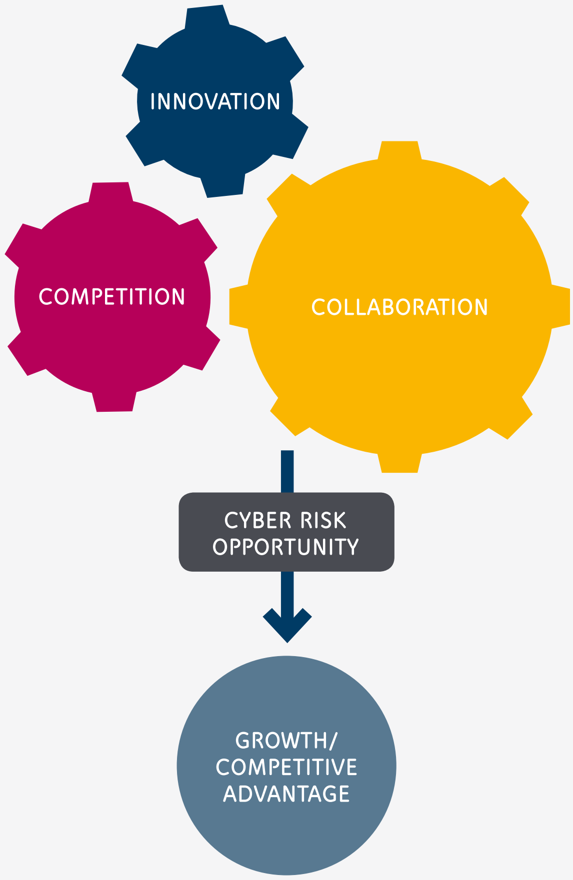
OVERVIEW

The Group, to further its commitment to the protection of its customers and staff data, recertified to the ISO 27001 standard, thereby setting a record as the first organisation in Nigeria to recertify to this prestigious certification initially awarded by the BSI in 2010. A recertification exercise is conducted every three years and is more thorough than the regular bi-annual surveillance audits that took place previously.

Information security governance



Information security management strategy



The Group also successfully concluded the extensive implementation of the Payment Card Industry Data Security Standard (PCI DSS), mandated by the Central Bank of Nigeria as part of its effort to ensure greater assurance for the security of its payment card data, systems and environment, vulnerability assessment. Penetration testing is continuously undertaken to identify risks and recommend remediation to address such risks.

Cyberspace brings enormous benefits, improved innovation, collaboration, productivity, competitiveness and customer engagement. The benefits continually drive organisations and their people to adopt new ways to interact and do business in cyberspace. They must be able to do so quickly and securely, while managing the risks versus rewards.

To take advantage of technology and cyberspace, organisations must manage new risks beyond those traditionally covered by the implementation of firewalls. Information security management within the Group is structured to forestall attacks on the Group's reputation and all manner of technology attacks. Information security has been extended to create risk resilience and consciousness about incidents and is built on a foundation of preparedness.

While individual threats pose risk, there is more danger when combined with organised crime and adopted techniques developed by online activists or use of cyber weapons. As the future is uncertain, organisations must prepare for the unpredictable and be resilient to withstand unforeseen, high-impact incidents. A forward-looking stance increases organisational agility and resilience.

INFORMATION SECURITY RISK

The Group has adopted international best practices and standards, which include its business continuity programme, as well as being a member organisation of the Information Security Forum (ISF), an international organisation founded in 1989 that has steadily expanded its mission and membership. It now includes hundreds of members, including a large number of Fortune 500 companies, with groups of members organised into regional chapters.

The Group has benefited from its membership of the ISF by harnessing and sharing in-depth knowledge and practical experience drawn from Fortune 500 companies and developed through an extensive research programme created by the ISF.

PHILOSOPHY AND APPROACH

Security is a business problem and the Group's management takes ownership and directs requirements for information security management as captured in the information security management system (ISMS) organisational structure. Information security requirements will continue to be aligned with organisational goals and the ISMS is intended to be an enabling mechanism for information sharing, electronic operations, e-commerce and reduction of information-related risks to acceptable levels.

The group focuses on proactive preventive rather than reactive risk management. Risks and vulnerabilities are identified through a systematic process of risk evaluation and management practice, while documented policies and procedures are used to drive the daily operation of the Investment Banking group to effectively manage the confidentiality, integrity and availability of information assets.

CULTURE

The Group is committed to ensuring the confidentiality, integrity and availability of its customers' information through:

- maintenance of a comprehensive list of FirstBank information assets detailing ownership; and
- identification of the value of information assets through appropriate risk assessments, as well as risk awareness focused training.

Information protection culture

APPETITE

The Group's information security risk appetite is set by the Board of Directors as identified in the risk assessment methodology; it is set at a level that minimises risk to the integrity, confidentiality and availability of information assets.

GOVERNANCE STRUCTURE

THE BOARD

The Board and management have the overall responsibility to ensure that all information assets within the Group are protected and adequately secure. These responsibilities include preserving the confidentiality, integrity and availability of all the physical and electronic information assets in the Group to ensure all customer information receives adequate protection. In addition, it ensures that the Group complies with all legal, regulatory, contractual and commercial requirements of information security.

Governance structure

INFORMATION SECURITY RISK

GOVERNANCE (ORGANISATIONAL STRUCTURE)

FUNCTION	ROLE
Board of Directors	Final authority and responsibility for safeguarding FirstBank's information assets rests with the Board of Directors.
Board Audit & Risk Assessment Committee	The Board Audit & Risk Assessment Committee (BARAC) reviews and approves information security policies and budgets to ensure they are in line with the Bank's strategic vision before passing them on to the Board for final approval.
Management Committee	The Management Committee (MANCO) recommends for approval information security policies, strategies and budget. The MANCO is responsible for reviewing and approving the information security monitoring programmes and the key results of monitoring activity, identifying key risks and the actions needed to keep them at an acceptable level.
Executive Director Risk Management (Chief Risk Officer)	The executive sponsor has the ultimate responsibility to provide an accurate view of the information security condition of the Bank and encourage information owners and users to keep risks at an acceptable level.
Information Security Forum	The Information Security Forum (ISF) consists of a number of FirstBank departmental heads and Business Development Managers (BDMs). It is a forum where security issues affecting the Bank are discussed, monitored and controlled.
Internal Audit	The Internal Audit function and information security office support the monitoring process without losing independence.
Compliance	The Compliance function protects business growth and sustainability by ensuring compliance to regulation.
Internal Control	The Internal Control function undertakes transactional monitoring. Maintaining a close working relationship with the information security office, Internal Control forwards results of information on security-related transaction investigations and reviews.
Information Security Champion	As part of FirstBank's implementation of the information security management practice, FirstBank has designated staff within business units and departments as Information Security Champions.
Information asset owners	Information asset owners are specific individuals (typically management personnel) who have been formally appointed by the Bank as being accountable for the secure storage and use of major information assets.
All FirstBank workers	All FirstBank workers (i.e., employees on the payroll and others acting in a similar capacity, such as contractors, consultants and student placements) are responsible for complying with the principles and policies in the information security policy manual where relevant to their jobs.

OVERSIGHT

The BARAC performs an oversight function. It ensures that detailed policies, procedures and standards are created, updated regularly and effectively communicated to stakeholders.

The risks posed to its information assets require the effective management of data confidentiality, integrity and availability. This is achieved by applying defined control objectives and best-practice information security policies and techniques. Risk management routinely measures the functionality of data information systems against policy requirements, in order to ensure their compliance.

Information security risk is managed through two principal committees: the BRCC and BARAC.

BUSINESS RISK AND COMPLIANCE COMMITTEE (BRCC)

The BRCC is responsible for approving the information security policies and budget prior to final approval by the Board of the Company.

Key responsibilities of the BRCC on information security risk include:

- ensuring that the information security policies are up-to-date to support the business;
- ensuring that a business continuity plan is in place;
- adequate budgetary provision to support the IT infrastructures made annually; and
- ensuring Information security procedures are up-to-date with modern security developments.

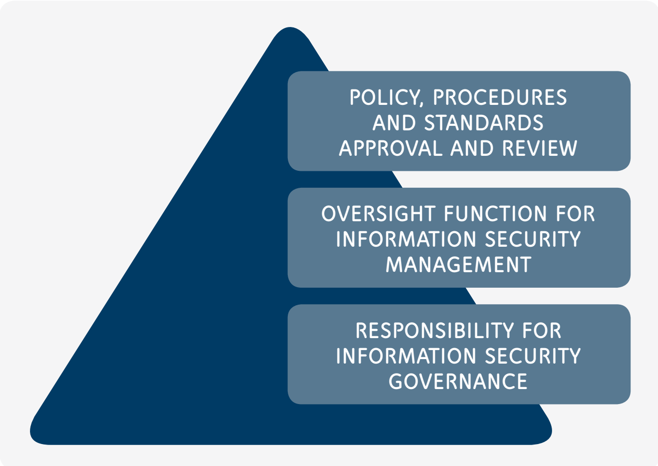
BOARD AUDIT AND RISK ASSESSMENT COMMITTEE (BARAC)

The BARAC reviews and approves information security policies and budgets to ensure they are in line with the Bank's strategic vision before passing them to the Board for final approval. The key responsibilities of the BARAC for information security are:

- ensure that top management as well as key stakeholders responsible for information security possess the requisite expertise and knowledge required to secure the Bank's information assets;
- ensure that the Bank implements a sound methodology for managing information security consistent with the ISO 27001 standard; and
- ensure that detailed policies, standards and procedures are created, updated regularly and effectively communicated within the Bank.

INFORMATION SECURITY RISK

BARAC OVERSIGHT FUNCTION



RELATIONSHIPS WITH OTHER UNITS

The Information Security Department maintains key relationships with other units in the Group through activities such as:

- getting involved in strategic projects within the Bank to ensure that information security and information security policy requirements are built into applications and processes at the conceptual stage and not bolted on at disparate junctions after full implementation;
- an information security awareness programme for the Bank, this includes awareness concepts computer-based training and facilitator-led training for all staff;
- organisation-wide asset identification, valuation and risk assessment based on the requirement of ISO 27001;
- liaising with Information Security Champions, information asset owners and subsidiary coordinators;
- incident documentation and learning points dissemination; and
- monitoring information security incidents enterprise-wide.

STRATEGY AND POLICY

FirstBank has adopted an integrated approach to information security risk management in line with the ISO 27001 standard. Its fundamental objective is to ensure the confidentiality, integrity and availability of its information assets.

Information assets are viewed as a very critical asset of the group and shall therefore be adequately protected. The protection of the Group's information assets is critical to the Group's business continuity and its ability to meet business objectives. Accordingly, the Information Security Management Department (ISMD) has been assigned the responsibility of ensuring that the Group's information assets are adequately protected at all times; this is achieved through well-documented policies and constant training and retraining of staff on policy requirement and good information security practices.

This responsibility is to be shared by both the management and the employees of the Group, irrespective of designation or function. Information security management in the FirstBank Group is a continuous process. As part of its responsibility, the ISMD monitors risk indicators, such as information security-related incidents supplemented by trend analysis that highlights high-risk or emerging issues, so that prompt action can be taken.

CERTIFICATION DRIVES

FirstBank, in line with its plans in 2011, commenced the implementation of the Payment Card Industry Data Security Standard (PCI DSS) and successfully fulfilled the PCI DSS requirement for card processing organisations. The Bank was awarded its PCI DSS certificate by its Qualified Security Assessors (QSAs), Control Case, USA, in August 2013.

The implementation cut across all infrastructure and processes where payment card data is stored, transmitted or managed, to ensure that all card information, including customer card information, is adequately protected across the Bank.

OUTLOOK

Information Security aligns itself with the strategic endeavours of an organisation by ensuring that protective measures are put in place that guarantee that the organisation is not deterred from reaching its key goals.

For 2014, as the Bank attempts to consolidate its extended presence in new African territories, and to create new lines of businesses and revenue streams particularly in the electronic and online sector, much attention will need to be paid to its increased presence in the African region and the global financial services sector. We believe this will cause issues such as cyber security and confidentiality to be on the front burner of management discussions.

Large amounts of digital information are collected and generated by the organisation about its customers, staff and third-party organisations. As the Group extends its reach, seeking new opportunities, customers and partners, a vast amount of data will be generated, which must be stored for meaningful analysis. This vastly magnifies security and privacy risks. To protect the FirstBank brand, the processes and technologies implemented for the management of data generated must protect the Bank's information such that it is safe from corruption, theft, espionage or privacy violation.

As for cyber security, this is already an area receiving utmost attention from the Bank following the announcement of the cashless policy by the Central Bank of Nigeria (CBN). However, given the increased presence of the Bank in cyberspace, criminals will continue to attempt to breach the security of the Bank's networks and infrastructure, and customers and staff are primary targets as well. It is therefore pertinent to widen our focus on cyber security.

Consideration will also be given to high-level risks identified in 2013 as well as other likely threats identified for 2014 in major security reports. It should be noted that threats are considered in the context of the Group's environment (industry, geography, preparedness, etc.) to determine the level of risk each poses to the organisation.

As reported by the Information Security Forum (ISF), "this is the year of resilience and organisations must be prepared – and be prepared to move at the speed of a tweet".

As the future is uncertain, the Group must prepare for the unpredictable so as to have the resilience to withstand unforeseen, high-impact events. A forward-looking stance increases our organisational agility and resilience.

The Group has strengthened its incident management and response processes and is working with its service providers to instil effective security behaviours into FirstBank's culture and its third-party service providers. This involves having third-party service providers included in its incident management process and privacy policy implementation.

COMPLIANCE RISK

OVERVIEW

FBN Holdings recognises that it is accountable to all its stakeholders under applicable legal and regulatory requirements, and is committed to high standards of integrity and fair dealing in the conduct of its business. It is committed to fully comply with both the spirit and the letter of applicable requirements and to always act with due skill, care and diligence.

Thus, the Group instituted a compliance risk management framework that comprises the strategy, governance structure, processes and tools that the management and staff of the Bank will adopt to manage compliance risk, with the following vision and mission:

- vision: to protect business growth and sustainability through compliance with regulation; and
- mission: to proactively and constructively assist the Bank to run an efficient and profitable business, in line with compliance requirements.

RISK MANAGEMENT PHILOSOPHY

In order to promote a culture of compliance across the Bank, the following philosophy governs compliance and compliance risk management in FirstBank:

- compliance starts at the top, hence the Board and Management will set the tone by creating an environment where compliance-related issues are taken into consideration in all business decisions; and
- compliance concerns everyone within the Bank, and thus will be part of the culture of the Bank and not just the responsibility of specialist compliance staff.

OBJECTIVES

- Assist and support line management to ensure that business is conducted in accordance with applicable statutory, regulatory and supervisory requirements.
- Promote adherence to the Bank's code of ethics and business conduct.
- Facilitate the management of compliance risks and prevent disciplinary action by regulators.
- Minimise the possibility of civil and criminal action against the Bank.

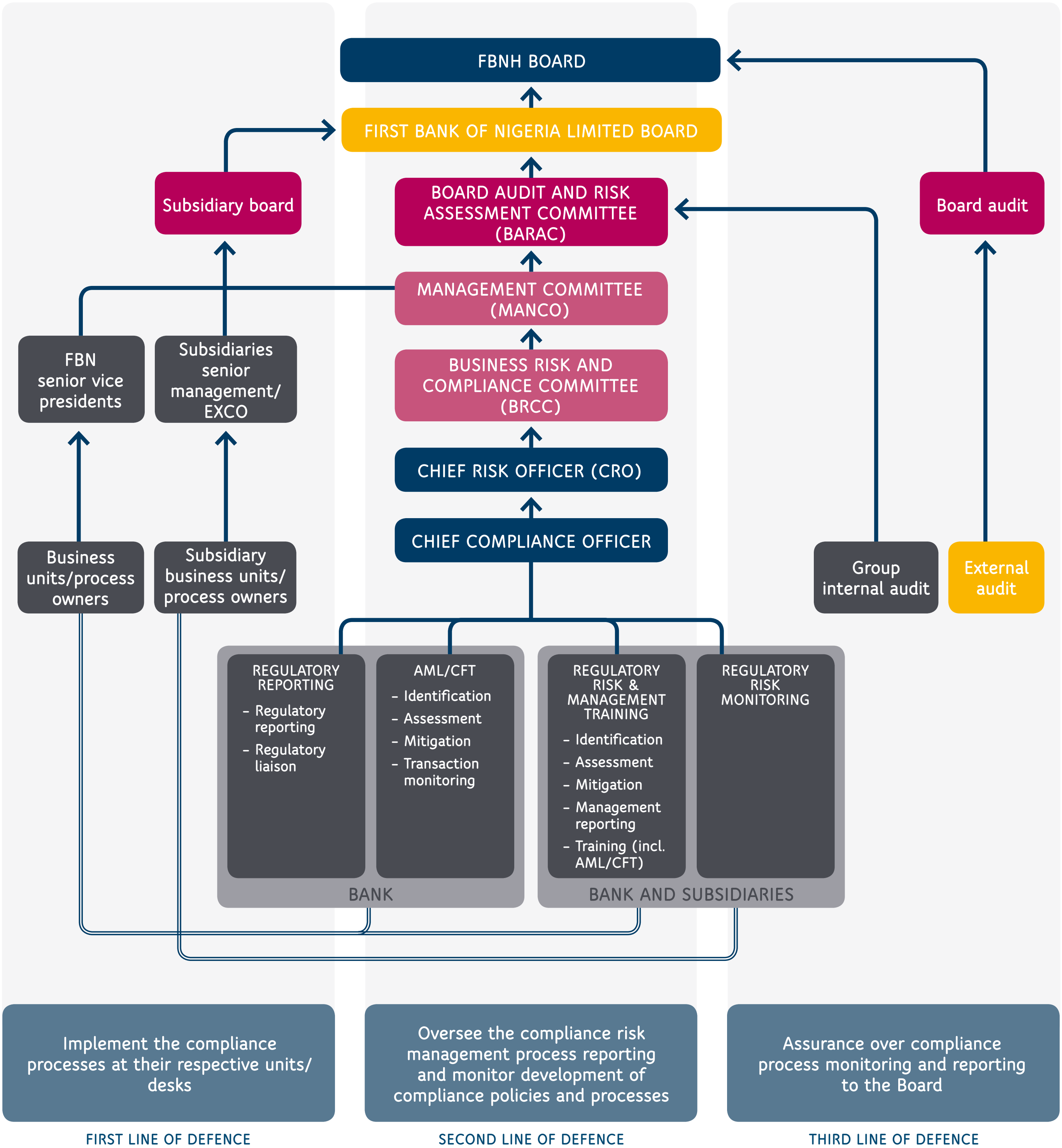
RISK MANAGEMENT STRATEGY

The following strategies were adopted in achieving the above stated objectives:

- Empowerment: the Bank compliance function possesses the requisite knowledge and skills set, and financial resources, as well as authority and independence for optimal performance.
- Training and awareness: the Bank created, cultivated and sustained a healthy compliance culture through continuous training and education of staff and management.
- Regulatory intelligence: the Bank is constantly updated with regulatory requirements through environmental scanning and maintaining a cordial relationship with the relevant regulators. A compendium of the relevant regulatory compliance rules is maintained to ensure that the Bank is aware of compliance obligations at all times.
- Compliance risk appetite: the Bank's appetite for compliance risk is zero tolerance for payment of fines and other penalties associated with regulatory infractions and non-compliance with laws, standards and rules. This is measured and monitored using the following three performance indicators:
  - number of sanctions received and amount of fines and penalties paid with respect to non-compliance with laws and regulatory standards;
  - number of cautions and summons received from regulatory authorities; and
  - number of infractions identified in the Bank by the internal audit desk.

COMPLIANCE RISK

Risk governance structure



COMPLIANCE RISK

COMPLIANCE ROLES AND RESPONSIBILITIES

BOARD OF DIRECTORS

The Board has the overall responsibility for managing compliance in the Bank. However, the Board could delegate it to any appropriate Board Committee.

BOARD AUDIT AND RISK ASSESSMENT COMMITTEE (BARAC)

The BARAC provide supporting oversight on the management of compliance within the Bank.

Business units, management and all staff are the first line of defence.

They are committed to complying with all relevant and applicable regulatory requirements within the business department, inclusive of any outsourced business.

MANAGEMENT COMMITTEE (MANCO)

The MANCO is responsible for reviewing the compliance risk management framework to ensure its continuous relevance and appropriateness, as well as endorse changes for Board approval.

BUSINESS RISK AND COMPLIANCE COMMITTEE (BRCC)

The BRCC is responsible for ensuring the implementation of the approved compliance risk policies, procedures, processes and toolsets.

CHIEF RISK OFFICER

The Chief Risk Officer oversees the implementation of the compliance policy through the Chief Compliance Officer.

CHIEF COMPLIANCE OFFICER

The Chief Compliance Officer is responsible for setting an entity-wide policy and compliance standards, and coordinating the overall compliance system in the Bank.

INTERNAL CONTROL AND ENHANCEMENT GROUP

Internal Control assists the Department in the conduct of independent monitoring.

INTERNAL AUDIT

Internal Audit is responsible for developing and implementing audit programmes to evaluate the level of compliance by the Compliance Department with policies and procedures.

BOARD AUDIT COMMITTEE

The Board Audit Committee oversees the External Audit function.

EXTERNAL AUDIT

External Audit is responsible for reviewing the risk processes as part of its statutory audit duties.

SCOPE OF THE COMPLIANCE FUNCTION

The management of regulatory risk comprises ensuring compliance with all the statutory, regulatory and supervisory requirements/rules imposed on the business by external parties.

Responsibility for managing compliance with internal rules created by FirstBank is the responsibility of the Internal Control function. These rules are monitored as part of their normal duty to ensure an effective system of internal controls is maintained by the Group. However, certain internal rules are of such importance that the management may require the Compliance function to be involved in ensuring that they are complied with.

The Compliance function operates independently from Internal Audit. It leverages on the Internal Control and Internal Audit infrastructure by developing compliance checklists to be completed by Internal Control and Internal Audit as part of their routine procedures. Reports of their findings on issues that have regulatory implications are forwarded to the Compliance function for monitoring.

COMPLIANCE RISK

Compliance risk management process

RISK IDENTIFICATION	RISK ASSESSMENT	RISK MITIGATION	RISK MONITORING	REPORTING
Scanning of the external regulatory environment	Interviewing stakeholders to obtain an understanding of the business activities being conducted	Policies (on ethical issues) or procedures specifically designed to facilitate compliance	Develop annual monitoring plan	To Board Audit and Risk Assessment Committee
Identification and analysis of new laws and regulations	Performing a regulatory risk assessment: assessing impacts and likelihoods	People and/or other resources such as information technology	Document results and commitment to findings to relevant stakeholders	To Business Risk and Compliance committee
		Training and education	Remedial actions	To Management Committee
		Sound relationship with regulatory agencies	Action tracking	To regulatory agencies
			Incidence management	
			Investigations	

OUTLOOK

The regulatory environment in 2013 brought enormous challenges to banks and other financial institutions. In order to regulate the importation of cash by deposit money banks (DMBs) and prevent money laundering, in the third quarter of the year the CBN made some drastic changes in the foreign exchange market. The Wholesale Dutch Auction System (WDAS) was suspended and in its place the Retail Dutch Auction System (RDAS) was re-introduced with its consequent implications on foreign direct investments. Since all foreign currencies are now subject to the Central Bank's approval (an indirect ban on currency importation), we expect to see a reduction in cash available. In addition, there will be less room for arbitrage due to the strict norms enforced by CBN; the funds purchased from the CBN are meant to be used for eligible transactions only, subject to stipulated documentation requirements.

In reaction to the enormous volume of dishonored cheques in the financial sector, the CBN directed all financial institutions to ensure that existing and prospective customers (at the time of account opening) pledge not to issue cheques against unfunded accounts. By way of enforcement, financial institutions are required to monitor cheque transactions in their customers' accounts in order to identify those customers that have issued cheques against unfunded accounts on three or more instances and render a monthly report to the CBN.

The CBN revoked the operating licences of 20 bureaux de change (BDCs) for allegedly failing to render returns on the use of foreign exchange purchased from DMBs and the inability to provide documentary evidence that purchases were used for eligible transactions in accordance with the relevant regulatory requirements. FBN BDC, a subsidiary of the Bank, was on the list of affected BDCs as a result of a misunderstanding of an already accommodated process of returns rendition by CBN. Management has taken steps to get CBN to rescind the decision.

However, despite the enormous challenges faced by banks, the future holds great promise. We believe these measures by the Central Bank will be accompanied by short-term pain, but also longer-term benefits.

In the wake of these increasing and tightening regulatory obligations on financial institutions, the Group is poised to look inwards with a view to revalidating the compliance of risk management processes and procedures of each group entity to withstand the emerging pressures, and is committed to continuously educate its employees, including the Board, on regulatory changes and their attendant implications on the business and our customers.

FINANCIAL STATEMENTS

Our financial statements for the year ending 31 December 2013 represent the second year of performance under our FBNH structure and are prepared according to International Financial Reporting Standards (IFRS).

p203 Income statement

p205 Statement of financial position

p210 Consolidated statement of cash flows

RESPONSIBILITY FOR ANNUAL FINANCIAL STATEMENTS

The Companies and Allied Matters Act and the Banks and Other Financial Institutions Act, require the directors to prepare financial statements for each financial year that give a true and fair view of the state of financial affairs of the Group at the end of the year and of its profit or loss. The responsibilities include ensuring that the Group:

i. keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank and comply with the requirements of the Companies and Allied Matters Act and the Banks and Other Financial Institutions Act;

ii. establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and

iii. prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgements and estimates, that are consistently applied.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with:

- International Financial Reporting Standards (IFRS);
- Financial Reporting Council of Nigeria (FRC) Act;
- Prudential Guidelines for Licensed Banks;
- relevant circulars issued by the Central Bank of Nigeria;
- the requirements of the Banks and Other Financial Institutions Act; and
- the requirements of the Companies and Allied Matters Act.

The directors are of the opinion that the IFRS financial statements give a true and fair view of the state of the financial affairs of the Company and Group, and of the profit for the period. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that FBN Holdings Plc will not remain a going concern for at least 12 months from the date of this statement.

Bello Maccido
Chief Executive Officer

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF FBN HOLDINGS PLC

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated and separate financial statements of FBN Holdings Plc ("the Company") and its subsidiaries (together "the Group"). These financial statements comprise the consolidated and separate statements of financial position as at 31 December 2013 and the consolidated and separate income statements and statements of comprehensive income, consolidated and separate statements of changes in equity, and consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRS) and with the requirements of the Companies and Allied Matters Act and the Banks and Other Financial Institutions Act, and for such internal control as the directors determine necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatements, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an independent opinion on the consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the consolidated and separate financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated and separate financial statements.

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

OPINION

In our opinion the accompanying consolidated and separate financial statements give a true and fair view of the state of the financial affairs of the Company and Group at 31 December 2013 and of the financial performance and cash flows of the Company and Group for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act, the Banks and Other Financial Institutions Act and the Financial Reporting Council of Nigeria Act.

REPORT ON OTHER LEGAL REQUIREMENTS

The Companies and Allied Matters Act and the Banks and Other Financial Institutions Act require that in carrying out our audit we consider and report to you on the following matters. We confirm that:

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

ii) the Company has kept proper books of account, so far as appears from our examination of those books and returns adequate for our audit have been received from branches not visited by us;

iii) the Company's statement of financial position, income statement and statement of comprehensive income are in agreement with the books of account;

iv) related-party transactions and balances are disclosed in Note 46 to the financial statements in accordance with the Central Bank of Nigeria Circular BSD/1/2004;

v) to the best of our information, the Company has complied with the requirements of the relevant circulars issued by the Central Bank of Nigeria.

PricewaterhouseCoopers
Chartered Accountants
Lagos, Nigeria
Engagement partner:
Tola Ogundipe
FRC/2013/ICAN/00000000639
Lagos, Nigeria
14 April 2014

PKF Professional Services
Chartered Accountants
Lagos, Nigeria
Engagement partner:
Tajudeen A. Akande
FRC/2013/ICAN/01780
Lagos, Nigeria
14 April 2014

REPORT OF THE AUDIT COMMITTEE

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

1. The scope and planning of the audit were adequate in our opinion.
2. The accounting and reporting policies of the Company conformed to statutory requirements and agreed ethical practices.
3. The internal control was being constantly and effectively monitored.
4. The external auditors' management report received satisfactory response from Management.
5. The Committee reviewed the Audit Report on insider-related party transactions and is satisfied with their status as required by the Central Bank of Nigeria (CBN).

Dated 25 March 2014

Waheed Adegbite
Chairman, Audit Committee

MEMBERS OF THE COMMITTEE

Waheed Adegbite
Lt General Garba Duba, rtd
Oye Hassan-Odukale, MFR
Chidi Anya
Abubakar Yahyah
Job Onwughara

INCOME STATEMENT

	Note	Group		Company	
		31 Dec 2013 ₦ million	Restated 31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
CONTINUING OPERATIONS					
Interest income	7	323,621	295,353	924	1
Interest expense	8	(93,506)	(68,746)	–	–
Net interest income		230,115	226,607	924	1
Impairment charge for credit losses	9	(20,309)	(12,549)	–	–
Net interest income after impairment charge for credit losses		209,806	214,058	924	1
Insurance premium revenue	10	2,011	1,664	–	–
Insurance premium revenue ceded to reinsurers		(226)	(120)	–	–
Net insurance premium revenue		1,785	1,544	–	–
Fee and commission income	11	59,381	60,890	–	–
Fee and commission expense	11b	(5,296)	(941)	–	–
Net gains/(losses) on foreign exchange income	12	6,693	2,448	–	–
Net gains/(losses) on investment securities	13	2,899	2,124	–	–
Net gains/(losses) from financial assets classified as held for trading	14	(1,504)	1,760	–	–
Gain from disposal of subsidiary		–	288	–	–
Dividend income		1,227	741	74,057	–
Other operating income	15	834	5,612	7	–
Insurance claims		(488)	(498)		
Personnel expenses	16a	(65,820)	(68,879)	(58)	(1)
Depreciation of property, plant and equipment	29	(10,284)	(10,182)	(47)	–
Amortisation of intangibles	30	(1,464)	(676)	–	–
Impairment loss on investment	28	–	–	(2,594)	–
Operating expenses	16	(107,438)	(113,776)	(1,658)	(819)
Operating profit/(loss)		90,331	94,513	70,631	(819)
Share of profit/(loss) of associates	28	1,006	(592)	–	–
Profit before tax		91,337	93,921	70,631	(819)
Income tax expense	17	(20,706)	(17,120)	–	–
Profit/(loss) for the year from continuing operations		70,631	76,801	70,631	(819)
Profit/(loss) for the year		70,631	76,801	70,631	(819)
Profit/(loss) attributable to:					
– Owners of the parent		70,135	77,021	70,631	(819)
– Non-controlling interests		496	(220)	–	–
		70,631	76,801	70,631	(819)
Earnings per share for profit attributable to owners of the parent					
Basic/diluted earnings/loss per share:	52				
– From continuing operations		2.16	2.37	2.16	(0.03)
– From discontinued operations		–	–	–	–
– From profit for the year		2.16	2.37	2.16	(0.03)

STATEMENT OF COMPREHENSIVE INCOME

		Group		Company	
	Note	31 Dec 2013 ₦ million	Restated 31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Profit/(loss) for the year		70,631	76,801	70,631	(819)
Other comprehensive income:					
Items that may be subsequently reclassified to profit or loss					
Net gains on available-for-sale financial assets					
– Unrealised net gains arising during the period, before tax		(14,509)	16,252	209	(138)
– Net reclassification adjustments for realised net gains or losses, before tax		2,487	1,930	–	–
Share of other comprehensive income of associates		(298)	–	–	–
Exchange difference on translation of foreign operations		434	1,062	–	–
Items that will not be reclassified to profit or loss					
Actuarial gains/(losses) on defined benefit pension scheme	37	1,638	(571)	–	–
Return on plan assets	37	219	–	–	–
Income tax relating to components of other comprehensive income		917	140	–	–
Other comprehensive income/(loss) for the year, net of tax		(9,112)	18,813	209	(138)
Total comprehensive income/(loss) for the year		61,519	95,614	70,840	(957)
Total comprehensive income attributable to:					
– Owners of the parent		61,039	95,834	70,840	(957)
– Non-controlling interests		480	(220)	–	–
		61,519	95,614	70,840	(957)
Total comprehensive income attributable to owners of the parent arises from:					
Continuing operations		61,039	95,834	70,840	(957)
Discontinued operations	27	–	–	–	–
		61,039	95,834	70,840	(957)

STATEMENT OF FINANCIAL POSITION

	Note	Group 31 Dec 2013 ₦ million	Group Restated 31 Dec 2012 ₦ million	Group Restated 1 Jan 2012 ₦ million	Company 31 Dec 2013 ₦ million	Company 31 Dec 2012 ₦ million
ASSETS						
Cash and balances with central banks	18	594,234	300,532	199,228	–	–
Loans and advances to banks	20	430,586	439,853	463,328	1,477	–
Loans and advances to customers	21	1,769,130	1,541,377	1,252,154	72	–
Financial assets at fair value through profit or loss	22	10,287	6,112	5,964	–	–
Investment securities						
– Available-for-sale investments	23	529,488	379,675	357,490	2,515	2,307
– Held to maturity investments	23	294,575	338,365	337,336	–	2,450
– Loans and receivables		–	–	–	7,332	11,014
Asset pledged as collateral	24	53,650	50,109	72,129	–	–
Other assets	32	41,405	40,252	63,061	43,285	236
Inventory	33	30,253	21,676	25,609	–	–
Investment properties		2,413	4,003	4,055	–	–
Investments in associates accounted for using the equity method	28	7,029	6,321	7,489	9,281	11,875
Investment in subsidiaries	25	–	–	–	246,777	243,065
Property, plant and equipment	29	81,299	75,407	65,889	1,072	30
Intangible assets	30	8,748	3,523	1,008	–	–
Deferred tax	31	7,120	8,201	6,954	–	–
		3,860,217	3,215,406	2,861,694	311,811	270,977
Asset held for sale	27	10,784	12,978	–	–	–
Total assets		3,871,001	3,228,384	2,861,694	311,811	270,977
LIABILITIES						
Deposits from banks	34	82,032	89,430	183,500	–	–
Deposits from customers	35	2,929,081	2,395,148	1,951,011	–	–
Financial liabilities held for trading	22	1,701	1,796	2,857	–	–
Current income tax liability	17	34,167	23,389	24,328	–	–
Other liabilities	38	149,859	122,202	159,325	3,710	1,084
Liability on investment contracts	39	68,723	54,995	49,440	–	–
Liability on insurance contracts	40	3,651	2,127	824	–	–
Borrowings	36	126,302	75,541	106,204	–	–
Retirement benefit obligations	37	1,924	19,380	15,081	–	–
Deferred tax	31	37	225	1,069	–	–
		3,397,477	2,784,233	2,493,639	3,710	1,084
Liabilities held for sale	27	1,747	2,836	–	–	–
Total liabilities		3,399,224	2,787,069	2,493,639	3,710	1,084

		Group			Company	
	Note	31 Dec 2013 ₦ million	Restated 31 Dec 2012 ₦ million	Restated 1 Jan 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
EQUITY						
Share capital	41	16,316	16,316	16,316	16,316	16,316
Share premium	42	254,524	254,524	254,524	254,524	254,524
Retained earnings	42	115,397	76,072	43,162	37,180	(819)
Other reserves						
– Statutory reserve	42	52,074	43,347	32,144	–	–
– Capital reserve			–		10	10
– SSI reserve	42	6,076	6,076	6,076	–	–
– AFS fair value reserve	42	14,969	26,991	8,809	71	(138)
– Contingency reserve	42	107	50	13	–	–
– Statutory credit reserve	42	7,987	16,101	9,766	–	–
– Treasury share reserve	42	(2,280)	(2,378)	(4,325)	–	–
– Foreign currency translation reserve	42	2,102	1,668	606	–	–
		467,272	438,767	367,091	308,101	269,893
Non-controlling interest	43	4,505	2,548	964	–	–
Total equity		471,777	441,315	368,055	308,101	269,893
Total equity and liabilities		3,871,001	3,228,384	2,861,694	311,811	270,977

The financial statements on pages 199 to 334 were approved by the Board of Directors on 25 March 2014 and signed on its behalf by:

Dr Oba Otudeko, CFR
Chairman
FRC/2013/ICAN/00000002365

Bello Maccido
Chief Executive Officer
FRC/2013/CISN/00000002366

Oyewale Ariyibi
Head of Finance
FRC/2013/ICAN/00000001251

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent												
	Share capital ₦ million	Share premium ₦ million	Retained earnings ₦ million	Statutory reserve ₦ million	SSI reserve ₦ million	AFS fair value reserve ₦ million	Contingency reserve ₦ million	Statutory credit reserve ₦ million	Treasury share reserve ₦ million	FCTR ₦ million	Total ₦ million	Non-controlling interest ₦ million	Total equity ₦ million
Balance at 1 January 2012 (as previously reported)	16,316	254,524	41,587	32,144	6,076	8,525	13	9,766	(1,941)	606	367,616	964	368,580
Effect of changes in accounting policies (Note 53)	–	–	1,575	–	–	284	–	–	(2,384)	–	(525)	–	(525)
Balance at 1 January 2012 (restated)	16,316	254,524	43,162	32,144	6,076	8,809	13	9,766	(4,325)	606	367,091	964	368,055
Profit for the year	–	–	77,021	–	–	–	–	–	–	–	77,021	(220)	76,801
Other comprehensive income													
Foreign currency translation differences, net of tax	–	–	–	–	–	–	–	–	–	1,062	1,062	–	1,062
Tax effects on revaluation of financial assets	–	–	140	–	–	–	–	–	–	–	140	–	140
Fair value movements on equity financial assets	–	–	–	–	–	18,182	–	–	–	–	18,182	–	18,182
Actuarial gains/(losses) on defined benefit pension scheme	–	–	(571)	–	–	–	–	–	–	–	(571)	–	(571)
Total comprehensive income	–	–	76,590	–	–	18,182	–	–	–	1,062	95,834	(220)	95,614
Transactions with owners													
Dividends	–	–	(26,105)	–	–	–	–	–	–	–	(26,105)	–	(26,105)
Disposal of treasury shares	–	–	–	–	–	–	–	–	1,947	–	1,947	–	1,947
Additional investment	–	–	–	–	–	–	–	–	–	–	–	518	518
Acquisition of subsidiary (Note 26)	–	–	–	–	–	–	–	–	–	–	–	1,286	1,286
Transfer between reserves	–	–	(17,575)	11,203	–	–	37	6,335	–	–	–	–	–
Total transactions with owners	–	–	(43,680)	11,203	–	–	37	6,335	1,947	–	(24,158)	1,804	(22,354)
At 31 December 2012	16,316	254,524	76,072	43,347	6,076	26,991	50	16,101	(2,378)	1,668	438,767	2,548	441,315
Profit for the year	–	–	70,135	–	–	–	–	–	–	–	70,135	496	70,631

	Attributable to equity holders of the parent												
	Share capital ₦ million	Share premium ₦ million	Retained earnings ₦ million	Statutory reserve ₦ million	SSI reserve ₦ million	AFS fair value reserve ₦ million	Contingency reserve ₦ million	Statutory credit reserve ₦ million	Treasury share reserve ₦ million	FCTR ₦ million	Total ₦ million	Non-controlling interest ₦ million	Total equity ₦ million
Other comprehensive income													
Foreign currency translation differences, net of tax	–	–	–	–	–	–	–	–	–	434	434	–	434
Tax effects on revaluation of financial assets	–	–	635	–	–	282	–	–	–	–	917	–	917
Fair value movements on equity financial assets	–	–	–	–	–	(12,006)	–	–	–	–	(12,006)	(16)	(12,022)
Return on plan assets	–	–	219	–	–	–	–	–	–	–	219	–	219
Actuarial gains/(losses) on defined benefit pension scheme	–	–	1,638	–	–	–	–	–	–	–	1,638	–	1,638
Share of OCI of associates, net of tax	–	–	–	–	–	(298)	–	–	–	–	(298)	–	(298)
Total comprehensive income	–	–	72,627	–	–	(12,022)	–	–	–	434	61,039	480	61,520
Transactions with owners													
Other changes	–	–	–	–	–	–	–	–	–	–	–	181	181
Dividends	–	–	(32,632)	–	–	–	–	–	–	–	(32,632)	(264)	(32,896)
Disposal of treasury shares	–	–	–	–	–	–	–	–	98	–	98	–	98
Issue of shares*	–	–	–	–	–	–	–	–	–	–	–	1,560	1,560
Transfer between reserves	–	–	(670)	8,727	–	–	57	(8,114)	–	–	–	–	–
Total transactions with owners	–	–	(33,302)	8,727	–	–	57	(8,114)	98	–	(32,536)	1,477	(31,057)
At 31 December 2013	16,316	254,524	115,397	52,074	6,076	14,969	107	7,987	(2,280)	2,102	467,272	4,505	471,777

*Change in non-controlling interest regarding issue of shares represents the value of the units in FBN Heritage Fund, which was acquired. FBN Heritage Fund is an open-ended mutual fund.

COMPANY STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent					
	Share capital ₦ million	Share premium ₦ million	Retained earnings ₦ million	Capital reserve ₦ million	AFS fair value reserve ₦ million	Total equity ₦ million
Balance at 1 January 2012	–	–	–	–	–	–
Profit for the year	–	–	(819)	–	–	(819)
Other comprehensive income						
Fair value movements on equity financial assets	–	–	–	–	(138)	(138)
Total comprehensive income	–	–	(819)	–	(138)	(957)
Transactions with owners						
Issue of shares	16,316	254,524	–	–	–	270,840
Transfer resulting from business restructuring	–	–	–	10	–	10
Total transactions with owners	16,316	254,524	–	10	–	270,850
At 31 December 2012	16,316	254,524	(819)	10	(138)	269,893
Profit for the year	–	–	70,631	–	–	70,631
Other comprehensive income						
Fair value movements on equity financial assets	–	–	–	–	209	209
Total comprehensive income	–	–	70,631	–	209	70,840
Transactions with owners						
Dividends	–	–	(32,632)	–	–	(32,632)
Transfer between reserves	–	–	–	–	–	–
Total transactions with owners	–	–	(32,632)	–	–	(32,632)
At 31 December 2013	16,316	254,524	37,180	10	71	308,101

CONSOLIDATED STATEMENT OF CASH FLOWS

		Group		Company	
	Note	31 Dec 2013 ₦ million	Restated 31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
OPERATING ACTIVITIES					
Cash flow (used in)/generated from operations	44	(89,217)	(132,504)	(42,204)	28
Income taxes paid		(7,918)	(22,439)	–	–
Interest received		329,660	309,081	3	1
Interest paid		(92,541)	(65,579)	–	–
Net cash flow generated from operating activities		139,983	88,559	(42,201)	29
INVESTING ACTIVITIES					
Purchase of investment securities		(310,682)	(56,895)	–	–
Proceeds from the sale of investment securities		320,185	25,603	4,604	–
Net cash flow from disposal of subsidiaries		–	(30,619)	–	–
Cash and cash equivalent acquired from subsidiary	26	8,080	11,463	–	–
Additional investment in subsidiaries		–	–	(1,262)	–
Dividends received		1,227	741	74,057	–
Purchase of investment property		(53)	(30)	–	–
Purchase of property, plant and equipment		(17,920)	(18,673)	(1,089)	(30)
Purchase of intangible assets		(1,144)	(1,570)	–	–
Proceeds on disposal of property, plant and equipment		992	2,875	–	–
Net cash used in investing activities		684	(67,105)	76,310	(30)
FINANCING ACTIVITIES					
Proceeds from sale of treasury shares		98	–	–	–
Dividend paid		(32,896)	(26,105)	(32,632)	–
Proceeds from new borrowings		99,723	58,459	–	–
Repayment of borrowings		(51,020)	(85,806)	–	–
Equity raised		1,560	–		
Net cash (used in)/generated from financing activities		17,465	(53,452)	(32,632)	–
Increase in cash and cash equivalents		158,133	(31,999)	1,477	(1)
Cash and cash equivalents at start of year	19	676,847	709,304	(1)	–
Effect of exchange rate fluctuations on cash held		(289)	(458)	–	–
Cash and cash equivalents at end of year	19	834,691	676,847	1,476	(1)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

AT 31 DECEMBER 2013

1 GENERAL INFORMATION

These financial statements are the consolidated financial statements of FBN Holdings Plc (the Company), and its subsidiaries (hereafter referred to as 'the Group').

The Registered office address of the Company is at 35 Marina, Samuel Asabia House, Lagos, Nigeria.

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

The consolidated financial statements for the year ended 31 December 2013 were approved for issue by the Board of Directors on 25 March 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

The Group's consolidated financial statements for the year 2013 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.

The financial statements comprise the income statement, statement of comprehensive income, statement of financial position, the statement of changes in equity, statement of cash flows and the related notes for the Group and the Company.

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 directors to exercise judgement in the process of applying the 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 5.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

2.2.1 New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have a material impact on the Group:

(i) **Amendment to IAS 1, 'Financial statement presentation'** regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment affected presentation only and had no impact on the Group's financial position or performance. The Group has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

(ii) **IAS 19 'Employee benefits'** was revised in June 2011. The changes on the Group's accounting policies has been as follows: to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. See note 47 for the impact on the financial statements.

(iii) **IFRS 7 'Financial instruments: Disclosures – offsetting financial assets and financial liabilities – amendments to IFRS 7'**
The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

(iv) **IFRS 10 'Consolidated financial statements'** supersedes IAS 27 Consolidated and Separate Financial Statements and SIC(12) Consolidation – Special Purpose Entities and establishes the principles for when the Group controls another entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the exercise of power. As a result, the Group consolidates certain entities that were not previously consolidated. The Group has applied IFRS 10 retrospectively and restated its comparatives in accordance with the transitional provisions included in the standard. These provisions require the Group to re-assess its control conclusions as at 1 January 2013 and restate its comparative information, applying the revised assessment in 2012 to the extent that the relevant investments were held in that year. Details of the impact of these restatements are provided in Note 53 to the financial statements.

(v) **IFRS 11 'Joint arrangements' and IAS 28 'Investment in associates and joint ventures'**
IFRS 11 replaces IAS 31 Interests in joint ventures and SIC(13) Jointly controlled entities – non-monetary contributions by venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. The application of this new standard had no material impact on the Group.

(vi) **IFRS 12 'Disclosure of interests in other entities'**
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates, structured entities and other off balance sheet vehicles.

The application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (see Note 26 for details).

2.2.2 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 2013.

(i) **IFRS 9 'Financial instruments'**
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 IASB tentatively decided at its February 2014 meeting to select 1 January 2018 as the effective date for mandatory application of IFRS 9.

The Group is yet to assess the full effect of IFRS 9.

(ii) **Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting**

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

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.

a. **Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.

Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Where necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

b. **Changes in ownership interests in subsidiaries without change of control**

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

c. **Disposal of subsidiaries**

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

d. **Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates' in the income statement.

2.4 SEGMENT REPORTING

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

2.5 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, 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.

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's policy is that 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 Company incorporates the results of the acquired businesses only from the date on which the business combination occurs.

2.6 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, which is the Group's presentation currency.

b. **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

c. **Group companies**

The results and financial position of all the Group entities that 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.

d. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.7 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 recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; 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 substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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.

2.8 INVENTORIES

The Mortgage subsidiary of the Group purchases and constructs properties for resale.

The Group recognises property as inventory under the following circumstances:

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

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

(iii) 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.

2.9 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.

2.9.1 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. Directors determine the classification of its financial instruments at initial recognition.

a. **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading.

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.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. 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 classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading 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 method. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers or other assets and cash balances. Interest on loans is included in the profit or loss 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 profit or loss as 'Impairment charge for credit losses'.

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 management has 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 has 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 other 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 other 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 other comprehensive income. 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.

2.9.2 Financial liabilities

The Group's holding in financial liabilities is in financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

a. **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss are financial liabilities held for trading.

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.

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 classified as held for trading'. 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.

2.9.3 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.

2.9.4 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.

2.9.5 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. 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 3.7.

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 procedures applied, management believes that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

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.

2.9.6 Derecognition 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.

2.10 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.

2.11 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 currently 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 profit or loss 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.

2.13 IMPAIRMENT OF FINANCIAL ASSETS

a. **Assets carried at amortised cost**

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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

b. **Assets classified as available for sale**

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. For debt securities, the Group uses the criteria referred to (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated 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 each reporting date.

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

The Group may also use other credit instruments, such as stock borrowing contracts, and derivative contracts in order to reduce their credit risk.

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 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.

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 counterparty.

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 continue to be recognised as property and equipment based on the nature of the asset. Lease income is recognised on a straight-line basis.

(i) *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 which allocates rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

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	33.3%
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.

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.

2.19 INTANGIBLE ASSETS

a. **Goodwill**

Goodwill arises on the acquisition of subsidiary and associates, 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.

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 three 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.

2.20 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 measured at amortised cost.

2.21 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 statement of cash flows, cash and cash equivalents include cash and non-restricted balances with central banks.

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.

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 Federal Government 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.

Actuarial gains and losses arising from change in demographic assumptions and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognised immediately in income.

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 INSURANCE CONTRACTS

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. The reserve has been calculated as the amount standing to the credit of the policyholders (account balance) at the valuation date. The life cover element (and corresponding premiums) have been reported as part of the insurance contract liabilities and valued similar to other risk business as described above.

a. **Classification of contracts**

A contract is classified as an insurance contract where the Group accepts significant insurance risk by agreeing with the policyholder to pay benefits if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary. Significant insurance risk exists where it is expected that for the duration of the policy or part thereof, policy benefits payable on the occurrence of the insured event will exceed the amount payable on early termination, before allowance for expense deductions at early termination. Once a contract has been classified as an insurance contract, the classification remains unchanged for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

b. **Recognition and measurement**

(i) *Short-term insurance contracts*

Short-duration life insurance contracts protect the Group's customers from the consequences of events (such as death or disability) that would affect the ability of the customer or his/her dependants to maintain their current level of income. They are usually short-duration life insurance contracts ranging between 12 to 24 months period of coverage. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium reserve (UPR). Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported (IBNR), and to estimate the expected ultimate cost of more complex claims that may be affected by external factors.

The liability reserve on short-term insurance contracts is made up of an unexpired premium reserve (UPR) and reserve for IBNR claims. The UPR represents premium received in advance on short-term contracts and is released through the income statement over the life of the insurance contract period after adjusting for acquisition expenses. IBNR reserves are required to take account of the delay in reporting claims. These are determined by considering ultimate claims ratios for the life schemes on the Group's books. The ratios differ by industry and have been determined following a historical analysis of portfolio claims experience. The IBNR reserves are calculated by adjusting the ultimate claims amounts to allow for claims already paid and those outstanding for payment, and again adjusted to allow for the holding of a separate UPR reserve. As the short-term insurance contract experience of FBN Holdings builds up we will be able to adjust for company-specific claims settlement patterns.

(ii) *Long-term insurance contracts with fixed and guaranteed terms*

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. Premiums are shown before deduction of commission. Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions.

Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contracts in force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid. The liabilities are recalculated at each end of the reporting period using the assumptions established at inception of the contracts.

The long-term insurance contracts insure events associated with human life. They include the following:

Individual insurance contracts

The reserve has been calculated using the gross premium valuation approach. This reserving methodology adopts a cash flow approach taking into account all expected future cash flows including premiums, expenses and benefit payments to satisfy the liability adequacy test. The test also considers current estimates of all contractual cash flows, and of related cash flows such as claims handling costs, as well as cash flows resulting from embedded options and guarantees (where applicable).

Individual savings contracts

The reserve has been calculated as the amount standing to the credit of the policyholders (account balance) at the valuation date. The life cover element (and corresponding premiums) have been reported as part of the insurance contract liabilities and valued similar to other risk business as described above.

c. **Insurance contract liabilities**

Life insurance policy claims received up to the last day of each financial period and claims IBNR are provided for and included in the policy liabilities. Past claims experience is used as the basis for determining the extent of the IBNR claims.

Income from reinsurance policies is recognised concurrently with the recognition of the related policy benefit. Insurance liabilities are presented without offsetting them against related reinsurance assets.

Insurance liabilities are retained in the statement of financial position until they are discharged or cancelled and/or expire. The Company performs a liability adequacy test to determine the recognised insurance liabilities and an impairment test for reinsurance assets held at each reporting date.

2.25 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.

2.26 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 Group. 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.

2.27 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 shareholders.

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

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

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 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 that 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.

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 income statement.

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

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 Directorate provides central oversight of risk management across the Company and its subsidiaries to ensure that the full spectrum of risks facing the Company 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 makes 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;
- 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; and
- 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 is the single largest risk for the Group arising mainly from the activities of the Commercial Banking business 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 loans and advances to customers and to banks at a counterparty level, 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.

Obligor risk rating (ORR system)

The obligor risk rating grids have a minimum of 10 risk buckets to provide a pre-set, objective basis for making credit decisions, with one additional bucket specifically included to categorise obligor in default. Accounts showing objective evidence of impairment are specifically noted in the default rating bucket of the obligor risk rating grid with impairment allowance calculated for losses that have been incurred. 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 business 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 facility risk rating approximates a 'loss norm' for each facility, and is the product of two components:
  - The Default Probability of the obligor, i.e., the ORR
  - The Loss Given Default i.e., a measure of the expected economic loss if the obligor defaults, and includes write-offs, recoveries, interest income, and legal costs.

- 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 debenture on business premises, 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.

a. **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 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 Company's shareholders' funds;
- public sector exposure limit of not more than 10% (including contingent liability) of First Bank of Nigeria Limited's loan portfolio; and
- industry/economic sector limits are imposed on the Group's lending portfolio, in line with the following policies:
  - the 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)
  - 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.

b. **Geographical limits**

Presently, the Group's exposures outside Nigeria are taken by its subsidiaries in the United Kingdom and other African countries, 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.

c. **Single obligor limits**

- Limits are imposed on loans to individual borrowers. The Group 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 shareholders' funds to create a prudent buffer.
- Also, the Group 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 Group shall not lend more than:
  - 20% of the 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; and
  - 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 ₦'000	Non-investment grade ₦'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.

3.2.3 Collateral held as security for loans and advances to customers

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; and
- 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.

Lending decisions are usually based on an obligor's ability to repay from normal business operations rather than on proceeds from the sale of any security provided. Collateral values are assessed by a professional at the time of loan origination and are thereafter monitored in accordance with the provisions of the credit policy. The types of collateral acceptable and the frequency with which they are required at origination is dependent on the size and structure of the borrower. For exposures to corporate and large institutions, the Group will often require the collateral to include a first charge over land and buildings owned and occupied by the business, a mortgage debenture over the Company's undertaking on one or more of its assets and keyman insurance. The decision as to whether or not collateral is required is based upon the nature of the transaction, the credit worthiness of the customer and obligor risk rating. Other than for project finance, object finance and income producing real estate where charges over the subject assets are a basic requirement, the provision of collateral will not determine the outcome of a credit application. The fundamental business proposition must evidence the ability of the business to generate funds from normal business sources to repay the debt.

The extent to which collateral values are actively managed will depend on the credit quality and other circumstances of the obligor. Although lending decisions are predominantly based on expected cash flows, any collateral provided may impact other terms of a loan or facility granted. This will have a financial impact on the amount of net interest income recognised and on internal loss-given-default estimates that contribute to the determination of asset quality. The Group credit risk disclosures for unimpaired lending report assets gross of collateral and therefore disclose the maximum loss exposure. The Group believes this approach is appropriate as collateral values at origination and during a period of good performance may not be representative of the value of collateral if the obligor enters a distressed state. For impaired lending, the value of collateral is re-evaluated and its legal soundness re-assessed. If there is observable evidence of distress of the borrower, this evaluation is used to determine potential loss allowances and management's strategy to try to either repair the business or recover the debt. Unimpaired lending, including any associated collateral, is managed on a customer-by-customer basis rather than a portfolio basis. No aggregated collateral information for the unimpaired secured lending portfolio is provided to key management personnel.

The Group takes physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable to settle indebtedness. Any surplus funds realised from such disposal are returned to the borrower or are otherwise dealt with in accordance with appropriate regulations. The assets in such cases are not carried on the Group's balance sheet.

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.

During the year, the Group obtained assets by taking possession of collateral held as security as follows:

Nature of assets	Fair value of asset ₦ million	Carrying amount ₦ million
Legal mortgage/debenture on business premises, factory assets or real estates	3,378	1,157
Others	14	-

A record of all repossessed collateral is maintained centrally to ensure an orderly disposal and appropriate monitoring of the sales proceeds realised. The repossessed assets are sold as soon as practicable, with proceeds realised from the sale used to reduce the outstanding indebtedness of the customers.

3.2.4 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 prompt and timely identification of decline in quality and risk portfolio reporting.

3.2.5 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.

3.2.6 Credit recovery

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

3.2.7 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.

3.2.8 Impairment and provisioning policies

Impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment.

3.2.9 Measurement basis of financial assets and liabilities

Group

31 December 2013	Fair value through profit and loss held for trading ₦ million	Fair value through other comprehensive income available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
FINANCIAL ASSETS				
Cash and balances with central banks	–	–	594,234	594,234
Loans and advances to banks	–	–	430,586	430,586
Loans and advances to customers:				
– Overdrafts	–	–	340,055	340,055
– Term loans	–	–	1,359,961	1,359,961
– Staff loans	–	–	6,216	6,216
– Project finance	–	–	60,803	60,803
– Advances under finance lease	–	–	2,095	2,095
Investment securities:				
– Available-for-sale investments	–	529,488	–	529,488
– Held-to-maturity investments	–	–	294,575	294,575
Asset pledged as collateral	–	20,381	33,269	53,650
Financial assets held for trading	10,287	–	–	10,287
Other assets	–	–	28,633	28,633
Asset held for sale	10,784	–	–	10,784
Total financial assets	21,071	549,869	3,150,426	3,721,367
FINANCIAL LIABILITIES				
Customer deposits	–	–	2,929,081	2,929,081
Deposits from banks	–	–	82,032	82,032
Financial liabilities held for trading	1,701	–	–	1,701
Borrowings	–	–	126,302	126,302
Other liabilities	–	–	140,466	140,466
Investment contracts	–	–	68,723	68,723
Total financial liabilities	1,701	–	3,346,605	3,348,305

Group

31 December 2012	Fair value through profit and loss held for trading ₦ million	Fair value through other comprehensive income available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
FINANCIAL ASSETS				
Cash and balances with central banks	–	–	300,532	300,532
Loans and advances to banks	–	–	439,853	439,853
Loans and advances to customers:				
– Overdrafts	–	–	266,242	266,242
– Term loans	–	–	1,207,051	1,207,051
– Staff loans	–	–	5,376	5,376
– Project finance	–	–	59,014	59,014
– Advances under finance lease	–	–	3,694	3,694
Investment securities:				
– Available-for-sale investments	–	379,675	–	379,675
– Held-to-maturity investments	–	–	338,365	338,365
Asset pledged as collateral	–	19,046	31,063	50,109
Financial assets held for trading	6,112	–	–	6,112
Other assets	–	–	28,354	28,354
Asset held for sale	12,978	–	–	12,978
Total financial assets	19,089	398,721	2,679,542	3,097,353
FINANCIAL LIABILITIES				
Customer deposits	–	–	2,395,148	2,395,148
Deposits from banks	–	–	89,430	89,430
Financial liabilities held for trading	1,796	–	–	1,796
Borrowings	–	–	75,541	75,541
Other liabilities	–	–	103,868	103,868
Investment contracts	–	–	54,995	54,995
Total financial liabilities	1,796	–	2,718,981	2,720,777

Company

31 December 2013	Fair value through profit and loss held for trading ₦ million	Fair value through other comprehensive income available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
FINANCIAL ASSETS				
Loans and advances to banks	–	–	1,477	1,477
Loans and advances to customers				
– Staff loans	–	–	72	72
Investment securities:				
– Available-for-sale investments	–	2,515	–	2,515
– Held-to-maturity investments	–	–	–	–
– Loans and receivables	–	–	7,332	7,332
Other assets	–	–	42,831	42,831
Total financial assets	–	2,515	51,712	54,227
FINANCIAL LIABILITIES				
Other liabilities	–	–	3,519	3,519
Total financial liabilities	–	–	3,519	3,519

Company

31 December 2012	Fair value through profit and loss held for trading ₦ million	Fair value through other comprehensive income available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
FINANCIAL ASSETS				
Investment securities:				
– Available-for-sale investments	–	2,307	–	2,307
– Held-to-maturity investments	–	–	2,450	2,450
– Loans and receivables	–	–	11,014	11,014
Total financial assets	–	2,307	13,464	15,771
FINANCIAL LIABILITIES				
Other liabilities	–	–	993	993
Total financial liabilities	–	–	993	993

3.2.10 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 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Balances with central banks	522,491	245,141	–	–
Loans and advances to banks	430,586	439,853	1,477	–
Loans and advances to customers				
– Overdrafts	340,055	266,242	–	–
– Term loans	1,359,961	1,207,051	–	–
– Staff loans	6,216	5,376	72	–
– Project finance	60,803	59,014	–	–
– Advances under finance lease	2,095	3,694	–	–
Financial assets held for trading	10,287	6,112	–	–
Investment securities – debt				
– Available-for-sale investments	476,941	319,134	–	–
– Held-to-maturity investments	294,575	338,365	–	2,450
– Loans and receivables	–	–	7,332	11,014
Asset pledged as collateral	53,650	50,109	–	–
Assets classified as held for sale	6,235	7,341	–	–
Other assets excluding prepayments	28,633	28,354	42,831	–
	3,592,527	2,975,784	51,711	13,464
Credit risk exposures relating to off balance sheet assets are as follows:				
Loan commitments	408,008	239,445	–	–
Letter of credit and other credit related obligations	693,615	534,361	–	–
	1,101,624	773,806	–	–
Total maximum exposure	4,694,151	3,749,591	51,711	**13,464**

3.2.11 Concentration of risks of financial assets with credit risk exposure

a. **Geographical sectors**

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 2013 and 31 December 2012. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties. Investment securities and financial assets held for trading analysed below excludes investments in equity instruments.

Group

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Balances with central bank	502,451	–	–	6,569	13,471	–	522,491
Loans and advances to banks	128,991	–	440	37,220	135,824	128,111	430,586
Loans and advances to customers							–
– Overdrafts	258,028	43,577	25,609	12,402	439		340,055
– Term loans	837,066	149,373	92,626	105,245	124,964	50,686	1,359,961
– Staff loans	5,671	–	–	513	32	–	6,216
– Project finance	20,865	30,742	9,196	–	–	–	60,803
– Advances under finance lease	1,587	482	26	–	–	–	2,095
Financial assets held for trading	7,757	–	–	–	2,530	–	10,287
Investment securities							
– Available-for-sale investments	403,156	2,690	3,008	14,504	50,467	3,116	476,941
– Held-to-maturity investments	284,372	9,276	927	–	–	–	294,575
Asset pledged as collateral	52,405	–	–	1,245	–	–	53,650
Assets classified as held for sale	6,235	–	–	–	–	–	6,235
Other assets	11,805	11,791	1,404	2,587	328	718	28,633
31 December 2013	2,520,390	247,932	133,235	180,284	328,055	182,631	3,592,527

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

Group

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Loan commitments	286,761	30,345	34,902	49,353	6,647	–	408,008
Letters of credit and other credit related obligations	440,762	88,555	92,032	1,078	71,188	–	693,615
31 December 2013	727,524	118,900	126,934	50,431	77,835	–	1,101,624

Group

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Balances with central bank	235,246	–	–	9,857	38	–	245,141
Loans and advances to banks	108,677	–	–	11,059	320,117	–	439,853
Loans and advances to customers							
– Overdrafts	199,560	40,972	18,220	7,489	–	–	266,242
– Term loans	632,128	259,633	78,410	11,232	225,649	–	1,207,051
– Staff loans	5,359	–	–	17	–	–	5,376
– Project finance	45,460	3,794	9,761	–	–	–	59,014
– Advances under finance lease	1,993	1,199	502	–	–	–	3,694
Financial assets held for trading	5,435	–	–	–	677	–	6,112
Investment securities							
Available-for-sale investments	248,984	17,554	1,632	574	50,390	–	319,134
Held-to-maturity investments	326,331	10,874	1,160				338,365
Asset pledged as collateral	50,109	–	–	–	–	–	50,109
Assets classified as held for sale	5,139	1,101	1,101	–	–	–	7,341
Other assets	15,003	10,122	1,506	1,490	233	–	28,354
31 December 2012	1,879,421	345,249	112,292	41,719	597,103	–	2,975,784

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

Group

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Loan commitments	212,334	–	–	–	27,111	–	239,445
Letters of credit and other credit related obligations	426,527	29,984	30,305		47,545	–	534,361
31 December 2012	638,861	29,984	30,305	–	74,656	–	773,806

Company

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Loans and advances to banks	1,477	–	–	–	–	–	1,477
Loans and advances to customers							
– Staff loans	72	–	–	–	–	–	72
Investment securities							
Held-to-maturity investments	–	–	–	–	–	–	–
Loans and receivables	7,332	–	–	–	–	–	7,332
Other assets	42,831	–	–	–	–	–	42,831
31 December 2013	49,262	2,450	–	–	–	–	51,712

Company

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Held-to-maturity investments	–	2,450	–	–	–	–	2,450
Loans and receivables	11,014	–	–	–	–	–	11,014
31 December 2012	11,014	2,450	–	–	–	–	13,464

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 held for trading analysed below excludes investments in equity instruments.

Group

	Balances with central bank ₦ million	Loans and advances to banks ₦ million	Financial assets held for trading ₦ million	Investment securities (debt) – available for sale ₦ million	Investment securities – held to maturity ₦ million	Asset pledged as collateral ₦ million	Other assets ₦ million
Agriculture	–	–	6	208	404	–	–
Oil and gas	–	–	2,045	–	–	–	–
Consumer credit	–	–	–	–	–	–	–
Manufacturing	–	–	–	–	1,923	–	3
Real estate	–	–	–	–	–	–	–
Construction	–	–	–	–	–	–	–
Finance and insurance	522,491	430,586	6,681	33,610	5,170	–	4,230
Transportation	–	–	4	–	–	–	–
Communication	–	–	191	–	–	–	–
General commerce	–	–	236	–	847	–	24,045
Utilities	–	–	–	–	–	–	–
Retail services	–	–	–	–	–	–	155
Public sector	–	–	1,125	443,123	286,231	53,650	200
Total at 31 December 2013	522,491	430,586	10,287	476,941	294,575	53,650	28,633

Group

	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Agriculture	550	64,507	–	–	–	65,057
Oil and gas	173,008	445,678	–	2,697	47	621,430
Consumer credit	4,649	134,933	3,765	–	23	143,371
Manufacturing	63,144	207,962	–	–	113	271,219
Real estate	9,752	73,795	2,298	45,755	–	131,600
Construction	10,875	24,758	–	12,351	–	47,984
Finance and insurance	1,689	9,817	117	–	–	11,623
Transportation	5,171	3,279	–	–	142	8,592
Communication	4,936	90,623	–	–	–	95,559
General commerce	31,869	62,145	3	–	–	94,017
Utilities	5,738	27,537	–	–	18	33,293
Retail services	22,842	78,400	32	–	1,720	102,995
Public sector	5,833	136,525	–	–	31	142,389
Total at 31 December 2013	340,055	1,359,961	6,216	60,803	2,095	1,769,129

The industrial sector for the credit exposure in the assets held for sale balance is general commerce.

Group

	Balances with central bank ₦ million	Loans and advances to banks ₦ million	Financial assets held for trading ₦ million	Investment securities (debt) – available for sale ₦ million	Investment securities – held to maturity ₦ million	Asset pledged as collateral ₦ million	Other assets ₦ million
Agriculture	–	46,728	3,547	15,248	7,505	–	4,689
Oil and gas	–	–	1,205	–		–	–
Consumer credit	–	–	–	–	2,000	–	–
Manufacturing	–	–	–	–	–	–	–
Real estate	–	–	–	–	–	–	–
Construction	–	–	–	–	500	–	–
Finance and insurance	245,141	393,125	678	3,565	5,000	–	23,665
Transportation	–	–	–	–	–	–	–
Communication	–	–	–	–	–	–	–
General commerce	–	–	2	–	–	–	–
Utilities	–	–	–	–	–	–	–
Retail services	–	–	–	–	–	–	–
Public sector	–	–	680	300,321	323,360	50,109	–
Total at 31 December 2012	245,141	439,853	6,112	319,134	338,365	50,109	28,354

The industrial sector for the credit exposure in the assets held for sale balance is general commerce.

Group

	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Agriculture	9,830	241,784	232	319	–	252,165
Oil and gas	121,777	354,589	–	15,495	157	492,019
Consumer credit	374	141,262	–	–	1	141,637
Manufacturing	55,142	102,730	–	–	304	158,175
Real estate	1,727	54,818	1,746	25,398	–	83,689
Construction	5,079	15,897	–	13,434	101	34,512
Finance and insurance	2,078	15,964	–	–	48	18,091
Transportation	3,700	886	–	–	338	4,924
Communication	6,021	72,949	–	–	–	78,970
General commerce	26,123	36,426	–	–	54	62,603
Utilities	4,327	939	–	–	42	5,308
Retail services	24,072	55,410	3,398	4,368	2,594	89,842
Public sector	5,992	113,396	–	–	53	119,441
Total at 31 December 2012	266,242	1,207,051	5,376	59,014	3,694	1,541,376

Company

	Balances with central bank ₦ million	Loans and advances to banks ₦ million	Financial assets held for trading ₦ million	Investment securities – held to maturity ₦ million	Investment securities – loans and receivables ₦ million	Asset pledged as collateral ₦ million	Other assets ₦ million
Real estate	–	–	–	–	7,332	–	–
Finance and insurance	–	1,477	–	–	–	–	42,831
Total at 31 December 2013	–	1,477	–	–	7,332	–	42,831

Company

	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Consumer credit	–	–	11	–	–	11
Real estate	–	–	61	–	–	61
Total at 31 December 2013	–	–	72	–	–	72

Company

	Balances with central bank ₦ million	Loans and advances to banks ₦ million	Financial assets held for trading ₦ million	Investment securities – held to maturity ₦ million	Investment securities – loans and receivables ₦ million	Asset pledged as collateral ₦ million	Other assets ₦ million
Real estate	–	–	–	2,450	11,014	–	13,464
Total at 31 December 2012	–	–	–	2,450	11,014	–	13,464

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

Group

	Loan commitments 31 Dec 2013 ₦ million	Letter of credit and other related obligations 31 Dec 2013 ₦ million	Loan commitments 31 Dec 2012 ₦ million	Letter of credit and other related obligations 31 Dec 2012 ₦ million
Agriculture	2,222	3,662	–	–
Oil and gas	169,321	115,457	157,755	170,311
Consumer credit	15,427	484	–	–
Manufacturing	79,175	11,976	29,862	137,629
Real estate	10,005	27,944	–	25,654
Construction	18,357	205,450	1,853	147,070
Finance and insurance	1,911	99,042	22,564	2,575
Transportation	1,240	1,786	138	1,151
Communication	54,962	7,062	249	6,729
General commerce	27,464	147,327	25,730	7,571
Utilities	2,364	457	33	13,726
Retail services	22,640	66,890	1,261	15,155
Public sector	2,920	6,078	–	6,789
Total	408,008	693,615	239,445	534,361

3.2.12 Loans and advances to customers

Credit quality of loans and advances to customers is summarised as follows:

Group

	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
DECEMBER 2013						
Neither past due nor impaired	321,174	1,218,856	6,268	59,425	1,616	1,607,339
Past due but not impaired	14,771	135,055	122	2,109	490	152,547
Individually impaired	14,889	16,705	38	–	696	32,329
Collectively impaired	3,748	18,151	3	–	60	21,962
Gross	354,582	1,388,767	6,432	61,534	2,862	1,814,177
Less: allowance for impairment (Note 21)	(14,527)	(28,806)	(216)	(731)	(767)	(45,047)

Group

	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Net	340,055	1,359,961	6,216	60,803	2,096	1,769,130
Individually impaired	10,467	9,479	31	–	695	20,673
Portfolio allowance	4,060	19,327	185	731	71	24,374
Total	14,527	28,806	216	731	767	45,047

Group

	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
DECEMBER 2012						
Neither past due nor impaired	254,444	1,045,852	5,976	55,967	2,520	1,364,759
Past due but not impaired	10,745	159,301	–	3,779	673	174,498
Individually impaired	8,184	13,067	–	–	560	21,811
Collectively impaired	3,153	16,452	–	–	28	19,633
Gross	276,526	1,234,672	5,976	59,746	3,781	1,580,701
Less: allowance for impairment (Note 21)	(10,284)	(27,621)	(600)	(732)	(87)	(39,324)
Net	266,242	1,207,051	5,376	59,014	3,694	1,541,376
Individually impaired	6,882	10,372	–	–	–	17,254
Portfolio allowance	3,402	17,249	600	732	87	22,070
Total	10,284	27,621	600	732	87	39,324

Company

	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
DECEMBER 2013						
Neither past due nor impaired	–	–	72	–	–	72
Net	–	–	72	–	–	72

Group – December 2013

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 Note 3.2.1 for an explanation of the internal rating system).

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
GRADES:						
AAA	939	8,310	278	–	–	9,527
AA	6,189	10,816	–	–	–	17,005
A	6,224	50,110	–	2,580	–	58,914
BBB	20,318	91,007	2,311	1,051	56	114,743
BB	205,461	479,646	7	21,566	623	707,303
B	82,042	578,967	3,580	34,227	938	699,755
CCC	–	–	92	–	–	92
CC	–	–	–		–	–
C	–	–	–	–	–	–
Total	321,174	1,218,856	6,268	59,425	1,616	1,607,339

b. **Loans and advances past due but not impaired**

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Past due up to 30 days	12,397	62,668	110	1,467	484	77,126
Past due by 30-60 days	2,220	64,035	3	642	5	66,905
Past due by 60-90 days	154	8,353	9	–	–	8,515
Gross amount	14,771	135,055	122	2,109	490	152,547

c. **Collectively impaired loans**

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

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
	3,748	18,151	3	–	60	21,962

d. **Loans and advances individually impaired**

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Gross amount	14,889	16,705	38	–	696	32,329
Specific impairment	(10,467)	(9,479)	(31)	–	(695)	(20,673)
Net amount	4,422	7,226	7	–	1	11,656

Group – December 2012

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 Note 3.2.1 for an explanation of the internal rating system).

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
GRADES:						
AAA	–	–	–	–	–	–
AA	4,829	41,874	–	–	–	46,703
A	4,466	10,001	1,584	–	86	16,138
BBB	64,048	67,134	–	26,306	557	158,045
BB	162,336	429,597	4,189	29,257	1,877	627,256
B	18,764	485,196	203	405	–	504,568
CCC	–	11,873	–	–	–	11,873
CC	–	–	–	–	–	–
C	–	177	–	–	–	177
Total	254,444	1,045,851	5,976	55,967	2,520	1,364,759

b. **Loans and advances past due but not impaired**

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Past due up to 30 days	8,564	86,349	–	3,137	668	98,718
Past due by 30-60 days	2,163	64,928	–	642	5	67,738
Past due by 60-90 days	18	8,024	–	–	–	8,042
Gross amount	10,745	159,301	–	3,779	673	174,498

c. **Collectively impaired loans**

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

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
	3,153	16,452	–	–	28	19,633

d. **Loans and advances individually impaired**

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Gross amount	8,184	13,067	–	–	560	21,811
Specific impairment	6,882	10,372	–	–	–	17,254
Net amount	1,302	2,695	–	–	560	4,557

e. **Sensitivity analysis on impairment**

The loan portfolio of First Bank of Nigeria, the most significant entity of the Commercial Banking business, 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 realising 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 ₦ million	Scenario 1 ₦ million	Scenario 2 ₦ million
31 DECEMBER 2013			
Overdrafts	11,806	12,352	12,352
Term loans	10,117	12,788	12,788
Commercial papers (CP)	(430)	(396)	(396)
Others	(1)	145	145
Advances under finance lease	682	692	692
Total	22,174	25,581	25,581
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

3.2.13 Loans and advances to banks

Credit quality of loans to banks is summarised as follows:

All loans to banks are neither past due nor impaired.

The credit quality has been assessed by reference to Moody's rating, Agusto & Agusto's rating (credit rating agency) and the internal rating system at 31 December 2013 and 31 December 2012.

	Group Loans to banks ₦ million
31 DECEMBER 2013	
A+ to A-	220,663
B+ to B-	164,519
Unrated	45,405
	430,586
31 DECEMBER 2012	
A+ to A-	81,091
B+ to B-	313,082
Unrated	45,680
	439,853

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 (credit rating agency) at 31 December 2013 and 31 December 2012.

Group	Treasury bills as reported in the AFS portfolio ₦ million	Bonds as reported in the AFS portfolio ₦ million	Treasury bills as reported in the HTM portfolio ₦ million	Bonds as reported in the HTM portfolio ₦ million	Other assets ₦ million
31 DECEMBER 2013					
A+ to A-	334,000	140,119	19,108	308,736	–
B+ to B-	–	20,607	–	–	–
Unrated	–	2,597	–	–	28,633
	334,000	163,323	19,108	308,736	28,633
31 DECEMBER 2012					
A+ to A-	146,225	188,334	–	363,546	–
B+ to B-	–	–	–	–	–
Unrated	–	3,621	–	5,882	28,354
	146,225	191,955	–	369,428	28,354

Company

	Treasury bills as reported in the AFS portfolio ₦ million	Bonds as reported in the AFS portfolio ₦ million	Treasury bills as reported in the HTM portfolio ₦ million	Bonds as reported in the HTM portfolio ₦ million	Loans and receivables ₦ million	Other assets ₦ million
31 DECEMBER 2013						
Unrated	–	–	–	–	7,332	42,831
	–	–	–	–	7,332	42,831
31 DECEMBER 2012						
Unrated	–	–	–	2,450	11,014	–
	–	–	–	2,450	11,014	–

3.3 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 Group'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.

3.3.1 Management of liquidity risk

The Group's liquidity management process 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 monitoring of the timing of cash flows 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.

Liquidity risk on derivatives is managed using the same source of funding as for the non-derivative liabilities.

3.3.2 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.

3.3.3 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 behavioural basis which is shown in table B below.

a. Table A – liquidity analysis on a contractual basis

Group

	0-30 days ₦ million	31-90 days ₦ million	91-180 days ₦ million	181-365 days ₦ million	Over 1 year but less than 5 years ₦ million	Over 5 years ₦ million	Total ₦ million
31 DECEMBER 2013							
Financial liabilities							
Deposits from banks	28,242	51,926	1,864	–	–	–	82,032
Deposits from customers	2,484,155	268,431	47,330	61,625	71,929	823	2,934,293
Borrowings	17,568	32,494	1,854	8,013	40,498	54,931	155,358
Other liabilities	16,653	117,014	1,920	1,027	–	13,245	149,859
Insurance contracts liability – deposit administration	–	–	–	–	1,148	75	1,223
Insurance contracts liability – Life Fund	157	–	–	671	1,195	405	2,427
Investment contracts	39,315	26,037	3,369	–	–	–	68,721
Loan commitments	58,505	85,962	62,610	67,961	56,415	76,555	408,008
Letters of credit and other credit related obligations	643,247	4,347	5,940	23,934	16,147	–	693,615
Total financial liabilities	3,287,842	586,211	124,887	163,231	187,331	146,034	4,495,537
Assets held for managing liquidity risk	944,453	179,891	77,123	55,931	129,012	62,611	1,449,021
31 DECEMBER 2012							
Financial liabilities							
Deposits from banks	-	89,440	-	-	-	-	89,440
Deposits from customers	2,209,729	133,875	29,068	27,362	4	-	2,400,038
Borrowings	43,606	512	135	1,024	4,419	26,472	76,168
Other liabilities	56,129	16,992	71,713	8,310	-	-	153,145
Insurance contracts liability – deposit administration	-	-	-	-	271	20	290
Insurance contracts liability – Life Fund	73	-	-	650	991	124	1,837
Investment contracts	54,995	-	-	-	-	-	54,995
Loan commitments	73,506	61,840	51,960	52,140	-	-	239,445
Letters of credit and other credit related obligations	316,811	23,200	48,952	141,678	3,719	-	534,361
Total financial liabilities	2,754,849	325,859	201,828	231,165	9,403	26,615	3,549,719
Assets held for managing liquidity risk	516,969	191,713	141,888	62,490	292,752	155,737	1,361,549

Company

	0-30 days ₦ million	31-90 days ₦ million	91-180 days ₦ million	181-365 days ₦ million	Over 1 year but less than 5 years ₦ million	Over 5 years ₦ million	Total ₦ million
31 DECEMBER 2013							
Financial liabilities							
Other liabilities	72	–	–	3,447	–	–	3,519
Total financial liabilities	72	–	–	3,447	–	–	3,519
31 DECEMBER 2012							
Other liabilities	–	–	–	993	–	–	993
Total financial liabilities	–	–	–	993	–	–	993

b. Table B – liquidity analysis on a behavioural basis

Group

	0-30 days ₦ million	31-90 days ₦ million	91-180 days ₦ million	181-365 days ₦ million	Over 1 year but less than 5 years ₦ million	Over 5 years ₦ million	Total ₦ million
31 DECEMBER 2013							
Financial liabilities							
Deposits from banks	28,242	51,926	1,864	–	–	–	82,032
Deposits from customers	511,358	388,160	206,602	299,867	1,527,484	823	2,934,294
Borrowings	17,568	32,494	1,854	8,013	40,498	54,931	155,358
Other liabilities	16,653	117,014	1,920	1,027	–	13,245	149,859
Insurance contracts liability – deposit administration	–	–	–	–	1,148	75	1,223
Insurance contracts liability – Life Fund	157	–	–	671	1,195	405	2,427
Investment contracts	39,315	26,037	3,369	–	–	–	68,721
Loan commitments	58,505	85,962	62,610	67,961	56,415	76,555	408,008
Letters of credit and other credit related obligations	643,247	4,347	5,940	23,934	16,147	–	693,615
Total financial liabilities	1,315,045	705,940	284,159	401,473	1,642,886	146,034	4,495,537
Assets held for managing liquidity risk	944,453	179,891	77,123	55,931	129,012	62,611	1,449,021
31 DECEMBER 2012							
Financial liabilities							
Deposits from banks	0	89,440	-	-	-	-	89,440
Deposits from customers	288,278	353,715	201,068	333,603	1,223,374	-	2,400,038
Borrowings	-	45,442	2,210	3,478	25,039	-	76,168
Other liabilities	56,130	16,991	71,713	8,310	-	-	153,145
Insurance contracts liability – deposit administration	-	-	-	-	271	20	290
Insurance contracts liability – Life Fund	73	-	-	650	991	124	1,837
Investment contracts	54,995	-	-	-	-	-	54,995
Loan commitments	73,506	61,840	51,960	52,140	-	-	239,445
Letters of credit and other credit related obligations	316,811	23,200	48,952	141,678	3,719	-	534,361
Total financial liabilities	789,793	590,628	375,902	539,859	1,253,393	143	3,549,719
Assets held for managing liquidity risk	516,969	191,713	141,888	62,490	292,752	155,737	1,361,549

3.3.4 Assets held for managing liquidity risk

The Group holds a diversified portfolio of liquid assets – largely cash and government securities to support payment and funding obligations in normal and stressed market conditions across foreign and local currencies. The Group's liquid assets comprise:

- cash and balances with the central bank comprising reverse repos and overnight deposits;
- short-term and overnight placements in the interbank market;
- government bonds and treasury bills that are readily accepted in repurchase agreements with the central bank and other market participants;
- secondary sources of liquidity in the form of highly liquid instruments in the Group's trading portfolios; and
- the ability to access incremental short-term funding by interbank borrowing from the interbank market.

The Bank is largely deposit funded and thus, as is typical among Nigerian banks, has significant funding mismatches on a contractual basis, given that the deposits are largely demand and short tenured, while lending is longer term. On an actuarial basis, our demand deposits exhibit much longer duration, with 67.98% of our current account balances and 79.07% of savings account balances being deemed core.

To manage liquidity shocks in either foreign or local currency, largely as a result of episodic movements, the Bank typically holds significant short-term liquidity in currency placements or taps the repo markets to raise short-term funding as is required. To grow local currency liquidity we have also systematically worked towards reducing the duration of our securities portfolio in the last year, shifting the emphasis to holding more liquid shorter dated treasury bills over longer-term bonds, to allow more flexibility in managing liquidity. While on the foreign currency side, we have built up placement balances with our offshore correspondents.

3.3.5 Derivative liabilities

a. **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 ₦ million	1–3 months ₦ million	3–6 months ₦ million	6–12 months ₦ million	1–5 years ₦ million	Over 5 years ₦ million	Total ₦ million
31 DECEMBER 2013							
Derivative liabilities							
Accumulator-forward FX contract	–	–	–	–	(71)	–	(71)
	–	–	–	–	(71)	–	(71)
Derivative assets							
Cross-currency swap	–	–	–	12	–	–	12
Foreign exchange derivatives	1,546	602	370	–	–	–	2,518
	1,546	602	370	12	–	–	2,530
	1,546	602	370	12	(71)	–	2,459
AT 31 DECEMBER 2012							
Derivative liabilities							
Cross-currency swap	–	(61)	–	–	–	–	(61)
Accumulator-forward FX contract	–	–	–	–	(260)	–	(260)
	–	(61)	–	–	(260)	–	(321)

b. **Derivatives settled on a gross basis**

The Group's derivatives that will be settled on a gross basis are foreign exchange derivatives. 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 cash flows 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 ₦ million	1-3 months ₦ million	3-6 months ₦ million	6-12 months ₦ million	1-5 years ₦ million	Over 5 years ₦ million	Total ₦ million
31 DECEMBER 2013							
Derivatives held for trading							
Foreign exchange derivatives:	6	2	–	–	–	–	8
Put options	–	–	–	–	2,473	–	2,473
	6	2	–	–	2,473	–	2,481
Liabilities held for trading							
Foreign exchange derivatives:	–	–	–	–	–	–	–
Put options	–	–	–	–	(1,626)	–	(1,626)
	–	–	–	–	(1,626)	–	(1,626)
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

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, interest rate 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 and/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

FirstBank's Group 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, FirstBank's 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 Bank's 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 Bank 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

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 First Bank of Nigeria (the Bank) is subject to the VaR methodology. The interest rate exposure of the other subsidiaries 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 treasury bills and foreign exchange due to volatility in those instruments impacting positions held by the Bank during the period. The yield on various maturities for treasury bills declined by about 300 basis points on the average compared to the previous financial year; while the naira depreciated by about 2% in the interbank market.

The assets included in the VaR analysis are the held for trading assets.

The treasury bill trading VaR is NG₦100.72 million as at 31 December 2013 and reflects the potential loss given assumptions of a 10-day holding period, volatility computed using 500-day return data, and a 99% statistical confidence level.

The foreign exchange trading VaR of NG₦3.37 million as at 31 December 2013 reflects the potential loss given assumptions of a one-day holding period, volatility computed using 500-day return data, and a 99% statistical confidence level.

Group

VaR summary	Average	High	Low
12 MONTHS TO 31 DECEMBER 2013			
Foreign exchange risk	16	52	0
Interest rate risk	528	1,738	38
Total VaR	543	1,791	38
12 MONTHS TO 31 DECEMBER 2012			
Foreign exchange risk	176	1,267	2
Interest rate risk	264	1,303	5
Total VaR	440	2,570	7

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 Bank augments other risk measures with stress testing to evaluate the potential impact of possible extreme movements in financial variables on portfolio values.

Stress testing is an integral part of the market risk management framework and 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 Assets & Liabilities Management Committee (ALCO) 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 Bank's holdings in rate-sensitive assets and liabilities the Bank 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 Bank uses a variety of tools to measure non-tradable interest rate risk such as:

- interest rate gap analysis (which allows the Bank 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 2013 and 31 December 2012. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

Group

	Naira million	USD million	GBP million	Euro million	Others million	Total million
31 DECEMBER 2013						
Financial assets						
Cash and balances with central banks	560,660	8,904	3,646	16,049	4,975	594,234
Loans and advances to banks	29,908	326,152	46,284	23,887	4,355	430,586
Loans and advances						
– Overdrafts	272,676	63,248	85	95	3,951	340,055
– Term loans	604,517	604,024	53,972	88,205	9,243	1,359,961
– Staff loans	5,670	254	32	–	260	6,216
– Project finance	50,150	10,653	–	–	–	60,803
– Advances under finance lease	2,095	–	–	–	–	2,095
Investment securities						
– Available-for-sale investments	386,118	35,679	46,687	4	8,453	476,941
– Held-to-maturity investments	294,575	–	–	–	–	294,575

Group

	Naira million	USD million	GBP million	Euro million	Others million	Total million
Asset pledged as collateral	52,405	–	–	–	1,245	53,650
Financial assets held for trading	7,769	1,598	–	784	136	10,287
Other assets	13,384	12,361	1,881	111	896	28,633
	2,279,927	1,062,873	152,587	129,135	33,514	3,658,036
Financial liabilities						
Customer deposits	1,950,222	688,267	223,116	9,007	58,469	2,929,081
Deposits from banks	6,038	44,263	15,688	15,665	378	82,032
Financial liabilities held for trading	1,697	–	–	–	4	1,701
Borrowings	28,698	95,442	140	2,012	10	126,302
Other liabilities	12,456	85,427	24,473	13,576	4,534	140,466
Insurance contracts liability – deposit administration	1,223	–	–	–	–	1,223
Insurance contracts liability – Life Fund	2,427	–	–	–	–	2,427
Investment contracts	68,721	–	–	–	–	68,721
	1,999,112	913,399	263,417	40,260	63,395	3,279,582
31 DECEMBER 2012						
Financial assets						
Cash and balances with central banks	280,484	8,291	1,110	786	9,861	300,532
Loans and advances to banks	82,941	265,384	71,602	9,325	10,601	439,853
Loans and advances						
– Overdrafts	216,520	48,906	12	800	3	266,242
– Term loans	937,148	269,903	–	–	–	1,207,051
– Staff loans	5,376	–	–	–	–	5,376
– Project finance	46,963	12,051	–	–	–	59,014
– Advances under finance lease	3,694	–	–	–	–	3,694
Investment securities						
– Available-for-sale investments	328,712		50,389	–	574	379,675
– Held-to-maturity investments	338,365					338,365
Asset pledged as collateral	50,109	–	–	–	–	50,109
Financial assets held for trading	4,227	1,262	623	–	–	6,112
Other assets	8,515	17,714	198	37	1,890	28,354
	2,303,052	623,512	123,934	10,948	22,929	3,084,375
Financial liabilities						
Customer deposits	1,710,396	531,591	113,633	3,436	36,092	2,395,148
Deposits from banks	19,678	654	69,088	10	–	89,430
Financial liabilities held for trading	–	1,278	518	–	–	1,796
Borrowings	19,401	52,772	12	3,352	4	75,541
Other liabilities	21,818	63,661	26,818	5,500	4,405	122,202
Insurance contracts liability – deposit administration	290	–	–	–	–	290
Insurance contracts liability – Life Fund	1,837	–	–	–	–	1,837
Investment contracts	54,995	–	–	–	–	54,995
	1,771,293	649,956	210,069	12,298	40,501	2,684,117

The Group is exposed to the US dollar and euro currencies.

The following table details the Group's sensitivity to a 10% increase and decrease in naira against the US dollar and euro. Management believe that a 5% 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 5% weakening of naira against the US dollar and euro, there would be an equal and opposite impact on profit.

	Group	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Naira strengthens by 5% against the US dollar profit/(loss)	7,474	1,322
Naira weakens by 5% against the US dollar profit/(loss)	(7,474)	(1,322)
Naira strengthens by 5% against the euro profit/(loss)	4,444	67
Naira weakens by 5% against the euro profit/(loss)	(4,444)	(67)

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 ALCO.

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	Carrying amount ₦ million	Variable interest ₦ million	Fixed interest ₦ million	Non-interest bearing ₦ million
31 DECEMBER 2013				
Financial assets				
Cash and balances with central banks	594,234	181,281	–	412,954
Loans and advances to banks	430,586	300,831	129,755	–
Loans and advances				
– Overdrafts	340,055	340,054	1	–
– Term loans	1,359,961	1,316,539	43,422	–
– Staff loans	6,216	–	6,216	–
– Project finance	60,803	60,803	–	–
– Advances under finance lease	2,095	2,095	–	–
Investment securities:				
– Available-for-sale investments	529,488	–	476,942	52,546
– Held-to-maturity investments	294,575	–	294,575	
Assets pledged as collateral	53,650	–	53,650	–
Financial assets held for trading	10,287	–	1,125	9,161
Other assets	41,405	–	–	41,405
	3,723,355	2,201,602	1,005,687	516,066
Financial liabilities				
Customer deposits	2,929,081	2,272,495	623,587	32,999
Deposits from banks	82,032	68,052	13,296	684
Financial liabilities held for trading	1,701	–	–	1,701
Borrowings	126,302	1,603	124,699	–

Group

	Carrying amount ₦ million	Variable interest ₦ million	Fixed interest ₦ million	Non-interest bearing ₦ million
Other liabilities	149,859	–	–	149,859
Insurance contracts liability – deposit administration	1,223	1,223	–	–
Insurance contracts liability – Life Fund	2,427	–	–	2,427
Investment contracts	68,721	–	68,721	–
	3,361,346	2,343,373	830,303	187,671
Interest rate mismatch		(141,771)	175,384	328,396

Group

	Carrying amount ₦ million	Variable interest ₦ million	Fixed interest ₦ million	Non-interest bearing ₦ million
31 DECEMBER 2012				
Financial assets				
Cash and balances with central banks	300,532	–	–	300,532
Loans and advances to banks	439,853	–	83,180	356,673
Loans and advances				
– Overdrafts	266,242	266,242	–	–
– Term loans	1,207,051	1,207,051	–	–
– Staff loans	5,376	29	5,346	–
– Project finance	59,014	59,014	–	–
– Advances under finance lease	3,694	3,694	–	–
Investment securities:				
– Available-for-sale investments	379,675		318,053	62,183
– Held-to-maturity investments	338,365		338,365	
Assets pledged as collateral	50,109	–	50,109	–
Financial assets held for trading	6,112	–	1,015	5,097
Other assets	28,354	–	–	28,354
	3,084,375	1,536,030	796,067	752,839
Financial liabilities				
Customer deposits	2,395,148	1,894,823	495,551	9,664
Deposits from banks	89,430	–	89,430	
Financial liabilities held for trading	1,796	–	61	1,735
Borrowings	75,541	2,560	72,981	–
Other liabilities	103,868	–	–	103,868
Insurance contracts liability – deposit administration	290	–	–	290
Insurance contracts liability – Life Fund	1,837	–	–	1,837
Investment contracts	54,995	–	54,995	–
	2,665,783	1,897,383	658,023	115,267
Interest rate mismatch		(361,352)	138,044	637,572

3.4.5 Interest rate sensitivity gap analysis

The table below summarises the repricing profile of FirstBank's non-trading book as at 31 December 2013. 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 subsidiaries is considered insignificant to the Group. Thus, the repricing profile of the Bank is deemed to be fairly representative of the Group.

	<=30 days ₦ billion	31-90 days ₦ billion	91-180 days ₦ billion	181-365 days ₦ billion	1-2 years ₦ billion	Over 2 years ₦ billion	Rate sensitive ₦ million
Treasury bills	56	110	58	4	–	–	224
Government bonds	–	13	7	166	–	242	428
Corporate bonds	–	–	–	–	–	5	5
Loans and advances to banks	312	35	4	1	1	14	367
Project finance	14	24	4	7	7	6	61
Term loans	18	93	19	109	140	732	1,112
Overdraft	19	39	58	211	–	–	327
Equipment on lease	–	–	2	–	–	–	2
Staff loans	–	–	6	–	–	–	6
Total assets	420	314	157	498	148	999	2,532
Deposits from customers	373	293	197	249	1,459	–	2,571
Deposits from banks	10	–	–	–	–	–	10
Medium-term loan	18	30	2	6	23	47	125
Total liabilities	401	322	199	255	1,482	47	2,706
	19	(9)	(42)	243	(1,334)	952	(174)

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 58% of these demand deposits are non-rate sensitive. These classes of deposits have been allocated into maturity buckets based on historical maturity patterns.

3.5 MANAGEMENT OF INSURANCE RISK

The Group, through its primary insurance business – FBN Insurance Limited, 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 Group 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. The Group issues contracts that transfer insurance and/or financial risk. This section summarises the nature and management of these risks.

3.5.1 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 Group manages these risks through its underwriting strategy, reinsurance arrangements and claims handling processes.

The following policies and practices are used by the Group 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 Group'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. While 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; and
- investigations into mortality and morbidity experience are conducted at least half yearly to ensure that corrective action is taken where necessary.

The Group'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 Group to repudiate death claims arising from non-accidental causes during an initial waiting period after policy inception.

The Group'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 Group'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 Group's exposure to large sums assured.

Claims risk is represented by the fact that the Group may incur unexpectedly high mortality and morbidity losses on any Group of policies. Client service staff 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. The forensic investigation team also investigates and advises on improvements to internal control systems.

3.5.2 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 is 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 Group 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 Group should not suffer total net insurance losses of more than ₦10 million on any policy. In addition to the overall company reinsurance programme, individual business units are permitted to purchase additional reinsurance protection.

The Group 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 Group 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 2013			31 December 2012		
	Gross liability ₦ million	Reinsurance ₦ million	Net liability ₦ million	Gross liability ₦ million	Reinsurance ₦ million	Net liability ₦ million
Individual traditional	1,028	–	1,028	346	(1)	344
Individual savings	1,223	–	1,223	404	–	404
Group Credit Life	814	–	814	690	–	690
Group Life – UPR incl AURR	104	(19)	85	100	(7)	92
Group Life – IBNR	317	(24)	293	523	–	523
Group School Fees	8	–	8	–	–	–
Outstanding claims (lapsed)	157	(30)	127	64	–	64
Total	3,651	(72)	3,578	2,127	(8)	2,118

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

	31 December 2013			31 December 2012		
	Gross liability ₦ million	Reinsurance ₦ million	Net liability ₦ million	Gross liability ₦ million	Reinsurance ₦ million	Net liability ₦ million
Group Life	689	(96)	592	537	(124)	413
Group Credit Life	118	–	118	81	–	81
Individual Life	18	–	18	3	–	3
Total	825	(96)	728	621	(124)	498

3.5.3 Sources of uncertainty in the estimation of future claim payments

Claims on contracts are payable on a claims-occurrence basis. The Group 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).

Uncertainty in the estimation of future benefits payments and premium receipts for insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behaviour.

The insurance business offers varying products, from which the Group is exposed. The main products on offer and the associated risks are:

Product	Types of insurance risk	Product features	Risk
Flexi Education Plan (FlexiEdu)	Individual savings	1. Pays the maturity benefit in four equal annual instalments to fund the education of the ward. 2. In case of death before maturity, it pays a death benefit of 10% of the sum assured (agreed benefit amount at inception) annually subject to a maximum payout of the sum assured.	Death only
Flexi save (FlexiSave)	Individual savings	1. Pays the account balance (contribution plus accrued interest) at maturity to the policyholders. 2. In case of death during the policy, 10% of the total contribution payable (subject to a minimum of NG₦100,000) will be paid in addition to the account balance at the point of death to the beneficiary. 3. Should death arise as a result of accident, the plan will pay an accidental death benefit of 200% of the total contribution payable (subject to a maximum of NG₦5 million) in addition to the amount paid in (2) to the beneficiary.	Death only
Family Support Plan (FSP)	Individual traditional	Pays a lump sum in case of death of any of the covered members. Also gives back one full year premium for every five years that there has been no claim on the policy.	Death only

Product	Types of insurance risk	Product features	Risk
Family Income Protection Plan	Individual traditional	Pays a lump sum to the beneficiary should any of the covered events happen to the policyholder, depending on the option chosen at inception.	Death with either Permanent
Group Life Assurance	Group Life	1. The scheme will pay a benefit of NG₦500,000.00 (subjected to NG₦1 million for a maximum of two lines) for registered Airtel subscribers. 2. Maximum age to enjoy total permanent disability is 70 years, thereafter a member shall only be insured for death benefit up to the age of 80 years.	Death only
Group School Fees	Group School Fees	Pays out tuition fees of student till completion of education in the applicable institution from death of parent.	Death of parent
Group Credit Life Assurance	Group Credit Life	1. The scheme pays the outstanding loan balance at the time of death of the borrower to the Bank. 2. The scheme pays a maximum of six months instalment after loss of job by the borrower to the Bank.	Death and loss of job

The insurance liabilities have been made on the following principles:

Type of business	Valuation method
Individual risk business	Gross premium valuation approach
Individual deposit based business (FlexiSave)	Deposit reserve: account balance at value/date
Group Life and Group School Fees	UPR + IBNR + expense reserve
Group Credit Life	UPR + IBNR + expense reserve
Daily term assurance	2 x daily premium

Individual business

A gross premium method was used for individual risk business. This is a monthly cash flow projection approach taking into account the incidence of all expected future cash flows including office premiums, expenses and benefit payments satisfying the Liability Adequacy Test. This implies that no further testing is required as a result of the implementation of IFRS; or in other words the liability adequacy test has been met implicitly and a separate liability calculation will not be required for accounting purposes.

For the endowment plans the portfolio reserves were tested to ensure they were at least as high as the surrender values at the valuation date. The FlexiSave Plan offers an accidental death and funeral benefit, which are payable in addition to the account balance on the occurrence of an accidental death. The cost of cover is met by explicit risk premiums, which are deducted from the contributions made by policyholders. The life cover element of the FlexiSave policies (and corresponding risk premiums) was unbundled from the deposit components and reserves calculated via a gross premium cash flow approach as described above. This reserve calculation also considers the expected future expense cash flows.

Interest is allocated to policyholder FlexiSave accounts at a rate of 2% below the monetary policy rate (MPR). In order to accurately consider the potential cost of the life cover to the Company from this product (and hence the reserves that should be held) the policyholder funds was projected; this enabled a comparison of the expected future income to the Company from the policy (the investment return not allocated to policyholder accounts and risk premiums) to the expected future outgo (death benefits and expenses). A reserve is then set up to meet any shortfalls.

Life cover is only available for 'active' policies, being those that paid a premium in the year. The risk reserves will allow for future life cover on policies that are active at the valuation date. Policyholders are able to reinstate their life cover by paying any outstanding premiums. Allowance for reinstated policies are made within the additional reserves.

Group business

Reserves for Group Life business comprise an unexpired premium reserve (UPR) and where necessary, a reserve for IBNR to make an allowance for the delay in reporting of claims.

The UPR represents the unexpired portion of the premium for each scheme, net of an expense margin reflecting the acquisition cost loadings. The adequacy of the UPR has been tested by comparing against an additional unexpired risk reserve (AURR), which has been calculated using pooled industry claims data for the underlying assumptions. An AURR will be held in cases where the UPR is deemed insufficient to meet claims in respect of the unexpired period.

A basic chain ladder approach has been used for IBNR reserving, which considers the pattern of claims emerging.

No separate reserve is proposed for claims handling costs for Group Life business as these are typically insignificant in size. Costs incurred are absorbed as part of the general business management costs.

Due to the limited nature of data captured for Credit Life business, the cash flow projection approach couldn't be used for reserving. Instead reserves have been estimated via an unexpired premium reserve plus an allowance for IBNR where necessary, and unexpired future operating expenses.

The IBNR in respect of 2012 Head of Service (HoS) schemes has been reduced to reflect the proportion of premiums received. This is in accordance with the industry's stance of meeting claims in respect of the premiums received only. For FBN Insurance Limited this equates to holding 75% of the residual IBNR in respect of 2012 HoS business.

A similar approach was used to calculate reserves for Group Credit Life business (UPR plus IBNR) allowing for acquisition costs at a ratio of 10% of premium. An additional expense reserve was also calculated for future operating expenses.

FBN launched a new daily-renewable term assurance product in 2013 (PADI4LIFE) in partnership with a mobile network provider. The product operates on an automatic no-premium-no-cover basis, at a fixed premium and benefit level (unit rate). Allowance for IBNR claims was made by holding twice the daily premium at the valuation date as a reserve. This was subject to the minimum of twice the sum assured, such that the reserve is sufficient to cover IBNR claims for a minimum of two lives. This floor is expected to 'bite' until sufficient volumes of business are obtained.

3.5.4 Process used to decide on assumptions

Valuation interest rates

The valuation interest rate is based on current market risk-free yields with adjustments. The use of a risk-free rate also implies that future investment margins (in excess of the risk-free return) will not be capitalised upon, which satisfies paragraph 27 of IFRS 4. Further the result is a 'fair value' liability calculation which aids the comparability of accounts between insurers.

Gross valuation interest rate of 12.5% per annum was adopted for all long-term business, which has been applied as a single long-term rate of return. As at 23 December 2013, FGN bond yields of duration between five and 20 years were above 13% – the 20-year FGN bond yield was 13.25%. By comparison long-term bonds were yielding 12.3% at December 2012.

For the purpose of determining the valuation interest rate, a 5% risk adjustment has been applied, i.e., 95% of the long-term bond yield has been adopted as a risk-adjusted yield. This makes some allowance for the volatility of the 'risk free' yields. By adopting 95% of the closing yield, the valuation interest rate is in line with the average yields over 2013 (five to 20-year bonds).

	Rate
Long-term FGN bond yield	13.25%
Less 5% risk adjustment	(0.66%)
Gross valuation rate	12.59%

The proposed valuation interest rates for the individual risk products are as follows:

Type of business	Current valuation	Previous valuation
Risk products	12.50%	9%
Risk reserves for deposit-based policies	12.50%	9%

Expenses

The Company makes provisions for expenses in its mathematical reserves of an amount that is not less than the amount expected to be incurred in fulfilling its long-term insurance contracts. IFRS 4 explicitly requires the consideration of claims handling expenses. Expenses for individual life business were reserved for explicitly at ₦3,500 per annum increasing with inflation at 8% per annum.

Future maintenance expenses

The regulatory maintenance expenses are derived from the best estimate maintenance expenses plus a prudence margin for adverse deviations. The best estimate maintenance expenses are calculated as the sum of the following:

1. per policy maintenance charges; and
2. allocated operating expenses.

The regulatory maintenance expense assumptions (per policy) are derived by adding a 10% additional prudent margin to the best estimate maintenance expenses to give the required assumption. This has consistently been adopted for IFRS purposes.

FBN Life conducted an expense analysis for individual business based on experience to 30 June 2013. Projecting this forward for a full year gave an estimated expense per policy of ₦3,846 on average for the individual business.

FBN Life adopted a valuation expense assumption for individual business (excluding Credit Life) of ₦3,500 per policy, being approximately 10% higher than a 'best estimate' assumption of ₦3,200 per policy. This is below the current experience, however a conservative view of the 2014 budget has been applied. The expenses will be reviewed at the next valuation in light of the 2014 actual experience.

FBN Life adopted an expense assumption of ₦115 per policy for Credit Life business. This is based on the actual cost allocation to the Credit Life line of business as shown in the accounts.

The valuation expense assumptions are as follows:

Type of business	Current valuation	Previous valuation
Individual Life	₦3,500 pp	₦3,875 pp
Credit Life	₦115 pp	₦660 pp

Expense inflation

The above expenses are subject to inflation at 8% per annum. Consumer Price Inflation at 31 December 2013 was 7.9%. The difference makes for some allowance for expected future expense efficiencies and economies of scale being achieved as the in-force book grows. Both the expense inflation and expense assumption will be actively reviewed in subsequent valuations once more experience data and an expense analysis is made available.

Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract. An investigation into the Group's experience over the most recent three years is performed, and statistical methods are used to adjust the rates reflected in the table to a best estimate of mortality for that year.

The A6770 (Assured Lives 1967–70) mortality table without adjustment was adopted in the valuation. A mortality study was conducted in 2011 using industry mortality experience data which demonstrated a good fit to the A6770 table.

Future mortality improvements

No allowance is proposed for future mortality improvements. The Company does not currently write annuity contracts, hence there is no business for which there is exposure to longevity risk.

Withdrawals

Withdrawals comprise both surrenders (voluntary) and lapses (involuntary). Surrenders are acceptable under the Cash Flow and FlexiSave Plans, after policies have been in force for a pre-defined length of time (at which policies become eligible to receive a surrender value payout). Where eligible the FlexiSave surrender values are based on the account balances.

Surrender rate was not applied in the current valuation, however the reserves for the Cash Flow Plans will be subjected to a minimum floor of the surrender value at the valuation date.

Lapses

No allowance for lapses or surrenders is currently being made in the valuation as there were no lapses for business written within the year 2013 while lapses overall were on the low side for existing business. Further, many of the products in force have been written to provide no payout on surrender within the first two years, which may lead to a reduction in reserve on consideration of lapses/surrender.

(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) For all protection business any negative reserves were set to zero to prevent policies being treated as assets. Negative reserves were permitted for endowment plans for policies with no surrender value at the valuation date.

(vii) Any policies subject to substandard terms were valued using the same basis as standard policies.

Group and Credit Life businesses

UPR are reduced by a margin representing acquisition expenses, as these have been loaded into rates yet they have already been incurred.

Acquisition expense ratio of 15% of gross premium was adopted. Group Life commission was paid at 9% of premium and a NAICOM (regulatory) fee is payable of 1% of premium. 4% of premium has been allowed for other acquisition expenses.

The following assumptions were adopted for the Credit Life valuation:

(i) where no effective (start) date has been provided, we assumed the credit date;

(ii) where no end date or tenor has been provided we assumed a tenor of 30 months; this is in line with the average policy term where data has been provided;

(iii) the UPR was based on the net premiums, where net premiums are reported after the deduction of commission; and

(iv) the IBNR was estimated based on an average claims notification delay period of three months, which was derived from the claims experience data.

Additional contingency reserves was made in addition to those provided for long-term business to be held. These contingencies are considered as standard for the 12 months following the valuation date, i.e., short-term contingency only. Other liabilities such as expense and data contingencies reserves has been estimated as necessary using the information available and reported in the main valuation. Assumptions used for these estimates are summarised in the table below:

All business Group	Current valuation	Previous valuation
Expense overrun	10%	10%
Worsening of mortality experience	10%	10%

Reinsurance agreements

Reinsurance is allowed for in the valuation by having gross and reinsurance ceded records in the policy files. For IFRS compliance purposes all reserves has been reported gross of reinsurance, with the value of the reinsurance asset reported separately.

Changes in assumptions

The Company did not change its assumptions for the insurance contracts.

3.5.5 Insurance and market risk sensitivities

The sensitivity analysis of insurance and market risk is used as it provides a detailed understanding of the risks inherent in the business and to help develop a risk monitoring and management framework to ensure the risks remain within limits, taking into account the available capital and shareholder risk tolerance levels.

The 'assumption changes' component of the analysis of change in the table below shows the impact on liabilities of the actual assumption changes made over the year.

The sensitivity analysis was performed using the under-listed variables:

a. valuation interest (discount) rate (VIR) +/-1%

b. expenses +/- 10%

c. expense inflation +/-2%

d. mortality +/-5% (including Group Life)

2013 ₦ MILLION	Base	VIR		Expenses		Expense inflation	
		1%	-1%	0%	-10%	0%	-2%
Individual risk reserves	1,028	966	1,107	1,064	993	1,045	1,013
FlexiSave deposits	1,223	1,223	1,223	1,223	1,223	1,223	1,223
Group Life – UPR	104	104	104	104	104	104	104
Group Life – IBNR	317	317	317	317	317	317	317
Group Credit Life incl School Fees	1,022	1,022	1,022	1,026	1,018	1,022	1,022
Reinsurance	(43)	(43)	(43)	(43)	(43)	(43)	(43)
Net liability	3,651	3,589	3,730	3,691	3,612	3,668	3,636
% change in net liability		0.0%	(8383%)	(83%)	(81%)	(82%)	(8162%)
Assets	3,756	3,756	3,756	3,756	3,756	3,756	3,756
Surplus/deficit	63	167	26	65	144	88	120

2013 ₦ MILLION	Base	Mortality	
		5%	-5%
Individual risk reserves	1,028	1,032	1,023
FlexiSave deposits	1,223	1,223	1,223
Group Life – UPR	104	104	104
Group Life – IBNR	317	317	317
Group Credit Life incl School Fees	1,022	1,022	1,021
Reinsurance	(43)	(43)	(43)
Net liability	3,651	3,656	3,645
% change in net liability		(8309%)	(83%)
Assets	3,756	3,756	3,756
Surplus/deficit	63	57	68

2012 ₦ MILLION	Base	VIR		Expenses		Expense inflation	
		1%	-1%	0%	-10%	0%	-2%
Individual risk reserves	346	294	433	373	320	377	327
FlexiSave deposits	290	290	290	290	290	290	290
Group Life – UPR	100	100	100	100	100	100	100
Group Life – IBNR	523	523	523	523	523	523	523
Group Credit Life incl School Fees	869	868	869	877	860	869	868
Reinsurance	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Net liability	2,118	2,067	2,206	2,154	2,084	2,150	2,100
% change in net liability		20.0%	(34.0%)	0.0%	13.0%	0.0%	7.0%
Assets	2,385	2,385	2,385	2,385	2,385	2,385	2,385
Surplus/deficit	8	310	171	223	293	227	277

2012 ₦ MILLION	Base	Mortality	
		5%	-5%
Individual risk reserves	346	350	342
FlexiSave deposits	290	290	290
Group Life – UPR	100	100	100
Group Life – IBNR	523	563	497
Group Credit Life incl School Fees	869	869	868
Reinsurance	(8)	(11)	(8)
Net liability	2,118	2,160	2,088
% change in net liability		(16.0%)	(12.0%)
Assets	2,385	2,385	2,385
Surplus/deficit	8	217	288

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 and 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 rates to 99% and 101% respectively of the base rates.

3.5.6 Solvency

The solvency level at the valuation date was 103.1% (112.6%: 2012). That is, assets representing Life Fund on the Company's balance sheet (₦3,755 million) were 103.1% of the value of the actuarially calculated net liabilities (₦3,651 million).

The assets backing the Life Fund are as follows:

	2013 ₦ million	2012 ₦ million
FGN Bonds	499	51
Treasury bills	2,627	1,060
Cash and bank balances	630	1,274
Total	3,756	2,385

The assets adequately match the liabilities. In particular asset admissibility requirements and localisation rules in section 25 of 2003 Insurance Act were met. The Life Fund shows a surplus of ₦105.4 million (2012: ₦258.3 million).

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 are 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 2013, the market value of quoted securities held by the Group is ₦10.09 billion (2012: ₦10.78 billion). If the all share index of the NSE moves by 900 basis points from the 41,329.19 position at 31 December 2013, the effect on the fair value of these quoted securities and the other comprehensive income statement would have been ₦908 million.

The Group holds a number of investments in unquoted securities with a market value of ₦46.58 billion (2012: ₦54.61 billion) of which investments in Airtel Nigeria Ltd (8%), African Finance Corporation (9%) and Interswitch Ltd (10%) are the significant holdings. These investments were valued at ₦4.7 billion (cost ₦2.9 billion), ₦24.9 billion (cost ₦12.7 billion) and ₦1.4 billion (cost ₦31 million) respectively as at 31 December 2013. 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 2012 the corporation had a balance sheet size of $1.6 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. These investments are level 3 instruments, see sensitivity analysis in Note 3.7.

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

3.7.1 Financial instruments measured at fair value

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

Group	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 4 ₦ million
31 DECEMBER 2013				
Financial assets				
Financial assets held for trading				
Debt securities	1,125	–	–	1,125
Equity	4,150	–	–	4,150
Derivatives	–	4,160	852	5,012
Available-for-sale financial assets				
Investment securities – debt	404,002	72,939	–	476,941
Investment securities – unlisted equity	–	3,460	43,150	46,610
Investment securities – listed equity	5,936	–	–	5,936
Assets pledged as collateral	20,381	–	–	20,381
Assets held for sale	–	10,784	–	10,784
Financial liabilities held for trading				
Derivatives	–	1,701	–	1,701

Group

	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 4 ₦ million
31 DECEMBER 2012				
Financial assets				
Financial assets held for trading				
Debt securities	680	–	–	680
Equity	3,212	–	–	3,212
Derivatives	623	1,262	–	1,885
Available-for-sale financial assets				
Investment securities – debt	219,416	99,718	–	319,134
Investment securities – unlisted equity		52,969	–	52,969
Investment securities – listed equity	7,572	–	–	7,572
Assets pledged as collateral	19,046	–	–	19,046
Financial liabilities held for trading				
Derivatives	518	1,278	–	1,796

Company

	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 4 ₦ million
31 DECEMBER 2013				
Financial assets				
Available-for-sale financial assets				
Investment securities – unlisted equity	–	2,515	–	2,515
31 DECEMBER 2012				
Financial assets				
Available-for-sale financial assets				
Investment securities – unlisted equity	–	2,307	–	2,307

a. **Financial instruments in level 1**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active 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. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily bonds and equity investments classified as trading securities or available for sale.

b. **Financial instruments in level 2**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

(i) quoted market prices or dealer quotes for similar instruments;

(ii) the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value; and

(iii) other techniques, such as discounted cash flow analysis, sales prices of comparable properties in close proximity, are used to determine fair value for the remaining financial instruments.

Note that all the resulting fair value estimates are included in level 2 except for certain unquoted equities explained below.

c. **Financial instruments in level 3**

Inputs for the asset or liability in this fair value hierarchy are not based on observable market data (unobservable inputs). This level includes equity investments with significant unobservable components.

The following table presents changes in level 3 instruments

	Group
At 1 January 2012	31,122
Disposals	(9,540)
Total gains recognised through OCI	(5,027)
Transfer out of level 3 due to availability of market data	(16,555)
At 31 December 2012	–
Transfer into level 3 due to change in observability of market data	52,969
Total gains/(losses) for the period	
– Included in profit or loss	–
– Included in other comprehensive income	(6,360)
At 31 December 2013	**46,610**

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

In 2012, the Group valued its unlisted equity based on the market approach which entailed using the comparable company valuation multiples.

In 2013, the Group applied a discount factor for the lack of marketability in the valuation of these equities and this resulted in the reclassification of these securities from level 2 to level 3 hierarchy.

The discount factor ranged from 10% to 25% using the rates recommended in the PwC valuation methodology survey 2012 edition.

Information about the fair value measurements using significant unobservable inputs (level 3)

Description	Valuation technique	Range of unobservable input (probability-weighted average)	Relationship of unobservable inputs to fair value
AIRTEL NIGERIA	EV/EBITDA	25% illiquidity discount	the higher the illiquidity discount the lower the fair value
NIBSS PLC	EV/EBITDA	25% illiquidity discount	the higher the illiquidity discount the lower the fair value
AFREXIM BANK LTD	P/E multiples	10% illiquidity discount	the higher the illiquidity discount the lower the fair value
INTERSWITCH LTD	EV/EBITDA	25% illiquidity discount	the higher the illiquidity discount the lower the fair value
AFRICA FINANCE CORPORATION	P/E multiples	10% illiquidity discount	the higher the illiquidity discount the lower the fair value
MOORHOUSE PROPERTIES LTD	Income approach (discounted cash flow)	5% minority discount	the higher the minority discount the lower the fair value
MAIN ONE CABLE COMPANY LTD	EV/EBITDA	20% illiquidity discount	the higher the illiquidity discount the lower the fair value
CAPITAL ALLIANCE INVESTMENT PROPERTY COMPANY	EV/EBITDA	20% illiquidity discount	the higher the illiquidity discount the lower the fair value
RESOURCERY PLC	EV/EBITDA	20% illiquidity discount	the higher the illiquidity discount the lower the fair value
SEVEN ENERGY	Income approach (discounted cash flow)	minority discount	the higher the minority discount the lower the fair value

EV/EBITDA or P/E valuation multiple – the Group determines appropriate comparable public company/ies based on industry, size, developmental stage, revenue generation and strategy. The Bank then calculates a trading multiple for each comparable company identified. The multiple is calculated by either dividing the enterprise value of the comparable company by its earning before interest, tax, depreciation and amortisation (EBITDA), or dividing the quoted price of the comparable company by its net income (P/E). The trading multiple is then adjusted for discounts/premiums with regards to such consideration as illiquidity and other differences, advantages and disadvantages between the Bank's investee company and the comparable public companies based on company-specific facts and circumstances.

Income approach (discounted cash flow) – the Group determines the free cash flow of the investee company, and discounts these cash flows using the relevant cost of equity. The cost of equity is derived by adjusting the yield on the risk free securities (FGN Bonds) with the equity risk premium and company/sector specific premium. The present value derived from the calculation represents the investee company's enterprise value.

A reasonable change in the illiquidity discount and minority discount will not result in a material change to the fair value of the investment.

3.7.2 Group's valuation process

The Group's asset liability management (ALM) unit performs the valuation of financial assets required for financial reporting purposes. This team also engages external specialist valuers when the need arises, and reports directly to the Chief Risk Officer. Discussions on the valuation process and results are held between the ALM team and the Chief Risk Officer on a monthly basis in line with the Group's management reporting dates.

3.7.3 Financial instruments not measured at fair value

a. The table below shows the carrying value of financial assets not measured at fair value.

Group	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 4 ₦ million
31 DECEMBER 2013				
Financial assets				
Cash and balances with central banks	–	594,234	–	594,234
Loans and advances to banks	–	430,586	–	430,586
Loans and advances to customers:				
– Overdrafts	–	340,055	–	340,055
– Term loans	–	1,359,961	–	1,359,961
– Staff loans	–	–	6,216	6,216
– Project finance	–	–	60,803	60,803
– Advances under finance lease	–	–	2,095	2,095
Held-to-maturity investments	171,099	123,476	–	294,575
Asset pledged as collateral	33,269	–	–	33,269
Other assets	–	28,633	–	28,633
Financial liabilities				
Deposit from customers	–	2,929,081	–	2,929,081
Deposit from bank	–	82,032	–	82,032
Borrowing	–	126,302	–	126,302
Other liabilities	–	140,466	–	140,466
Investment contracts	–	68,721	–	68,721

Company

	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 4 ₦ million
31 DECEMBER 2013				
Financial assets				
Loans and advances to customers:				
– Staff loans	–	–	72	72
Held-to-maturity investments	–	–	–	–
Loans and receivables	–	7,332	–	7,332
Other assets	–	42,831	–	42,831
Financial liabilities				
Other liabilities	–	3,519	–	3,519

b. The fair value of loans and advances to customers, investment securities and assets held for sale are as follows:

Group

	At 31 December 2013		At 31 December 2012	
	Carrying value ₦ million	Fair value ₦ million	Carrying value ₦ million	Fair value ₦ million
Financial assets				
Loans and advances to customers				
Fixed-rate loans	49,639	48,646	19,093	21,385
Variable-rate loans	1,719,491	1,749,615	1,543,912	1,543,912
Investment securities (held to maturity)	294,575	262,172	330,860	338,377
Asset pledged as collateral	33,269	24,040	31,063	26,275

The carrying value of the following financial assets and liabilities for both the Company and Group approximate their fair values:

- cash and balances with central banks;
- loans and advances to banks;
- assets held for sale;
- other assets (excluding prepayments);
- deposits from banks;
- deposits from customers;
- other liabilities (excluding provisions and accruals); and
- borrowings.

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, statutory credit 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, collective impairment allowances, non-controlling interest and unrealised gains arising 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's banking subsidiary, which is subjected to the regulatory capital adequacy requirement by the Central Bank of Nigeria, achieved a capital adequacy ratio of 17.73% at the end of the year, compared to 19.08% recorded for the year ended December 2012. This is attributable to the intra-Group capital movement on accounts of the emergence of FBN Holdings Plc, a significant growth in risk-weighted assets during the year and an increase of tier 2 capital as the Bank issued Eurobond during the year. 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 & Liabilities Management Committee.

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

Banking Group	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
TIER 1 CAPITAL		
Share capital	16,316	16,316
Share premium	189,241	189,241
Statutory reserve	51,988	42,972
Statutory credit reserve	7,987	16,101
SMEEIS reserves	6,076	6,076
Retained earnings	93,585	97,437
Less: Intangible assets/deferred tax	(13,181)	(11,371)
Total qualifying for tier 1 capital	352,011	356,772
TIER 2 CAPITAL		
Fair value reserve	14,229	26,936
Forex revaluation reserve	2,102	1,668
Minority interest	1,626	1,353
Other borrowings	47,249	2,560
Total qualifying for tier 2 capital	65,206	32,517
Total regulatory capital	417,217	389,289

Banking Group

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
RISK-WEIGHTED ASSETS		
On balance sheet	2,059,077	1,825,116
Off balance sheet	293,644	215,245
Total risk-weighted assets	2,352,722	2,040,361
Risk-weighted capital adequacy ratio (CAR)	17.73%	19.08%
Tier 1 CAR	14.96%	17.49%

5 SIGNIFICANT ACCOUNTING JUDGEMENTS, 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 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. 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 judgement 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 Group's impairment charge on financial assets are set out in the financial risk management section.

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 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 assumptions.

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 3.7 for additional sensitivity information for financial instruments.

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 37, 'Retirement benefit obligations', 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.

e. **Impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

An impairment charge of ₦552 million arose in Banque Internationale de Crédit in the retail segment during the course of year 2013, resulting in the carrying amount of the CGU being written down to its recoverable amount.

If the terminal growth rate had been higher by 0.5%, the Group would have recognised impairment lower by ₦84 million, while if it had been lower by 0.5% a further charge of ₦80 million would have been recognised in the Group books. See Note 26 for key assumptions on impairment testing for goodwill.

If the weighted average cost of capital rate had been lower by 0.5% the Group would have recognised impairment lower by ₦157 million, while if it had been higher by 0.5% a further charge of ₦149.5 million would have been recognised in the Group's books.

6 SEGMENT INFORMATION

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reports provided to the Group's Management 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 business group

This is the Group's core business, which provides both individual and corporate clients/customers with financial intermediation services. This business segment includes the Group's local, international and representative offices offering commercial banking services.

Investment Banking and Asset Management business group (IBAM)

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

Insurance business group

This includes the Group's legacy insurance brokerage business and the more recent full underwriting business. The underwriting business is performed by FBN Insurance Limited, a partnership with South African based Sanlam Group.

Other Financial Services business group

This includes the Group's non-operating holding company and other non-banking financial services businesses, primarily FBN MFB, which provides microfinance services to the mass-market retail segment and SPVs established by the Group.

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 effect 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 Committee 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 Committee.

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 executive committee for the reportable segments for the period ended 31 December 2013 is as follows:

	Commercial Banking business group ₦ million	IBAM business group ₦ million	Insurance business group ₦ million	Other Financial Services business group ₦ million	Total ₦ million
AT 31 DECEMBER 2013					
Total segment revenue	371,681	20,129	3,665	76,167	471,642
Inter-segment revenue	(1,508)	(914)	(228)	(74,057)	(76,707)
Revenue from external customers	370,174	19,215	3,437	2,111	394,935
Profit/(loss) before tax	86,668	6,778	1,071	(3,180)	91,337
Income tax expense	(21,010)	528	(163)	(61)	(20,706)
Profit for the period	65,658	7,306	908	(3,240)	70,632
Impairment charge on credit losses	(20,257)	83	–	169	(20,005)
Impairment charge on doubtful receivables	(264)	–	(40)	–	(304)
Impairment charge on goodwill	(552)	–	–	–	(552)
Share of profit/(loss) from associates	875	–	–	131	1,006
Depreciation	(9,823)	(261)	(88)	(112)	(10,284)

	Commercial Banking business group ₦ million	IBAM business group ₦ million	Insurance business group ₦ million	Other Financial Services business group ₦ million	Total ₦ million
AT 31 DECEMBER 2013					
Total assets	3,712,579	106,066	8,708	43,643	3,870,997
Other measures of assets:					
Loans and advances to customers	1,767,622	8	65	1,435	1,769,130
Investment in associates	6,227	–	–	803	7,030
Expenditure on non-current assets	78,491	1,224	228	1,356	81,299
Investment securities	733,254	77,231	6,732	6,846	824,063
Total liabilities	3,311,901	73,485	5,779	8,058	3,399,224
AT 31 DECEMBER 2012					
Total segment revenue	343,917	16,083	4,227	6,532	370,759
Inter-segment revenue	326	(70)	(256)		-
Revenue from external customers	344,243	16,013	3,971	6,532	370,759
Profit/(loss) before tax	84,531	4,122	642	4,626	93,921
Income tax expense	(15,007)	(1,105)	(177)	(831)	(17,120)
Profit for the period	69,524	3,017	465	3,795	76,801
Impairment charge on credit losses	29,506	–	–	(61)	29,445
Impairment charge on doubtful receivables	(780)	543	(28)	–	(265)
Share of profit/(loss) from associates	1,008	–	–	(1,600)	(592)
Depreciation	(9,830)	(195)	(78)	(79)	(10,182)

	Commercial Banking business group ₦ million	IBAM business group ₦ million	Insurance business group ₦ million	Other Financial Services business group ₦ million	Total ₦ million
AT 31 DECEMBER 2012					
Total assets	3,095,013	78,906	6,652	47,813	3,228,384
Other measures of assets:					
Loans and advances to customers	1,539,869	–	–	1,508	1,541,377
Investment in associates	5,609	–	–	712	6,321
Expenditure on non-current assets	74,474	432	159	342	75,407
Investment securities	684,359	16,188	2,850	14,643	718,039
Total liabilities	2,717,603	64,842	3,069	1,555	2,787,069

Geographical information

	2013 ₦ million	2012 ₦ million
REVENUES		
Nigeria	368,060	347,559
Outside Nigeria	26,876	23,201
Total	394,935	370,759

7 INTEREST INCOME

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Investment securities	86,174	89,892	921	1
Loans and advances to banks	17,423	5,264	–	–
Loans and advances to customers	220,024	200,197	3	–
	323,621	295,353	924	1

Interest income on loans and advances to customers includes interest income on impaired financial assets of ₦1.3 billion (2012: ₦5.3 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		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Customer deposits	79,495	60,937	–	–
Deposit from banks	2,631	6,449	–	–
Borrowings	11,380	1,360	–	–
	93,506	68,746	–	–

9 IMPAIRMENT CHARGE FOR CREDIT LOSSES

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Loans and advances to customers (refer Note 21)				
Increase/(decrease) in collective impairment	1,141	3,064	–	–
Increase in specific impairment	21,573	13,567	–	–
	22,714	16,631	–	–
Recoveries on loans previously written off	(2,709)	(3,817)	–	–
Other assets (refer Note 32)				
Increase in impairment	304	(265)	–	–
	20,309	12,549	–	–

The Group impairment charge in the financial year ended December 2013 rose to ₦20.0 billion from ₦12.8 billion in December 2012. This is due to the recognition of impairment in some small-medium sized exposures to fast track remedial action in line with the Bank's delinquency management/loan workout process. The major accounts are in the logistics, architectural engineering and oil downstream industries with reasonable write back of provisions expected in 2014.

10 INSURANCE PREMIUM REVENUE

	Group	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Gross premium written	3,648	2,997
Unearned premium	(4)	(100)
	3,644	2,897
Change in insurance contract liabilities	(1,633)	(1,233)
	2,011	1,664

11 FEE AND COMMISSION INCOME

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Credit related fees	2,883	2,665	–	–
Commission on turnover	17,618	21,014	–	–
Letters of credit commissions and fees	5,472	6,433	–	–
Electronic banking fees	7,648	4,339	–	–
Money transfer commission	3,634	1,731	–	-
Commission on bonds and guarantees	617	1,394	–	–
Funds transfer and intermediation fees	3,388	2,680	–	–
Other fees and commissions	18,121	20,634	–	–
	59,381	60,890	–	–
11B FEES AND COMMISSION EXPENSE	5,296	941	–	–

Fee and commission expense relates to charges raised by other banks on holders of First Bank of Nigeria Limited ATM cards, who make use of the other banks' machines while transacting business, and SMS alert related expense.

12 NET GAINS/(LOSSES) ON FOREIGN EXCHANGE INCOME

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Fair value gain/loss on foreign exchange	(2,349)	(3,397)	–	–
Foreign exchange trading income	9,042	5,845	–	–
	6,693	2,448	–	–

This income relates to margins earned from FX trading and exchange difference on translation of foreign currency balances.

13 NET GAINS/(LOSSES) ON INVESTMENT SECURITIES

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Equity securities	961	1,671	–	–
Debt securities	1,938	453	–	–
	2,899	2,124	–	–

14 NET GAINS/(LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Derivatives	595	1,717	–	–
Trading income on debt securities	(20)	–	–	–
Fair value gain/(loss) on debt securities	(2,079)	43	–	–
	(1,504)	1,760	–	–

15 OTHER OPERATING INCOME

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Other income	834	5,612	7	–
	834	5,612	7	–

Other income is largely made up of income made by the Group from rental income and income from sale of properties.

16 OPERATING EXPENSES

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Auditors' remuneration	488	348	35	30
Directors' emoluments	6,884	4,837	306	–
(Profit)/loss on sale of property, plant and equipment	(293)	(1,760)	–	–
Deposit insurance premium	11,070	9,159	–	–
AMCON resolution cost	13,853	7,391	–	–
Maintenance, rent and insurance	26,485	25,369	16	–
Adverts and corporate promotions	8,357	10,491	343	–
Legal and other professional fees	4,339	2,483	424	160
Donations and subscriptions	1,814	3,555	36	–
Stationary and printing	2,084	4,405	6	146
Statutory fees	99	–	78	406
Other operating expenses	32,258	47,498	414	77
	107,438	113,776	1,658	819
16A PERSONNEL EXPENSES				
Wages and salaries	55,370	47,991	50	1
Pension costs:				
– Defined contribution plans	2,550	2,508	8	–
– Defined benefit plans (Note 37)	3,211	18,380	–	–
– Retirement benefit cost – gratuity (Note 37)	4,689	–	–	–
	65,820	68,879	58	1

17 TAXATION

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Corporate tax	17,275	15,421	–	–
National fiscal levy	13	–	–	–
Education tax	1,360	528	–	–
Technology tax	808	833	–	–
Capital gains tax	27	521	–	–
Under provision in prior years	11	31	–	–
Current income tax – current period	19,494	17,334	–	–
Origination and reversal of temporary deferred tax differences	1,212	(214)	–	–
Income tax expense	20,706	17,120	–	–

Group

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Profit before income tax	91,337		93,921	
Tax calculated using the domestic corporation tax rate of 30% (2011: 30%, 2010: 30%)	27,401	30%	28,176	30%
Non-deductible expenses	5,830	6%	7,295	8%
Effect of education tax levy	1,397	2%	531	1%
Effect of information technology	823	1%	838	1%
Effect of capital gains tax	27	0%	524	1%
Effect of minimum tax	90	0%	84	0%
Effect of excess dividend tax	5,349	6%	9,577	10%
Effect of national fiscal levy	–	0%	13	0%
Tax exempt income	(19,536)	(21%)	(28,263)	(30%)
Effect of disposal of items of PPE	(1)	0%	(547)	(1%)
Effect of disposal of subsidiary	–		(1,047)	(1%)
Effect of change in PBT due to IFRS adjustments	15	0%	54	0%
Tax incentives	2	0%	(252)	0%
Tax loss effect	405	0%	133	0%
(Over)/under provided in prior years	26	0%	3	0%
Effect of prior period adjustment on deferred tax	(1,122)	(1%)	–	0%
Total income tax expense in income statement	20,706	23%	17,120	18%
Income tax expense	20,706	23%	17,120	18%
The movement in the current income tax liability is as follows:				
At start of the period	23,389	24,328	–	–
Effect of adjustment on acquired entities	(729)	–	–	–
Tax paid	(7,918)	(22,296)	–	–
Withholding tax credit utilised	(4)	(77)	–	–
Prior period under provision	217	3,337	–	–
AFS securities revaluation tax charge/(credit)	(282)	763	–	–
Income tax charge	19,494	17,334	–	–
At 31 December	34,167	23,389	–	–
Current	34,167	23,389	–	–

18 CASH AND BALANCES WITH CENTRAL BANKS

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Cash	71,743	55,391	–	–
Balances with central banks excluding mandatory reserve deposits	181,280	53,432	–	–
	253,023	108,823	–	–
Mandatory reserve deposits with central banks	341,211	191,709	–	–
	594,234	300,532	–	–

Included in balances with central banks is a call placement of ₦137.04 billion for Group (31 December 2012: nil).

Restricted deposits with central banks are not available for use in Group's day-to-day operations. FBN Holdings had restricted balances of ₦325 billion with Central Bank of Nigeria (CBN) as at 31 December 2013 (December 2012: ₦187 billion). This balance is CBN cash reserve requirement. The cash reserve ratio represents a mandatory 12% of non-government deposits and 50% of government deposit (December 2012: 12%) which should be held with the Central Bank of Nigeria as a regulatory requirement. FBN UK, ICB Ghana, ICB Gambia and ICB Guinea had restricted balances of ₦13.5 billion, ₦1 billion, ₦177 million and ₦1.5 billion respectively with their respective central banks.

19 CASH AND BALANCES WITH CENTRAL BANKS

For the purpose of the statement of cash flows, 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		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Cash (Note 18)	71,743	55,391	–	–
Balances with central banks other than mandatory reserve deposits (Note 18)	181,280	53,432	–	–
Loans and advances to banks excluding long-term placements (Note 20)	326,024	439,147	1,477	–
Treasury bills included in financial assets held for trading (Note 22)	438	193	–	–
Treasury bills and eligible bills excluding pledged treasury bills (Note 23.1 and 23.2)	255,206	128,684	–	–
	834,691	676,847	1,477	–

20 LOANS AND ADVANCES TO BANKS

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Current balances with banks within Nigeria	4,863	16,370	1,477	–
Current balances with banks outside Nigeria	287,452	322,704	–	–
Placements with banks and discount houses	33,709	100,073	–	–
	326,024	439,147	1,477	–
Long-term placement	104,562	706	–	–
Carrying amount	430,586	439,853	1,477	–

Included in loans to banks are:

- deposit in escrow account towards the purchase of significant interest in Oasis Insurance Plc; and
- non-current placement of ₦103.6 billion for Group (31 December 2012: ₦706 million) which does not qualify as cash and cash equivalent.

All other loans to banks are due within three months.

21 LOANS AND ADVANCES TO CUSTOMERS

Group

	Gross amount ₦ million	Specific impairment ₦ million	Collective impairment ₦ million	Total impairment ₦ million	Carrying amount ₦ million
31 DECEMBER 2013					
Overdrafts	354,582	10,467	4,060	14,527	340,055
Term loans	1,388,767	9,479	19,327	28,806	1,359,961
Staff loans	6,432	31	185	216	6,216
Project finance	61,534	–	731	731	60,803
	1,811,315	19,977	24,303	44,280	1,767,035
Advances under finance lease	2,862	696	71	767	2,095
	1,814,177	20,673	24,374	45,047	1,769,130
31 DECEMBER 2012					
Overdrafts	276,526	6,882	3,402	10,284	266,242
Term loans	1,234,672	10,372	17,249	27,621	1,207,051
Staff loans	5,976	–	600	600	5,376
Project finance	59,746	–	732	732	59,014
	1,576,920	17,254	21,983	39,237	1,537,683
Advances under finance lease	3,781	–	87	87	3,694
	1,580,701	17,254	22,070	39,324	1,541,377

Company

	Gross amount ₦ million	Specific impairment ₦ million	Collective impairment ₦ million	Total impairment ₦ million	Carrying amount ₦ million
31 DECEMBER 2013					
Staff loans	72	–	–	–	72
	72	–	–	–	72

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Current	932,842	571,525	5	–
Non-current	836,288	969,852	67	–
	1,769,130	1,541,377	72	–

CBN/Bank of Industry facilities

Included in loans and advances to customers are term loans granted to customers in line with Central Bank of Nigeria (CBN) ₦200 billion intervention funds for refinancing and restructuring of banks' loans to the manufacturing sector. The on-lending facilities are for a maximum of 15 years' tenor at 6% interest per annum.

CBN/Commercial Agriculture Credit Scheme (CACS)

This relates to the balance on term loan facilities granted to customers under CBN Commercial Agriculture Credit Scheme. The facilities under the scheme are for a period of seven years at 9% interest per annum. These balances are included in the loans and advances.

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
CBN/Bank of Industry	7,429	6,296
CBN/Commercial Agriculture Credit Scheme	20,319	27,131

Reconciliation of impairment allowance on loans and advances to customers:

Group

	Overdraft ₦ million	Term loans ₦ million	Finance lease ₦ million	Other ₦ million	Total ₦ million
AT 1 JANUARY 2013	10,284	27,621	87	1,332	39,324
Additional provision					
– Specific impairment	11,631	9,219	695	31	21,573
– Collective impairment	648	924	(15)	(416)	1,141
– Loans written off	(8,693)	(10,447)	–	–	(19,140)
Acquisition through business combination (specific impairment)	648	322	–	–	970
Acquisition through business combination (collective impairment)	9	1,167			1,176
	14,527	28,806	767	947	45,047
Specific impairment	10,467	9,479	696	31	20,673
Collective impairment	4,060	19,327	71	916	24,374
At 31 December 2013	14,527	28,806	767	947	45,047
AT 1 JANUARY 2012	4,819	27,333	86	704	32,942
Additional provision					
– Specific impairment	5,624	8,527	–	239	14,390
– Collective impairment	254	1,181	1	628	2,064
– Loans written off	(413)	(9,419)	–	(239)	(10,071)
	10,284	27,622	87	1,332	39,325
Specific impairment	6,882	10,372	–	–	17,254
Collective impairment	3,402	17,249	87	1,332	22,070
At 31 December 2012	10,284	27,621	87	1,332	39,324

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

	Group	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Gross investment in finance lease, receivable		
– No later than one year	547	729
– Later than one year and no later than five years	2,678	3,282
– Later than five years	24	84
	3,249	4,095
Unearned future finance income on finance leases	(387)	(314)
Impairment allowance on leases	(767)	(87)
Net investment in finance lease, receivable	2,095	3,694
Net investment in finance lease, receivable is analysed as follows:		
– No later than one year	147	416
– Later than one year and no later than five years	1,925	3,194
– Later than five years	23	84
	2,095	3,694

Nature of security in respect of loans and advances:

Group				
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Legal mortgage/debenture on business premises, factory assets or real estates	597,208	553,699	–	–
Guarantee/receivables of investment grade banks and state government	178,923	20,160	–	–
Domiciliation of receivables	112,102	348,330	–	–
Clean/negative pledge	47,791	118,422	–	–
Marketable securities/shares	374,221	26,241	–	–
Otherwise secured	486,120	464,553	72	–
Cash/government securities	17,772	11,331	–	–
	1,814,137	1,542,736	72	–

The Group is not permitted to sell or repledge the collateral in the absence of default by the owner of the collateral. The value of collateral of ₦1,814,137 represents 99.99% of the gross loans of ₦1,814,177.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FINANCIAL ASSETS AT FVTPL)

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Treasury bills with maturity of less than 90 days	438	193	–	–
Treasury bills with maturity over 90 days	146	487	–	–
Bonds	541	–	–	–
Total debt securities	1,125	680	–	–
Listed equity securities	4,150	3,212	–	–
Total equity securities	4,150	3,212	–	–

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Derivative assets	5,012	2,220	–	–
Total assets held for trading	10,287	6,112	–	–

The Group did not designate any financial assets as fair value through profit or loss on initial recognition.

The Group uses the following derivative strategies:

Economic hedges

The Group's 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:

- Forward FX contracts entered into to hedge against foreign exchange risks arising from cross-currency exposures; and
- exchange rate risk in euro borrowing disbursed in USD 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 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 – 31 December 2013		
		Fair values	
	Notional contract amount ₦ million	Asset ₦ million	Liability ₦ million
Foreign exchange derivatives			
Forward FX contract	189,302	2,522	(71)
Currency swap	19,617	12	(4)
Put options	34,361	1,626	(1,626)
Equity derivatives			
Put options	3,228	852	–
	246,508	5,012	(1,701)
Current	195,509	2,534	(4)
Non-current	50,999	2,478	(1,697)
	246,508	5,012	(1,701)

	Group – 31 December 2012		
		Fair values	
	Notional contract amount ₦ million	Asset ₦ million	Liability ₦ million
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)
	73,251	2,220	(1,796)

23 INVESTMENT SECURITIES

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
23.1 SECURITIES AVAILABLE FOR SALE				
Debt securities – at fair value:				
– Treasury bills with maturity of less than 90 days	255,206	128,684	–	–
– Treasury bills with maturity of more than 90 days	58,616	10	–	–
– Bonds	163,120	186,064	–	–
– Other bonds	–	4,376	–	–
Equity securities – at fair value:				
– Listed	5,936	7,572	–	–
Equity securities – at fair value:				
– Unlisted	46,610	52,969	2,515	2,307
	529,488	379,675	2,515	2,307
Assets pledged as collateral				
Debt securities – at fair value:				
– Treasury bills	20,178	17,531	–	–
– Bonds	203	1,515	–	–
	20,381	19,046	–	–
Total securities classified as available for sale	549,869	398,721	2,515	2,307
23.2 SECURITIES HELD TO MATURITY				
Debt securities – at amortised cost:				
– Treasury bills	19,108	–	–	–
– Bonds	275,467	338,365	–	2,450

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
	294,575	338,365	–	2,450
Assets pledged as collateral				
Debt securities – at amortised cost:				
– Treasury bills	–	–	–	–
– Bonds	33,269	31,063	–	–
	33,269	31,063	–	–
Total securities classified as held to maturity	327,844	369,428	–	2,450
Total investment securities	877,713	768,149	2,515	4,757

24 ASSETS 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 not 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		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Available-for-sale debt securities (Note 23.1)	20,381	19,046	–	–
Held-to-maturity debt securities (Note 23.2)	33,269	31,063	–	–
	53,650	50,109	–	–
The related liability for assets held as collateral include:				
Bank of industry	12,110	9,982		

The assets pledged as collateral include assets pledged to third parties under secured borrowing with the related liability disclosed above.

Also included in pledged assets are assets pledged as collateral or security deposits to clearing house and payment agencies of ₦41.6 billion (2012: ₦40.1 billion) for which there is no related liability.

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Current	20,178	19,046	–	–
Non-current	33,472	31,063	–	–
	53,650	50,109	–	–

25 INVESTMENT IN SUBSIDIARIES

25.1 PRINCIPAL SUBSIDIARY UNDERTAKINGS

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
DIRECT SUBSIDIARIES OF FBN HOLDINGS PLC		
First Bank of Nigeria Limited (Note 25 (a))	205,557	205,557
FBN Capital Limited (Note 25 (b))	4,300	4,300
FBN Insurance Limited (Note 25 (c))	2,262	2,000
FBN Insurance Brokers Limited (Note 25 (d))	25	25
FBN Microfinance Bank Limited (Note 25 (e))	2,000	1,000
New Villa Limited (Rainbow Town Development Limited) (Note 25 (f))	2,550	100
	216,694	212,982
INDIRECT SUBSIDIARIES OF FBN HOLDINGS PLC		
First Trustees Nigeria Limited (Note 25 (g))	25,533	25,533
First Funds Limited (Note 25 (h))	4,550	4,550
	30,083	30,083
	246,777	243,065

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 Banque Internationale de Crédit, FBN Insurance Limited and New Villa Limited (Rainbow Town Development Limited) in which it owned 75%, 65% and 55% respectively. There are no significant restrictions on any of the subsidiaries. All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company and the Group do not differ from the proportion of ordinary shares held. The total non-controlling interest for the period is ₦4.5 billion.

SUBSIDIARY	Principal activity	Country of incorporation	Proportion of shares held directly by parent (%)	Proportion of shares held directly by the Group (%)	Statutory year end
First Bank of Nigeria Limited (Note 25 (a))	Banking	Nigeria	100	100	31 December
FBN Capital Limited (Note 25 (b))	Investment banking and asset management	Nigeria	100	100	31 December
FBN Insurance Limited (Note 25 (c))	Insurance	Nigeria	65	65	31 December
FBN Insurance Brokers Limited (Note 25 (d))	Insurance	Nigeria	100	100	31 December
FBN Microfinance Bank Limited (Note 25 (e))	Banking	Nigeria	100	100	31 December
New Villa Limited (Rainbow Town Development Limited) (Note 25 (f))	Investment and general trading	Nigeria	55	55	31 December
First Trustees Nigeria Limited (Note 25 (g))	Trusteeship	Nigeria	100	100	31 December
First Funds Limited (Note 25 (h))	Investment banking and asset management	Nigeria	100	100	31 December
FBN Bank (UK) Limited	Banking	United Kingdom	100	100	31 December
First Pension Custodian Limited	Pension fund asset custodian	Nigeria	100	100	31 December
FBN Mortgages	Mortgage banking	Nigeria	100	100	31 December
First Bureau de Change Limited	Bureau de change	Nigeria	100	100	31 December
Banque International de Crédit	Banking	Democratic Republic of Congo	75	75	31 December
ICB Ghana	Banking	Ghana	100	100	31 December

SUBSIDIARY	Principal activity	Country of incorporation	Proportion of shares held directly by parent (%)	Proportion of shares held directly by the Group (%)	Statutory year end
ICB Sierra Leone	Banking	Sierra Leone	100	100	31 December
ICB Guinea	Banking	Guinea	100	100	31 December
ICB Gambia	Banking	Gambia	100	100	31 December

a. First Bank of Nigeria Limited

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

b. 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 the issuing house business. It is also involved in the business of asset management and financial advisory.

c. FBN Insurance Limited

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

d. 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.

e. 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 RC736874. 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.

f. New Villa Limited (Rainbow Town Development Limited)

New Villa Limited is a special purpose vehicle incorporated on 28 November 2008. Its principal activities include investments and general trading.

g. First Trustees Nigeria Limited

First Trustees Nigeria Limited was incorporated in Nigeria as a 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.

h. First Funds Limited

First Funds Limited was incorporated on 14 November 2002. It commenced operations on 1 April 2003. Its principal activities are to carry on venture capital and private equity business.

25.2 CONDENSED SUBSIDIARY ACCOUNTS

31 December 2013	Banking Group ₦ million	FBNH ₦ million	FBN Capital ₦ million	First Trustees ₦ million	First Funds ₦ million	FBN Securities ₦ million	FBN Microfinance ₦ million	FBN Insurance Brokers ₦ million	FBN Life ₦ million	Rainbow Town ₦ million	Others ₦ million	Total ₦ million	Adjustments ₦ million	Group ₦ million
SUMMARISED INCOME STATEMENT														
Operating income	279,824	74,988	5,888	1,854	349	781	1,055	836	2,330	(296)	2,641	370,252	(74,607)	295,645
Operating expenses	(172,718)	(4,357)	(2,019)	(928)	(468)	(770)	(1,036)	(460)	(1,813)	(44)	(1,882)	(186,495)	1,490	(185,005)
Impairment charge	(20,521)	-	-	60	-	23	44	(40)	-	-	-	(20,433)	124	(20,309)
Operating profit	86,585	70,631	3,869	986	(119)	34	64	337	517	(339)	759	163,323	(72,993)	90,331
Associate	875	-	-	-	-	-	-	-	-	-	-	875	131	1,006
Profit before tax	87,460	70,631	3,869	986	(119)	34	64	337	517	(339)	759	164,199	(72,861)	91,337
Tax	(21,010)	-	(854)	1,208	(19)	523	(61)	(103)	(60)	-	(331)	(20,706)	-	(20,706)
(Loss)/profit for the year	66,451	70,631	3,016	2,194	(139)	558	3	234	457	(339)	429	143,493	(72,861)	70,632
Other comprehensive income	(9,779)	209	(66)	1,266	519	(3)	4	16	15	-	(790)	(8,608)	(504)	(9,112)
Total comprehensive income	56,672	70,840	2,949	3,459	381	555	8	249	472	(339)	(361)	134,885	(73,366)	61,519
Total comprehensive income allocated to non-controlling interest	107	-	-	-	-	-	-	-	169	(153)	(21)			480
Dividends paid to non-controlling interest	16	-	-	-	-	-	-	-	69	-	179			264

31 December 2013	Banking Group ₦ million	FBNH ₦ million	FBN Capital ₦ million	First Trustees ₦ million	First Funds ₦ million	FBN Securities ₦ million	FBN Microfinance ₦ million	FBN Insurance Brokers ₦ million	FBN Life ₦ million	Rainbow Town ₦ million	Others ₦ million	Total ₦ million	Adjustments ₦ million	Group ₦ million
SUMMARISED FINANCIAL POSITION														
Assets														
Cash and balances with central bank	593,972	–	1	0	–	–	61	0	200	–	–	594,234	–	594,234
Due from other banks	415,210	1,477	1,016	4,276	94	4,012	6,206	1,209	4,029	940	13,149	451,619	(21,033)	430,586
Loans and advances	1,797,932	72	1	6	0	1	1,362	65	–	1	–	1,799,440	(30,310)	1,769,130
Financial assets held for trading (HFT)	4,743	–	556	–	852	49	–	–	–	–	4,087	10,287	–	10,287
Investment securities	734,689	9,847	26,691	7,468	6,035	1,608	149	118	6,614	–	64,991	858,210	(34,147)	824,063
Assets pledged as collateral	53,650	–	–	–	–	–	–	–	–	–	–	53,650	–	53,650
Inventory	–	–	–	–	–	–	–	–	–	28,663	–	28,663	1,590	30,253
Investment property	–	–	–	–	–	–	–	–	–	–	2,413	2,413	–	2,413
Investment in subsidiaries	–	246,777	3,821	–	–	–	–	–	–	–	830	251,428	(251,428)	(0)
Investment in associates	6,227	9,281	1,330	–	–	–	–	–	–	–	–	16,839	(9,809)	7,029
Other assets	40,496	43,284	9,233	290	80	16	124	107	305	2,462	538	96,935	(55,530)	41,405
Deferred tax	4,586	–	127	1,983	–	362	5	56	–	–	–	7,120	–	7,120
Intangible assets	8,594	–	105	–	–	0	1	0	35	10	–	8,748	–	8,748
Property and equipment	78,491	1,071	1,160	42	18	4	250	86	141	34	–	81,299	–	81,299
Assets held for sale	10,784	–	–	–	–	–	–	–	–	–	–	10,784	–	10,784
	3,749,375	311,810	44,041	14,066	7,079	6,052	8,159	1,642	11,324	32,110	86,009	4,271,671	(400,670)	3,871,001

31 December 2013	Banking Group ₦ million	FBNH ₦ million	FBN Capital ₦ million	First Trustees ₦ million	First Funds ₦ million	FBN Securities ₦ million	FBN Microfinance ₦ million	FBN Insurance Brokers ₦ million	FBN Life ₦ million	Rainbow Town ₦ million	Others ₦ million	Total ₦ million	Adjustments ₦ million	Group ₦ million
Financed by														
Customer deposits	2,942,783	–	–	6,493	–	–	1,016	–	–	–	–	2,950,292	(21,211)	2,929,081
Due to other banks	77,481	–	–	–	–	–	4,514	–	–	–	3,775	85,769	(3,737)	82,032
Financial liabilities held for trading	1,701	–	–	–	–	–	–	–	–	–	–	1,701	–	1,701
Liability on investment contracts	–	–	–	–	–	–	–	–	–	–	70,023	70,023	(1,300)	68,723
Liability on insurance contracts	–	–	–	–	–	–	–	–	3,651	–	–	3,651	–	3,651
Borrowed funds	126,302	–	–	7,913	4,279	–	–	–	–	30,561	5,233	174,289	(47,987)	126,302
Tax payable	31,633	–	1,620	61	97	–	84	269	64	7	333	34,167	–	34,167
Other liabilities	182,793	3,710	2,338	545	327	4,280	135	417	3,900	1,883	1,913	202,239	(52,381)	149,858
Retirement benefit obligations	1,777	–	0	–	–	–	94	53	–	–	–	1,924	–	1,924
Deferred income tax liabilities	10	–	–	–	0	–	–	–	28	–	–	37	–	37
Liabilities held for sale	1,747	–	–	–	–	–	–	–	–	–	–	1,747	–	1,747
	3,366,227	3,710	3,958	15,011	4,703	4,280	5,843	739	7,642	32,451	81,277	3,525,840	(126,616)	3,399,224
Equity and reserves	383,148	308,100	40,083	(945)	2,377	1,771	2,316	903	3,682	(340)	4,731	745,825	(274,048)	471,777
SUMMARISED CASH FLOWS														
Operating activities														
Interest received	316,263	3	1,875	2,076	37	292	–	–	706	44	7,883	329,180	480	329,660
Interest paid	(83,705)	–	–	(2,003)	–	(3)	–	–	–	(1,943)	(6,589)	(94,243)	1,702	(92,541)
Income tax paid	(6,059)	–	(224)	(26)	(7)	–	(145)	(110)	(43)	(4)	(9)	(6,627)	(1,291)	(7,918)
Cash flow generated from operations	(107,079)	(42,204)	(7,240)	1,840	309	2,615	5,158	623	770	(4,819)	(10,383)	(160,410)	71,193	(89,217)

31 December 2013	Banking Group ₦ million	FBNH ₦ million	FBN Capital ₦ million	First Trustees ₦ million	First Funds ₦ million	FBN Securities ₦ million	FBN Microfinance ₦ million	FBN Insurance Brokers ₦ million	FBN Life ₦ million	Rainbow Town ₦ million	Others ₦ million	Total ₦ million	Adjustments ₦ million	Group ₦ million
Net cash generated from operating activities	119,420	(42,201)	(5,589)	1,887	339	2,904	5,013	513	1,433	(6,722)	(9,098)	67,899	72,084	139,983
Net cash used in investing activities	6,423	76,310	5,674	1,304	(579)	10	(31)	(15)	(5,405)	(4)	(13,705)	69,982	(69,297)	684
Net cash used in financing activities	15,444	(32,632)	-	-	-	-	948	(215)	134	6,526	(166)	(9,960)	27,425	17,465
Increase in cash and cash equivalents	141,288	1,477	85	3,191	(240)	2,914	5,930	283	(3,838)	(200)	(22,969)	127,921	30,212	158,133
Cash and cash equivalents at start of year	621,422	(1)	932	152	334	2,407	486	926	4,684	1,140	37,315	669,797	7,049	676,847
Effect of exchange rate fluctuations on cash held	(281)	-	-	-	-	-	-	-	-	-	-	(281)	(8)	(289)
Cash and cash equivalents at end of year	762,429	1,476	1,017	3,343	94	5,321	6,416	1,209	846	940	14,346	797,437	37,253	834,691

BREAKDOWN OF OTHERS IN NOTES 25.2

31 December 2013	FBN Capital Partners ₦ million	FBN Asset Management ₦ million	FBN Heritage Fund ₦ million	40th Century ₦ million	Liquidity Management Fund ₦ million	Twin Peaks ₦ million	SMEEIS Trust Fund ₦ million	IDF ₦ million	FRED ₦ million	Total ₦ million
SUMMARISED INCOME STATEMENT										
Operating income	59	1,313	1,362	-	857	-	181	(301)	(829)	2,641
Operating expenses	(41)	(801)	(331)	(0)	(487)	-	(81)	(109)	(32)	(1,882)
Impairment charge	-	-	-	-	-	-	-	-	-	-
Operating profit	18	512	1,031	(0)	369	-	99	(410)	(860)	759
Associate	-	-	-	-	-	-	-	-	-	-
Profit before tax	18	512	1,031	(0)	369	-	99	(410)	(860)	759
Tax	(6)	(325)	-	-	-	-	-	-	-	(331)
(Loss)/profit for the year	12	187	1,031	(0)	369	-	99	(410)	(860)	429

31 December 2013	FBN Capital Partners ₦ million	FBN Asset Management ₦ million	FBN Heritage Fund ₦ million	40th Century ₦ million	Liquidity Management Fund ₦ million	Twin Peaks ₦ million	SMEEIS Trust Fund ₦ million	IDF ₦ million	FRED ₦ million	Total ₦ million
Other comprehensive income	-	(2)	(57)	-	(221)	-	-	(213)	(297)	(790)
Total comprehensive income	12	185	975	(0)	149	-	99	(623)	(1,157)	(361)
Total comprehensive income allocated to non-controlling interest	-	-	360	-	-	-	-	-	-	360
Dividends paid to non-controlling interest	-	-	179	-	-	-	-	-	-	179
SUMMARISED FINANCIAL POSITION										
Assets										
Cash and balances with central bank	-	-	-	-	-	-	-	-	-	-
Due from other banks	111	182	47	-	11,817	361	39	371	222	13,149
Loans and advances	-	-	-	-	-	-	-	-	-	-
Financial assets held for trading (HFT)	-	-	1,818	-	2,269	-	-	-	-	4,087
Investment securities	3	736	2,971	-	56,405	-	893	2,638	1,345	64,991
Assets pledged as collateral	-	-	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-	-	-
Investment property	-	-	-	508	-	723	-	-	1,183	2,413
Investment in subsidiaries	-	-	-	-	-	-	-	-	830	830
Investment in associates	-	-	-	-	-	-	-	-	-	-
Other assets	40	206	13	1	277	1	-	-	-	538
Deferred tax	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	-	-	-	-
Assets held for sale	-	-	-	-	-	-	-	-	-	-
	154	1,124	4,849	509	70,769	1,084	932	3,008	3,579	86,009
Financed by										
Customer deposits	-	-	-	-	-	-	-	-	-	-
Due to other banks	-	37	0	-	-	-	-	3,737	-	3,775
Financial liabilities held for trading	-	-	-	-	-	-	-	-	-	-
Liability on investment contracts	-	-	-	-	70,023	-	-	-	-	70,023

31 December 2013	FBN Capital Partners ₦ million	FBN Asset Management ₦ million	FBN Heritage Fund ₦ million	40th Century ₦ million	Liquidity Management Fund ₦ million	Twin Peaks ₦ million	SMEEIS Trust Fund ₦ million	IDF ₦ million	FRED ₦ million	Total ₦ million
Liability on insurance contracts	-	-	-	-	-	-	-	-	-	-
Borrowed funds	-	-	-	-	-	-	-	-	5,233	5,233
Tax payable	8	325	-	-	-	-	-	-	-	333
Other liabilities	85	556	103	0	966	(3)	20	152	34	1,913
Retirement benefit obligations	-	-	-	-	-	-	-	-	-	-
Deferred income tax liabilities	-	-	-	-	-	-	-	-	-	-
Liabilities held for sale	-	-	-	-	-	-	-	-	-	-
	93	918	103	0	70,989	(3)	20	3,889	5,267	81,277
Equity and reserves	61	206	4,746	508	(221)	1,087	912	(881)	(1,688)	4,731
SUMMARISED CASH FLOWS										
Operating activities										
Interest received	-	-	-	-	7,883	-	-	-	-	7,883
Interest paid	-	-	-	-	(6,589)	-	-	-	-	(6,589)
Income tax paid	-	-	(9)	-	-	-	-	-	-	(9)
Cash flow generated from operations	13	898	(796)	(152)	(10,382)	(67)	(42)	40	105	(10,383)
Net cash generated from operating activities	13	898	(805)	(152)	(9,088)	(67)	(42)	40	105	(9,098)
Net cash used in investing activities	-	(55)	(317)	-	(13,140)	10	(203)	-	-	(13,705)
Net cash used in financing activities	(2)	-	(164)	-	-	-	-	-	-	(166)
Increase in cash and cash equivalents	11	843	(1,286)	(152)	(22,228)	(57)	(245)	40	105	(22,969)
Cash and cash equivalents at start of year	100	20	1,333	152	34,358	418	486	331	117	37,315
Effect of exchange rate fluctuations on cash held	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents at end of year	111	863	47	-	12,130	361	241	371	222	14,346

26 ACQUISITION OF SUBSIDIARY

In November 2013, First Bank of Nigeria Limited paid for the acquisition of a 100% equity interest in the West Africa operations of International Commercial Bank (ICB), which includes ICB Ghana, ICB Sierra Leone, ICB Guinea and ICB Gambia from International Commercial Bank Financial Group Holdings AG (ICBFGH). The equity interest was acquired on 31 October 2013. As a result of this acquisition, the Commercial Banking business segment of the Group will consolidate its position as one of the largest corporate and retail banking financial institutions in Sub-Saharan Africa (excluding South Africa). This acquisition will enhance the Group's total asset base by about 1%.

In October 2011, First Bank of Nigeria Limited paid for the acquisition of a 75% interest in Thorens Limited, which owns 99.9% interest in Banque Internationale de Crédit (BIC) in the 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 ₦5.5 billion. The acquisition of BIC 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 accounting for the acquisition of the subsidiary was completed in March 2013. This resulted in a change to goodwill by ₦0.5 billion.

The ICB entities contributed interest income of ₦855 million and fee commission of ₦102 million to the Group for the period 1 November 2013 to 31 December 2013 as well as profit of ₦374 million. If the acquisition had occurred on 1 January 2013, the Group interest income would show ₦320.9 billion, Group fee and commission would be ₦54.9 billion and Group profit before tax would have been ₦86.7 billion.

BIC contributed interest income of ₦2.1 billion and fee commission of ₦2.3 billion to the Group for the period 1 April 2012 to 31 December 2012 as well as profit of ₦671 million. If the acquisition had occurred on 1 January 2012, the Group interest income would show ₦277.7 billion, Group fee and commission would be ₦54.1 billion and Group profit before tax would have been ₦86.4 billion.

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

	ICB Ghana 31 October 2013 ₦ million	ICB Sierra Leone 31 October 2013 ₦ million	ICB Guinea 31 October 2013 ₦ million	ICB Gambia 31 October 2013 ₦ million	BIC 31 March 2013 ₦ million
CONSIDERATION					
Cash	10,559	1,685	2,243	1,435	5,503

Recognised amounts of identifiable assets acquired and liabilities assumed

	ICB Ghana provisional fair value ₦ million	ICB Sierra Leone provisional fair value ₦ million	ICB Guinea provisional fair value ₦ million	ICB Gambia provisional fair value ₦ million	BIC fair value ₦ million
Cash and balances with central banks	1,768	416	2,846	949	10,081
Treasury bills	10,632	1,647	1,501	767	44
Loans and advances to banks	404	–	3,073	–	6,841
Loans and advances to customers	9,316	1,111	1,655	659	16,046
Inventory	–	–	–	–	144
Deferred tax asset	76	14	–	–	1,045
Other assets	277	238	234	73	1,976
Property, plant and equipment	319	14	67	22	3,392
Deposits	(11,687)	(1,999)	(7,284)	(1,517)	(27,521)
Other liabilities	(4,695)	(217)	(706)	(84)	(6,182)
Total identifiable net assets	6,410	1,224	1,386	869	5,866
Non-controlling interest	–	–	–	–	1,466
Goodwill	4,149	461	857	566	1,103

	ICB Ghana provisional fair value ₦ million	ICB Sierra Leone provisional fair value ₦ million	ICB Guinea provisional fair value ₦ million	ICB Gambia provisional fair value ₦ million	BIC fair value ₦ million
Cash and cash equivalents acquired from the subsidiary is made up of the following:					
Cash and balances with central banks	1,768	416	2,846	949	10,081
Treasury bills	10,632	1,647	1,501	767	44
Loans and advances to banks	404	–	3,073	–	6,841
	12,804	2,063	7,420	1,716	16,966
Net cash on acquisition of subsidiary	2,245	378	5,177	281	11,463

The cash and balances with central banks did not include any mandatory or restricted balances.

As at 31 December 2013 the fair values of acquired assets, liabilities and goodwill for ICB Ghana, ICB Gambia, ICB Guinea and ICB Sierra Leone have been determined on a provisional basis as these businesses were acquired in close proximity to the year end, pending finalisation of the post-acquisition review of the fair value of the acquired net assets.

The initial acquisition accounting for the business combination is yet to be finalised. However, where applicable, the Group will adjust the provisional amounts recognised as permitted and required by IFRS 3. The measurement period, which cannot exceed one year, ends when an acquirer obtains the additional information that it was seeking about facts and circumstances that existed as of the date of acquisition or it concludes that such information is not obtainable. This period comes to an end in December 2014.

Costs directly attributable to each acquisition have been expensed within operating expenses.

The acquisition of these entities is expected to increase the Group's profile across West Africa, create a greater earning diversification and increased shareholder value through higher returns on equity.

The goodwill of ₦4.1 billion, ₦461 million, ₦856 million and ₦567 million on ICB Ghana, Sierra Leone, Guinea and Gambia respectively arises from a number of factors such as expected synergies through combining a highly skilled workforce and obtaining economies of scale and unrecognised assets such as customer listing, brand and workforce.

The net contractual amount for loans and advances to customers is ₦10.6 billion, ₦1.6 billion, ₦1.1 billion and ₦741 million for ICB Ghana, Guinea, Sierra Leone and Gambia respectively which excludes a loan loss provision of ₦1.9 billion, ₦11.9 million, ₦42 million and ₦107 million for each of the respective entities. The gross carrying value of other assets is ₦821 million. None of the trade receivables have been impaired and it is expected that the full contractual amount can be collected.

BIC

The goodwill of ₦1.1 billion from the acquisition of BIC arises from a number of factors such as expected synergies through combining a highly skilled workforce and obtaining economies of scale.

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

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 seven days 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 ₦18.166 billion which excludes a loan loss provision of ₦2.2 billion.

The gross carrying value of other assets is ₦1.9 billion, this includes an account receivable of ₦0.987 billion. The fair value of the trade receivables amounts to ₦0.968 billion. None of the trade receivables have been impaired and it is expected that the full contractual amount can be collected. The difference between the fair value and the gross amount is the result of discounting over the expected timing of the cash collection.

The fair values of acquired assets and liabilities, including goodwill, previously disclosed as provisional for BIC has been finalised in the current year with no material changes to the fair value disclosed in the 2012 consolidated financial statements.

The fair value of property, plant and equipment at acquisition date has been determined by professional valuers and as a result, the value of property, plant and equipment increased from ₦2.7 billion (provisional figure at acquisition) to ₦3.4 billion. This resulted in an increase in the pre-acquisition reserves by ₦0.7 billion, which is allocated between the Group (₦0.5 billion) and non-controlling interest (₦0.18 billion). The Group's remeasurement of goodwill is therefore ₦0.5 billion.

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

27 DISCONTINUED OPERATIONS

(i) There were no discontinued operations in current year.

(ii) Disposal of First Registrars Limited in December 2012.

On 28 December 2012, FBN Limited disposed of 100% of the share capital of its subsidiary – First Registrars. The company contributed profit of ₦1.5 billion to the Group from 1 January 2012 to 28 December 2012 (₦986 million for prior year).

a. The details of the assets and liabilities and disposal consideration are as follows:

	First Registrars Limited 28 Dec 2012 ₦ million
ASSETS	
Loans and advances to banks	30,619
Loans and advances to customers	148
Investment securities	
– Held-to-maturity investments	3,001
Other assets	233
Property, plant and equipment	565
Deferred tax	81
Total assets	34,647
LIABILITIES	
Other liabilities	31,445
Total liabilities	31,445
EQUITY AND RESERVES	
Share capital	500
Retained earnings	2,702
Total equity and reserves	3,202
Sale consideration	3,490
Gain on sale	288

b. Asset classified as held for sale

The assets and liabilities held for sale relate to the property development portfolio of First Mortgages Limited (part of the retail banking segment) 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. In August 2012, as part of the capital restructuring scheme of the FirstBank Group, shareholders approved the full divestment by FirstBank, of all the property development business of FBN Mortgages, prior to the Central Bank of Nigeria cut off date of June 2013. Subsequently, the CBN again extended the cut off date to 30 June 2014 to afford all affected primary mortgage banks sufficient time to exercise any of the options for capital raising and business combination.

The carrying amount of the assets and liabilities of the disposed Group classified as held for sale are as listed below.

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
ASSETS CLASSIFIED AS HELD FOR SALE		
Inventory	4,549	5,637
Accounts receivable	6,235	7,341
	10,784	12,978
LIABILITIES CLASSIFIED AS HELD FOR SALE		
Accounts payable – deposit for property	1,747	2,836
Net asset	9,037	10,142

28 INVESTMENT IN ASSOCIATES (EQUITY METHOD)

(i) FBN Holdings Plc and its subsidiaries have 46% shareholding in Kakawa Discount House (KDH).

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 has share capital consisting only of ordinary share capital, which is held directly by the Group; the country of incorporation or registration is also their principal place of business. KDH is not publicly traded and there is no published price information.

(ii) FBN Holdings Plc has 42% shareholding in Seawolf Oilfields Services Limited (SOSL).

SOSL is a company incorporated in Nigeria and is involved in the oil and gas sector. SOSL has share capital consisting only of ordinary share capital, which is held directly by the Group; the country of incorporation or registration is also their principal place of business. SOSL is not publicly traded and there is no published price information.

(iii) FBN Holdings Plc and its subsidiaries have 63% shareholding in FBN Heritage Fund, with FBN Holdings Plc separately owning 35.72%.

FBN Heritage Fund is an open-ended SEC registered mutual fund that invests in stocks, bonds, money market instruments, real estate and other securities in the Nigerian Capital Markets. FBN Heritage Fund is not publicly traded. However, a periodic price is determined using the net asset value. The unit price of the fund as at reporting date was ₦114.49.

Due to the exercise of control over FBN Heritage Fund at Group level, the entity is being accounted for as a subsidiary and consolidated accordingly.

	Group		Company	
	2013 ₦ million	2012 ₦ million	2013 ₦ million	2012 ₦ million
KDH				
Balance at beginning of period	6,321	5,837	–	–
Transferred from First Bank of Nigeria Limited	–	–		–
Impairment loss	–	–	–	–
Dividend received		(576)		–
Share of profit/(loss)	1,006	1,060	–	–
Share of other comprehensive income	(298)	–	–	–
At end of period	7,029	6,321	–	–
SOSL				
Balance at beginning of period	–	1,652	10,375	–
Transferred from First Bank of Nigeria Limited	–	–		10,375
Impairment loss	–	–	(2,594)	–
Dividend received		–		–
Share of profit/(loss)	–	(1,652)	–	–
Share of other comprehensive income	–	–	–	–
At end of period	–	–	7,781	10,375

	Group		Company	
	2013 ₦ million	2012 ₦ million	2013 ₦ million	2012 ₦ million
FBN HERITAGE FUND				
Balance at beginning of period	–	–	1,500	–
Transferred from First Bank of Nigeria Limited	–	–	–	1,500
Impairment loss	–	–	–	–
Dividend received	–	–	–	–
Share of profit/(loss)	–	–	–	–
Share of other comprehensive income	–	–	–	–
At end of period	–	–	1,500	1,500
	7,029	6,321	9,281	11,875

	SOSL		KDH	
	2013 ₦ million	2012 ₦ million	2013 ₦ million	2012 ₦ million
SUMMARISED BALANCE SHEET IS AS FOLLOWS	–	–	–	245
Cash and balances with CBN	–	–	–	245
Loans and advances to banks	687	170	1,039	2,362
Loans and advances to customers	–	–	25,661	16,224
Financial assets held for trading	–	–	6,330	1,628
Investment securities	–	–	48,696	71,629
Investment in subsidiaries	–	–	–	–
Pledged assets	–	–	19,900	15,023
Other assets	247,826	195,807	73	43
Property and equipment	47,198	52,802	1,051	1,008
Intangible assets	–	-	30	19
Deferred tax assets	–	-	2,533	2,445
Assets held for sale	–	-	–	8,718
Total assets	295,711	248,779	105,313	119,344
Due to banks	–	–	38,123	47,283
Due to customers	–	–	52,541	49,694
Derivative financial instruments	–	–	265	–
Borrowing	128,858	267,526		
Current income tax liability	774	259	87	480
Other liabilities	203,586	3,464	792	461
Deferred tax liabilities	–	–	101	88
Liabilities held for sale	–	–	–	8,042
Total liabilities	333,218	271,248	91,909	106,048
SUMMARISED STATEMENT OF COMPREHENSIVE INCOME				
Discount and similar income	–	–	12,418	13,375
Discount and similar expense	(6,733)	(6,446)	(9,629)	(11,379)
Net discount income	(6,733)	(6,446)	2,789	1,996

	SOSL		KDH	
	2013 ₦ million	2012 ₦ million	2013 ₦ million	2012 ₦ million
Impairment (charge) for/reversal of credit losses (net)	–	–	–	–
Net interest income after net impairment charge	(6,733)	(6,446)	2,789	1,996
Net gains from financial assets held for trading	–	–	933	979
Net gains from investment securities at fair value	–	–	(241)	30
Other operating income	9,561	13,370	607	750
Operating income	2,828	6,924	4,088	3,755
Operating expenses	(11,074)	(11,059)	(1,746)	(1,338)
Income tax	–	–	(176)	8
Profit for the year from continuing operations	(8,246)	(4,135)	2,166	2,425
Profit for the year from discontinued operations	–	–	23	95
Profit for the year	(8,246)	(4,135)	2,189	2,520
OTHER COMPREHENSIVE INCOME				
Items that may be subsequently reclassified to profit or loss				
Net gains on available-for-sale financial assets				
– Unrealised net gains arising during the period, before tax	–	–	(648)	3,993
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX				
Total comprehensive income for the year	(8,246)	(4,135)	1,541	6,513

The information above reflects the amounts presented in the financial statements of the associates and not FBN Holdings Plc's share of those amounts.

Reconciliation of summarised financial information presented to the carrying amount of its interest in associates.

	SOSL		KDH	
	2013 ₦ million	2012 ₦ million	2013 ₦ million	2012 ₦ million
Opening net assets on 1 January	(22,469)	(18,334)	14,712	8,199
Adjustment	(6,791)	–	–	–
Profit or loss for the period	(8,246)	(4,135)	2,189	2,520
Other comprehensive income	–	–	(648)	3,993
Closing net assets	(37,506)	(22,469)	16,253	14,712
Interest in associates	(15,753)	(9,437)	7,477	6,768
Carrying value	–	–	7,029	6,321

KDH and SOSL did not have any commitment or contingent liabilities as at 31 December 2013 (2012: Nil).

29 PROPERTY, PLANT AND EQUIPMENT

Group	Improvement and buildings ₦ million	Land ₦ million	Motor vehicles ₦ million	Office equipment ₦ million	Computer equipment ₦ million	Furniture, fittings and equipment ₦ million	Plant and machinery ₦ million	Work in progress ₦ million	Total ₦ million
COST									
At 1 January 2012	29,614	11,336	9,989	28,401	13,606	5,380	–	9,876	108,202
Acquisition of new subsidiary	1,545	–	298	575	982	615	–	419	4,434
Additions	2,420	2,658	3,215	6,296	2,029	1,460	–	594	18,672
Reclassifications	1	–	–	–	(28)	–	–	–	(27)
Disposals	(293)	–	(1,917)	(1,387)	(340)	(182)	–	(9)	(4,128)
Write-offs	(102)	–	–	–	(84)	(49)	–	–	(235)
Discontinued operations	–	(368)	(171)	(150)	(238)	(38)	24	–	(941)
Transfer to FBNH	–	–	–					–	–
Exchange difference	(3)	–	–	–	(0)	(1)	–	–	(4)
At 31 December 2012	33,182	13,626	11,414	33,735	15,927	7,185	24	10,880	125,973
ACCUMULATED DEPRECIATION									
At 1 January 2012	3,311	–	6,734	17,487	11,221	3,594	–	–	42,347
Acquisition of new subsidiary	79	–	242	445	641	319	–	–	1,726
Charge for the year	682	–	1,761	4,863	2,019	856	1	–	10,182
Disposals	(95)	–	(1,508)	(942)	(353)	(175)	–	–	(3,073)
Write-offs	(102)	–	–	–	(82)	(49)	–	–	(233)
Discontinued operations	–	–	(67)	(113)	(200)	(24)	21	–	(383)
Transfer to FBNH		–							–
Exchange differences	–	–	–	–	–	–	–	–	–
At 31 December 2012	3,875	–	7,162	21,740	13,246	4,521	22	–	50,566
Net book amount at 31 December 2012	29,307	13,626	4,252	11,995	2,681	2,664	2	10,880	75,407
COST									
At 1 January 2013	33,182	13,626	11,414	33,735	15,927	7,185	24	10,880	125,973
Additions	4,170	3,092	2,873	2,700	1,276	2,245	34	1,530	17,920
Acquisition of new subsidiary	226	134	109	134	228	57	36	24	948
Reclassifications	639	1,410	(7)	1,809	130	(414)	(36)	(3,541)	(10)
Accounting adjustments	–	–	–	–	–	–	–	(1,776)	(1,776)
Disposals	(357)	(63)	(1,833)	(495)	(2,139)	(115)	–	–	(5,002)
Write-offs	(87)	–	(3,423)	(8,226)	(7,302)	(1,894)	–	–	(20,932)
Exchange difference	26	–	44	151	52	2	–	–	275
At 31 December 2013	37,799	18,199	9,177	29,808	8,172	7,066	58	7,117	117,396

Group

	Improvement and buildings ₦ million	Land ₦ million	Motor vehicles ₦ million	Office equipment ₦ million	Computer equipment ₦ million	Furniture, fittings and equipment ₦ million	Plant and machinery ₦ million	Work in progress ₦ million	Total ₦ million
ACCUMULATED DEPRECIATION									
At 1 January 2013	3,875	–	7,162	21,740	13,246	4,521	22	–	50,565
Exchange differences	0	–	(21)	(41)	(55)	(33)	–	–	(150)
Charge for the year	849	–	1,933	4,763	1,777	957	5	–	10,284
Acquisition of new subsidiary	192	4	83	98	176	43	26	–	622
Reclassifications	258	1,410	4	1,815	123	(81)	(36)	(3,493)	–
Disposals	(61)	–	(1,447)	(488)	(2,143)	(137)	(27)	–	(4,303)
Write-offs	(85)	–	(3,423)	(8,216)	(7,302)	(1,894)	–	–	(20,920)
At 31 December 2013	5,028	1,414	4,291	19,671	5,822	3,377	(10)	(3,493)	36,097
Net book amount at 31 December 2013	32,770	16,785	4,887	10,137	2,350	3,690	68	10,610	81,299

Company

	Improvement and buildings ₦ million	Land ₦ million	Motor vehicles ₦ million	Office equipment ₦ million	Computer equipment ₦ million	Furniture, fittings and equipment ₦ million	Work in progress ₦ million	Total ₦ million
COST								
At 1 January 2012	–	–	–	–	–	–	–	–
Additions	–	–	23	7	–	–	–	30
Disposals	–	–	–	–	–	–	–	–
At 31 December 2012	–	–	23	7	–	–	–	30
ACCUMULATED DEPRECIATION								
At 1 January 2012	–	–	–	–	–	–	–	–
Charge for the year	–	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	–	–	–
At 31 December 2012	–	–	–	–	–	–	–	–
Net book amount at 31 December 2012	–	–	23	7	–	–	–	30
COST								
At 1 January 2013	–	–	23	7	–	–	–	30
Additions	–	–	146	13	1	212	717	1,089
Reclassifications	–	–	–	–	–	–	–	–
Accounting adjustments	–	–	–	–	–	–	–	–
Write-offs	–	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	–	–	–
At 31 December 2013	–	–	169	20	1	212	717	1,119

Company	Improvement and buildings ₦ million	Land ₦ million	Motor vehicles ₦ million	Office equipment ₦ million	Computer equipment ₦ million	Furniture, fittings and equipment ₦ million	Work in progress ₦ million	Total ₦ million
ACCUMULATED DEPRECIATION								
At 1 January 2013	–	–	–	–	–	–	–	–
Exchange differences	–	–	–	–	–	–	–	–
Charge for the year	–	–	19	4	–	24	–	47
Reclassifications	–	–	–	–	–	–	–	–
Write-offs	–	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	–	–	–
At 31 December 2013	–	–	19	4	–	24	–	47
Net book amount at 31 December 2013	–	–	150	16	1	188	717	1,072

30 INTANGIBLE ASSETS

	Group Goodwill ₦ million	Computer software ₦ million	Total ₦ million
COST			
At 1 January 2012	–	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
Additions	–	1,144	1,144
Reclassification	–	116	116
Write-off	–	(2,218)	(2,218)
Other changes	(542)	–	(542)
Acquisition of subsidiary	6,034	151	6,185
Exchange difference	–	19	19
At 31 December 2013	7,138	4,073	11,211
AMORTISATION AND IMPAIRMENT			
At 1 January 2012	–	2,628	2,628
Amortisation charge	–	676	676
Write-off		(237)	(237)
Disposals	–	(97)	(97)
Exchange difference	–	14	14

	Group		
	Goodwill ₦ million	Computer software ₦ million	Total ₦ million
At 31 December 2012	–	2,985	2,984
Amortisation charge	–	912	912
Reclassification	–	116	116
Impairment charge	552	–	552
Write-off	–	(2,218)	(2,218)
Acquisition of subsidiary	–	108	108
Disposals	–	–	–
Exchange difference	–	9	9
At 31 December 2013	552	1,912	2,463
NET BOOK VALUE			
At 31 December 2013	6,586	2,161	8,748
At 31 December 2012	1,646	1,876	3,523

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

The software is not internally generated.

The gross goodwill balance of ₦7.8 billion includes ₦1.6 billion attributable to the acquisition of BIC (Banque Internationale de Crédit in the Democratic Republic of Congo) in 2012 and ₦6.2 billion attributable to the acquisition of the ICB West Africa entities in 2013.

See Note 26 on provisional goodwill arising on acquisition of ICB entities.

Impairment tests for goodwill

BIC

Goodwill is monitored on the operating segment level. BIC, the entity to which the goodwill relates, is recognised as a cash-generating unit (CGU) and segmented as part of the retail business outside Nigeria.

The value of goodwill on this acquisition has been reduced to the recoverable amount by an impairment loss which is recognised in operating expenses in the income statement.

The recoverable amount of the CGU has been based on value in use and the weighted average cost of capital (WACC). These calculations use pre-tax cash flow projection covering five years. The future cash flows were extrapolated using the estimated growth rate which does not exceed the growth rates of the country and industry.

The key assumptions used in the value-in-use calculation for 2013 are as follows:

- terminal growth rate: 6.8%;
- discount rate: 27.2%;
- deposit growth rate: 6.48%; and
- recoverable amount of the CGU: ₦5.581 billion.

Management determined deposits to be the key value driver in BIC. Deposits are expected to grow in line with GDP growth rate and inflation.

The long-term growth rates used are consistent with the forecast in the IMF world economic outlook database. The discount rate used is pre-tax.

The impairment arose in BIC due to the effect of a war situation which has led to an adverse effect on the economy of the Democratic Republic of Congo. The war has recently been brought under control and this is expected to reflect positively on the economy with time.

Impairment testing on cash-generating units containing goodwill

The recoverable amount of each CGU to which the goodwill is allocated has been based on value in use and the WACC. These calculations use pre-tax cash flow projection covering five years. The future cash flows were extrapolated using the estimated growth rate which does not exceed the growth rates of the country and industry. The discount rate used is pre-tax.

The key assumptions used in the value-in-use calculation for 2013 are as follows:

	Ghana	Guinea	Gambia	Sierra Leone
Terminal growth rate: %	9	5	4	7
Discount rate: %	29	31	52	52
Deposit growth rate: %	1	10	20	25
Recoverable amount of the CGU: (₦ million)	11,498	2,281	1,931	4,987
Goodwill (₦ million)	4,149	856	566	461
Net asset (₦ million)	6,410	1,386	869	1,224
Total carrying amount (₦ million)	10,559	2,242	1,435	1,685
Excess of recoverable amount over carrying amount	939	39	496	3,302

Management determined deposits to be the key value driver in each of the entities.

31 DEFERRED TAX

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2009: 30%, 2008: 30%).

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Deferred income tax assets and liabilities are attributable to the following items:				
DEFERRED TAX ASSETS				
Property and equipment	(363)	9,325	–	–
Allowance for loan losses	3,238	3,930	–	–
Tax losses carried forward	2,313	783	–	–
Other assets	(580)	529	–	–
Other liabilities	(630)	(10,286)	–	–
Defined benefit obligation	3,142	5,160	–	–
Borrowings	–	62		
Prior year adjustment	–	(1,302)		
	7,120	8,201	–	–
DEFERRED TAX LIABILITIES				
Other liabilities	37	225	–	–
	37	225	–	–
Deferred tax assets				
- Deferred tax asset to be recovered after more than 12 months	8,165	7,672	–	–
- Deferred tax asset to be recovered within 12 months	(1,045)	529	–	–
	7,120	8,201	–	–

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Deferred tax liabilities				
– Deferred tax liability to be recovered after more than 12 months	–	–	–	–
– Deferred tax liability to be recovered within 12 months	37	225	–	–
	37	225	–	–

Group

	1 Jan 2013 ₦ million	Adjustment on acquired entities ₦ million	Recognised in profit and loss ₦ million	Recognised in other comprehensive income ₦ million	31 Dec 2013 ₦ million
Movements in deferred tax assets during the year:					
Property and equipment	9,255	(115)	(9,640)	–	(500)
Allowance for loan losses	3,171	(258)	436	282	3,631
Tax losses carried forward	1	(426)	844	–	419
Other assets	752	(5)	(1,152)	–	(405)
Other liabilities	(10,286)	–	9,657	–	(629)
Defined benefit obligation	5,308	206	(3,004)	635	3,145
Prior year adjustment	–	–	1,459	–	1,459
	8,201	(598)	(1,400)	917	7,120

	Group			
	1 Jan 2012 ₦ million	Recognised in profit and loss ₦ million	Recognised in other comprehensive income ₦ million	31 Dec 2012 ₦ million
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	(926)	–	1
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

	Group			
	Opening balance ₦ million	Discontinued operations ₦ million	Recognised in profit and loss ₦ million	Recognised in other comprehensive income ₦ million
Movements in deferred tax liabilities during the year:				
2013				
Other liabilities	225	–	(188)	37
2012				
Other liabilities	1,278	(260)	(793)	225

32 OTHER ASSETS

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
FINANCIAL ASSETS:				
Premium debtors	471	695	–	–
Accounts receivable	9,369	19,214	40,282	–
Inventory	2,464	2,539	–	–
Other receivables	17,862	12,425	2,549	–
	30,166	34,873	42,831	–
Less specific allowances for impairment (premium debtors: ₦312 million; inventory: ₦349 million; other receivables: ₦872 million)	(1,533)	(6,519)	–	–
	28,633	28,354	42,831	–
NON-FINANCIAL ASSETS:				
Prepayments	12,772	11,898	454	236
Net other assets balance	41,405	40,252	43,285	236

	Group		Company	
	2013 ₦ million	2012 ₦ million	2013 ₦ million	2012 ₦ million
At start of period	6,519	7,035	–	–
Write-off	(5,290)	–	–	–
Increase in impairment	304	281	–	–
Discontinued operations	–	(797)	–	–
At end of period	1,533	6,519	–	–

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.

33 INVENTORY

	Group	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Work in progress	10,771	8,366
Interest capitalised	10,868	9,301
Stock of properties	8,614	9,646
Transfer to assets held for sale	–	(5,637)
At 31 December	30,253	21,676
Current	8,614	4,009
Non-current	21,639	17,667

Inventory relates to real estate development of Rainbow Town Development Limited.

34 DEPOSITS FROM BANKS

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Due to banks within Nigeria	7,047	68,223	–	–
Due to banks outside Nigeria	74,985	21,207	–	–
	82,032	89,430	–	–

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.

35 DEPOSITS FROM CUSTOMERS

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Current	922,097	803,485	–	–
Savings	665,670	548,948	–	–
Term	716,677	491,841	–	–
Domiciliary	616,368	541,210	–	–
Electronic purse	8,269	9,664	–	–
	2,929,081	2,395,148	–	–
Current	2,849,476	2,395,144	–	–
Non-current	79,605	4	–	–
	2,929,081	2,395,148	–	–

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

36 BORROWINGS

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Long-term borrowing comprises:				
FBN Eurobond (i)	47,249	–	–	–
Due to European Investment Bank (ii)	1,603	2,560	–	–
On-lending facilities from financial institutions (iii)	31,389	25,846	–	–
Borrowing from correspondence banks (iv)	46,061	47,135	–	–
	126,302	75,541	–	–
Current	55,739	54,004	–	–
Non-current	70,563	21,537	–	–
	126,302	75,541	–	–
At start of the period	75,541	104,473	–	–
Proceeds of new borrowings	99,723	57,832	–	–
Repayments of borrowings	(48,962)	(86,764)	–	–
At end of period	126,302	75,541	–	–

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2012: nil).

(i) Facility represents dollar notes issued by FBN Finance Company BV, Netherlands on 7 August 2013 for a period of seven years. The notes bear interest at 8.25% per annum up to the bank call date of 7 August 2018. From the call date up to the maturity date, the notes bear interest at a fixed rate of 6.875% per annum plus the prevailing mid swap rate for United States dollar swap transactions with a maturity of two years. The loan is redeemable, subject to having obtained the prior approval of the CBN, on the bank call date of 7 August 2018 and not in part at the option of the issuer, at the liquidation preference amount plus any additional amounts and outstanding payments due.

(ii) Facility represents a medium-term loan (callable notes) secured from European Investment Bank. The loan is divided into tranche A of €35 million for a tenure of five years and tranche B of €15 million for a tenure of eight years, which qualifies it as tier 2 capital. Interest is payable half-yearly at 2% and 3% above LIBOR rate for tranche A and tranche B respectively. The outstanding balance at 31 December 2013 relates to tranche B.

(iii) Included in on-lending facilities from financial institutions are disbursements from banks which are guaranteed by FBN for specific customers. These facilities include the BOI funds and CACS intervention funds. See further notes below.

a. CBN/BOI facilities

The Central Bank of Nigeria (CBN), in a bid to unlock the credit market, approved the investment of ₦200 billion debenture stock to be issued by the Bank of Industry (BOI), which would be applied to the re-financing/restructuring of banks' loans to the manufacturing sector. During the year, the BOI disbursed an additional ₦2.4 billion (2012: ₦1.8 billion) to First Bank of Nigeria Limited. The fund disbursed is for a period of 15 years effective from the disbursement date at an interest rate of 7% per annum.

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 ₦3.77 billion (2012: ₦5.9 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% per annum.

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

37 RETIREMENT BENEFIT OBLIGATIONS

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Defined contribution plan	11	239	–	–
Defined benefit plans				
Gratuity scheme (i)	480	14,645	–	–
Defined benefits – pension (ii)	1,111	4,364	–	–
Gratuity scheme (iii)	322	132	–	–
	1,924	19,380	–	–

Plan liabilities are based upon independent actuarial valuation performed by HR Nigeria Limited using the projected unit credit basis. This valuation was carried out as at 31 December 2013 and 31 December 2012.

Change in accounting policy due to application of IAS 19 (as revised in 2011) Employee benefits

In the current period, the Group has applied IAS 19 (as revised June 2011) Employee benefits and the related consequential amendments.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligation and plan assets. The amendments require the recognition of changes in defined benefits obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statements of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and the return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

The Group already fully recognises actuarial gains and losses in other comprehensive income and all past service costs are fully recognised in the period in which they arise. Therefore the change to the accounting policy in relation to the revised standard mainly impacts on the treatment of the return on plan assets. The return on plan assets, which was previously included in the income statement, is now reported in the statement of other comprehensive income. Schemes (1), (3) and (6) have no plan assets. The effect of the change in accounting policy on the statement of cash flows and on earnings per share was immaterial. The impact of change in accounting policy is therefore shown below:

Impact of change on accounting policy

	Group	Company
	31 Dec 2013 ₦ million	31 Dec 2013 ₦ million
Adjustments to consolidated income statement		
Net income before accounting change	93,921	(819)
Increase in		
Finance expense	142	–
Change to net income	142	–
Net income after accounting change	94,063	(819)
Adjustments to consolidated comprehensive income		
Comprehensive income before accounting change	95,614	(957)
Decrease in other comprehensive income for re-measurements of post-employments benefit liabilities	(142)	–
Increase in net income	142	–

	Group 31 Dec 2013 ₦ million	Company 31 Dec 2013 ₦ million
Change to comprehensive income	–	–
Comprehensive income after accounting change	95,614	(957)

Gratuity scheme (1)

First Bank of Nigeria Limited, FBN Pension Custodian, FBN Insurance Brokers and FBN MFB each have a non-contributory defined gratuity scheme whereby on separation, staff who have spent a minimum number of five years are paid a sum based on their qualifying emoluments and the number of periods spent in service of the entity. First Bank of Nigeria Limited's scheme was terminated in 2013 and individual members' benefits were calculated on a discontinuance basis. Amounts recognised in the statement of financial position are shown below.

Movement in the present value of the defined benefit obligation (gratuity scheme 1) in the current year is as follows:

Group

	31 Dec 2013			31 Dec 2012
	Present value of the obligation ₦ million	Fair value of plan assets ₦ million	Total ₦ million	Present value of the obligation ₦ million
DEFINED BENEFIT OBLIGATIONS AT START	14,645	–	14,645	7,685
Service cost	2,003	–	2,003	1,706
Interest cost	1,753	(4)	1,749	1,113
Remeasurement				
– (Gain)/loss from change in financial assumptions	(1,078)	(2)	(1,080)	(71)
– Change in demographic assumptions	(2,167)	–	(2,167)	3,093
Benefits paid (in the year)	(9,328)		(9,328)	(13,623)
Curtailment (gains)/losses	2,855	–	2,855	9,160
Plan amendments	1,123		1,123	5,582
Reclassification of curtailed liability*	(9,271)	(49)	(9,320)	–
Defined benefit obligations at end	535	(55)	480	14,645

* This represents the outstanding liability payable to staff in 2014.

Composition of plan assets

Group	31 Dec 2013 Quoted ₦ million	Unquoted ₦ million	Total ₦ million
Debt instruments			55
– Government	–	54	
– Money market investments	–	1	
Others	–	0	
Total	–	55	55

	Group 31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Amounts recognised in the income statement (gratuity scheme 1) are as follows:		
Current service cost	(2,003)	(1,706)
Net interest expense on obligation	(1,749)	(1,113)
Curtailment (gains)/losses	(2,855)	(9,160)
Actuarial (losses)/gains	3,248	0
Plan amendments	(1,123)	(5,582)
Total employee benefits expense	(4,482)	(17,561)
Amount recognised in other comprehensive income are as follows:		
Actuarial losses/(gains)	3	(3,022)

Defined benefit – pension 2

The Bank has an old defined benefit scheme, discontinued in March 2001. The funds are placed with fund managers and the Bank 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 ₦1.2 billion.

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

Group	Present value of the obligation ₦ million	Fair value of plan assets ₦ million	Total ₦ million
Defined benefit pension obligations at 1 January 2012	14,293	(7,288)	7,005
Interest expense/(income)	1,479	(660)	819
Remeasurement:			
– Return on plan assets, excluding amount included in interest income	–	(1,915)	(1,915)
– Change in demographic assumptions	(536)	–	(536)
Contributions:			–
– Employer	–	(1,010)	(1,010)
Payments:			–
– Benefit payment	(1,640)	1,640	–
Defined benefit pension obligations at 31 December 2012	13,596	(9,233)	4,363
Interest expense/(income)	1,439	(984)	455

Group	Present value of the obligation ₦ million	Fair value of plan assets ₦ million	Total ₦ million
Remeasurement:			
– Return on plan assets, excluding amount included in interest income	-	(216)	(216)
– Change in demographic assumptions	(1,719)	-	(1,719)
Contributions:			-
– Employer	-	(1,772)	(1,772)
Payments:			-
– Benefit payment	(1,515)	1,515	-
Defined benefit pension obligations at 31 December 2013	11,801	(10,690)	1,111

Composition of plan assets

Group	2013 Quoted ₦ million	2013 Unquoted ₦ million	2013 Total ₦ million	2012 Quoted ₦ million	2012 Unquoted ₦ million	2012 Total ₦ million
Equity instruments			3,316			3,625
– Banking	3,220			3,545		
– Oil service	44			45		
– Real estate	52			35		
Debt instruments			7,374			5,607
– Government		5,436			3,103	
– Corporate bond		155			155	
– Money market investments		1,564			2,093	
Money on call		209			302	
Others		10			(46)	
Total	3,316	7,374	10,690	3,625	5,607	9,232

The fair value of plan assets is calculated with reference to quoted prices and is within level 1 of the fair value hierarchy.

Arising from the defined benefit pension plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

- **asset volatility:** the plan liabilities are calculated using a discount rate set with reference to Federal Government bond yields. If the plan assets underperform this yield, this will create a deficit. As the plans mature, the Group intends to reduce the level of investment risk by investing more in asset that better match the liabilities. In equity market, focus will be to seek to reduce the volatility on the fund and align asset allocation with the long-term objectives of the fund while taking advantage of selling off Government bonds to enter duration at attractive yields;
- **changes in bond yields:** a decrease in Federal bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings; and
- **life expectancy:** the majority of the plans' obligations are to provide benefits for the members, so increases in life expectancy will result in an increase in the plan's liabilities. This risk is significantly curtailed by the weighted average liability duration of the plan, which is currently seven years and retirement age of 60 years.

Under the funded plan, the Legacy scheme, the Group ensures that the investment positions are managed within the asset liability management (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this ALM framework, the objective is to match assets to the pension obligation by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The Group actively monitors how the duration and the expected yield of the investment are matching the expected cash outflows arising from the pension obligation.

The weighted average duration of the defined benefit obligation is seven years.

	31 Dec 2013 %	31 Dec 2012 %
The principal actuarial assumptions were as follows:		
Discount rate on pension plan	11	11
Inflation rate	9	10
Future pension increases	0	0

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

	Assumption %	Defined benefit obligation ₦ million	Impact on liability %
Discount rate	11	11,801	0.0
	10.5	12,161	3.0
	11.5	11,463	(2.9)
Inflation rate	9	11,801	0.0
	8.5	11,801	0.0
	9.5	11,801	0.0
Pension increase rate	0.0	11,801	0.0
	0.0	11,801	0.0
	0.0	11,801	0.0
Life expectancy	Base	11,801	0.0
	Improved by 1 year	11,904	0.9
	Decreased by 1 year	11,697	(0.9)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Gratuity scheme 3

This relates to the schemes operated by the subsidiaries of the Bank as follows:

Banque Internationale de Crédit (BIC) Congo has a scheme whereby on separation, staff who have spent a minimum of three years are paid a sum based on their qualifying emoluments and the number of periods spent in service of the Bank.

In 2013, First Bank of Nigeria Limited acquired ICB Guinea and ICB Sierra Leone each of which has a graduated gratuity schemes for its staff on separation where staff receives a lump sum based on their qualifying basic salaries on the number of year spent.

The aggregate balance on this scheme is immaterial.

38 OTHER LIABILITIES

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
FINANCIAL LIABILITIES:				
Customer deposits for letters of credit	58,029	47,401	–	–
Accounts payable	47,386	9,749	–	993
Creditors	542	–	–	–
Bank cheques	12,823	14,004	–	–
Collection on behalf of third parties	5,763	7,225	–	–
Other payables	15,923	25,489	3,519	–
	140,466	103,868	3,519	993
NON-FINANCIAL LIABILITIES:				
Accruals	9,393	18,334	191	91
Other liabilities balance	149,859	122,202	3,710	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.

39 LIABILITY ON INVESTMENT CONTRACTS

	Group	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Long-term clients	–	4,524
Short-term clients	68,723	50,471
	68,723	54,995
Current	68,723	50,471
Non-current	–	4,524
	68,723	54,995

40 LIABILITY ON INSURANCE CONTRACTS

	Group	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Outstanding claims	157	64
Unearned premium	104	100
Short-term insurance contract – claims incurred but not reported (IBNR)	317	523
Liability on long-term insurance contract – Life Fund	3,073	1,440
	3,651	2,127

41 SHARE CAPITAL

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
AUTHORISED		
50 billion ordinary shares of 50 kobo each (2009: 30 billion)	25,000	25,000

Issued and fully paid

	Number of shares in ₦ million	Ordinary shares in ₦ million
MOVEMENTS DURING THE PERIOD:		
At 31 December 2012	32,632	16,316
At 31 December 2013	32,632	16,316

42 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 in 2012. This led to a reduction in share premium by ₦65 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;
- **contingency 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; and
- **foreign currency translation reserve:** records exchange movements on the Group's net investment in foreign subsidiaries.

43 NON-CONTROLLING INTEREST

Percentage holdings	Banque Internationale de Crédit (DRC) 25% ₦ million	FBN Insurance Limited 35% ₦ million	FBN Heritage Fund 37% ₦ million	Rainbow Town Development Limited 45% ₦ million	Total ₦ million
31 DECEMBER 2013					
Share capital	1,286	1,218	2,660	4,091	9,255
Share capital withdrawn	–	–	(1,100)	–	(1,100)
Goodwill	181	–	–	–	181
Share of profit current year	107	166	361	(154)	480
Share of profit prior year	68	(23)	–	(4,092)	(4,047)
Dividend paid	(16)	(69)	(179)	–	(264)
	1,626	1,292	1,742	(155)	4,505
31 DECEMBER 2012					
Share capital	1,286	1,218	–	4,091	6,595
Share capital withdrawn	–	–	–	–	–
Goodwill	–	–	–	–	–
Share of profit current year	68	157	–	(445)	(220)
Share of profit prior year	–	(180)	–	(3,647)	(3,827)
Dividend paid	–	–	–	–	–
	1,354	1,195	–	(1)	2,548

44 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Profit before tax from continuing operations	91,337	93,921	70,631	(819)
Adjustments for:				
Depreciation and amortisation	11,198	10,863	47	–
Goodwill from impairment	552	–	–	–
(Profit)/loss from disposal of property and equipment	(293)	(1,760)	–	–
Foreign exchange losses/(gains) on operating activities	–	(2,448)	–	–
Profit/(loss) from disposal of subsidiaries	–	(288)	–	–
Profit/(loss) from disposal of investment securities	(2,811)	(125)	–	–
Net gains/(losses) from financial assets classified as held for trading	1,504	(1,760)	–	–
Impairment on loans and advances	22,714	16,631	–	–
Change in provision in other assets	304	(515)	–	–
Change in provision for impairment of investments	–	(822)	2,594	–
Change in retirement benefit obligations	(15,599)	4,299	–	–
Share of loss/(profit) from associates	(1,006)	1,168	–	–
Dividend income	(1,227)	(725)	(74,057)	–

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Net interest income	(230,115)	(224,953)	(924)	(1)
Net result from discontinued operations	–	1,502	–	–
Increase/(decrease) in operating assets:				
Cash and balances with the central bank (restricted cash)	(149,502)	(87,812)	–	–
Inventories	(8,577)	(1,476)	–	–
Loans and advances to banks	(103,856)	(706)	–	–
Loans and advances to customers	(240,347)	(301,716)	–	–
Financial assets held for trading	(5,435)	476	–	–
Other assets	2,123	11,532	(43,121)	(236)
Pledged assets	(3,541)	22,020	–	–
Assets held for sale	2,194	–	–	–
Increase/(decrease) in operating liabilities:				
Deposits from banks	(7,099)	(93,895)	–	–
Deposits from customers	512,242	426,752	–	–
Financial liabilities	(95)	(1,061)	–	–
Liability on investment contracts	13,729	7,669	–	–
Liability on insurance contracts	1,524	1,303	–	–
Liability held for sale	(1,089)	–	–	–
Other liabilities	21,956	(10,578)	2,626	1,084
Cash (used in)/generated from operations	(89,217)	(132,504)	(42,204)	28

45 COMMITMENTS AND CONTINGENCIES

45.1 CAPITAL COMMITMENTS

At the balance sheet date, the Company had capital commitments amounting to ₦569 million (2012: Nil) in respect of authorised and contracted capital projects. The expenditure will be funded from the Company's internal resources.

	Group	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Authorised and contracted		
Group	35,020	1,300
Company	569	–

45.2 OPERATING LEASE RENTALS

At 31 December 2013 the Group was committed to making the following future payments in respect of operating leases for land and buildings. Subsisting lease agreements are expected to expire in June 2031 and February 2017 respectively.

	Group	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Within one year	250	229
Between two and five years	918	564
More than five years	2,173	–
	3,341	793

45.3 LEGAL PROCEEDINGS

The Group is a party to a number of 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. Consequently, no provision has been made in these financial statements.

45.4 OTHER CONTINGENT COMMITMENTS

In the normal course of business the Group is a party to financial instruments that 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	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Performance bonds and guarantees	459,723	322,545
Letters of credit	233,892	211,816

45.5 LOAN COMMITMENTS

	Group	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Undrawn irrevocable loan commitments	408,008	239,445

46 RELATED-PARTY TRANSACTIONS

The Group is controlled by FBN Holdings Plc which is the parent company, whose shares are widely held. FBN Holdings Plc is a financial holding company licensed by the Central Bank of Nigeria. In 2013, there were no related-party transactions 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 related expense and income for the year are as follows:

46.1 LOANS AND ADVANCES TO RELATED PARTIES

The Company granted various credit facilities to other companies that 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 2013			
Loans and advances to customers			
Loans outstanding at 1 January	67	–	6,411
Loans issued during the year	–	–	921
Loan repayments during the year	(15)	–	–
Loans outstanding at 31 December	52	–	7,332
31 DECEMBER 2012			
Loans and advances to customers			
Loans outstanding at 1 January	–	–	–
Loans issued during the year	67	–	6,411
Loan repayments during the year	–	–	–
Loans outstanding at 31 December	67	–	6,411

No impairment loss has been recognised in respect of loans given to related parties

The loans to directors and other key management personnel are repayable from various cycles ranging from monthly to annually over the tenor and have average interest rates ranging from 5% to 24%.

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

46.2 DEPOSITS FROM RELATED PARTIES

The Company had no deposits from related parties in 2013 (2012: Nil).

46.3 OTHER TRANSACTIONS WITH RELATED PARTIES

	Directors and other key management personnel (and close family members)	Associates	Subsidiaries
31 DECEMBER 2013			
Interest income	–	–	921
Intercompany payable	–	–	3,447
31 DECEMBER 2012			
Intercompany payable	–	–	846

46.4 KEY MANAGEMENT COMPENSATION

Key management includes executive directors and members of the Management Committee. The compensation paid or payable to key management for employee services is shown below:

	Group		Company	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Salaries and other short-term employee benefits	844	432	114	33
Post-employment benefits	567	796	–	–
Other long-term benefits	3,000	3,017	–	1
	4,411	4,245	114	34

47 EMPLOYEES

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

	Group		Company	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Executive directors	1	1	1	1
Management	74	71	3	–
Non-management	9,748	8,765	17	–
	9,823	8,837	21	1

See Note 16a 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 contributions and certain benefits) were:

	Group		Company	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Below ₦2,000,000	1,383	213	10	–
₦2,000,001–₦2,800,000	95	216	3	–
₦2,800,001–₦3,500,000	655	577	3	–
₦3,500,001–₦4,000,000	46	72	–	–
₦4,000,001–₦5,500,000	2,635	2,938	3	–
₦5,500,001–₦6,500,000	1,596	1,546	–	–
₦6,500,000–₦7,800,000	1,051	950	–	–
₦7,800,001–₦9,000,000	281	222	–	–
₦9,000,001 and above	2,077	2,096	1	–
	9,819	8,830	20	–

48 DIRECTORS' EMOLUMENTS

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

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Fees and sitting allowances	54	11
Executive compensation	104	22
Other director expenses	148	1
	306	34
Fees and other emoluments disclosed above include amounts paid to:		
Chairman	44	–
Highest-paid director	104	22

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

	31 Dec 2013	31 Dec 2012
N2,000,001–N3,000,000	–	–
N3,000,001 and above	7	6
	7	6

49 COMPLIANCE WITH REGULATIONS

No penalty was paid by the Company during the year.

50 EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

FBN Insurance Limited acquired 4.6 billion units of ordinary shares in Oasis Insurance Plc, representing 71.2% holdings in the company. The acquisition was effected through the execution of a share sale and purchase agreement with the majority shareholders of Oasis Insurance Plc, following approvals of the Board of Directors of FBN Life and those of FBN Holdings Plc, as well as requisite regulatory approvals from the National Insurance Commission, Securities and Exchange Commission and the Nigerian Stock Exchange.

51 DIVIDENDS PER SHARE

A dividend of ₦32.6 billion at ₦1.00 per share (2011: ₦26.1 billion) that relates to the period to 31 December 2012 was paid in May 2013.

52 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 members of the Group 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 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Profit from continuing operations attributable to owners of the parent (₦ million)	70,135	77,021	70,631	(819)
Weighted average number of ordinary shares in issue (in million)	32,473	32,463	32,632	32,632
Basic/diluted earnings per share (expressed in kobo per share)	2.16	2.37	2.16	(0.03)
Profit from discontinuing operations attributable to owners of the parent (₦ million)	–	–	–	–
Weighted average number of ordinary shares in issue (in million)	32,473	32,463	32,632	32,632
Basic/diluted earnings per share (expressed in kobo per share)	–	–	–	–

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.

53 CHANGES IN ACCOUNTING POLICIES – IFRS 10

As explained in Note 2.2, the Group has adopted IFRS 10 consolidated financial statements on 1 January 2013. The Group has restated information for the preceding comparative periods. However, the financial statements as at 1 January 2012 have not been restated to reflect the results of Liquidity Management Fund and SMEEIS Trust Fund (two of the newly consolidated funds), because it has been impracticable from the Group's records to determine the adjustments necessary for the application of this standard on 1 January 2012 in respect of this fund. It has however been included in subsequent periods.

The following tables summarise the adjustments arising on the adoption of IFRS 10 to the Group's income statement, statement of comprehensive income and statement of cash flow for the year ended 31 December 2012; and statement of financial position as at 31 December 2013, 31 December 2012 and 1 January 2012.

(i) Impact of change in accounting policy on consolidated statement of financial position.

a	As at 31 December 2013 ₦ million	Impact of IFRS 10 ₦ million	As at 31 December 2013 as presented ₦ million
ASSETS			
Cash and balances with central banks	594,234	–	594,234
Loans and advances to banks	423,096	7,490	430,586
Loans and advances to customers	1,768,449	681	1,769,130
Financial assets at fair value through profit or loss	8,018	2,269	10,287
Investment securities		–	
– Available-for-sale investments	470,334	59,154	529,488
– Held-to-maturity investments	294,172	403	294,575
Asset pledged as collateral	53,650	–	53,650
Inventory	30,253	–	30,253
Investment properties	2,413	–	2,413
Investments in associates accounted for using the equity method	7,029	–	7,029
Other assets	41,299	106	41,405
Intangible assets	8,748	–	8,748
Property, plant and equipment	81,275	24	81,299
Deferred tax	7,120	–	7,120
	3,790,090	70,127	3,860,217
Asset held for sale	10,784	–	10,784
Total assets	3,800,874	70,127	3,871,001
LIABILITIES			
Deposits from banks	82,071	(39)	82,032
Deposits from customers	2,933,821	(4,740)	2,929,081
Financial liabilities held for trading	1,701	–	1,701
Liability on investment contracts	–	68,723	68,723
Liability on insurance contracts	3,651	–	3,651
Borrowings	126,302	–	126,302
Retirement benefit obligations	1,924	–	1,924
Current income tax liability	33,948	219	34,167
Deferred tax	37	–	37
Other liabilities	148,825	1,034	149,859
	3,332,279	65,198	3,397,477
Liabilities held for sale	1,747	–	1,747
Total liabilities	3,334,026	65,198	3,399,224

a	As at 31 December 2013 ₦ million	Impact of IFRS 10 ₦ million	As at 31 December 2013 as presented ₦ million
EQUITY			
Share capital	16,316	–	16,316
Share premium	254,524	–	254,524
Retained earnings	111,471	3,926	115,397
Other reserves		–	
– Statutory reserve	52,074	–	52,074
– SSI reserve	6,076	–	6,076
– AFS fair value reserve	13,966	1,003	14,969
– Contingency reserve	107	–	107
– Statutory credit reserve	7,987	–	7,987
– Treasury share reserve	(2,280)	–	(2,280)
– Foreign currency translation reserve	2,102	–	2,102
	462,343	4,929	467,272
Non-controlling interest	4,505	–	4,505
Total equity	466,848	4,929	471,777
Total equity and liabilities	3,800,874	70,127	3,871,001

b	As at 31 December 2012 (Previously stated) ₦ million	Impact of IFRS 10 ₦ million	As at 31 December 2012 (Restated) ₦ million
ASSETS			
Cash and balances with central banks	300,531	1	300,532
Loans and advances to banks	411,429	28,424	439,853
Loans and advances to customers	1,541,687	(310)	1,541,377
Financial assets at fair value through profit or loss	3,611	2,501	6,112
Investment securities			
– Available-for-sale investments	369,397	10,278	379,675
– Held-to-maturity investments	337,278	1,087	338,365
Asset pledged as collateral	50,109	–	50,109
Inventory	21,676	–	21,676
Investment properties	4,003	(0)	4,003
Investment in subsidiaries	–	–	–
Investments in associates accounted for using the equity method	6,321	–	6,321
Other assets	40,000	252	40,252
Intangible assets	3,522	1	3,523
Property, plant and equipment	75,386	21	75,407
Deferred tax	8,201	–	8,201
	3,173,151	42,255	3,215,406
Asset held for sale	12,978	–	12,978
Total assets	3,186,129	42,255	3,228,384

b	As at 31 December 2012 (Previously stated) ₦ million	Impact of IFRS 10 ₦ million	As at 31 December 2012 (Restated) ₦ million
LIABILITIES			
Deposits from banks	88,187	1,243	89,430
Deposits from customers	2,400,860	(5,712)	2,395,148
Financial liabilities held for trading	1,796	–	1,796
Liability on investment contracts	12,321	42,674	54,995
Liability on insurance contracts	2,127	–	2,127
Borrowings	76,168	(627)	75,541
Retirement benefit obligations	19,380	–	19,380
Current income tax liability	23,228	161	23,389
Deferred tax	222	3	225
Other liabilities	120,157	2,045	122,202
	2,744,446	39,787	2,784,233
Liabilities held for sale	2,836	–	2,836
Total liabilities	2,747,282	39,787	2,787,069
EQUITY			
Share capital	16,316	–	16,316
Share premium	254,524	–	254,524
Retained earnings	73,367	2,705	76,072
Other reserves			
– Statutory reserve	43,347	–	43,347
– SSI reserve	6,076	–	6,076
– AFS fair value reserve	26,272	719	26,991
– Contingency reserve	50	–	50
– Statutory credit reserve	16,101	–	16,101
– Treasury share reserve	(1,422)	(956)	(2,378)
– Foreign currency translation reserve	1,668	–	1,668
	436,299	2,468	438,767
Non-controlling interest	2,548	–	2,548
Total equity	438,847	2,468	441,315
Total equity and liabilities	3,186,129	42,255	3,228,384

C	As at 1 January 2012 (Previously stated) ₦ million	Impact of IFRS 10 ₦ million	As at 1 January 2012 (Restated) ₦ million
ASSETS			
Cash and balances with central banks	199,228	–	199,228
Loans and advances to banks	462,856	472	463,328
Loans and advances to customers	1,252,462	(308)	1,252,154
Financial assets at fair value through profit or loss	5,964	–	5,964
Investment securities			
– Available-for-sale investments	356,933	557	357,490
– Held-to-maturity investments	337,336	–	337,336
Asset pledged as collateral	72,129	–	72,129
Inventory	25,609	–	25,609
Investment properties	4,055	–	4,055
Investment in subsidiaries	–	–	–
Investments in associates accounted for using the equity method	7,489	–	7,489
Other assets	62,272	788	63,061
Intangible assets	1,008	–	1,008
Property, plant and equipment	65,874	15	65,889
Deferred tax	6,954	–	6,954
	2,860,169	1,524	2,861,694
Asset held for sale	–	–	–
Total assets	2,860,169	1,524	2,861,694
LIABILITIES			
Deposits from banks	183,500	–	183,500
Deposits from customers	1,951,321	(310)	1,951,011
Financial liabilities held for trading	2,857	–	2,857
Liability on investment contracts	49,440	–	49,440
Liability on insurance contracts	824	–	824
Borrowings	104,473	1,731	106,204
Retirement benefit obligations	15,081	–	15,081
Current income tax liability	24,254	74	24,328
Deferred tax	1,067	2	1,069
Other liabilities	158,773	552	159,325
	2,491,590	2,049	2,493,639
Liabilities held for sale	–	–	–
Total liabilities	2,491,590	2,049	2,493,639
EQUITY			
Share capital	16,316	(0)	16,316
Share premium	254,524	–	254,524
Retained earnings	41,587	1,574	43,162
Other reserves			
– Statutory reserve	32,144	–	32,144
– SSI reserve	6,076	–	6,076

c	As at 1 January 2012 (Previously stated) ₦ million	Impact of IFRS 10 ₦ million	As at 1 January 2012 (Restated) ₦ million
– AFS fair value reserve	8,524	285	8,809
– Contingency reserve	13	–	13
– Statutory credit reserve	9,766	–	9,766
– Treasury share reserve	(1,941)	(2,384)	(4,325)
– Foreign currency translation reserve	606	–	606
	367,615	(525)	367,091
Non-controlling interest	964	–	964
Total equity	368,579	(525)	368,055
Total equity and liabilities	2,860,169	1,524	2,861,694

(ii) Impact of change in accounting policy on the consolidated income statement.

a	As at 31 December 2013 ₦ million	Impact of IFRS 10 ₦ million	As at 31 December 2013 as presented ₦ million
CONTINUING OPERATIONS			
Interest income	315,941	7,680	323,621
Interest expense	(87,053)	(6,453)	(93,506)
Net interest income	228,888	1,227	230,115
Impairment charge for credit losses	(20,654)	345	(20,309)
Net interest income after impairment charge for credit losses	208,234	1,572	209,806
Net insurance premium revenue	1,785	-	1,785
Fee and commission income	59,338	43	59,381
Fee and commission expense	(5,296)	-	(5,296)
Foreign exchange income	6,693	-	6,693
Net gains/(losses) on investment securities	2,752	147	2,899
Net gains/(losses) from financial assets classified as held for trading	(1,504)	-	(1,504)
Gain from disposal of subsidiary	-	-	-
Dividend income	1,131	96	1,227
Other operating income	742	92	834
Insurance claims	(488)	-	(488)
Operating expenses	(184,492)	(513)	(185,005)
Operating profit	88,894	1,437	90,331
Share of profit/(loss) of associates	1,006	-	1,006
Profit before tax	89,900	1,437	91,337
Income tax expense	(20,648)	(58)	(20,706)
Profit for the year from continuing operations	69,252	1,379	70,631
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	-	-	-
Profit for the year	69,252	1,379	70,631

b	As at 31 December 2012 (Previously stated) ₦ million	Impact of IFRS 10 ₦ million	As at 31 December 2012 (Restated) ₦ million
CONTINUING OPERATIONS			
Interest income	287,274	8,079	295,353
Interest expense	(62,082)	(6,664)	(68,746)
Net interest income	225,192	1,415	226,607
Impairment charge for credit losses	(12,299)	(250)	(12,549)
Net interest income after impairment charge for credit losses	212,893	1,165	214,058
Net insurance premium revenue	1,544	–	1,544
Fee and commission income	59,964	(15)	59,949
Foreign exchange income	2,448	0	2,448
Net gains/(losses) on investment securities	1,039	1,085	2,124
Net gains/(losses) from financial assets classified as held for trading	1,760	0	1,760
Gain from disposal of subsidiary	288	–	288
Dividend income	541	200	741
Other operating income	5,487	125	5,612
Insurance claims	(498)	–	(498)
Operating expenses	(192,171)	(1,342)	(193,513)
Operating profit	93,295	1,218	94,513
Share of profit/(loss) of associates	(594)	2	(592)
Profit before tax	92,701	1,220	93,921
Income tax expense	(17,031)	(89)	(17,120)
Profit for the year from continuing operations	75,670	1,131	76,801
Profit for the year	75,670	1,130	76,801

(iii) Impact of change in accounting policy on the consolidated statement of comprehensive income

a	As at 31 December 2013 ₦ million	Impact of IFRS 10 ₦ million	As at 31 December 2013 as presented ₦ million
PROFIT FOR THE YEAR	69,252	1,379	70,631
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Net gains on available-for-sale financial assets			
– Unrealised net gains arising during the period, before tax	(11,906)	(2,603)	(14,509)
– Net reclassification adjustments for realised net gains or losses, before tax	–	2,487	2,487
Share of other comprehensive income of associates	(298)	–	(298)
Exchange difference on translation of foreign operations	435	(1)	434
Items that will not be reclassified to profit or loss		–	
Actuarial gains/(losses) on defined benefit pension scheme	1,638	–	1,638
Share of other comprehensive income of associates	0	–	–
Return on plan assets	219	–	219
Income tax relating to components of other comprehensive income	2,404	(1,487)	917
Other comprehensive income for the year, net of tax	(7,508)	(1,604)	(9,112)
Total comprehensive income for the year	61,744	(225)	61,519

b	As at 31 December 2012 (Previously stated) ₦ million	Impact of IFRS 10 ₦ million	As at 31 December 2012 (Restated) ₦ million
PROFIT FOR THE YEAR	75,670	1,131	76,801
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Net gains on available-for-sale financial assets			
– Unrealised net gains arising during the period, before tax	15,817	435	16,252
– Net reclassification adjustments for realised net gains or losses, before tax	1,930	–	1,930
Share of other comprehensive income of associates	–	–	–
Exchange difference on translation of foreign operations	1,062	–	1,062
Items that will not be reclassified to profit or loss		–	
Actuarial gains/(losses) on defined benefit pension scheme	(571)	–	(571)
Share of other comprehensive income of associates	–	–	–
Return on plan assets	–	–	–
Income tax relating to components of other comprehensive income	140	–	140
Other comprehensive income for the year, net of tax	18,378	435	18,813
Total comprehensive income for the year	94,048	1,566	95,614

(iv) Impact of change in accounting policy on the consolidated statement of cash flows.

a	As at 31 December 2013 ₦ million	Impact of IFRS 10 ₦ million	As at 31 December 2013 as presented ₦ million
OPERATING ACTIVITIES			
Cash flow (used in)/generated from operations	(112,596)	23,379	(89,217)
Income taxes paid	(7,918)	–	(7,918)
Interest received	322,264	7,396	329,660
Interest paid	(86,088)	(6,453)	(92,541)
Net cash flow generated from operating activities	115,661	24,323	139,983
INVESTING ACTIVITIES			
Purchase of investment securities	(291,658)	(18,962)	(310,620)
Proceeds from the sale of investment securities	320,025	160	320,185
Net cash flow from disposal of subsidiaries	0	–	–
Net cash flow from business restructuring	0	–	–
Cash and cash equivalent acquired from subsidiary	8,080	–	8,080
Additional investment in subsidiaries	0	–	–
Dividends received	1,227	–	1,227
Purchase of investment property	(53)	–	(53)
Proceeds from the disposal of investment property	0	–	–
Purchase of property, plant and equipment	(17,920)	–	(17,920)
Purchase of intangible assets	(1,144)	–	(1,144)
Proceeds on disposal of property, plant and equipment	999	(7)	992
Net cash used in investing activities	19,493	(18,809)	684
FINANCING ACTIVITIES			
Proceeds from sale of treasury shares	98	–	98
Dividend paid	(32,393)	(503)	(32,896)
Proceeds from new borrowings	99,723	–	99,723
Repayment of borrowings	(51,020)	–	(51,020)
Equity raised	1,560	–	1,560
Net cash (used in)/generated from financing activities	16,409	(503)	15,905
Increase in cash and cash equivalents	151,562	5,010	156,573
Cash and cash equivalents at start of year	636,540	40,306	676,847
Effect of exchange rate fluctuations on cash held	(289)	–	(289)
Cash and cash equivalents at end of year	787,814	45,317	833,131

b	As at 31 December 2012 (Previously stated) ₦ million	Impact of IFRS 10 ₦ million	As at 31 December 2012 (Restated) ₦ million
OPERATING ACTIVITIES			
Cash flow (used in)/generated from operations	(171,617)	39,112	(132,505)
Income taxes paid	(22,439)	–	(22,439)
Interest received	308,821	260	309,081
Interest paid	(65,502)	(77)	(65,579)
Net cash flow generated from operating activities	49,263	39,295	88,558
INVESTING ACTIVITIES			
Purchase of investment securities	(50,647)	(6,248)	(56,895)
Proceeds from the sale of investment securities	23,595	2,008	25,603
Net cash flow from disposal of subsidiaries	(30,619)	-	(30,619)
Cash and cash equivalent acquired from subsidiary	11,463	-	11,463
Dividends received	541	200	741
Purchase of investment property	(30)	-	(30)
Purchase of property, plant and equipment	(18,663)	(10)	(18,673)
Purchase of intangible assets	(1,570)	-	(1,570)
Proceeds on disposal of property, plant and equipment	2,875	-	2,875
	(63,055)	(4,050)	(67,105)
FINANCING ACTIVITIES			
Dividend paid	(26,105)	-	(26,105)
Proceeds from new borrowings	58,459	-	58,459
Repayment of borrowings	(85,806)	-	(85,806)
Net cash (used in)/generated from financing activities	(53,452)	-	(53,452)
Increase in cash and cash equivalents	(67,244)	38,578	(31,999)
Cash and cash equivalents at start of year	708,992	312	709,304
Effect of exchange rate fluctuations on cash held	(175)	(283)	(458)
Cash and cash equivalents at end of year	641,573	38,562	676,847

(v) Impact of change in accounting policy on the statement of changes in equity.

	Share capital ₦ million	Share premium ₦ million	Retained earnings ₦ million	Other reserves ₦ million	Total ₦ million	Non-controlling interest ₦ million	Total equity ₦ million
Balance as at 1 January 2012 as previously reported	16,316	254,524	41,587	55,188	367,615	964	368,579
Effect of changes in accounting policies	–	–	1,575	(2,100)	(525)	–	(525)
Balance as at 1 January 2012 as restated	16,316	254,524	43,162	53,088	367,090	964	368,054
Profit for the year as previously reported	–	–	75,890	–	75,890	(220)	75,670
Effect of changes in accounting policies	–	–	1,131	–	1,131	–	1,131
Profit for the year as restated	–	–	77,021	–	77,021	(220)	76,801
Other comprehensive income for the year as previously reported	–	–	(431)	18,809	18,378	–	18,378
Effect of changes in accounting policies	–	–	–	435	435	–	435
Other comprehensive income for the year as restated	–	–	(431)	19,244	18,813	–	18,813
Dividends	–	–	(26,105)	–	(26,105)		(26,105)
Disposal of treasury shares	–	–	0	1,947	1,947	–	1,947
Additional investment	–	–	0	–	–	518	518
Acquisition of subsidiary	–	–	–	–	–	1,286	1,286
Transfer between reserves	–	–	(17,575)	17,575	–	–	–
Transfer resulting from business restructuring	–	–	–	–	–	–	–
Total contributions by and distributions to owners of the parent, recognised directly in equity	–	0	(43,680)	19,522	(24,158)	1,804	(22,354)
Balance as at 31 December 2012 as previously reported	16,316	254,524	73,366	93,519	437,725	2,548	440,273
Effect of changes in accounting policies	–	–	2,706	(1,665)	1,041	–	1,041
Balance as at 31 December 2012 as restated	16,316	254,524	76,072	91,854	438,767	2,548	441,315

VALUE ADDED STATEMENT

	Group			
	31 Dec 2013 ₦ million	%	31 Dec 2012 ₦ million	%
Gross income	395,942		368,710	
Interest and fee expense	(98,802)		(69,687)	
	297,140		300,480	
Administrative overheads:				
Local	(102,688)		(108,363)	
Foreign	(5,238)		(5,911)	
Value added	189,214	100	186,206	100
DISTRIBUTION				
Employees				
Salaries and benefits	65,820	35	68,879	37
Government				
Taxation	20,706	11	17,120	9
The future				
Asset replacement (depreciation)				
– Local	9,738	5	9,721	5
– Foreign	546	–	461	–
Asset replacement (amortisation)				
– Local	1,329	1	549	0
– Foreign	136	–	127	–
Asset replacement (provision for losses)	20,309	11	12,549	7
- Expansion (transfers to reserves)	70,631	37	75,344	41
	189,214	100	186,206	100

	Company			
	31 Dec 2013 ₦ million	%	31 Dec 2012 ₦ million	%
Gross income	74,988		1	
Interest and fee expense	–		–	
	74,988		1	
Administrative overheads	(4,252)		(819)	
Value added	70,736	100	(819)	100
DISTRIBUTION				
Employees				
Salaries and benefits	58	–	1	–
Government				
Company income tax	–	–	–	–
The future				
Asset replacement (depreciation)	47	–	–	–
Asset replacement (amortisation)	–	–	–	–
Asset replacement (provision for losses)	–	–	–	–
Expansion (transfers to reserves)	70,631	100	(819)	100
	70,636	100	(819)	100

FIVE-YEAR FINANCIAL SUMMARY – GROUP

	As reported under IFRS				As reported under NGAAP
	31 Dec 2013 ₦ million	Restated 31 Dec 2012 ₦ million	Restated 31 Dec 2011 ₦ million	31 Dec 2010 ₦ million	31 Dec 2009 ₦ million
ASSETS:					
Cash and balances with central bank	594,234	300,532	199,228	75,517	70,332
Loans and advances to banks	430,586	439,853	463,328	575,467	514,193
Loans and advances to customers	1,769,130	1,541,377	1,252,154	1,160,293	1,072,640
Financial assets held for trading	10,287	6,112	5,964	16,636	–
Investment securities	824,064	718,040	694,826	254,708	292,843
Assets pledged as collateral	53,650	50,109	72,129	122,009	–
Inventory	30,253	21,676	25,609	23,081	
Managed funds	–	–	–	–	84,630
Investment in associates	7,029	6,321	7,489	8,996	13,373
Investment in subsidiaries	–	–	–	–	
Other assets	41,405	40,252	63,061	39,282	69,286
Investment property	2,413	4,003	4,055	2,440	8,466
Intangible assets	8,748	3,523	1,008	494	–
Property, plant and equipment	81,299	75,407	65,889	63,634	47,987
Deferred tax	7,120	8,201	6,954	12,274	–
Assets held for sale	10,784	12,978	–	–	–
	3,871,001	3,228,384	2,861,693	2,354,831	2,173,750
FINANCED BY:					
Share capital	16,316	16,316	16,316	16,316	14,504
Share premium	254,524	254,524	254,524	254,524	254,524
Reserves	196,431	167,927	96,251	129,607	41,973
Non-controlling interest	4,505	2,548	964	1,148	3,081
Deposits from banks	82,032	89,430	183,500	148,352	173,280
Deposits from customers	2,929,081	2,395,148	1,951,011	1,447,600	1,342,704
Financial liabilities held for trading	1,701	1,796	2,857	1,639	–
Liabilities on investment contracts	68,723	54,995	49,440	76,446	148,224
Liabilities on insurance contracts	3,651	2,127	824	–	–
Borrowings	126,302	75,541	106,204	126,350	35,729
Retirement benefit obligations	1,924	19,380	15,081	11,426	724
Current income tax	34,167	23,389	24,328	20,052	19,635
Other liabilities	149,859	122,202	159,325	120,470	128,760
Deferred income tax liabilities	37	225	1,069	901	10,612
Liabilities held for sale	1,747	2,836	–	–	–
	3,871,001	3,228,384	2,861,693	2,354,831	2,173,750

	As reported under IFRS				As reported under NGAAP
	12 months ended 31 Dec 2013 ₦ million	Restated 12 months ended 31 Dec 2012 ₦ million	Restated 12 months ended 31 Dec 2011 ₦ million	12 months ended 31 Dec 2010 ₦ million	9 months ended 31 Dec 2009 ₦ million
Gross earnings	395,942	370,167	273,811	232,079	193,932
Net operating income	296,133	301,072	237,027	178,062	127,662
Insurance claims	(488)	(498)	(81)	–	–
Operating expenses	(185,005)	(193,513)	(146,064)	(119,274)	(77,574)
Group's share of associate's results	1,006	(592)	(1,507)	(3,657)	114
Impairment charge for credit losses	(20,309)	(12,549)	(38,011)	(21,590)	(38,174)
(Loss) on sale of assets to AMCON	–	–	(15,501)	–	–
Exceptional item	–	–	–	226	–
Profit before taxation	91,337	93,921	39,863	33,767	12,028
Taxation	(20,706)	(17,120)	(17,227)	(4,590)	(8,406)
Profit from continuing operations	70,631	76,801	19,520	29,177	3,622
Profit from discontinuing operations	–	–	(884)	–	–
Profit for the year	70,631	76,801	18,636	29,177	3,622
Profit attributable to:					
Owners of the parent	70,135	77,021	19,520	27,244	2,612
Non-controlling interest	496	(220)	(884)	1,933	1,010
	70,631	76,801	18,636	29,177	3,622
Earnings per share in kobo (basic/diluted)	216	237	57	89	12

In line with IFRS 1.22(b), the figures reported in the above statement of financial position for years 2010 to 2013 and income statement for years 2011 to 2013 have been prepared using relevant IFRS guidelines and standards. In contrast, the figures in the above statement of financial position for year 2009 and income statement for years 2009 and 2010 have been prepared using relevant Nigerian GAAP guidelines and standards.

Therefore, the numbers in the affected relevant areas listed below should not be compared when being used. The nature of the main adjustments that would make it comply with IFRSs are:

Financial statement area	Nature/main adjustments to convert 2009 balances to IFRS
Loans and advances to banks	Measured at amortised cost in accordance with IAS 39
Loans and advances to customers	Measured at amortised cost in accordance with IAS 39
Financial assets held for trading	Measured at fair value, with fair value gain or loss charged to income statement, in accordance with IAS 39
Assets pledged as collateral	Measured at either amortised cost or fair value in accordance with IAS 39
Deposits from banks	Measured at amortised cost in accordance with IAS 39
Deposits from customers	Measured at amortised cost in accordance with IAS 39
Financial liabilities held for trading	Measured at fair value, with fair value gain or loss charged to income statement, in accordance with IAS 39
Borrowings	Measured at amortised cost in accordance with IAS 39
Retirement benefits obligation	Measured using the actuarial valuation method (projected unit credit model) in accordance with IAS 19
Interest income and expense	Measured using the effective interest rate method
Impairment charge for credit losses	Test loans and advances for impairment in accordance with IAS 39 and assess provisions per Prudential Guidelines

FINANCIAL SUMMARY – COMPANY

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
ASSETS:		
Cash and balances with central bank	–	–
Loans and advances to banks	1,477	–
Loans and advances to customers	72	–
Financial assets held for trading	–	–
Investment securities	9,847	15,771
Assets pledged as collateral	–	–
Investment in associates	9,281	11,875
Investment in subsidiaries	246,777	243,065
Other assets	43,285	236
Intangible assets	–	–
Property, plant and equipment	1,072	30
Deferred tax	–	–
	311,811	270,977
FINANCED BY:		
Share capital	16,316	16,316
Share premium	254,524	254,524
Reserves	37,261	(947)
Deposits from banks	–	–
Deposits from customers	–	–
Financial liabilities held for trading	–	–
Borrowings	–	–
Retirement benefit obligations	–	–
Current income tax	–	–
Other liabilities	3,710	1,084
Deferred income tax liabilities	–	–
	311,811	270,977

	12 months ended 31 Dec 2013 ₦ million	1 month ended 31 Dec 2012 ₦ million
Gross earnings	74,988	1
Net operating income	72,289	–
Gain from disposal of subsidiary	–	–
Operating expenses	(1,658)	(819)
Impairment charge for credit losses	–	–
(Loss) on sale of assets to AMCON	–	–
Exceptional item	–	–
Profit before taxation	70,631	(819)
Taxation	–	–
Profit after taxation	70,631	(819)
Earnings per share in kobo (basic)	216	(3)

SHAREHOLDER INFORMATION

Resources for shareholders including a glossary of ratios, a summary of abbreviations and Group contact details.

p336 Shareholder resources

p343 Glossary of ratios

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SHAREHOLDER RESOURCES

GLOBAL DEPOSITARY RECEIPTS (GDR) PROGRAMME

FirstBank commenced a USD100 million GDR programme in May 2007.

A global depositary receipt (GDR) is a negotiable certificate representing ownership of shares. It is held by a depositary bank and represents a specific number of shares of a stock traded on a stock exchange of many countries. GDRs are quoted, traded and dividends usually paid in US dollars. GDRs facilitate the trading and holding of non-US securities by foreign investors.

At inception of the programme, 7,700,400 units were created, with each unit represented by 50 units of FirstBank ordinary shares. Over the years, several investors in the programme have converted their holdings in GDR to nominal FirstBank shares for the purpose of trading in the Nigerian equity capital market. Currently, there are 3,754 units outstanding.

On 26 November 2012, FBN Holdings was listed on the Nigerian Stock Exchange, replacing FirstBank, and the existing shareholders in FirstBank exchanged ordinary shares in FBN Holdings equal to the number of shares held in FirstBank.

As at 31 December 2013, the closing price of the GDR at the over-the-counter (OTC) market was USD5.10.

SHARE STATISTICS

	2013	2012
MARKET INDICATORS		
NSE all share index	41,329.19	28,078.81
SHARE STATISTICS*		
Share price		
High for the year ₦	21.50	17.12
Low for the year ₦	15.20	8.57
Closing ₦	16.30	15.72
Shares traded		
Number of shares (million)	4,458	5,071
Value of shares (₦ million)	80,879	63,051

* The shares of First Bank of Nigeria Plc were delisted during the year and replaced with FBN Holdings Plc

DIVIDEND HISTORY

FIRST BANK OF NIGERIA PLC

Pyt no	Year end	Div type	Date declared	Total net div amt (₦)	Div per share	Net div amt unclaimed as at Dec 2013	% net div amt unclaimed
46	31 Mar 2003	final	4 Aug 2003	3,811,263,675.00	1.50	116,864,959.03	3.07
47	31 Mar 2004	final	23 Aug 2004	5,513,901,111.80	1.55	112,627,413.76	2.04
48	31 Mar 2005	final	29 Aug 2005	6,403,122,540.00	1.60	99,508,124.51	1.55
49	31 Mar 2006	final	28 Aug 2006	5,239,237,558.00	1.00	98,608,774.40	1.88
50	31 Mar 2007	final	3 Sept 2007	10,479,845,385.00	1.00	356,889,351.48	3.41
51	31 Mar 2008	final	25 Aug 2008	21,481,234,960.68	1.20	361,717,728.76	1.68
52	31 Mar 2009	final	24 Aug 2009	30,207,986,658.90	1.35	443,400,473.34	1.47
53	31 Dec 2009	final	31 May 2010	2,610,566,748.54	0.10	313,092,514.29	11.99
54	31 Dec 2010	final	6 Jun 2011	17,621,325,552.24	0.60	824,239,553.91	4.68
55	31 Dec 2011	final	4 Jun 2012	23,495,100,736.32	0.80	920,191,158.84	3.92
				126,863,584,926.48		3,647,140,052.32	2.87

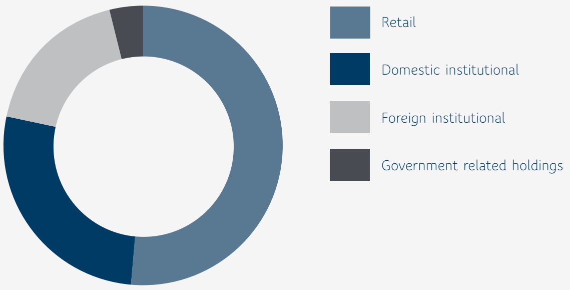
FBN HOLDINGS PLC

Pyt no	Year end	Div type	Date declared	Total net div amt (₦)	Div per share	Net div amt unclaimed as at Dec 2013	% net div amt unclaimed
1	31 Dec 2012	INTERIM	3 Jun 2013	29,434,858,173.90	1.00	1,877,563,713.98	6.38

SHAREHOLDER ANALYSIS AS AT 31 DECEMBER 2013

Type of shareholding	Percentage held
Retail	51.57
Domestic institutional	26.77
Foreign institutional	17.98
Government related holdings	3.68
	100

Breakdown of shareholders by type



2014 FBN HOLDINGS FINANCIAL REPORTING CALENDAR

Date	Event
Tuesday 29 April	Release of FY 2013 results on the floor of the NSE
Wednesday 30 April	Publication of FY 2013 results in national dailies
Wednesday 30 April	FY 2013 and Q1 2014 results conference call
Wednesday 30 April	Release of Q1 2014 result on the floor of the NSE
Wednesday 30 April	FirstBank publication of Q1 2014 results in national dailies
Thursday 15 May	FirstBank Annual General Meeting
Thursday 22 May	FBN Holdings Annual General Meeting
Thursday 31 July	Release of FBN Holdings H1 2014 on the floor of the NSE
Friday 1 August	FBN Holdings publication of H1 2014 results in dailies
Tuesday 5 August	H1 2014 results conference call
Friday 31 October	Release of 9M 2014 results on the floor of the NSE
Thursday 6 November	9M 2014 results conference call
Wednesday 26 November	FBN Holdings Publication in national dailies
Monday 15 December	FirstBank publication of audited 9M 2014 results in national dailies

These dates are subject to change. Please ensure you refer to the investor relations website for updates.

SHARE CAPITALISATION HISTORY

Year	Authorised		Paid up			Consideration
	Increase (₦)	Cumulative (₦)	Increase (₦)	Cumulative (₦)	Cumulative no. of shares	
31 Dec 1973	-	10,000,000	-	9,700,000	9,700,000	Cash
10 Jun 1975	5,000,000	15,000,000	1,940,000	11,640,000	11,640,000	Bonus
27 July 1976	-	15,000,000	2,328,000	13,968,000	13,968,000	Bonus
28 July 1977	10,000,000	25,000,000	6,984,000	20,952,000	20,952,000	Bonus
27 July 1978	5,000,000	30,000,000	8,381,000	29,333,000	29,333,000	Bonus
28 Dec 1978	10,000,000	40,000,000	-	29,333,000	29,333,000	-
26 July 1979	10,000,000	50,000,000	14,666,200	43,999,200	43,999,200	Bonus
24 July 1980	-	70,000,000	9,262,990	55,577,937	55,577,937	Bonus
26 July 1980	20,000,000	70,000,000	2,315,747	46,314,947	46,314,947	-
29 Apr 1981	-	70,000,000	5,557,792	61,135,729	61,135,729	Bonus
29 Apr 1982	50,000,000	150,000,000	-	61,135,729	61,135,729	-
16 Apr 1986	-	150,000,000	6,113,574	67,249,303	67,249,303	Bonus
9 Apr 1987	-	150,000,000	13,449,862	80,699,165	80,699,165	Bonus
8 Apr 1988	-	150,000,000	-	80,699,165	80,699,165	-
27 Apr 1989	-	150,000,000	-	80,699,165	161,398,330	Stock split from ₦1.00 to 50 kobo
26 Apr 1990	-	150,000,000	-	80,699,165	161,398,330	-
26 Apr 1991	-	150,000,000	-	80,699,165	161,398,330	-
27 Apr 1992	-	150,000,000	-	80,699,165	161,398,330	-
29 Apr 1993	-	150,000,000	26,899,721	107,598,886	215,197,772	Bonus
28 Apr 1994	150,000,000	300,000,000	107,598,882	215,197,768	430,395,536	Bonus
25 Apr 1995	-	300,000,000	53,799,441	268,997,209	537,994,418	Bonus
25 Apr 1996	-	300,000,000	67,249,301	336,246,510	672,493,020	Bonus
22 May 1997	700,000,000	1,000,000,000	1,000,000,000	436,246,510	872,493,020	Cash
22 May 1997	-	1,000,000,000	84,061,627	520,308,137	1,040,616,274	Bonus
23 July 1998	-	1,000,000,000	130,077,034	650,385,171	1,300,770,342	Bonus
27 July 2000	-	1,000,000,000	162,596,292	812,981,463	1,625,962,926	Bonus
26 July 2001	2,000,000,000	3,000,000,000	203,245,365	1,016,226,828	2,032,453,656	Bonus
31 July 2002	-	3,000,000,000	254,056,705	1,270,283,533	2,540,567,066	Bonus
31 July 2003	-	3,000,000,000	254,056,705	1,524,340,238	3,048,680,476	Bonus
19 Nov 2003	-	3,000,000,000	254,056,705	1,778,396,943	3,556,793,886	Cash
19 Aug 2004	-	3,000,000,000	222,299,589	2,000,696,532	4,001,393,063	Bonus
20 Jun 2005	-	3,000,000,000	500,174,160	2,500,870,692	5,001,741,383	Bonus
3 Jan 2006	-	-	20,009,495	2,520,880,187	5,041,760,373	FBN Holdings Plc shares issued in exchange for minority shares in FBN merchant bankers
3 Jan 2006	-	-	64,196,005	2,585,076,192	5,170,152,383	FBN Holdings Plc shares issued in exchange for MBC shares
3 Jan 2006	-	-	34,258,503	2,619,334,694	5,238,669,388	FBN Holdings Plc shares issued to majority shareholders in FBN merchant bank arising from the consolidation
24 Aug 2006	7,000,000,000	10,000,000,000	2,619,334,694	5,238,669,388	10,477,338,776	Increase/Bonus
22 Aug 2007	-	-	873,111,565	6,111,780,953	12,223,561,906	Bonus
1 July 2007	-	-	3,833,235,233	9,945,016,186	19,890,032,371	2007 hybrid offer
22 Aug 2008	5,000,000,000	15,000,000,000	2,486,254,046	12,431,270,232	24,862,540,463	Bonus
20 Aug 2009	-	15,000,000,000	2,487,000,000	4,143,756,743	29,006,297,206	Bonus (1 for 6)
27 Aug 2010			-	3,625,787,150	32,632,084,356	Bonus (1 for 8)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the second Annual General Meeting of members of FBN HOLDINGS PLC will be held at the Grand Ballroom, Oriental Hotel, 3 Lekki Road, Victoria Island, Lagos on Thursday 22 May 2014 at 10.00am to transact the following:

ORDINARY BUSINESS:

1. To receive the audited accounts for the year ended 31 December 2013 together with the reports of the Directors, Auditors and Audit Committee thereon;
2. To declare a dividend;
3. To re-elect retiring Directors:
   Pursuant to Section 256 of the Companies and Allied Matters Act, special notice is hereby given that Lt General Garba Duba, rtd, and Dr Oba Otudeko, CFR, who are eligible for re-election, are over 70 years old.
4. To approve the remuneration of Directors;
5. To appoint PwC as a single Auditor;
6. To authorise the Directors to fix the remuneration of the Auditors; and
7. To elect members of the Audit Committee.

PROXY

A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a Proxy to attend and vote in his stead. A Proxy need not also be a member. A proxy form is at the end of the financial statements. All instruments of proxy should be duly stamped at the Stamp Duties Office and deposited at the registered office of the Company or the Office of the Registrar, Plot 2, Abebe Village Road, Iganmu, Lagos not later than 48 hours before the time for holding the meeting.

DIVIDEND WARRANTS

If the dividend recommended by the Directors is approved by members at the Annual General Meeting, the dividend warrants will be posted on 26 May 2014 to members whose names appear in the register of members at the close of business on 2 May 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members and transfer books of the Company will be closed from 5 May to 9 May 2014 (both dates inclusive) for the purpose of payment of dividend.

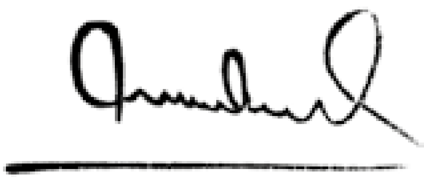
E-REPORT

In order to improve delivery of our Annual Reports, we have inserted a detachable form to the Annual Report and hereby request that shareholders who wish to receive the Annual Report and other statutory reports of FBN Holdings Plc in electronic format should complete and return the form to the Registrars or Company Secretary for further processing.

NOTES ON AUDIT COMMITTEE

In accordance with Section 359(5) of the Companies and Allied Matters Act Cap C20 Laws of the Federation of Nigeria 2004, any shareholder may nominate another shareholder for appointment to the Audit Committee. Such nomination should be in writing and must reach the Company Secretary not less than 21 days before the Annual General Meeting. The Central Bank of Nigeria's Code of Corporate Governance had indicated that some of the members of the Audit Committee should be knowledgeable in internal control processes. We would therefore request that nominations should be accompanied by a copy of the nominee's Curriculum Vitae.

BY ORDER OF THE BOARD



Tijjani Borodo
Company Secretary
35 Marina, Lagos
Dated this 25th day of March 2014

ELECTRONIC ANNUAL REPORT REQUEST FORM

*Name of shareholder ....

*Email address ....

IMPORTANT

Please insert your name and email address in BLOCK CAPITALS where asterisked.

Please note that email addresses will not be used for any purpose other than communicating with you as a shareholder.

First Registrars

PROXY FORM FBN HOLDINGS PLC (RC 916455)

Second Annual General Meeting to be held at the Grand Ballroom, Oriental Hotel, 3 Lekki Road, Victoria Island, Lagos on Thursday 22 May 2014 at 10.00am.

*"I/We ....
(Name of shareholder in block letters)

The undersigned, being a member/members of the above named Company hereby appoint the Chairman of the meeting or failing him

....
as my/our Proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 22 May 2014 and at any adjournment thereof.

Unless otherwise instructed, the Proxy will vote or abstain from voting as he/she thinks fit.

Dated this .... day of 2014

Signature ....

NOTES:

1. This form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarial certified copy thereof must reach the Registrar, **First Registrars Nigeria Limited, Plot 2, Abebe Village Road, Iganmu, Lagos,** not later than 48 hours before the time for holding the meeting.
2. Where the appointer is a corporation, this form may be under seal or under the hand of any officer or attorney duly authorised.
3. This proxy will be used only in the event of poll being directed, or demanded.
4. In the case of joint holders, the signature of any one of them will suffice, but the names of all joint holders should be shown.
5. It is a legal requirement that all instruments of proxy must bear appropriate stamp duty (currently ₦500.00) from the Stamp Duties Office, and not adhesive postage stamps.

I/We desire this Proxy to be used in favour of/or against the resolution as indicated alongside.

RESOLUTION	FOR	AGAINST
1) To receive the audited accounts, Directors', Auditors' and Audit Committee Reports		
2) To approve dividends		
3) To re-elect retiring Directors		
4) To approve the remuneration of Directors		
5) To appoint PwC as a single Auditor		
6) To authorise the Directors to fix the remuneration of the Auditor		
7) To elect members of the Audit Committee		

Please indicate with 'X' in the appropriate box how you wish your vote to be cast on the resolutions set out above. Unless otherwise instructed, the Proxy will vote or abstain from voting at his/her discretion.

Before posting the above form please tear off this part and retain it for admission to the meeting.

ADMISSION FORM FBN HOLDINGS PLC (RC 916455)

SECOND ANNUAL GENERAL MEETING TO BE HELD at the Grand Ballroom, Oriental Hotel, 3 Lekki Road, Victoria Island, Lagos on Thursday 22 May 2014 at 10.00am.

*Name of shareholder ....

*Name of Proxy ....

IF YOU ARE UNABLE TO ATTEND THE MEETING

A member (shareholder) entitled to attend and vote is entitled to appoint one or more Proxies to attend and vote instead of him. A Proxy need not be a member. The above proxy form has been prepared to enable you to exercise your right to vote.

IMPORTANT

Please insert your name in BLOCK CAPITALS on both proxy and admission forms where asterisked. Insert the name of any person whether a member of the Company or not, with the exception of the Chairman of the Company, who will attend the meeting and vote on your behalf.

First Registrars

E-PRODUCTS ACTIVATION FORM

1. Complete, sign and date the form
2. Fill out all compulsory (*) fields
3. Fill out in CAPITAL LETTERS

You need not worry about the safety of your shares anymore, simply stay aboard with our e-products and services.

E-share notifier SMS alert on transactions that occur on your share account (AGM and EGM, dividend payments, bonuses, debits/credits etc.)

Online access Online access to your share account statements. You can view and print your account statement, make a change of address and access dividend info etc.

M-access Smart way to access your stock balances, dividend amount etc., via SMS on your mobile phone. Simply send your assigned PIN to 6591. The service is available only in Nigeria and attracts ₦20/SMS by network operator.

FirstDividend Card FirstDividend plus prepaid card is a premium prepaid card issued to shareholders into which dividend amounts due to them are automatically loaded/credited on the payable date. The charge is ₦600 per card (production fee). For more information visit our website https://www.firstregistrarsnigeria.com/download.aspxl to download the activation form.

INSTRUCTION

Please fill in the form and return to the address below:

THE REGISTRARS

First Registrars Nigeria Ltd, 2 Abebe Village Road, Iganmu, PMB 12692, Lagos, Nigeria

SHAREHOLDER ACCOUNT INFORMATION

Surname* First name* Other names

Address line 1*

Address line 2

City State* Country

GSM no (Mobile)* GSM no (Telephone)*

Email address*

Signature(s)* Corporate stamp/seal*

CHARGES:

Individual: ₦1,000 per annum/product
Corporate bodies: ₦2,000 per annum/product

Please tick (✓) the product(s) you are activating.
All payments should be made into each product's account number respectively:

- [ ] E-share notifier activation Account No. **2013302579**
- [ ] Online access activation Account No. **2013798370**
- [ ] M-access activation Account No. **2011760908**

in any FirstBank branch nationwide and a copy of the payment slip attached to this form upon submission.

First Registrars

STOCKBROKER E-LODGEMENT ACTIVATION FORM (FBN HOLDINGS PLC)

To:
The Registrar
First Registrars Nigeria Limited
Plot 2, Abebe Village Road
Iganmu, PMB 12692
Marina, Lagos
Nigeria

Seamless access to all lodgements to First Registrars and those items verified and sent to Central Securities Clearing Services (CSCS).

FOR STOCKBROKERS ONLY

Important! The form should be completed in CAPITAL LETTERS using a black or dark blue ballpoint/fountain pen. Characters and numbers should be similar in style to the following:

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z 0 1 2 3 4 5

Please fill in the form and return to the address above.

Name of Stockbroker ....

Address ....

....

....

....

Mobile phone ....

Email ....

Authorised signatory/seal ....

ACTIVATION FEE:

₦25,000 per annum

NOTE

All payments should be made to account no. 1912030017727 in any FirstBank branch nationwide and a copy of the payment slip attached to this form upon submission.

GLOSSARY OF RATIOS

RATIO		BASIS OF COMPUTATION	
Average cost of deposits	=	Interest expense (on deposits) / Average deposit (i.e. opening + closing balance)/2	
Basic earnings per share	=	Profit attributable to ordinary shareholders (after deduction of debenture interest and tax) / Weighted average no. of shares in issue	
Cost of borrowed funds	=	Expense on borrowed funds / Average borrowed funds (opening + closing)/2	
Cost of funds	=	Interest expense / Average interest-bearing liabilities (opening + closing)/2	
Cost of interbank takings	=	Interest expense on interbank takings / Average interbank takings (opening + closing)/2	
Cost of managed funds	=	Expense on managed funds / Liabilities on investment contracts	
Cost of risk	=	Loan loss expense / Average loans	
Cost to income ratio (1)	=	Total cost (interest expense, operating cost before loan loss expense) / Gross earnings	
Cost to income ratio (2)	=	Total overhead cost (operating cost before loan loss expense) / Total net revenue	
Debt to capital	=	Long-term debt / Long-term debt + equity	
Debt to EBITDA	=	Long-term debt / Operating income	
Gearing ratio	=	Long-term debt / Total shareholders' funds	
Interest earning assets	=	Due from other banks + treasury bills + trading securities (bonds) + loans and advances	
Leverage	=	Total assets / Total shareholders' funds	
Liquidity ratio	=	Liquid assets / Deposit liabilities (as prescribed by the CBN)	
Loan to deposit ratio	=	Total loans / Total deposit	
Marginal cost of fund	=	Increase in interest expense during the month / Increase in average deposits during the same month (annualised)	
Net interest margin (1)	=	Net interest income / Average interest-earning assets (i.e. opening + closing)	
Net interest margin (2)	=	Net interest income / Total interest income	
Net loans	=	Gross loans – loan loss provision	
Net revenue	=	Net interest income + net fee and commission income + other income	
Net revenue from funds	=	Interest income – (interest expense + loan expense)	
Non-performing loans (NPL) coverage	=	Loan loss provision (including interest in suspense) / Gross NPLs	
NPL ratio	=	NPL / Gross loans	
Operating profit margin	=	Operating profit / Gross earnings	
Pre-provision operating profit	=	Operating profit + impairment charge on credit losses / Impairment charge on credit losses	
Provisioning level (NPL coverage)	=	Total provision / Total NPL	
Return on average assets	=	Profit after tax (PAT) / Average total assets	x 100
Return on average equity	=	PAT / Average total equity	x 100

RATIO		BASIS OF COMPUTATION
Risk asset ratio	=	Total loans / Total assets
Risk-weighted assets*	=	Assets x weight of risks x 100
Tier 1 ratio	=	Total tier 1 capital / Risk-weighted assets
Tier 2 ratio	=	Total tier 2 capital / Risk-weighted assets
Total capital adequacy ratio	=	Total qualifying capital / Risk-weighted assets
Yield on interest earning assets	=	Interest income / Average interest earning assets

*Risk asset is computed using risk weights supplied by CBN/Basel.

ABBREVIATIONS

AC	Audit Committee
AFS	Available for sale
AGM	Annual General Meeting
ALCO	Assets & Liabilities Management Committee
AI	Alternative investment
ALM	Asset liability management
AMCON	Asset Management Corporation of Nigeria
AML	Anti Money Laundering
AOB	Any other business
AOM	Area Operations Manager
APS	Advance Payment System
ASI	All Share Index
ATM	Automated teller machine
AUM	Assets under management
AURR	Additional unexpired risk reserve
BARAC	Board Audit & Risk Assessment Committee
BC	Board Committee
BCC	Board Credit Committee
BCMS	Business Continuity Management System
BDM	Business Development Manager
BDO	Business Development Office
BEC	Board Establishment Committee
BFGP	Board Finance and General Purpose Committee
BGC	Board Governance Committee
BGCI	Board Governance Committee (in attendance)
BIC	Banque Internationale de Crédit SARL
BOD	Board of Directors
BOFIA	Bank and Other Financial Institutions Act
BOM	Branch Operations Manager
BPC	Board Promotions and Disciplinary Committee
BRCC	Business Risk and Compliance Committee
BT	Board Tenders Committee
BU	Business Units
CAAP	Control Administrative and Accounting Procedure
CACS	Commercial Agriculture Credit Scheme
CAGR	Cumulative Annual Growth Rate
CAM	Classified Assets Management
CAMA	Companies and Allied Matters Act
CAP	Credit Analysis & Processing
CAR	Capital adequacy ratio
CASA	Current and savings accounts
CBG	Corporate Banking Group
CBN	Central Bank of Nigeria
CCO	Chief Compliance Officer
CCTV	Closed-circuit television
CEO	Chief Executive Officer
CFP	Contingency funding plan
CFT	Countering the Financing of Terrorism
CGU	Cash-generating units
CIS	Collective investment schemes
COE	Centre of Excellence
COP	Communication on progress
COSO	Committee of Sponsoring Organisation
COT	Commission on turnover
CPC	Centralised Processing Centre
CPFA	Closed Pension Fund Administrator
CPI	Consumer Price Index
CRM	Credit Risk Management
CRO	Chief Risk Officer
CRR	Cash reserve ratio
CRSA	Control risk self-assessment
CSCS	Central Securities Clearing System
CSR	Corporate social responsibility
DISCO	Distribution Company
DNFBPs	Designated non-financial businesses and professionals
DRC	Democratic Republic of Congo
DRCe	Disaster Recovery Centre
EaR	Earnings at risk
E & S	Environmental and Social
EBITDA	Earnings Before Interest, Tax, Depreciation & Amortisation
ECA	Export Credit Agencies
ECM	Equity capital markets
ED	Executive Director
EGM	Extraordinary General Meeting
EME	Emerging Market Economies
EMTS	Emerging Markets Telecommunication Services (Etisalat)
EPS	Earnings per share
EV	Enterprise Value
EVP	Executive Vice President
EVPs	Employee Value Propositions
EVS	Employee Volunteering Scheme
EXCO	Executive Committee

FATCA	Foreign Account Tax Compliance Act
FBN BDC	FBN Bureau de Change Ltd
FBNH	FBN Holdings
FBN MFB	FBN Microfinance Bank Limited
FBN UK	FBN Bank (UK) Ltd
FBNCAM	FBN Capital Asset Management
FCT	Federal Capital Territory
FFL	First Funds Ltd
FGN	Federal Government of Nigeria
FIRS	Federal Inland Revenue Service
FMAN	Fund Managers Association of Nigeria
FMCG	Fast-moving consumer goods
FMS	Fleet management system
FPCNL	First Pension Custodian Nigeria Limited
FRNL	First Registrars Nigeria Ltd
FRR	Facility risk rating
FSA	Financial Services Authority
FSRCC	Financial Sector Regulatory Coordinating Committee
FSS	Financial System Strategy
FTNL	First Trustees Nigeria Ltd
FX	Foreign exchange
GDP	Gross Domestic Product
GDR	Global depositary receipt
GEC	Group Executive Committee
GMD	Group Managing Director
GPI	Gross premium income
HCMD	Human Capital Management and Development
HNI	High net worth individual
HR	Human Resources
HTM	Held to maturity
IBAM	Investment Banking and Asset Management
IBG	Institutional Banking Group
IBNR	Incurred but not reported
ICAFAS	Internal Control & Anti-Fraud Automated Solution
ICAN	Institute of Chartered Accountants of Nigeria
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IGR	Internal Generated Revenue
IGRC	Integrated Governance, Risks and Compliance
IMF	International Monetary Fund
IOC	International Oil Company
IRS	Internal Revenue Service
ISF	Information Security Forum
ISMD	Information Security Management Department
ISMS	Information Security Management System
ISO	International Organization for Standardization
IR	Investor Relations
IT	Information technology
ITF	Industrial Training Fund
JAMB	Joint Admissions and Matriculation Board
JCEs	Jointly controlled entities
KPI	Key Performance Indicator
KRI	Key risk indicator
KYB	Know Your Customer's Business
KYC	Know Your Customer
L&D	Learning and Development
LAD	Loans and advances
LASACS	Large Scale Agricultural Credit Scheme
LASG	Lagos State Government
LASMI	Lagos State Microfinance Institution
LDR	Loan to Deposit Ratio
LEAP	League of Abiriba Professionals
LGD	Loss given default
LRP	Liquidity Risks Package
M&A	Mergers & Acquisitions
MANCO	Management Committee
MATs	Management Action Triggers
MBC	MBC International Bank
mb/d	Million barrels a day
MCC	Management Committee Credit
MCG	Management Committee General
MDAs	Ministries, departments and agencies
MDRI	Market Development and Restructuring Initiatives
MDSA	My Daily Savings Account
MENA	Middle East and North Africa
MFBs	Microfinance Banks
MGC	Management General Committee
MPC	Monetary Policy Committee
MPR	Monetary policy rate
MRAC	Management Risk and Assessment Committee
MRLP	Market Risk Limits Package
MRPC	Market Risk Policy Committee

₦	Naira
NAICOM	National Insurance Commission
NASB	Nigerian Accounting Standards Board
NBFS	Non-banking financial services
NBS	National Bureau of Statistics
NDDC	Niger Delta Development Commission
NDIC	Nigeria Deposit Insurance Corporation
NED	Non-Executive Directors
NESG	Nigeria Economic Summit Group
NFIU	Non-Financial Institutions Unit
NGN	Nigerian naira
NGO	Non-governmental organisation
NIM	Net interest margins
NLI	Nigeria Leadership Initiative
NPL	Non-performing loan
NSE	Nigerian Stock Exchange
OECD	Organisation for Economic Cooperation and Development
OFR	Officer of the Federal Republic
OPEX	Operating expenditure
OPL	Open Position Limit
ORM	Operational Risk Management
ORMC	Operational Risk Management Committee
ORR	Obligor risk rating
OTC	Over The Counter
P&L	Profit and Loss Account
PAT	Profit after tax
PAR	Portfolio At Risk
PBOC	People's Bank of China
PBT	Profit before tax
PCI DSS	Payment Card Industry Data Security Standard
PD	Probability of default
PDCA	Plan-Do-Check-Act
PE	Private equity
PFA	Pension fund administrator
PFMS	People First Management System
PFP	Pay for Performance
PFR	Pay for Role
PIB	Petroleum Industry Bill
PMBs	Primary Mortgage Banks
POS	Point of sale
PPP	Public Private Partnership
PSQA	Process and service quality assurance
QSP	Quick service points
RBS	Risk Based Supervision
RCSA	Risk and control self-assessment
RDAS	Retail Dutch Auction System
RICO	Resident Internal Control Officer
RM	Relationship Manager
RMA	Relationship Management Application
RMD	Risk Management Directorate
RMU	Remedial Management Unit
ROE	Return on Equity
ROM	Regional Operations Manager
RSA	Retirement Savings Accounts
RTGS	Real Time Gross Settlement System
RTU	Risk Taking Unit
RUFFIN	Rural Finance Institution
SAC	Statutory Audit Committee
SAS	Statistical analysis software
SBU	Strategic Business Unit
SCUML	Special Control Unit on Money Laundering
SEC	Securities and Exchange Commission
SIFE	Students in Free Enterprise
SLA	Service level agreement
SLD	Specialised Lending Department
SME	Small and Medium Enterprises
SMEEIS	Small and Medium Enterprises Equity Investment Scheme
SMS	Short Message Service
SPV	Special Purpose Vehicles
SRF	Strategic Resource Function
SSA	Sub-Saharan Africa
SUBCO	Subsidiary Company
TAT	Turnaround time
TRAP	Triggers for Accrual Portfolios
UAT	User acceptance testing
UPR	Unexpired premium reserve
VaR	Value-at-risk
VIF	Value of in-force
WARR	Weighted Risk Rating

CONTACT INFORMATION

	BUSINESS ADDRESS	TELEPHONE NUMBER
SUBSIDIARY		
First Bank of Nigeria Limited	35, Samuel Asabia House, Marina, Lagos	0700 FIRSTCONTACT, +234 1 4485500
FBN Bank (UK) Limited	28, Finsbury Circus, London, EC2M 7DT, England, UK	+44 207 920 4920
Banque Internationale de Crédit	191, Avenue de L'Equateur, Kinshasa/Gombe, DRC	+243 0 818 996625, +243 0 970 043567
FBN Capital Limited	16 Keffi Street, Ikoyi, Lagos	+234 1 2707180-9
First Pension Custodian Nigeria Limited	124 Awolowo Road, Ikoyi, Lagos	+234 1 2713217-9
FBN Mortgages Limited	76, Awolowo Road, Ikoyi, Lagos	+234 1 4615860-2
First Trustees Nigeria Limited	A G Leventis Building, 2nd Floor, 42/43 Marina, Lagos	+234 1 4622673, 01 4605120
FBN Insurance Limited	34 Marina Old Nipost Building, Marina, Lagos	+234 1 4622182, +234 0 8080479319
FBN Microfinance Bank Limited	305 Herbert Macaulay Way, Yaba, Lagos	+234 1 8501505, +234 0 8159393199
FBN Insurance Brokers Limited	9/11 Macarthy Street, Onikan, Lagos	+234 1 2660498, 4709090, 2631165, 4622181-5
FBN Securities Limited	16 Keffi Street, Ikoyi, Lagos	+234 1 2707180-9
First Funds Limited	90 Awolowo Road, South-West, Ikoyi, Lagos	+234 1 2793910-9
International Commercial Bank Limited Ghana	Meridian House, Ring Road Central, Private Mail Bag No. 16, Accra North, Accra, Ghana	+233 302 236 136 / 235819
International Commercial Bank S.A. Guinea	Ex-cite Chemin de Fer, Immeuble Mamou, BP 3547, Conakry, Republic of Guinea	+224 664535353, +224 657256667, +224 657 32 11 05
International Commercial Bank (Sierra Leone) Ltd	22, Rawdon Street, Freetown, Sierra Leone	Mobile: +232 76 741 737, +232 22222877, +232 22222273, +232 22222814
International Commercial Bank (Gambia) Ltd	48, GIEPA House, KSMD, P.O. Box 1600, Banjul, The Gambia	+220 7993501, +220 3366144, +220 9966144, +220 4397230
FIRSTBANK REPRESENTATIVE OFFICES		
South Africa Rep. Office	The Forum Building, 10th Floor No. 2 Maude Street, Sandton 2146, Johannesburg, South Africa	+27 11 7849922
Beijing Rep. Office	Unit 1431, Tower B COFCO Plaza No. 8 Jianguomennei Street, Dong Cheing District, Beijing, China	+86 10 65286820
UAE Rep. Office	Salam HQ Plot No. C6, Sector E, Abu Dhabi, UAE	+97 02 43319915, +97 5092777394

FBNHoldings

CONTACT DETAILS AND FEEDBACK

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Oluyemisi Lanre-Phillips
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Tel: +234 1 9052720

SHAREHOLDER ENQUIRIES

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CUSTOMER ENQUIRIES

Email: firstcontact@firstbanknigeria.com
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Tel: +234 708 0625000

REGISTERED ADDRESS

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Lagos
PO Box 5216
Nigeria

Registration No. RC916445

www.fbnholdings.com

www.fbnholdings.com/annualreport/2013