FirstBank
Since 1894

FIRST BANK OF NIGERIA LTD
ANNUAL REPORT AND ACCOUNTS 2012

NIGERIA LONDON JOHANNESBURG PARIS BEIJING ABU DHABI DEMOCRATIC REPUBLIC OF CONGO

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One journey. One business.

This report, along with the FBN Holdings Annual Report, is available to download at

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Download FBN Holdings Plc subsidiary reports

For further information, you can also view annual reports from our other subsidiary businesses at **www.fbnholdings.com/annualreport/2012**

First Bank of Nigeria Limited – Annual Report 2012

The term 'FBN Holdings Plc' or the 'Group' means FBN Holdings together with its subsidiaries, which include First Bank of Nigeria Ltd. FBN Holdings Plc is a non-operating holding legal entity 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). FBN Holdings Plc is the parent company of all companies in the FirstBank Group. 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 is composed of First Bank of Nigeria Ltd, FBN Bank (UK) Limited, FBN Bureau de Change Limited, Banque Internationale de Crédit (BIC), First Pension Custodian Nigeria Limited and FBN Mortgages Limited. First Bank of Nigeria Ltd is the lead entity of the Commercial Banking group.
- The 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 houses FBN Life Assurance Limited and FBN Insurance Brokers Limited.
- Other Financial Services include FBN Microfinance Bank Limited.

This report encompasses First Bank of Nigeria Ltd. It is the first annual report prepared under the International Financial Reporting Standards, which the Company has adopted. Consequently, prior year results have been restated to be consistent with this reporting standard. Unless otherwise stated, the income statement analysis compares the 12 months to December 2012 to the corresponding 12 months of 2011, and the balance sheet comparison relates to the corresponding position at 31 December 2011. 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 (IFRS) are explained in the glossary or abbreviation section of this report. This report is also available online at www.fbnholdings.com.

There is an option to view the HTML format of the FBN Holdings Plc report at www.fbnholdings.com/annualreport/ with the option to view a navigable PDF copy of this report as well as standard PDFs of other subsidiary reports at the download centre. A CD containing the annual report and accounts for FBN Holdings Plc and First Bank of Nigeria Ltd, as well as information on outstanding dividend claims and a list of all our business locations is available on request by contacting FBN Holdings Plc Investor Relations department, Samuel Asabia House, 35 Marina Street, Lagos.

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Introduction

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The financial year ended 31 December 2012 marked the end of a journey as FirstBank migrated to FBN Holdings Plc, becoming the ultimate parent company of all companies in the FirstBank Group, including FirstBank.

Business group structure

FirstBank is the largest banking group by assets in Sub-Saharan Africa excluding South Africa, offering banking services to a rich network of both individual customers and businesses.

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Strategy summary

Our Nigerian banking business has a strategy focused on building an efficient and customer-focused bank, which will deliver strong and sustainable shareholder returns.

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Board of Directors

The Board as a whole is responsible for the oversight of management on behalf of the Company's shareholders.

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Business group overview

Business group structure

First Bank of Nigeria Ltd (FirstBank) is the largest banking group by assets in Sub-Saharan Africa (SSA)[1] offering banking services to a rich network of both individual customers and businesses. First Bank of Nigeria Ltd represents the main legal entity and previously played an operating holding company function before the implementation of FBN Holdings.

Other entities under FirstBank include FBN Bank (UK) Ltd – a fully licensed bank in the UK with representative offices 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; and First Pension Custodian Ltd (First Pension), providing pension fund custody services. Other subsidiaries include FBN Bureau de Change which holds a Class B bureau de change licence and FBN Mortgages, a primary mortgage institution. During the year, FirstBank pursued the existing strategy focused on delivering profitable growth and industry leadership. At the onset of the current planning cycle, we prioritised the large-scale structural changes designed to accelerate growth. This includes a re-structuring of our (Holding) Group operating model with the set-up of a non-operating holding company under which the Commercial Banking business group operates. In addition, we aligned our core banking business along customer segments to drive specialisation. With the right structure in place, we have now focused on the next level of growth and efficiency initiatives.

1 Excluding South Africa i.e., 'middle Africa'.
2 FBN Mortgages will now be retained as a subsidiary of First Bank of Nigeria.

Business group overview

Business group structure

Within the dominant banking business, we concentrated our talents on a narrow list of high-value strategic levers (both financial and non-financial) aimed primarily at optimising shareholder returns. Each of the Strategic Business Units (SBUs) in turn also identified key value drivers within the respective customer segments. As we look ahead, we are shifting focus to the more granular details of the Bank's strategy as well as key growth areas in the economy, namely retail banking and middle market banking. Key enablers to capturing these opportunities are in line with the current strategic focus on service excellence, credit quality/process excellence, and talent. In 2013, we will begin planning towards our next strategy cycle i.e., 2014 – 2016, with a goal of calibrating our corporate and SBU strategies in line with expected projections on the future performance of the industry.

The Nigerian banking business operates nationally and boasts of a customer base of over 8.5 million served through a large distribution network consisting of 714 branches, 1,865 ATMs, and 18,581 point-of-sale terminals (POS). Under FBN Holdings Plc, FirstBank represents 90% of pre-tax profit at ₦83 billion with a return on equity (ROE) of 19%. Headquartered in Lagos, FirstBank also has a network of representative offices in Abu Dhabi, Beijing and Johannesburg set up to capture trade-related businesses between respective geographies. Marketing activities are organised along five customer segments allowing for greater specialisation and an increased customer value proposition. These are:

- Corporate Banking SBU
- Institutional Banking SBU
- Private Banking SBU
- Public Sector SBU
- Retail Banking SBU

More information on each SBU and its performance during the year is presented on pages 67 to 78.

FBN Bank UK is headquartered in London and also operates a representative office in Paris. It offers a full suite of commercial banking services including personal banking, corporate banking and correspondent banking.

BIC is a recent addition to the banking portfolio with our acquisition of a 75% equity stake in the fourth quarter of 2011. BIC is the fifth largest commercial bank in DRC with total assets of ₦46 billion serving a total customer base of over 74,000.

Finally, we have First Pension Custodian Limited (FPCNL), which provides warehousing and asset management services to licensed pension fund managers.

FirstBank operating structure

FirstBank

Strategic Business Units

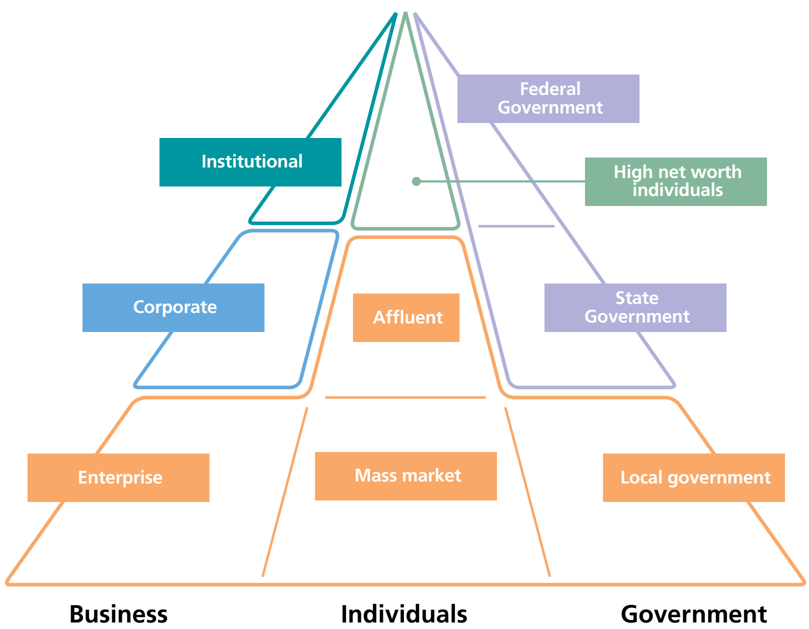
- Corporate Banking
- Institutional Banking
- Private Banking
- Public Sector
- Retail Banking

Strategic Resource Functions

Operations	General services
Finance	Marketing and corporate communications
Risk management	Corporate transformation
Company Secretary	Project implementation
Strategy and corporate development	Internal audit*
Legal services	e-business
Human capital management	Products and marketing support
International business group	Information technology

*Reports to Board of Directors via Board Audit & Risk Assessment Committee

FirstBank customer segments served by each Strategic Business Unit



Commercial Banking business group – performance highlights

First Bank of Nigeria Limited

Key highlights

- Strong deposit base of ₦2.2 trillion (+22%) reflecting strength of wide distribution platform.
- Net loans and advances to customers at ₦1.3 trillion (+15%) maintaining the lead as the biggest lender.
- Strong bottom line growth in profit before tax at ₦83.3 billion (+110%) driven by moderate growth in revenue and lower impairment charges.
- First West African bank to cross the five million card base mark.
- Launched FirstMonie®, a mobile money business to leverage our scale and retail knowledge in capturing the huge unbanked opportunity.

Net revenue
₦262.0 billion (2011: ₦220.7 billion)

NPL
2.8% (2011: 2.4%)

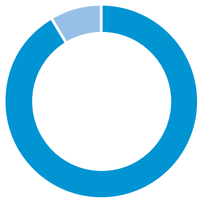
Cost to income
64% (2011: 60%)

ROaE
19% (2011: 5.8%)

Capital adequacy ratio
21.5% (2011:25.5%)

Number employed
7,920 (2011: 7,789)

Contribution



91.5%
of net revenue

FBN Bank (UK) Ltd

Key highlights

- Increase in deposit to ₦274.4 billion (+25%).
- Net loans to customers stood at ₦232.1 (+59%).
- Good returns as profitability increased by 48% to ₦6.4 billion resulting from increased business volume.
- Stricter regulatory environment as banks are required to hold more capital and liquidity to support operations.

Net revenue
₦11.8 billion (2011: ₦8.8 billion)

NPL
0.2% (2011: 0.6%)

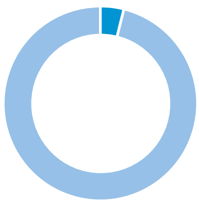
Cost to income
43% (2011: 47%)

ROaE
12.8% (2011: 11.4%)

Capital adequacy ratio
18.01% (2011: 16.9%)

Number employed
114 (2011: 89)

Contribution



4.1%
of net revenue

* Exchange rate as at December 2012 was ₦155.27 to USD 1 [₦251.06 to GBP 1], (December 2011 was ₦156.20 to USD 1 [₦241.56 to GBP 1]

Banque Internationale de Crédit

Key highlights

- Deposits size closing at ₦36.1 billion driven by acquisition of new corporate and retail clients with demand and savings constituting over 78%.
- Net loans to customers at ₦18.7 billion.
- ₦907 million in profit before tax.
- The region remains under banked creating avenues for good opportunities to be tapped as operating environment improves.
- Deployed market segmentation strategy aimed at appropriately targeting available market segments. Current portfolio is divided into wholesale (corporate and institutional clients), retail (mass market, SME, affluent and high net worth individuals) and public institutional clients.

Net revenue
₦7.9 billion (2011: 5.9%)

NPL
7% (2011: 11%)

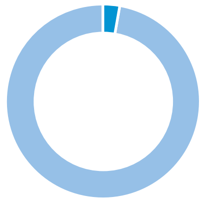
Cost to income
74%(2011: 65%)

ROaE
4% (2011: 6.5%)

Capital adequacy ratio
17.9% (2011: 18.4%)

Number employed
471

Contribution



2.8%
of net revenue

First Pension Custodian Ltd

Key highlights

- Record performance of ₦2.6 billion in total revenues (+50%) driven by inflow of new assets and 31% growth in market value of assets under custody.
- Grown custodial relationships to 15 pension fund custodians and three closed pension fund administrators.
- Holds 34% market share in pension fund custodian services.

Net revenue
₦2.6 billion(2011: ₦1.7 billion)

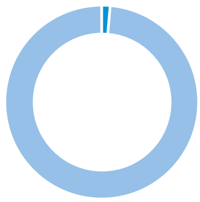
Assets under custody
₦1.1 trillion (2011: ₦0.8 trillion)

Cost to income
49% (2011: 53%)

ROaE
27.3% (2011: 18.9%)

Number employed
60 (2011: 58)

Contribution



0.9%
of net revenue

Business group overview
Business group structure

FBN Bureau de Change

Key highlights

- Remains customers' choice in timely and steady supply of foreign exchange.
- Regulatory pronouncement revises operating licence to Class B.

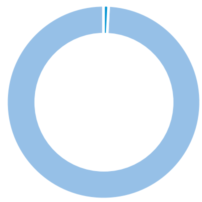
Net revenue
₦202.4 million (2011: ₦226.9 million)

Cost to income
67% (2011: 61%)

ROaE
11.1% (2011: 9.5%)

Number employed
8 (2011: 8)

Contribution



0.1%
of net revenue

FBN Mortgages

Key highlights

- Total customer deposits at ₦9.5 billion (-31.4%).
- Property inventories closed at ₦5.6 billion (-15.3%) while net loans to customers were ₦2.2 billion (-9.3%).
- Divestment from real estate investment for primary mortgage institutions.
- The glut in the high end real estate market has consistently forced down prices whilst high interest rates have not encouraged potential borrowers with adverse effect on mortgage lending.

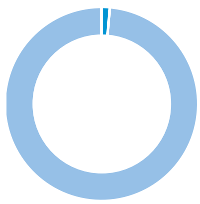
Net revenue
₦1.8 billion (2011: ₦2 billion)

Cost to income
38% (2011: 43%)

ROaE
36.3% (2011: 22.4%)

Number employed
34 (2011: 46)

Contribution



0.6%
of net revenue

The Nigerian financial services market remains one of the largest in the region and our business model and strategy have been designed to defend our current size advantage while extending our leadership along efficiency metrics. We believe that setting aspirational, yet attainable objectives and pursuing these in a disciplined fashion according to a robust, practical strategy will be central to our continued success as one of West Africa's largest and fastest-growing financial institutions.

Business group overview

Subsidiary business structure

FBN Bank (UK)

FBN Bank (UK) Ltd, a wholly owned subsidiary of First Bank of Nigeria Ltd, aspires to provide world-class international banking and trade services in support of commercial relations between Africa and the European Union (EU). It is an authorised banking institution regulated by the Financial Services Authority (FSA) and provides a range of domestic and international banking and financial services. The overall vision of the Bank is to continue to be the leading Nigerian-owned bank in the UK offering excellent services to African countries through the integration of various business units within the Group. To drive achievement of this goal, its operations are coordinated from its head office in London with a branch office in Paris to tap into the francophone opportunities.

FBN Bank (UK) Ltd has core competence in providing financial solutions for mid-tier to large corporates, operating specifically within or with the African market. FBN Bank (UK) Ltd's core target markets are affluent and high net worth individuals, mid-tier to large corporate institutions, financial institutions, government and parastatals. The Bank focuses on providing quality services to both new and existing customers; hence it targets customers with business interests all over the globe, but predominantly in Africa and Europe.

The principal activities are the provision of correspondent banking, corporate banking, structured trade commodity finance, private banking, property finance, structured finance and Treasury services to our clients.

Banque Internationale de Crédit (BIC)

Banque Internationale de Crédit Ltd is one of the leading commercial banks in the Democratic Republic of Congo (DRC). The Bank commenced business operations as Banque Internationale de Crédit in 1994, when a presidential approval was granted for the new institution to operate the old liquidated Barclays Bank licence it acquired. In late 2011, First Bank of Nigeria Ltd, as part of its regional expansion aspirations, acquired a controlling interest (75%) from Thorens Limited that controlled a 99.9% stake in Banque Internationale de Crédit.

Banque Internationale de Crédit is rated the fifth largest bank by assets size in the Democratic Republic of Congo. The Bank provides a wide range of financial solutions for individuals, SMEs, corporate institutions and public institutions operating in DRC. Its target markets are affluent and high net worth individuals, mass market, mid-tier to large corporate institutions and government institutions. The Bank focuses on banking solutions that provide lasting value to customers.

The principal activities are the provision of trade finance, project finance, Treasury, cards and other banking services to clients.

First Pension Custodian

First Pension Custodian Nigeria Ltd is a fully owned subsidiary of FirstBank, licensed in 2005, and one of the foremost pension custodians in the Nigerian pension industry.

First Pension Custodian Nigeria (FPCNL) offers services covering its assigned responsibilities under the Pension Reform Act 2004. These include, but are not limited to, pension contributions collection directly from employers on behalf of the pension fund administrators (PFAs) for the benefit of the contributors; investment transactions settlement; safe keeping of assets; corporate actions across all categories of assets; pensions and benefit payment nationwide; portfolio valuation; cash management; and performance measurement and compliance monitoring assistance. Its key focus in the business is delivering quality service that guarantees retention of our clients and possible acquisition.

FPCNL currently has custodial relationships with 15 pension fund custodians (PFCs) and three closed pension fund administrators (CPFAs) and holds about 34% share of the market.

FBN Bureau de Change

FBN Bureau de Change Ltd is a wholly owned subsidiary of First Bank of Nigeria Ltd and commenced business operations on 8 August 2006. It was established to engage in currency trading/bureau de change services in Nigeria. The company, situated at No 1–5 Odunlami Street, Lagos Island, Lagos, leverages on all First Bank of Nigeria Ltd business locations nationwide and in the diaspora to reach out to customers. FBN Bureau de Change is committed to a high level of business standards to meet the foreign exchange needs of its customers. It is uniquely positioned to meet the foreign exchange needs of customers for their personal and business travels, imports, school fees, credit cards and much more.

To better serve its customers, FBN Bureau de Change Ltd products/services cover both the visible and invisible foreign exchange transactions needs of customers. The visible transactions are cash-based transactions and target non-bank BDC outfits. The invisible transactions include basic travel allowance (BTA), personal travel allowance (PTA), school fee remittances, Master Card, medical bill payments and FX brokerage. The company's target markets are basically non-bank bureau de change firms, travellers and travelling agents, and remittances of school fees/credit card uploads.

FBN Mortgages

FBN Mortgages Ltd is a wholly owned subsidiary of First Bank of Nigeria Ltd, with its head office in Lagos and branches in Abuja and Port Harcourt.

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 is to provide integrated real estate and mortgage finance solutions.

The company is an innovative property development company, committed to excellence in contemporary design and construction, leading a team of professionals to deliver high-quality, tastefully finished properties in prime locations across the country. FBN Mortgages also provides integrated mortgage solutions to individuals, estate developers and property investors. It aims to take customers on the entire journey from provision of high-quality residential and commercial accommodation choices to facilitating acquisition via a wide range of innovative financial products and solutions across a wide spectrum. Its mortgage finance product and services offering includes mortgage refinancing, outright purchase mortgage, equity release mortgage, construction mortgage and balance transfer.

Business group overview

Business model summary

FirstBank is a leading Nigerian commercial banking group providing a range of banking and non-bank financial services to individual and corporate customers.

The business model for our banking services is designed around our deep capabilities in serving retail, corporate and public sector customers with a range of deposit, lending, transactional, trade and FX products. The primary source of income is derived from extending credit at a rate marginally above the cost of safeguarding deposits. To provide value to our customers, we leverage our strategic advantage in customer relationships, well-respected brand, and wide multi-channel distribution network. We have over 8.5 million customers with customer service driven by efficiency, and focused relationships being the key priority. We believe a customer-centric model will enable us to deliver sustainable value to our shareholders.

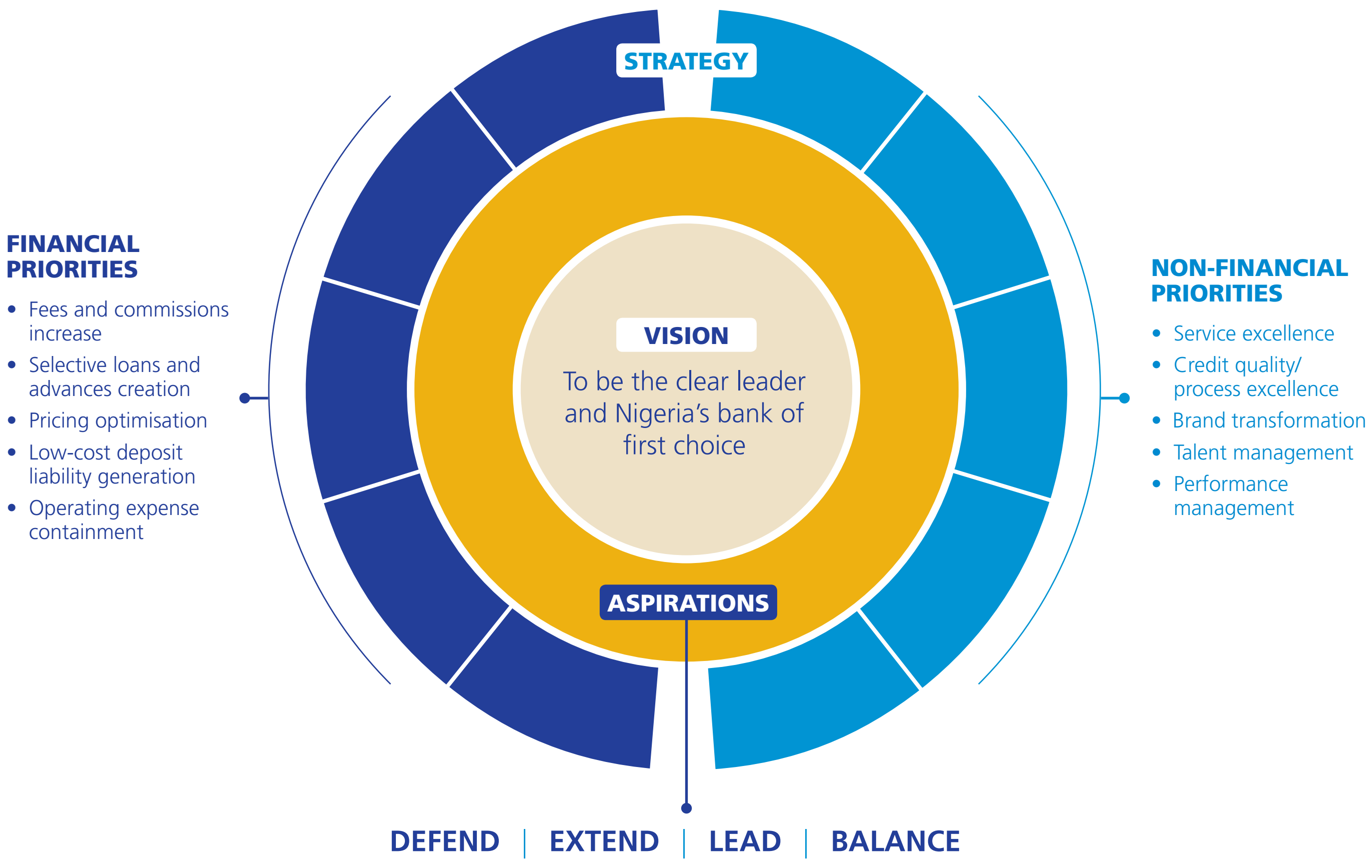
On the non-banking business, First Pension Custodian (FPC) provides custodian services to pension fund administrators. Income is mainly derived from custody fees driven by the market value of total custody assets. We also generate revenue from money market investments. The sustainability of this model stems from the high-quality (annuity type) income structure and the current regulation limiting pension scheme contributors from transferring between pension fund administrators (PFAs). Notwithstanding, FPC continues to drive a number of efficiency initiatives to optimise its cost profile.

The Nigerian financial services market remains one of the largest in the region and our business model and strategy has been designed to defend our current size advantage while extending our leadership along efficiency metrics.

Business group overview

Strategy summary

FirstBank strategy and vision



Our Nigerian banking business has a strategy focused on building an efficient and customer-focused bank, which will deliver strong sustainable shareholder returns. With a scale advantage developed over a long history of operations, we seek to develop a more service-oriented culture that rewards performance. Our size already provides tremendous economies of scale and scope leading to a cheaper funding structure and more customer relationships. Our strategy aims to redefine our leadership such that we are also the best in terms of customer value proposition, employee satisfaction, good governance and overall public image.

We have strengthened our platform and continue to drive productivity in key areas of our business. This includes restructuring our operating model to deepen customer specialisation; driving staff productivity by promoting a performance-based culture; expanding our product offerings to capture opportunities; and optimising our operations to increase automation and centralisation.

FirstBank corporate strategy

FINANCIAL PRIORITIES

- Fees and commissions increase
- Selective loans and advances creation
- Pricing optimisation
- Low-cost deposit liability generation
- Operating expense containment

STRATEGIC BUSINESS UNITS AND ROLES

I	**Institutional Banking**	Improved value proposition and tailored solutions to serve largest corporations
C	**Corporate Banking**	Lending at managed risk; improved penetration of mid-sized corporates
PS	**Public Sector**	Bank of choice for government bodies at the Federal and State levels
R	**Retail Banking**	Strong affluent/SME customer acquisition with continued deposit drive and credit expansion
P	**Private Banking**	Premium/differentiated sales and service model for high net worth individuals

NON-FINANCIAL PRIORITIES

- Service excellence
- Credit quality/ process excellence
- Brand transformation
- Talent management
- Performance management

Our strategy is aligned along financial and non-financial priorities.

Financial priorities

Enhance fee and commission income

Core non-interest income for the FirstBank Group was up 26% driven by higher transaction velocity on an expanded fee-based product portfolio. We also maintained our discipline for minimal fee waivers, keeping track of the overall yields on client relationships. We proactively drove innovation and stability on our channel network, particularly the electronic channels, providing customers with more efficient ways of executing their transactions. These include instant online interbank transfers on both local and foreign currency, cardless ATM withdrawals, and bill payments.

During the period under review, there was increased focus by the regulator on consumer protectionism resulting in the elimination of ATM charges on transactions performed on an external network. We expect this decision, approved by the industry's Bankers' Committee, to be the first in a series of downward reviews of non-interest income. While this will negatively impact our near-time revenues, we believe our customer-focused strategy and various efficiency initiatives will reverse the trend in the medium to long term. Going forward, we will focus on strengthening our fee-based electronic products such as trade finance, mobile money/payments, POS, funds transfer, etc. Pricing reviews may also be implemented as the value proposition of our alternative channels increase. Process automation for eligible banking transactions will be implemented to drive transaction volumes and lastly, stability and availability of our service delivery platforms will continue to be a priority.

Selective creation of loans/advances

Our strategy for credit expansion is aimed at higher penetration in consumer credit and the middle market corporates segment. Nigeria has a large, mostly unbanked adult population, making it an attractive retail banking market. An expanding middle class is also driving the attractiveness of the affluent segment.

We introduced a differentiated service model for the affluent segment of Retail Banking SBU and gained momentum in our newly launched emerging corporates business with net revenue closing at ₦6 billion driven by high customer acquisition and a more involved customer relationship model. The initial focus is on transaction income and consumer lending over the short to medium term. In addition, there will be continued emphasis on high-yielding short-term lending tied to fee sources (e.g., trade finance) versus term loans particularly in the SME and emerging corporates business.

Pricing optimisation

Net interest income grew by 27% to ₦218 billion driven by the higher interest rate environment which contributed to the growth in interest income from our fixed income portfolio (an incremental ₦39 billion in Treasury Bills and bonds). The pricing of the customer net loan portfolio was also enhanced due to improved concession management to limit leakages and our ability to maintain a healthy interest margin through asset re-pricing. We will continue to review our loan portfolio to ensure optimal asset allocation e.g., controlling higher-priced deposit growth and re-pricing the bottom quartile of borrowing customers taking into account the customer risk profile and total yields.

Low-cost deposit mobilisation

An aggressive mobilisation strategy resulted in ₦455 billion of additional core deposits with growth in (local currency) current account balances accounting for ₦66 billion and ₦123 billion in equivalent foreign currency deposits. However, our cost of funds increased to 2.4% (2011: 1.8%) due to the higher deposit volume and growth in term deposits. Notwithstanding, our cost advantage was unchanged considering that core deposits remain an important source of funding for new industry loans. FirstBank remains a safe place for customers' liquidity and we will also focus on other payments solutions to drive deposit growth such as collections, POS payments, etc.

Our distribution network grew to 714 branches, quick service points (QSPs) and agencies, following a disciplined strategy of profitable branch expansion designed to exploit gaps in client coverage. Our improved network strength will allow for more CASA (current account, savings account) growth, particularly in the SME and emerging corporates segment, and a strong platform to build a wide agency network for our mobile money business. In addition, the broad base of our customer relationships, cutting across individual retail, large and small corporates, and public sector, ensures that we will continue to enjoy a funding cost advantage within the industry.

Operating expenses (Opex) containment

Cost to income ratio closed the year at 65% (2011: 59.2%), mainly from growth in personnel costs, regulatory costs – AMCON and NDIC – as well as business maintenance and expansion costs (depreciation, advert and corporate promotions, insurance premiums, rent and rates). The increase in staff costs reflects both a head count increase (reflecting the integration of Banque Internationale de Crédit) as well as a one-off charge related to a staff rationalisation exercise during the first half. A key challenge going forward will be the increase in the industry-wide AMCON levy by an additional 20 bp (basis point). However, we are confident of further improvements to our cost profile as we focus on driving productivity in key areas of our business. This includes extending the positive trends in faster volume growth relative to operating expenses (i.e., a lower cost to serve) due to process automation; driving staff productivity by ensuring optimal manning levels across major functions; and generally optimising our spend.

Non-financial priorities

Service excellence

Apart from financial stability, customer service excellence and brand image remain a key driver of customer decisions. Our strategy is to drive operational excellence towards attaining a top three position in industry service levels/customer satisfaction across all customer segments. We have made impressive strides over the last four years in improving the overall service levels by ensuring strong linkages between efficiency initiatives and the customer experience. Highlights of our progress include expanded services on our alternative channels (i.e., ATM, POS, internet banking), and further enhancing our channel migration imperatives. We continue to roll out our centralised processing centre (CPC) to more branches on the network, adding new features along the way. Going forward, we will drive initiatives to improve employee incentives towards delivering excellent services; improve staff productivity by ensuring optimal branch manning levels; and enhance our online banking platform.

Credit quality/process excellence

We have strengthened the risk management frameworks within the Bank over the last few years. In particular, we reviewed the credit process for our institutional and corporate clients; tightened the overall risk selection criteria and improved controls; continued to focus on remedial management; and implemented a more proactive management of performing accounts. We recorded a 66% drop in loan loss expense and ended the year with a non-performing loan ratio of 2.6%, much better than the industry average. Going forward, a key focus of the Bank is the improvement in the asset quality of our loan portfolios and stabilising impairment charges.

Brand transformation

With its rich history and strong legacy, FirstBank has always enjoyed a high level of awareness among customers as a dependable, stable, old generation bank. As part of our strategy, we sought to improve our brand perception to increase conversion from 'Awareness' to 'Loyalty' and 'Advocacy'. This is the journey. Target customer segments include the youth and high net worth individuals (HNIs).

Our initial effort around transforming the brand was to create the proper structures and processes that will ensure we have the right framework and entrench the right culture for achieving this change. During the year, we re-branded close to 80 branches as part of an overall initiative to improve ambiance, resulting in triple digit growth in e-product sign-ups from greater product awareness. We launched the *Programme Switch* campaign off the highly successful *Did You Know?* campaign. Our future focus will be on implementing a corporate identify refresh for the Group brand as well as a brand quality assurance exercise to ensure uniform branding across all customer touchpoints.

Talent management

Building a leading banking group requires assembling a superior workforce at FirstBank by attracting, developing and retaining the best industry talent. During the current strategic cycle, we have implemented a number of initiatives towards this goal. This includes workforce planning/alignment and role grading, capability building in critical areas, HR systems/processes alignment with differing business needs, and an overall culture change. During the year, we earned the award of Best Indigenous Place to Work in line with our Employer of Choice Aspirations and completed a performance-based staff retrenchment exercise (affecting 8% of core staff) with an emphasis on up-scaling and improving staff productivity. Going forward, we will launch the knowledge management framework in our bid to effectively manage our corporate knowledge assets.

Performance management

To achieve our stated aspirations, we will align individual incentives with enterprise priorities and ensure accountability for commitments. Performance management is important at FirstBank and our process is embedded across the business, serving as a tool to ensure strong performance. This includes tight linkages with the consequence management systems, data integrity and executive support. The end game is to drive enhanced productivity, performance and profitability throughout the Bank. During the year, we launched performance score cards for head office personnel and launched our Oracle-based platform for automated dashboards and MIS reporting. Going forward, we will continue to refine the performance management system including automation on the platform.

Business group overview

2013 focus

We will consolidate the progress of the current strategic cycle, focusing on five key strategic imperatives over the next operating year even as we begin planning for the next cycle. Each theme serves as a commitment towards the Bank's priority areas over the next 12 months. As an institution, we have successfully completed a number of phases in our ongoing transformation and are now focused on the incremental, continual initiatives that will extend our industry-leading position.

Firstly, we would pursue growth in priority segments (i.e., Retail Banking and Emerging Corporates) and products (i.e., core deposits). The individual retail segment of our domestic market is still largely un-penetrated with a high degree of financial exclusion and a large parallel financial services market e.g., for savings. Key opportunities for FirstBank include mobile money and an enhanced value proposition for affluent, youth and SME segments. Within the middle markets corporate segment, our strategy will involve growing transaction-based income while ensuring a broad portfolio of lending clients with low individual exposures. Priority products remain core deposits, particularly higher margin demand and savings deposits. Related to growth will be a push to enhance capabilities in infrastructure financing, a growing opportunity presented by the high infrastructure deficit, a strong desire by the private sector to plug the gap, and an enabling regulatory framework in place to encourage investment. However, infrastructure financing is not 'business as usual' – it involves a more sophisticated financing structure than typical corporate lending. Consequently, we will work towards developing a best-in-class specialised team to focus on infrastructure projects as well as developing a strong partnership model (within and outside the banking group) to leverage skills and expertise to develop capabilities.

Customer service and image remains a key driver of client satisfaction and we are proud of our impressive strides over the last four years in the industry service rankings. Initiatives to drive operational excellence and customer satisfaction include developing strong linkages to corporate aspiration at all levels through service-level agreements; process improvement and automation; and broader stakeholder engagement. Similarly, enhanced cost efficiency will remain a priority in the coming year and we will implement tactical initiatives to further improve cost efficiency including staff productivity, a review of unprofitable branches, etc.

Lastly, we are increasingly adopting a holistic approach to managing our channel architecture (including alternative channels). Consequently, there will be a comprehensive optimisation of the branch expansion strategy and an investment model to objectively measure profitability and returns. In addition, alternative channels are rapidly becoming an important customer touchpoint and we plan to solidify our leadership position in areas such as market share of debit cards (number one with 5.9 million in circulation), active POS terminals (with over 18,500), and product innovation. Another area of competitive advantage is developing deeper business intelligence on channel economics to properly influence customer behaviour and product development.

2013 FirstBank priorities

- Growth in priority segments
- Build capabilities in infrastructure financing
- Operational excellence
- Enhance cost efficiency
- Optimise channel architecture

Chairman's statement

Prince Ajibola Afonja
Chairman

Fellow shareholders, it is with great pleasure and enthusiasm that I welcome you to this historic 44th Annual General Meeting of your Bank. This meeting is historic because of the auspicious development which occurred in the evolution of the Bank's structure in the year under review.

As you are no doubt aware, the financial year ended December 31 2012 marked the end of a journey as FirstBank became a limited liability company with FBN Holdings Plc becoming the ultimate parent company of all companies in the FirstBank Group, including FirstBank.

Ahead of my review, I would like to express my appreciation to all stakeholders for their unremitting support during the transition period that culminated in the birth of FBN Holdings Plc. I wish to reaffirm the Bank's long-term commitment to increasing shareholder value through improved profitability in the 2013 financial year. Despite the challenging and rapidly evolving operating environment, our 2012 performance demonstrates the strength of our strategy, the unflinching loyalty of our customers, and the resilience of our business model as the Bank, once again, raises the industry bar.

Global economy

The continued euro debt crises, global credit crunch, weak recovery in some Asian economies, slowdown in major emerging market economies, mounting unemployment, weak consumer demand, fragile financial conditions, unstable oil and commodity prices, floods in major global economies and security concerns in the Middle East were some of the major events that affected the global economy in 2012.

The downside risks notwithstanding, the world economy grew marginally by 3.2% in 2012, down from 3.9% in 2011. The advanced economies recorded growth of 1.3%, up from 1.6% in 2011, with the largest economy, the United States, recording 2.3% growth in 2012.

GDP contracted to -0.4% in the euro area, down from 1.4% in 2011. The political and financial uncertainty in Greece, banking sector challenges in Spain, and concerns about governments' ability to deliver on fiscal adjustment and reform, contributed considerably to the deceleration. In Japan, GDP moderated to 2%, up from -0.6% in 2011, due to decelerating public investment and private consumption coupled with the impact of the Japan/China island dispute. Growth in emerging Asia weakened to 6% in 2012. For the third consecutive year, China's GDP slowed to 7.8%, up from 9.3% and 10.4% in 2011 and 2010 respectively. India recorded 4.5% growth, down from 7.9% in 2011 and 10.8% in 2010. Growth also slowed in the various emerging economies, notably Brazil, reflecting a weak external environment and policy tightening over past years.

The Middle East and North Africa (MENA) region recorded a growth rate of 5.2%, up from 3.5% in 2011, amid major differences between the oil and non-oil exporting countries and despite great social turmoil and uncertainty in the region. While the non-oil exporting economies recorded a moderate growth rate of 2%, oil-exporting economies achieved a 6.6% growth rate supported by high oil prices. As a result of remarkable economic performance in the oil-producing countries, Sub-Saharan Africa experienced its highest growth in three years with output increasing to 5.4%, up from 5.2% and 5.3% in 2011 and 2012 respectively.

Domestic economy

The Nigerian economy moderated in 2012, recording a real GDP growth rate of 6.61%, down from 7.37% in 2011. However, the year-on-year inflation figure stood at 12%, higher than the 11.7% 2011 figure, and the 9.5% 2012 target.

The naira exchanged at an average of ₦157/US$1 in the official market and ₦161/US$1 in the parallel market. This made the naira the second most appreciated currency in Africa in 2012. Oil price averaged US$97 per barrel in 2012, higher than the budget assumption of US$72 per barrel. Also, as against the budget target of 2.48 million barrels per day, crude oil production rose to an all-time high of 2.7 million barrels per day in July, the highest in 50 years. However, overall production averaged 2.2 million barrels per day, less than the 2.48 million barrels per day budget target.

External reserves increased by US$11.26 billion, from US$32.92 billion in December 2011 to US$44.18 billion in December 2012, while total debt stock as at December 2012 stood at US$45 billion with the domestic debt component standing at ₦6.5 trillion (US$41.4 billion) and external borrowings at US$6.3 billion. The economy could have performed better save for some socio-economic challenges such as an increase in violent crimes including bank robbery, extremist attacks in the northern part of the country, social unrest around fuel price deregulation, and continued strains on the nation's inadequate infrastructure, particularly in the power sector, all of which contributed to domestic uncertainties. We are pleased that the Government has made addressing some of these elements a priority and has demonstrated some progress in this respect.

The banking industry

The monetary policy stance of the Central Bank of Nigeria (CBN) in 2012 was generally tight, although the monetary policy rate (MPR) was left unchanged at 12% throughout the year. Pressure on rates remained elevated in the review period due to the Federal Government's high debt appetite, resulting in broad flows of liquidity into government debt and resulting in a slower year of growth overall for the industry in deposits. Accordingly, attention focused on the implementation of aggressive pricing policies and the design of competitive product offerings.

The level of industry regulation and pace of implementation increased in the review period as the CBN took some policy decisions which affected the industry at large. In order to discourage capital outflow as well as ensure efficient monitoring, banks were precluded from exporting capital for the purposes of recapitalising their foreign subsidiaries. This hindered the international growth objectives of many banks, including your Bank, as the capital injection proposal of our subsidiary, FBN UK, was turned down by the apex bank in the review period. Confidence in the banking industry received a boost with the full recovery of the ₦620 billion bailout funds given by the CBN to eight banks in 2009. Expectedly, the industry loan books improved significantly as the apex bank barred all the affected companies and their directors from further collecting credit facilities in the review period. Also, equity participation in property development companies was restricted in the review period, while minimum paid-up capital for primary mortgage institutions was increased from ₦100 million to ₦5 billion. This policy affected one of your Bank's subsidiaries, FBN Mortgages Limited. Consequently, the Bank has decided to exit the real estate development component of the business in compliance with regulatory directives.

Our strategy, going forward

Given the level of success achieved by the Bank, coupled with the fact that the three-year strategic plan terminates in December 2013, our strategy remains unchanged in 2013, although regulatory forces and recent shifts have required us to adapt our thinking and enhance our focus in particular areas. We will continue to defend our leadership position by maintaining capital and operational efficiency as a catalyst for increased profitability and shareholders' value.

As our name depicts, we shall strive to be at the forefront in terms of the businesses we engage in, the diversity in our product offerings and the building of committed and long-lasting relationships with our customers. I am extremely confident in the capability of the current management team to drive the Bank to higher heights, exceeding the 2012 performance. Even though economic growth in the 2013 financial year is projected to temper, I am confident that the Bank will continue to break new grounds and significantly improve on its market share going forward.

In our international expansion strategy, we shall continue to explore the robust opportunities in other African markets as much as our capital and funding strength allows, while mindful of domestic regulations. As we strive to become the dominant financial services group across Sub-Saharan Africa, we shall continue our incursion into countries that will disproportionately add economic value and bolster the Group's strategic positioning in Sub-Saharan Africa. In doing this, we have highlighted other guiding principles to further map our expansion policies with due attention being given to managing and mitigating risk.

We shall continue to explore technological innovation, thereby maintaining the competitive advantage which we have enjoyed from inception in 1894. Indeed, by the first quarter of 2013, we shall step up the pace of technology-led innovation by migrating to Finacle 10, the first of its kind in the country. This will undoubtedly further streamline our processes and improve service delivery.

The credit quality of the Bank further improved in the review period as the Bank continued to put in place various policies to enhance its risk management framework. In 2013, the existing risk management parameters will be further enhanced through the effective use of core banking software. Details of the Bank's risk management strategy are contained in the risk management report.

Our personnel development strategy will focus on ensuring that members of staff acquire the skills and competencies required to meet the Bank's overall strategic goals. This will guarantee superior performance and also ensure that the Bank attains its goal of clear industry leadership. Also, at a point where other companies are shirking their responsibilities, the members of staff of your Bank are more committed to acting as responsible corporate citizens. Details of our commitment to corporate social responsibility can be found in the Managing Director's review.

More importantly, strong corporate governance remains a fundamental part of our business. Consistent with our commitment to ensuring strong corporate governance, the Bank's directors embarked on value-adding local and overseas training, while continuing with the annual board appraisal exercise, which was conducted by a reputable professional services firm in line with the directive of the Central Bank of Nigeria (CBN). In the review period, the Bank strengthened its relations with the CBN and complied with regulatory policies. The requirement that the Bank has two independent Directors, as stipulated by the CBN, remains a top priority in 2013. We shall constantly evaluate our governance structure to ensure effectiveness and currency. All these initiatives are covered in the Corporate Governance Report.

The key priorities of the Board for 2013 include finalising the Bank's exit strategy in First Registrars Limited in compliance with the provisions of CBN directives, and expanding the direct reporting line of the Chief Internal Auditor to the Audit Committee, in addition to the Board Audit & Risk Assessment Committee. Additionally, a considerable amount of energy will be channelled towards enhancing the level of interaction and information provided to shareholders and investors. Accordingly, we have mapped out a series of local and international investor engagement activities and roadshows to improve our level of disclosure and transparency.

Related information

p115 Corporate governance developments in Nigeria in 2012

Financial results

Despite the increasing level of insecurity in the country coupled with the burden of tight policies which created significant headwinds, your Bank's 2012 performance, once again, has reflected the supremacy of our strategy and the resilience of our business model as well as the patronage of our ever-loyal customers.

Total assets rose to ₦3.1 trillion in 2012, from ₦2.9 trillion in 2011, representing an increase of ₦267 billion or 9%. Gross earnings increased from ₦265.6 billion in 2011 to ₦338.9 billion in 2012, representing a growth of ₦73.3 billion or 27.6%, comprising ₦69.8 billion or 34% in interest revenue and ₦3.6 billion or 6% in fees, commission and other income. Profit Before Tax (PBT) increased by ₦47 billion or 120% to ₦86.2 billion, from ₦39.2 billion recorded in 2011.

The Board

Appointments

We strengthened the Board of the Bank in the year under review with the appointment of three new Executive Directors to complement the existing four. Accordingly, the Bank's Board currently consists of 11 Non-Executive Directors and seven Executive Directors. The new appointees to the Board are:

- **Gbenga Shobo** – appointed Executive Director Retail Banking SBU South with effect from September 11 2012. He formerly served as the Executive Vice-President Retail Banking SBU South;
- **Dauda Lawal** – appointed Executive Director Public Sector SBU North with effect from September 11 2012. He formerly served as the Executive Vice-President Public Sector SBU North;
- **Adebayo Adelabu** – appointed Executive Director/Chief Financial Officer (CFO) with effect from September 11 2012. Bayo formerly served as the Executive Vice-President/CFO before his elevation to the Board.

It is also pertinent to congratulate Mr Bello Maccido on his appointment as the CEO, FBN Holdings Plc, effective September 11 2012. Mr Maccido, who formerly served on the Board of First Bank of Nigeria as the Executive Director Retail Banking SBU North, is now a Non-Executive Director on the Board of FirstBank Limited.

Resignations

There was no resignation in the review period.

Retirement by rotation

In accordance with the Bank's articles of association, Prince Ajibola Afonja, Mrs Ibiai Ani and Mr Kehinde Lawanson retired by rotation, and being eligible offered themselves for re-election.

Appreciation

Let me seize this opportunity to thank my fellow members on the Board, the Federal Government of Nigeria, the Central Bank of Nigeria, other regulatory bodies, and individuals too numerous to mention for their invaluable support and guidance. I thank all our shareholders for their support and cooperation, especially the confidence reposed in us during the transition period. Due mention should be given to our customers for their continued loyalty and unflinching support over the years.

The importance and contribution of our members of staff cannot be overemphasised. Their sheer tenacity and dedication to duty has been invaluable. I place on record my appreciation to members of staff for enhancing the trust of our key stakeholders and delivering sustainable value to our shareholders. Their commitment has made it possible for the Bank to scale new heights and sustain its leadership position in the industry.

Finally, I thank you all for attending this meeting and I pray that God Almighty prospers and preserves us all.

Prince Ajibola Afonja
Chairman

Leadership and governance

"The Board's rigorous approach to ensuring compliance with best corporate governance practices is key to ensuring the long-term sustainability of our business. Good governance drives good performance and lays the foundation for the way in which we operate. Our Board remains strong in its oversight responsibilities and we shall continue to ensure we do business in the right way. Additionally, we will continually put in place the right checks and controls to enable us to build long-term shareholder value."

Prince Ajibola Afonja
Chairman

FirstBank and its subsidiaries ('the Group') operate a governance framework that enables the Board to balance its role of providing oversight and strategic counsel with its responsibility to ensure compliance with regulatory requirements within acceptable risk tolerance parameters. The Board monitors the risks inherent in our business, and in the past year, it reviewed our credit policies to reflect changes in the dynamics in certain sectors of the economy, as well as product programmes guiding our retail business.

Our receipt of Business Continuity Management (BCM) certification evidenced our strengthened BCM practices, i.e., our capacity to continue to meet the expectation of stakeholders in the face of disruptions, by putting in place proactive steps to minimise any disruptions that may affect the Bank's business and may occur through human error or uncontrollable circumstances. The implication for customers is guaranteed service delivery regardless of any disruptions whatsoever. We also devoted attention to further entrenching the culture and Bank's core values of 'passion, partnership, people' within the Bank through a brand engagement programme.

The Group operates in a highly regulated industry and our compliance with applicable legislation, regulations, standards and codes, including transparency, accountability and disclosure, which we have entrenched as essential characteristics of FirstBank's culture, help to reduce the Bank's risk to regulatory sanctions and thereby protect the Bank's stakeholders. Nonetheless, as a board, we have strived to maintain a critical balance among the oversight of risk, growth, performance and strategy.

The Board is well diversified, with members being distinguished individuals of varying ages possessing experience in various fields of endeavour ranging from private to public service, legal, entrepreneurship, accounting, corporate finance and information technology. They each bring valued perspectives and expertise to the Board's deliberations. This Board diversity is considered a significant factor in helping the Bank to achieve its goals. In bringing additional diversity to Board proceedings, 21.05% of our Board is female.

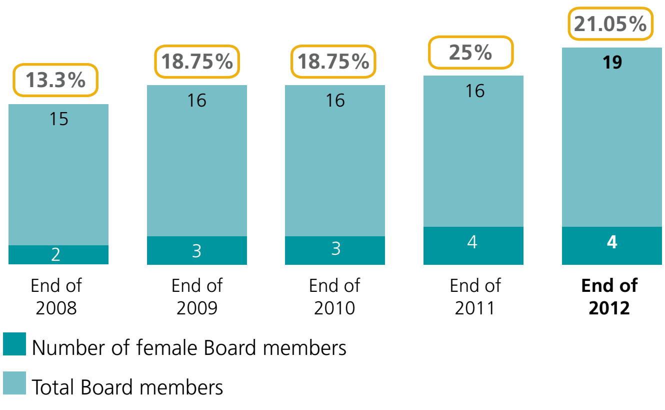
Ultimate responsibility for building long-term shareholder value and ensuring effective management oversight rests with the Board, which ensures that appropriate controls, systems and practices are entrenched to safeguard the assets of FirstBank as exemplified by the whistleblowing policy we have put in place to stamp out irregularities from our operations.

In ensuring good governance, the Board meets on a quarterly basis, monitors performance against objectives, including detailed budgets, and holds strategic deliberations when the need arises other than on a quarterly basis. This way, the Board ensures management effectively discharges its duties and responsibilities with respect to the management of the Bank, thus ensuring the sustainability of the Bank's business and creating value for shareholders.

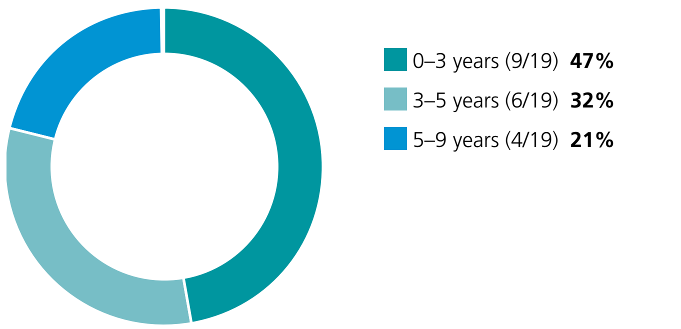
Opposite is the composition of our strong Board and management team, driving the performance of our organisation in ensuring long-term sustainability.

Our Directors have more than
400 years'
combined experience in the banking and banking-related industries.

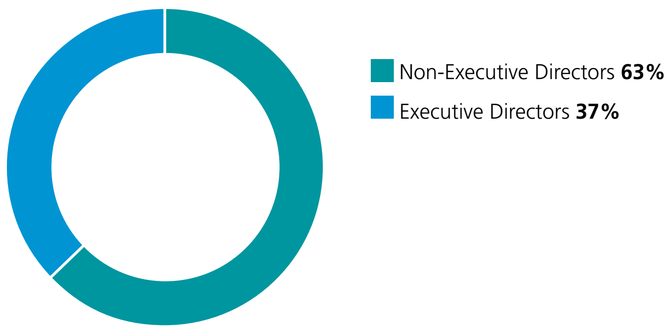
Ratio and percentage of females on the Board 2008–2012



Experience on the Board



Board composition



Leadership and governance

Board of Directors

Prince Ajibola Afonja
Chairman

Bisi Onasanya
GMD/CEO
BFGPC BARAC BCC MGC MCC

Adebayo Adelabu
Executive Drector/Chief Financial Officer
MGC MCC

Ambrose Feese
Non-Executive Director
BARAC BGC

Dauda Lawal
Executive Director, Retail Banking North
BCC MGC MCC

Ebenezer Jolaoso
Non-Executive Director
BFGPC BGC BCC

Gbenga Shobo
Executive Director, Retail Banking South
BFGPC BCC MGC MCC

Ibiai Ani
Non-Executive Director
BFGPC AC

Ibrahim Waziri
Non-Executive Director
BFGPC BARAC BCC

Committee membership key

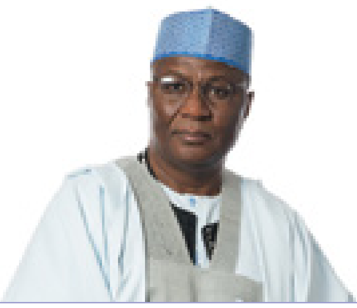
AC Audit Committee
BARAC Board Audit & Risk Assessment Committee
BCC Board Credit Committee
BFGPC Board Finance & General Purpose Committee
BGC Board Governance Committee
MCC Management Credit Committee
MGC Management General Committee

Board of Directors continued

Ibukun Awosika
Non-Executive Director
BFGPC AC

Kehinde Lawanson
Executive Director, Corporate Banking
BFGPC BCC MGC MCC

Khadijah Alao-Straub
Non-Executive Director
BFGPC BCC



Lawal Ibrahim
Non-Executive Director
BFGPC

Mahey Rasheed
Non-Executive Director
BGC BCC

Obafemi Otudeko
Non-Executive Director
BFGPC BCC

Remi Odunlami
Executive Director/Chief Risk Officer
BFGPC BCC MGC MCC

Tunde Hassan-Odukale
Non-Executive Director
BARAC BCC

Urum Eke
Executive Director, Public Sector South
BCC MGC MCC

Committee membership key

AC Audit Committee
BARAC Board Audit & Risk Assessment Committee
BCC Board Credit Committee
BFGPC Board Finance & General Purpose Committee
BGC Board Governance Committee
MCC Management Credit Committee
MGC Management General Committee

Board of Directors continued

Bello Maccido's
Non-Executive Director

Executive Vice-Presidents

Abdullahi Ibrahim
Executive Vice-President,
Retail Banking North
MCC MGC

Bashirat Odunewu
Executive Vice-President,
Institutional Banking
MCC MGC

Bernadine Okeke
Executive Vice-President,
Private Banking
MCC MGC

Tijjani Borodo
Executive Vice-President/
Company Secretary
MCC MGC

Committee membership key

AC Audit Committee
BARAC Board Audit & Risk Assessment Committee
BCC Board Credit Committee
BFGPC Board Finance & General Purpose Committee
BGC Board Governance Committee
MCC Management Credit Committee
MGC Management General Committee

Managing Directors of subsidiaries

Peter Hinson
Managing Director,
FBN Bank (UK) Limited

Louis-Odilon Alaguillaume
Managing Director,
Banque Internationale de Crédit, SARL
Resigned 19 February 2013

Martins Shoga
Managing Director,
FBN Bureau de Change Limited

Akinwumi Fanimokun
Managing Director,
First Pension Custodian Nigeria Limited
(Now appointed as the Chief Operating Officer in First Bank of Nigeria Limited with effect from April 2013)

Subu Giwa-Amu
Managing Director,
FBN Mortgages Limited

Audit Committee members

Peter Asu

Adamu Kiyawa

Raphael Attu

Representative offices

Danny Wen
Chief Representative,
First Bank of Nigeria Ltd,
Beijing, China

Olajide Adeola
Chief Representative,
First Bank of Nigeria Ltd,
Abu Dhabi, UAE

Adenrele Oni
Chief Representative,
First Bank of Nigeria Ltd,
Johannesburg,
South Africa

Awards

Best Bank Award

Global Finance Awards 2012

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

Best Local Bank in Nigeria

EMEA Finance Award 2012

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

Best Private Bank

World Finance Banking Awards

This award identifies FirstBank as the industry leader in private banking in Nigeria.

Bank of the Year Awards

***The Banker* Magazine**

FirstBank was awarded the Bank of the Year in recognition of its banking excellence, the delivery of shareholder returns and its strategic advantage in terms of market visibility and positioning.

Best Investment Bank

World Finance Banking Awards

This award identifies FirstBank as the industry leader in investment banking in Nigeria.

ACI Award for Growth

ACI Awards

The Bank won the award in recognition that it processes more than one million transactions per month and has the highest percentage growth in transaction volume over the past two years.

The Number 1 Bank Brand in Nigeria

***The Banker* Magazine**

This award accentuates the ongoing transformation of the Bank's brand into a nimble and global bank, as well as the implementation of world-class technology and innovative products and services to facilitate service delivery and excellent consumer experience.

Best in Application Technology

Africa Information Society Merit Award 2012

The Bank clinched this award in recognition of its contributions to ICT applications and usage through its FirstMobile service.

The Best Retail Bank in Nigeria

The Asian Banker International Excellence in Retail Financial Services Awards 2012

The Asian Banker Excellence in Retail Financial Services Awards Programme provides a benchmark of the performance of the best retail banks in the increasingly fierce marketplace. This year, more than 160 retail financial institutions were assessed in detail from the Asia Pacific, Central Asia, the Gulf region and Africa, and FirstBank clinched the award for its performance in the Nigerian marketplace.

Verve Congratulatory Award to FirstBank

Verve Awards 2012

The Bank won the award for being the first bank to achieve the five million cards issuance mark on the Interswitch network.

Awards

Verve Award for Growth in Issuance and Activation

Verve Interswitch Awards 2012

The Bank won the award in recognition of its leadership in the growth and development of electronic payments solutions in Nigeria.

Bank of the Year

Lagos Enterprise Awards 2012

The Bank won this award in recognition of its excellent service delivery and reliability in the provision of banking services and quality support for small and medium enterprises.

Verve Award for Best Cashless Policy Driver 2012

Verve Interswitch Awards 2012

The Bank won the award in recognition of its consistent promotion and drive of the cashless policy in Nigeria.

Bank of the Year

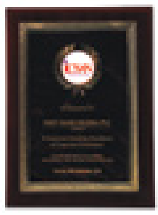
Hall of Grace Awards

The Bank won this award in recognition of its outstanding excellence in the Nigerian banking sector.

African Telecoms Deal of the Year 2011 (Etisalat Nigeria)

Project Finance Deals of the Year Awards

The Bank was appreciated for financing Etisalat's syndicated term loan in recognition of Etisalat's efforts in offering the Nigerian telecommunications space a solid platform for technological innovation and advancement through the facility.



A Corporate Award for Excellence in Corporate Governance

The Chartered Secretaries and Administrators of Nigeria (ICSAN) Annual Conference

The award was received by the Bank in recognition of its leadership in corporate governance in Nigeria.

Best in Mobile Banking

Nigerian Telecom Award

The Bank received this award in recognition of its outstanding growth in mobile banking, number of mobile banking subscribers, and volume and value of transactions in mobile banking in the past year.

African Financial Brand of the Year 2012

African Business Leadership Awards

The Bank won this award in recognition of its contribution to Nigerian economic growth and development and its interventions in small business development in the country.

The 2012 Sectoral Leadership in Banking

Pearl Awards

The Bank emerged as the winner of the prestigious Sectoral Leadership Award, Financial Services in the 2012 Pearl Awards in recognition of the Bank's outstanding operational and stock market performance in the 2011 assessment year.

Bank of the Year 2012

African Governance & Corporate Leadership Award

The Bank won this award in recognition of its outstanding leadership in the Nigerian financial sector.

Awards

Most Socially Responsible Company in Consumer Issues

Social Enterprise Responsibility Awards 2012

The Bank won this award in recognition of its consumer and data protection and privacy policies, which led to its certification by the International Organization for Standardization ISO/IEC 27001: 2005 Information Security Management Systems (ISMS) from the British Standards Institute (BSI). The Bank has won this award for two consecutive years.

Overall Best Winner of The CIPM Award for HR Best Practice 2012

The Chartered Institute of Personnel Management Award for HR Best Practice 2012

The Bank won this award in recognition of its outstanding HR practice. The Bank's human resource practices and values revolve around 'People, Partnership and Passion' to promote staff productivity and performance.

The Best Indigenous Place to Work For in Nigeria and The Best Financial Services Company to Work For in Nigeria

Great Place to Work Awards

The Bank won this award in recognition of its outstanding HR practices and policies that make FirstBank an outstanding institution to work with.

Best Practice in the Banking & Insurance Sector inThe CIPM Award for HR Best Practice 2012

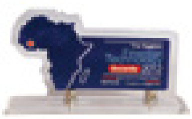
The Chartered Institute of Personnel Management Award for HR Best Practice 2012

The Bank won this award in recognition of its outstanding HR practice within the banking and insurance sector.

Best Contributing Employer in Human Resources Development for Year 2011

Industrial Training Funds Award

The Bank won this award in recognition of its contribution to human resources development in Nigeria.



Best Use of IT in Mobile Payment

The Nigerian Financial Technology Awards 2012

The Bank won this award in recognition of its use of the mobile platform for the provision of financial services, especially with the launch of the Bank's mobile financial service, Firstmonie®.

Best Contributing Employer in Safety Training Promotion for Year 2011

Industrial Training Funds Award

The Bank won this award in recognition of its contribution to safety training promotion through scheduled training for staff on safety and security measures.

Business review

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This year we were able to consolidate our leadership in Nigeria by growing our domestic sales network through alternative delivery channels.

We are now uniquely positioned to take advantage of growth areas such as online transactions and the broadening of the financial services space.

Our new holding company legal structure and governance model also means we are able to cluster similar businesses to improve levels of interconnectivity and increase marketing precision.

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Group Managing Director/Chief Executive Officer's review

Bisi Onasanya
Group Managing Director/Chief Executive Officer

Distinguished shareholders, on behalf of the Board of Directors, I am pleased to present to you a summary of FirstBank's performance for the year ended 31 December 2012.

Introduction

The 12 months ended December 2012 represented the mid-point of our 2011–2013 strategic planning cycle. Over this period, we consolidated the successes recorded in the first full year of our new operating structure, and were thus able to continue defending our leadership of the industry. Similarly, we implemented reforms to our legal structure, including the adoption of a holding company model in compliance with the Central Bank of Nigeria's (CBN) directive on divestment of non-banking subsidiaries from deposit money banks. The change to our governance model also honed past efforts to enhance the activities of the FirstBank Group by clustering similar businesses to achieve improved levels of interconnectivity and increased levels of marketing precision.

Consequently, FirstBank has now become a wholly owned subsidiary of FBN Holdings Plc (FBN Holdings), a non-operating financial holding company listed on the Nigerian Stock Exchange (NSE) on Monday 26 November 2012. This change was effected after we successfully obtained Board and all required regulatory approvals including shareholders' approval at the Extraordinary General Meeting (EGM) convened through an order of the Federal High Court. By listing FBN Holdings on the exchange, FirstBank of Nigeria Plc was delisted from the NSE and thereupon ceased to be a public company. Accordingly, the Bank, now known as First Bank of Nigeria Ltd, has the following direct subsidiaries, reflecting a grouping of businesses directly related to commercial banking (except for the Pension Fund Custody business, which is retained as a subsidiary of the Bank by statutory stipulations):

- FBN Bank (UK) Limited, based in the United Kingdom
- Banque Internationale de Crédit (BIC) in the Democratic Republic of Congo (DRC)
- FBN Bureau de Change Limited
- First Pension Custodian Nigeria Limited
- FBN Mortgages Limited.

With the streamlining of related banking businesses comes a renewed focus on commercial banking activities which will enhance our operational performance in 2013.

Nigeria

Overview

In 2012, FirstBank recorded a number of important achievements across our market-facing Strategic Business Units (SBUs) and non-market-facing Strategic Resource Functions (SRFs).

Our retail business maintained its leadership in the number of customers and cards issued, with about eight million retail customers and six million cards in issue. During the year, the Retail Banking SBU also launched its premium desk for affluent customers and deployed its specially designed youth branches to accommodate youth's preference for electronic banking channels. In recognition of our retail contributions and performance, the Bank was named The Best Retail Bank in Nigeria by the Asian Banker International Excellence in Retail Financial Services Awards 2012.

During the year, our Institutional Banking SBU (IBG) increased the Bank's share of this segment's customer wallet by focusing on opportunities within the customer value chain. This resulted in a number of notable achievements including being selected as the facility coordinator for a club of lenders for cement expansion projects. The team participated in financing the construction of a landmark cement plant and financed a new 2.5 million metric tonnes cement production line. IBG also engineered the Bank's selection by the pioneer non-interest bank in the country, to provide clearing and correspondent banking services. Our commitment to funding the telecommunications sector through contributions to various syndicated facilities won us the ICT/Telecoms Deal of the Year Award at the Africa Investor Infrastructure Awards 2012 at Melrose Arch, Johannesburg.

Our private banking team recorded impressive growth in Assets Under Management (AUM), achieving 60% growth to close 2012 at ₦36 billion. The team was named the Best Private Bank by World Finance Banking Awards 2012. In the public sector space, we deepened relationships with various State Governments and parastatals, providing customer-specific support to enhance value. A significant achievement in this area is the enhancement of a southern state's revenue base, which we achieved through a partnership model that involved the provision of universal financial services (including an automated payment platform), leading to an increase in the state's internally generated revenue from ₦500 million monthly to over ₦1 billion monthly, as at November 2012.

Our Strategic Resource Functions (SRFs) continue to improve customers' experience of the Bank through various initiatives, especially rebranding and redefining the performance monitoring framework of our branches. Our branch transformation project, which focuses on redesigning our banking halls, improving the ambience in the banking halls and reducing waiting time in our branches and across all touch points, has created a new and improved experience for our customers. In recognition of our rebranding initiatives, the Bank won the African Financial Brand of the Year Award by African Business Leadership Awards 2012.

In order to ensure we receive instant feedback from our customers, we installed the ServiceCare automated feedback kiosk in some of our banking halls and established a Complaint Management Framework, comprising the Complaint Handling Process and Complaints Policy, to guarantee that all complaints are aligned and resolved based on standard guidelines.

Recognising the fact that a skilled workforce is critical to our ability to deliver quality services and drive our business forward, we established First Academy in 2011. The vision of the academy, whose structure was settled in 2012, is developing a learning organisation by implementing and managing a competency-based learning and development system. It successfully designed a comprehensive curriculum for each of the various schools in the academy (foundation, management, leadership and specialised schools). Full implementation of one of the specialised schools was achieved in 2012 and two streams of the foundation school were also completed. Our dedication to the development of our people and our recognition of them as the foundation of our success earned us The Best Indigenous Place to Work for in Nigeria and The Best Financial Services Company to Work For in Nigeria by the Great Place to Work Awards 2011.

Industry context

In 2010 the Nigerian Accounting Standards Board (NASB) introduced the International Financial Reporting Standards (IFRS) as a basis for the preparation of statutory financial statements in Nigeria and stipulated compliance in three phases. Publicly listed entities and significant public interest entities in Nigeria were to fully adopt the standards by 2012, followed by other public interest entities in 2013 and, finally, small- and medium-sized entities in 2014. FirstBank is in compliance with the NASB directive as we fully implemented the adoption of the IFRS reporting standard in 2012. This has enhanced the transparency and reliability of our financial statements, ensuring that these financial statements can be reasonably assessed and positioned within a global market.

The regulators of the financial services industry, notably the Federal Ministry of Finance (FMF) and the Central Bank of Nigeria (CBN) continued to drive policies during the year, with the release of a number of policies/directives that affected our business. Most noteworthy of these was the introduction of the Treasury Single Account (TSA), which seeks to establish a unified structure for Federal Government bank accounts as well as the CBN's directive on recapitalisation of foreign subsidiaries.

The impact of the implementation of the TSA was the withdrawal of some Federal public sector deposits from the Bank and the reduction in float income that would otherwise have been generated from these accounts. This has highlighted the need for our Public Sector SBU to explore other opportunities presented by the Government's spending value chain going forward, just as banks need to re-appraise strategies for replacing deposit liabilities lost to the TSA policy. In addition, the apex bank's decision to restrict the transfer of capital from Nigerian parent banks to offshore subsidiaries forced a re-evaluation of growth strategies for our offshore subsidiaries, especially regarding capital allocation and dividend policies, as well as restrictions on the ability to expand their cross-border footprints.

2012 also saw the implementation of additional regulatory reforms in the financial services industry. Banks responded to the take-off of the cashless banking initiative by re-designing their non-brick and mortar channels to serve customers effectively. In addition to the cheque truncation initiative, which reduced the cost and number of clearing days for processing physical payment instruments, these reforms facilitated a more effective and efficient payments system within the industry. The apex bank's efforts at increasing financial inclusion in the system also continued during the year with licences given to more companies to operate mobile banking services.

During the year, the CBN also proposed payment of a minimum of 30% of MPR on savings deposits and a maximum lending rate of 8% plus the Monetary Policy Rate (MPR). This was contained in the apex bank's 'Exposure Draft of the Guide to Bank Charges'. If implemented, the exposure draft, which is proposed to replace the policy guide in use since January 2004, will adversely affect banks as it may result in an increase in cost of funds, leading to credit contraction with compensating increases in fees in other areas to offset expenses incurred in serving customers.

While remaining compliant with regulatory directives and pronouncements, FirstBank continues to support the CBN's efforts to regulate the Nigerian banking industry. We will proactively respond to regulations while ensuring that we run our business efficiently within the limits set by the regulators and our resolve to engage only in sustainable banking practices, in appreciation of the Bank's highly regarded brand and ethical values. We aim to find, and harness, opportunities within the laid-down regulatory framework in order to ensure that we deliver superior value to our shareholders, particularly through the design and deployment of new products and services in response to the CBN's efforts to discourage the traditional dependence on cash-based payments and settlements within the economy.

Business performance

2012 was a challenging year as tighter liquidity, high interest rates and heightened security concerns compressed industry margins. However, in spite of this, I am pleased to report that across all major lines of our commercial banking business, we were able to build upon the successes of the past year and record impressive growth in major profitability items with pre-tax return on equity (ROE), improving from 10.6% in 2011 to 21.8% in 2012. This remarkable performance was underpinned by our disciplined and focused implementation of our corporate strategies, including but not limited to innovative product development, expanded market reach and responsive ways of meeting our customers' needs.

Despite the challenging economic environment, FirstBank maintained its leadership of the Nigerian banking industry in 2012, with total assets increasing by 9% to ₦3.1 trillion. We sustained our predominantly low-cost deposit funding base with various strategies, achieving a year-on-year deposit growth of 23%, as at year end in December 2012. Low-cost local currency and domiciliary deposits constituted 78% of the total deposit base. Our Retail Banking SBU continues to be the major driver of low-cost deposits, while the value chain framework implemented in the Institutional Banking SBU ensures that deposits are trapped along the corporate customer's value chain.

Our cost to income ratio increased slightly over the previous year, closing at 65% compared to the 59.2% recorded in 2011. This was a result of various service initiatives implemented and one-off staff transformation costs incurred during the year.

In 2012, FirstBank continued to provide support to the economy through advancing credit to its customers. Our loans and advances portfolio increased by 25% from ₦1.3 trillion in 2011 to ₦1.6 trillion in 2012, representing about 11.5% of total loans granted to the economy, reflecting our strategy of selective loans and advances creation in key growth sectors of the economy.

Our business development initiatives in 2012 crystallised in the impressive 120% increase in profit before tax from ₦39.2 billion in 2011 to ₦86.2 billion in 2012. As at December 2012, gross earnings stood at ₦338.9 billion, an increase of 27.6% over the previous year; and despite the tight-interest-margin environment, net interest income increased by 27% to ₦218.3 billion, testifying to our strong risk-based pricing regime. This regime incorporated the revision of our pricing tool mechanism with the implementation of a short-term re-pricing model, which ensured we were constantly aligned with the market.

Maintaining a customer-centric approach remains critical to FirstBank and is crucial to the sustainability of our business. During the year, a new operating model was introduced for the Retail Banking SBU segment, under which the customer base was further sub-segmented to refine our value propositions to each segment. In conjunction with this effort, the relationship management model was re-aligned, allowing greater relationship management resources to be directed at higher value customers (including the launch of our First Premium desks), while continuing to offer multiple alternative channels to mass market customers. This resulted in our Retail Banking SBU retaining its leadership in the share of savings deposits, to close the year at over ₦500 billion.

During the year, we completed the deployment of 73 new business locations, comprising 26 branches, 38 small-format business locations (Quick Service Points – QSPs) with other banking subsidiary locations with the balance. We also rebranded about 80 branches and developed a quality assurance team to integrate the performance-monitoring framework for rebranded branches into our business performance measurement metrics. With improved service delivery as our core focus, we renamed our 'Operations Team' the 'Banking Services group' to ensure all aspects of our operations reinforce our 'services' orientation and reflect the fact that we are indeed service and solution providers.

To this end, we are pleased that our service initiatives resulted in improved service ratings in 2013, as measured by the KPMG Industry Customer Satisfaction Survey (BICSS), in which we moved from third to second position in the Corporate Banking SBU segment and from eighth to seventh position in the Retail segment. A newly introduced SME segment ranked us number five in the industry, based on service satisfaction levels.

With respect to technology platforms, we concluded the deployment of an international banking transfer module on our internet banking portal, FirstOnline, as well as deploying a new multilingual interactive voice response (IVR) facility for FirstContact (our customer interaction contact centre from which all customer contacts are managed) to cater for customer language preferences. The FirstContact IVR also extends additional comfort to customers by enabling them to listen to audio renditions of their account balances, stop cheques, set up SMS alerts, make transfers, pre-confirm issued cheques and pay utility bills from the comfort of their own homes. In addition to this, we achieved a marked improvement in our Centralised Processing Centre (CPC), a central processing facility which coordinates operations for the Bank, ensuring a reduction in transaction times and costs, and enhancing the quality of service. During the year, we added 253 additional branches to the CPC workflow, exceeding our set target of 250 branches and resulting in a total of 403 branches on the CPC workflow.

Building on the advances recorded last year, our e-banking business consolidated its leadership in the cards and electronic channels business in the industry, recording significant improvement in revenue generation and sustaining its leadership in domestic card issuance, electronic transaction processing and ATM/POS deployment. With over five million Verve cards issued as at 31 December 2012, a level of exposure rivalled by very few banks in Africa, the Bank has consistently led the card payment industry in Nigeria. As at December 2012, FirstBank's total issued Verve cards accounted for 31% of the total cards issued on the industry's largest network (Interswitch) with over 89% being active. Our coverage ratio of retail accounts with cards increased from 3.6 million in 2011 to 5.3 million as at 31 December 2012, representing a growth of over 45%.

Similarly, we recorded an increase of 604 in the number of ATMs deployed over the previous year, bringing our total number of ATMs to 1,865 at the end of 2012 and making us the number one bank in the provision of ATM infrastructure across Nigeria. On the back of the much broader infrastructure base, transaction volumes increased by 45.7 million to 113.8 million, from the 68.1 million recorded in the previous year. Correspondingly, transaction value grew by ₦596.3 billion, from ₦714.2 billion recorded in 2011 to ₦1.3 trillion by the end of 2012. Commission on our e-banking services remains a significant part of our growth strategy with respect to fees and commission income, which increased by 26% to ₦55 billion from the ₦44 billion recorded in 2011.

These successes notwithstanding, the Bank recognises a strong need to pursue aggressive strategies centred on a continued transitioning of a large segment of our customers from high-cost channels, such as branches, to our numerous self-service channels – ATMs, POS, web and mobile money. Currently, we have over 65% of our customers' low-value cash transactions (e.g., TV subscription payments) taking place on alternate channels, which indicates a high embrace of electronic channels and further possibilities for significant reduction in service costs.

During the year, we launched FirstMonie®, our mobile money platform which saw the Bank cross a major milestone in its drive to boost financial inclusion in the country. With our strong brand equity, about 714 branches and business correspondents well located and placed closer to the rural areas than any other bank in the country, FirstBank is well positioned to take advantage of this market opportunity. Our dedicated workforce of about 7,920 core banking staff, our well-established business operating structure and our recognised money transfer franchise of Western Union and MoneyGram, have further positioned the Bank to play a pivotal role in this sphere, creating an increase in value for our stakeholders.

FirstMonie was launched with a bouquet of functionalities, innovatively created in ways that will give us a competitive edge and provide value for our discerning customers. Subsequent to the launch, we are developing a large agent and merchant network while aggressively driving customer acquisition. We will continue to focus on all areas including person to person (P2P) and business to business (B2B), as well as government-to-people initiatives such as SURE-P and GES, as they promise massive potential for growth in the mobile money market.

The Bank continues to play a key role in the implementation of the cashless policy in the country. For seamless integration, we reviewed pricing and limits set across all the alternative channels and tightened security around these channels including the implementation of token-only transfer authentication for the internet banking platform. We also engaged corporate customers across various sectors to understand and resolve issues arising from the transition. Our *Cashless and You* series was launched to create awareness of the policy, identify issues, and resolve them. In recognition of our initiatives, the Bank was awarded the Best Cashless Policy Driver 2012 in the Verve Interswitch Awards.

Our pension fund subsidiary, First Pension Custodian Nigeria Limited (FPCNL) recorded a 50% increase in revenue, posting impressive gross earnings of ₦2.6 billion in 2012 – 80% of this income was from core, custody operations. This translated into a 64% growth in profit before tax from ₦802 million in 2011 to ₦1.3 billion in 2012. The Company also closed the year with a 31% growth in Total Market Value (TMV) of Assets under Custody (AUC) from ₦829 billion in 2011 to ₦1.09 trillion in December 2012, inclusive of pension and non-pension assets.

United Kingdom (UK)

In the United Kingdom, there was increased regulatory pressure from the FSA to ensure that banks achieve and maintain a higher level of financial stability. To achieve this, the authority introduced a number of measures aimed at increasing the soundness and stability of the financial market. These measures include the Recovery and Resolution Plan (RRP), expected to assess and document recovery options which would be available to banks in a range of severe stress situations. In addition, the FSA adjusted the liquidity and capital regimes for UK banks and building societies, with the main objective of ensuring that banks hold more capital and liquidity to support their operations. In spite of this, FBN UK maintained a strong capital adequacy ratio of 18.01%, as at year end, higher than the 10.5% required under the soon-to-be-implemented Basel III accord. The Company also continues to conduct comprehensive periodic evaluations of its capital and liquidity positions to ensure that it keeps within regulatory guidelines.

During the year, FBN UK also achieved one of its strategic goals, which was to establish a qualified Corporate Banking SBU. This team, headed by a new director, is ably supported by a strong team of business development managers. We are confident that the injection of this team into the Company's business model will be an advantage, as the team is poised to achieve major milestones in the coming year.

Despite the challenges within the Eurozone, FBN UK delivered a profitable performance during the year with earnings up 21% on 2011 to £76 million. Net interest income grew by 50% to £36 million, while fees and commission income recorded a 14% growth to close at £8 million. The Company's balance sheet also grew by 11% to £2 billion, mainly as a result of increased lending activities and funding from customer deposits. A prudent risk management regime saw impaired loans declining by 131% over the previous year, to close at £1.56 million.

Democratic Republic of Congo (DRC)

Economic performance in the DRC improved, reflecting its relative insulation from the crisis in Europe, mainly because of its relatively low level of global integration. Sustaining this trend will, however, require, amongst other things, diversifying the economy and investing substantially in new infrastructure. In the Eastern region, dealing with the low-intensity rebellion and the accompanying social unrest remains a priority for the Government. Our subsidiary, Banque Internationale de Crédit (BIC) was able largely to weather the recent turmoil with minimal impact, due to prudent judgment and sound operating and security policies.

In 2012, BIC implemented a strategic framework to harness the full potential and inherent opportunities in the DRC's operating environment. The Company deployed a market segmentation strategy aimed at appropriately targeting each of the available market segments with the current portfolio being divided into wholesale (corporate and institutional clients), retail (mass market, SME, affluent and high net worth individuals) and public institutional clients. The clients were further regrouped according to their industry and assigned customer relationship officers to better understand and manage their specific needs. A reorganisation of the subsidiary was also carried out with a number of staff seconded from FirstBank to provide strategic direction and oversight functions in critical areas/departments of the Bank's operations. This is in line with the policy of providing career opportunities and deepening knowledge transfer within the Commercial Banking business group, whilst enhancing control over the business.

The result of this was an increase in deposits of 30% from US$178.7 million in 2011 to US$232.4 million in 2012, mainly from current accounts. On the assets side, the Company also recorded impressive loan growth of 28% from US$97 million in December 2011 to US$124 million in October 2012. The Company's income also grew by 35% over the previous year from US$37.7 million to US$50.7 million with non-interest income (mainly profit on foreign exchange transactions as well as fees and commissions) representing 69.5%.

FirstBank's acquisition of 75% of the equity of BIC has allowed for a general strengthening of the institution and a refocusing of its strategy. Over time, our strong presence in this nation with enormous potential will yield handsome returns. Leveraging the FirstBank platform, BIC has embedded much-anticipated features in its products, to maximise revenue from existing clients and to attract a more demanding customer base. E-banking in all its forms (internet, mobile, ATM, cards, etc.) are now key components of the competitive tools. BIC's relationship with FirstBank and its access to the Bank's balance sheet and resources also provide a platform for the Company to participate effectively in infrastructure financing within the economy.

2013 priorities

The year 2013 represents the final year of our 2011–2013 strategic planning cycle, necessitating commencement of the process of establishing pillars upon which our strategy will run in the next cycle. These pillars must take into account several lessons learnt from the last strategic cycle as well as a number of critical issues that require attention going forward, based on the evolving financial services landscape.

A number of initiatives introduced by the CBN in 2012 are set to have some impact on bank profitability, and indicate that banks will need to be creative in managing their revenue streams. These initiatives include the removal of the ₦100 ATM withdrawal charge and the increase in AMCON resolution costs from 0.3% to 0.5% of total assets, as well as the proposed minimum of 30% of MPR interest on savings accounts. The expected full implementation of the TSA policy will also impact banks' funding as the Federal Government has hitherto been a major contributor to customer deposits. (Note, however, that this policy does not affect State Governments' deposits.) In order to make up for the loss of TSA accounts, banks will be required to be resourceful and creative in deepening customer relationships, developing a deep understanding of their customers' needs and creating inspired solutions to meet these needs.

In response to this, our public sector priorities in 2013 include the need to diversify by identifying new businesses that have no direct link with the Federation Account, while growing a healthy base of liabilities outside volatile statutory allocations. With respect to our corporate and institutional market segments, we intend to be more efficient and aggressive in the deployment of e-business solutions, as more customers in these business segments increasingly embrace e-payment strategies due to the CBN's cashless policy. In the coming months, we intend to expand our value chain management framework and institutionalise it to ensure that we proactively cater for the needs of our corporate customers throughout the length of the value chain and that all potential income from their different business needs is trapped. This will involve us anticipating our customers' business needs and deploying active and beneficial solutions to meet them. Our Retail Banking SBU will focus on collaborating with the Public Sector SBU and Corporate Banking and Institutional Banking SBUs to ensure that synergies across the various business segments are harnessed. We will continue to employ our FirstMonie product to drive financial inclusion especially among the unbanked, and also to drive e-commerce, focusing particularly on small businesses, while across all business units we will actively deploy our detailed cross-selling framework to grow vital product lines.

Given the economy's trajectory, our e-business initiatives will be given significant priority in 2013, with the primary objective being to deploy channels to grow our customer base and reduce cost per transaction. In addition to our proposed branch expansion for 2013 (75 business locations expected, made up of branches and QSPs), alternative channels will also be deployed to complement network expansion in a typical hub and spoke model, especially in high density and large cities, which will effectively reduce our network expansion costs. We will ensure we sweat these platforms by developing additional functionalities and customised solutions on all channels in closed and open schemes to gain competitive advantage.

In order to improve overall customer experience in the Bank in 2013, we intend to continue to build on our newly developed proactive management of the complaints process. From the feedback collated in this process, we will focus on the top five service issues and engender a customer-centric culture across the Bank through the incorporation of service quality indicators (SQIs) across all functions from the front office to the back end.

With our continued focus on our people, our priorities for 2013 will be to undertake full implementation of our talent management framework and initiatives. This includes a full rollout of First Academy Schools across the FirstBank Group as well as full exploitation of our e-learning (FirstLearn) platform.

Our financial priorities in 2013 include cost containment and capital management. Our cost-containment initiatives will include ensuring our NPL ratios are kept within an acceptable threshold while efficiency levels increase across the Bank. Our target of a maximum of 10% growth in risk assets is essentially directed at ensuring we maintain healthy capital adequacy ratios across our business.

To further improve performance, our pension custody business will continue to strive for increased operational efficiency in 2013, which will translate into reduction in operational costs. The Company will continue to focus on containing operating expense levels and ensure that costs grow at a slower pace than revenue.

The proposed adoption of the Basel III reform in the United Kingdom introduces a firmer definition of capital as well as a new liquidity standard. The stricter capital definition will lower banks' available capital, with the risk-weighted assets for certain transactions significantly increased. These will impact banks' capital ratios. FBN UK has positioned itself adequately for the Basel III adoption, including receiving an additional £50 million capital in the form of an equity injection from First Bank of Nigeria Limited, its parent bank in 2012. Also, given its diversified funding base, the Company continues to benefit from improved liquidity. With the requisite capital and liquidity buffers in place, FBN UK is prepared to defend its market position and grow the business.

In the DRC, we have great expectations for BIC and look forward to growing the business through various business initiatives including exploiting FirstBank synergies to tap into DRC's huge trade and investment flows with China, South Africa and other countries where FirstBank is present. In addition to these, the Company will expand its syndication desk to cater to a higher volume of loan syndications with FBN UK for high-profile mining clients in DRC. The Company's organisation structure is also being modified to further enhance a performance-driven culture. The performance management system of FirstBank is being adapted to BIC realities while reward and recognition schemes will also be developed.

Given the success of our foray into the DRC, FirstBank intends to continue to expand its footprints across Sub-Saharan Africa (excluding South Africa). We continue to evaluate expansion opportunities across the continent and will pursue transactions which fit into our Africa plan and represent the best value to our shareholders.

Conclusion

Without ceding ground on the deployment of brick-and-mortar customer touch-points, the past year has seen us grow our domestic sales network through dominance of alternate delivery channels. We were, in summary, able to consolidate our leadership of the domestic banking space. We are thus uniquely poised to leverage the next major development areas in the domestic financial services industry which are the growth of online transactions and the broadening of the financial services space resulting from the ease of use and convenience of access to banking services that today's technology can deliver. Arguably, we are on course towards achieving our set goals and targets of being not just the biggest financial services provider in Nigeria, but also one of the most efficient.

Based on the global trends closing 2012, the evolving nature of our national challenges and increasing competition from a healthier banking industry, 2013 will be a much tougher year for FirstBank. To properly address these and other associated downside risks, we will be more clinical in execution and delivery. Innovativeness and entrepreneurship will be the game-changers and FirstBank will place a significant premium on these as we go through the year. In 2013, we intend to consolidate the accomplishments of past years, reflecting the results of extreme hard work in pursuit of clearly articulated and sustainable strategies. I have no doubt that given the support of all our stakeholders, we will deliver on this promise.

Thank you and God bless.

Bisi Onasanya
Group Managing Director/Chief Executive Officer

First Bank of Nigeria Ltd

Operating environment

The global economy

Signs from the global economy remained mixed throughout 2012. The euro area crisis remained at the centre of global concerns, and worsened by year end, as liquidity fled marginal economies for the core. Fiscal worries in Greece, Spain and Italy remained key concerns as the European Central Bank (ECB) agreed the outlines of its intervention to safeguard an appropriate monetary policy transmission and the singleness of the monetary policy through the purchase of sovereign bonds with a maturity of between one and three years.

By year end, attention had moved to considerations of when Spain will approach the ECB for support, and whether Greece could negotiate an expansion of its austerity window. The markets' worries over the US$600 billion of tax increases and spending cuts ('fiscal cliff'), which were supposed to take effect in the US by year end, were allayed by the late passage of the American Taxpayer Relief Act which removed many of the tax concerns of the fiscal cliff with corrections to the spending cuts put off till February 2013. Concerned by dwindling growth prospects in the euro zone, Moody (a rating agency) downgraded the outlook for the major EU countries from stable to negative, with most analysts noting that a negative outlook is usually a precursor to a ratings downgrade.

With activity slowing in the United Kingdom, the IMF estimates UK economic growth in 2012 at -0.4% from 0.8% in 2011. Balance sheet corrections in the financial markets and the consequences of these corrections on private consumption were the major impediments to growth in the UK. Consequently, the rate of consumer price growth is estimated to have dropped to 2.71% in 2012 from 4.5% a year previously.

Although not as severe as the euro area woes, signs of a recovery in the US were a lot weaker than forecasted at the beginning of the year. US consumer prices rose 1.7% in 2012, down from 3% in 2011, while average job growth prompted the US Federal Reserve Bank to embark on a third round of quantitative easing. Consequently, output growth in the US is estimated to drop to 2.1% by year end from 2.2% last year. Evidence of the collateral effect of the euro zone crisis was, however, more visible across most other economies in the world.

On the back of strong retail sales, industrial production and fixed asset investment growth in September, the Chinese economy, the world's second largest, grew by 7.8% in 2012 (2011: 9.3%). This was China's slowest output growth in the last 13 years.

Output growth in the Democratic Republic of Congo (DRC) is estimated at 7.1% in 2012, up from 6.9% a year earlier. The trend in consumer prices was likewise positive, falling to 10.4% on a year-average basis, from 15.5% in 2011. Despite an improving business environment in the DRC, the on-off hostilities remained a major blot on the country's potential in 2012.

There was downward pressure on oil prices in 2012 as a result of the combination of flat growth in demand in the first half of the year, unexpectedly high inventories in the US, and Saudi Arabia's authorities' expressed preference for lower prices on the world oil markets. These were, however, balanced by the continued concerns over geo-political stability in the Middle East and North African regions. Bonny Light crude prices dropped 1.97% on the January close (US$113.08 per barrel) to end 2012 at US$110.85 per barrel. The Institute of International Finance (IIF) now expects oil demand to taper off in the short term on global growth concerns.

Operating environment

Nigeria

The trade channel is the main route through which developments in the global markets impact the domestic market in Nigeria, with crude oil sales the dominant revenue earner. Elevated crude oil prices through 2012 meant that trade terms remained positive locally, ensuring that the domestic environment was supportive of the general direction of our business. Despite subdued growth in the UK in 2012, our UK operation was able to leverage its position as an interface of trade flows between Nigeria and other emerging markets to remain profitable.

The domestic economy is estimated by the National Bureau of Statistics (NBS) to have grown by 6.61% in 2012, down from the 7.37% recorded in the corresponding period of 2011. As usual, the non-oil sector provided the main stimulus to growth, growing at 7.95%. The oil sector's contribution to output growth was mixed in the review period with a strong performance in the first quarter tailing off by the end of the three-month period to September 2012, when the performance turned negative (-0.2%).

Firmer domestic oil production numbers were supported in the period under review by oil prices averaging above US$100 per barrel. Domestic oil production, helped by improved security in the Niger Delta region, closed the year at 2.18 million barrels per day (mbpd) from the 2.043mbpd in the three months to end-December 2011. Consequently, with crude oil exports contributing over 80% of official revenue receipts, the Federal Government exceeded its revenue targets for 2012.

With the President assenting to the 2012 appropriations bill in the first quarter, attention focused on the impact of fiscal policies on the domestic economy. Robust oil production, price and firm output growth strengthened overall numbers, but concern remained at year end over the rate of growth of official debt. The Debt Management Office (DMO) reported that in the 12 months to end-December 2012, the economy's debt stock rose by 12% from ₦11.29 trillion as at end-December 2011 to ₦12.642 trillion. Of the end-December 2012 figure, the external component (i.e., claims on national assets by non-resident persons/ institutions) at ₦6.296 trillion represents 49.8%. The country's total debt stock represented about 18.32% of GDP in the year to end-December 2012 (December 2011: 17.5%).

Strong revenue performance may have helped, but the improved performance of the naira in the various markets owed a lot to the macro-prudential measures put in place at the July meeting of the Central Bank of Nigeria's (CBN) rate-setting committee. To this end, tighter net open position requirements at the banks meant a decline in the sub-sector's appetite for foreign exchange. As a result, the naira held firm across all market segments in the review period. At the Wholesale Dutch Auction System (WDAS), the exchange rate closed in December 2012 at ₦155.77/ US$1 from its January close of ₦157.05/US$1. At the interbank segment, the selling rate opened in January at ₦161.60/US$1 and closed at ₦157.87/US$1, while at the parallel market the rates were ₦164/US$1 and ₦159/US$1 for January and December 2012 respectively.

This combination of better exchange rates, stronger oil production, and favourable prices on the international market for crude led to an increase in the external reserves. The external reserve also benefited from strong foreign portfolio inflows in the second half of the year. Gross external reserves as at end-December 2012 stood at US$44.18 billion, up on the end-December 2011 figure of US$33 billion.

Year on year, consumer prices rose to 12% in December 2012 from 10.3% in the same period in 2011 reflecting the impact of the security situation in the northern parts of the country and the consequence of the mid-year floods which affected agricultural production across large bands of the country. It is expected that consumer prices will begin to moderate by the end of the first quarter of next year, as agriculture recovers from the effects of the flooding. However, the core component of the inflation measure, at 13.7%, remains high (December 2011: 10.8%) and worrisome. There are strong reasons to believe that the core inflation numbers reflect structural rigidities in the economy, and may not immediately respond to monetary policy influence. The case therefore remains strong for further and far-reaching reforms to the fiscal side of the economy, especially such reforms as might make the Government more efficient.

The CBN's efforts in the monetary policy domain ensured the stability necessary for the financial services sector to grow its business after the downturn in 2009. Considerable opportunities opened up for the Bank from investment in government securities following improvements on the yield derivable from these assets.

Operating environment

Domestic industry

The Government's large appetite for domestic debt significantly boosted the banking industry in the review period. Banks' interest income lines were enhanced by the coupon rate on 90-days Treasury Bills averaging 12.5% in the year ended December 2012. Largely, these elevated rates were the result of the apex bank's commitment to the tightening of monetary policy during the year in response to the threat of a rise in consumer prices. With consumer prices trending down, and the exchange rate a lot more stable, the real rate of return on financial instruments stayed in positive territory. On the back of the more stable policy environment, private sector credit growth rose last year from ₦14.18 trillion as at year end 2011 to ₦15.3 trillion as at end-December 2012.

Stronger money market yields put further pressure on the retail end of the deposit market, with more discerning depositors moving towards Treasury Bills. Banks were therefore challenged to seek new deposit sources while reinforcing existing mechanisms for driving sales. The industry's decision to expand the reach of the formal financial services sector to the ranks of the unbanked was one such window. Piggy-backing on the ubiquity of the mobile phone (the number of phone subscribers stood at 107.37 million in September), and the public trust that has arisen on the back of its presence, a number of banks deployed mobile-phone-based settlement and payments infrastructure in the review period. Although adoption has underwhelmed expectations, largely because of the slow deployment of agent networks across the country, the revenue outlook from this line of business is balanced on the upside.

The phased implementation of the Federal Government's Treasury Single Account also posed considerable challenges for the industry in the review period. With the prospect of an eventual withdrawal of the federal public sector's deposit looming, opportunities for tapping into and controlling the cash component in the value chain of government spend acquired a newer importance. However, sub-national governments, which account for two-thirds of government spend in the economy, will not be affected by the Treasury Single Account. Early indications are of an increase in the velocity of circulation of these deposits, a resulting drop in the size of the floats available therefrom and adverse consequences on banks' earnings. At a different level, banks (industry players with offshore subsidiaries) had to re-appraise their strategies for growing their cross-border footprints following the apex bank's decision to restrict the export of capital for the re-capitalisation of domestic banks' foreign operations.

These downsides notwithstanding, the operating environment held out strong growth/diversification opportunities, including those resulting from the design and deployment of new products and services riding on the back of the CBN's efforts to wean the economy from its traditional dependence on cash-based payments and settlements.

Outlook

Overall, the outlook for the domestic economy has softened over the last two years. Over the next fiscal cycle, most analysts expect the non-oil sector to gain the most from both exchange rate and monetary stability. Key sectors to look out for will include the financial services, wholesale and retail trade, and construction.

The inflation outlook will, however, remain a key driver of the CBN's policy stance. With the direction and pace of headline and core consumer prices trending differently last year, the inflation outlook is unclear beyond the first quarter of 2013, when it is broadly expected to continue its 2012 trajectory. Whereas the pass-through of the increases in fuel prices and electricity tariff earlier in the year was more muted than most commentators had forecast, the consequences of the mid-2012 flooding across the country on 2013 food prices is still uncertain. On the other hand, government finances, especially the degree to which public spending drives productivity increases, and the extent to which the bulk of short-term public borrowing is needed to finance the recurrent portion of the Government's balance sheets will be a central determinant of domestic price responses.

The effect of the Government's continued recourse to short-term domestic borrowing to fund its near-term balance sheet needs will be to constrain the interest rate space, putting pressure on price structures and balance sheet management. The recovery of domestic demand on the back of a more steady policy environment is an upside to this outlook.

Additional upsides include improvements to investment opportunities in the infrastructure space as the Government continues its privatisation and commercialisation of state-owned enterprises. In particular, opportunities for bank lending opened last year in the oil and gas sector as the Federal Government sold marginal oil fields, and began the implementation of the local content policy. Similar opportunities opened in the power sector with the sale of generating and distribution companies and the transfer of the transmission company to the private sector. Along with the opening of the infrastructure space at the sub-national level to private investors, these developments hold out immense funding opportunities for the banking sector. However, concerns over mismatches will arise in the light of the long-term funding needs of these projects and the short-term nature of banks' liabilities. Still, banks ought to be able to provide funding support for these projects until longer-term lending from the capital market takes up the slack.

On balance, with output growth this year comfortably above 6%, the outlook for the banking industry is positive with strong upside risks, including a reduction in the monetary policy rate. The industry's deployment of mobile-phone-based payments solutions should provide strong tail-winds in the search for both new deposit streams and revenue sources. Inadequate infrastructure, especially in the communications and information technology sectors will, however, constitute major barriers in this regard.

With the economy continuing to show resilience in the face of continued global weaknesses, the recent structural reforms we have embarked on at FirstBank uniquely position us to leverage the nascent signs of accelerating growth which may begin to show next year.

Strategy and performance

FirstBank

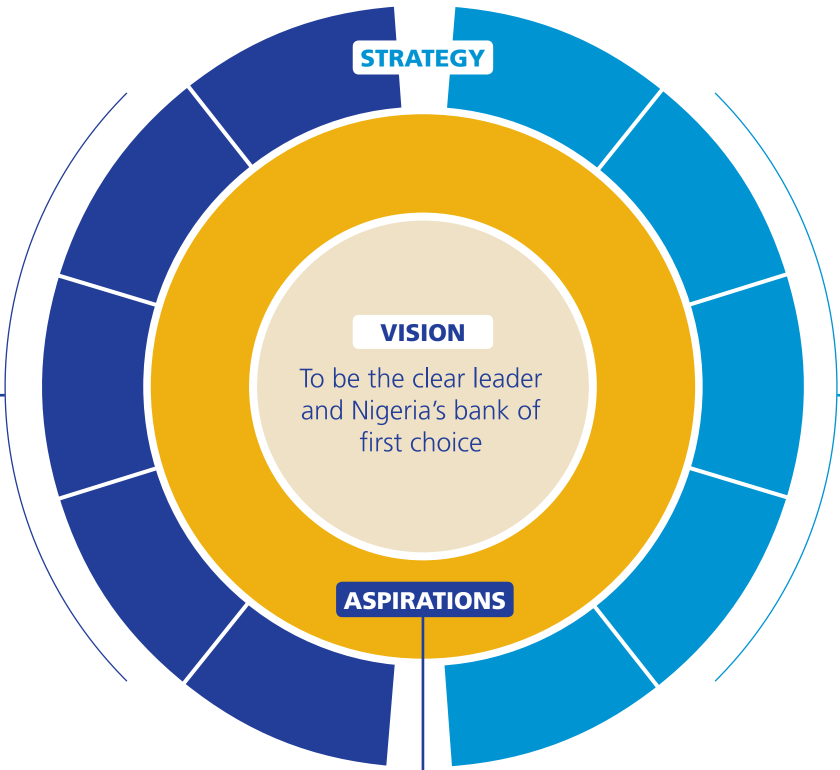
Overview

FirstBank aspires to be the 'clear leader and Nigeria's bank of first choice'. Premised on this aspiration, the Bank embarked on a focused transformation programme designed to deliver on its aspirations. Consequently, the thrust of our strategy at Bank level over the medium term is to defend and extend our leadership position to achieve superior financial results and plant seeds for the long term. Our value proposition to our customers is anchored on the provision of integrated product/ service suites and deep insights into key buyer-needs of our customers.

FirstBank vision and strategy

FINANCIAL PRIORITIES

- Fees and commissions increase
- Selective loans and advances creation
- Pricing optimisation
- Low-cost deposit liability generation
- Operating expense containment



NON-FINANCIAL PRIORITIES

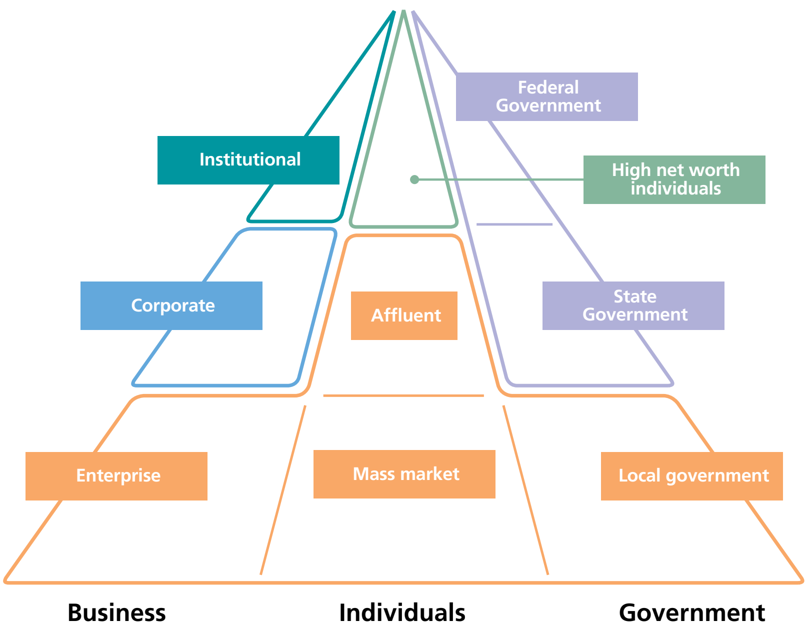
- Service excellence
- Credit quality/ process excellence
- Brand transformation
- Talent management
- Performance management

DEFEND | EXTEND | LEAD | BALANCE

Business model

The Bank generates value by exploiting the immense retail banking franchise to trap and grow low-cost/sustainable deposit as a platform for the Institutional and Corporate Banking groups to create quality risk assets. As part of the processes to ensure the Bank's business model is continuously optimised, there has been clear delineation of segments within the Retail Banking SBU to ensure a proper match of value proposition to customers' profile. This has been done to further deepen the existing market and create new space within the existing/new retail markets.

Commercial Banking business model



I Institutional Banking

- Grow lending in right portfolio mix/ concentration.
- Ensure linkage of lending to transaction banking/fee sources (e.g., cash management, trade finance, risk products).
- Leverage value chains of institutional clients.
- Deepen capabilities for growth sectors (e.g., infrastructure).

R Retail Banking

- Continue to generate low-cost stable funding via CASA deposit mobilisation.
- Make significant strides in acquiring affluent and small business customers as well as youth.
- Expand consumer and small business credit (secured lending, cards).
- Align sales and service costs to value of customers.
- Establish strong mobile money offering.

C Corporate Banking

- Manage risk with large clients and drive fee income through payments, account turnover, trade finance, etc.
- Grow small ticket lending at right price to large number of corporate customers.
- Establish strong acquisition pipeline for new/referred corporate customers.
- Optimise RM coverage/deployment model but manage cost for sales and service across the diverse segment.

P Private Banking

- Drive customer acquisition and contribution to FirstBank group with defined referral management system and Group cross-sell incentives.
- Drive transaction and fee income via investment products/AUM and interest income via credit cards and mortgages (onshore/offshore).

PS Public Sector

- Target revenue/expenditure accounts (e.g., Federation Accounts and Allocation Committee) in wealthiest states and business in key Ministries, Departments and Agencies.
- Drive value-added services (e.g., collections, payment services).
- Optimise lending within regulatory limits and extend via PPP participation and other Group offerings (e.g., IBAM state bond issues).

To enable effective uptake and use of deposits generated by the Retail Banking and Institutional/Corporate Banking SBUs have put in place mechanisms to drive the value chain approach to 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 Strategic Business Units in the Bank.

Strategy framework

FirstBank's strategic framework remains dedicated to optimising the growth potential in all our core businesses. The Bank realises that its market leadership can only be achieved through an integrated and sustainable framework.

The main ingredients of the Bank's growth strategy have been to:

Strengthen our foundation

In this context, there are **three** key themes:

- 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 instituted several key initiatives to address the delivery of superior service/service excellence; and
- comprehensive talent management.

Exploit pockets of profitable growth

The Bank is currently at an important juncture and without a doubt, the market leader in all segments it participates in. For each of our Strategic Business Units, we developed crisp, unambiguous and distinctive value propositions linked to a good understanding of the underlying economics/dynamics as demonstrated in the product portfolio, channel strategy, marketing, communications and go-to-market strategy, etc.

Harness synergies within the Bank and across the Group

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

FirstBank has five Strategic Business Units (SBUs): Institutional Banking, Corporate Banking, Retail Banking (including SMEs), Public Sector, and Private Banking. Their business is focused on developing deep insights into their respective customer segments and developing superior value propositions for each one. Value is also created through close collaboration between synergistic SBUs, further deepening the customer relationship.

Medium-term strategy

FirstBank (Commercial Banking group) – progress against long-term vision

The Bank's long-term vision is to deliver clear industry leadership and restore operational excellence and our 2011–2013 strategic plans are designed to help us achieve the medium-term objectives of this vision.

Short term	Medium term	Long term
Current progress		
Consolidate leadership position in Nigeria	**Diversify and transform Bank**	**Build scale internationally**
Be number one in every business segment.	Drive Bank transformation to completion.	Significant SSA expansion and growth in banking with selective international forays in bank financial services.
Continue aggressive Bank transformation.	Build scale in IBG, CBG leverage Group synergies.	Focus on driving economies of scale and scope across international network and portfolio businesses.
Representative office expansion; initial SSA exploration/foray.	Commence SSA regional expansion in earnest.	

First Forward – 2013 aspirations

Since 2011, we have pursued our strategic plans with purpose, with the resulting aspirations clearly articulated.

ASPIRATIONS

DEFEND	Defend our leadership position with respect to balance sheet (total assets, deposits, etc.)
EXTEND	Extend our performance to attain a leading position in terms of profitability, capital efficiency and service/operational efficiency and effectiveness
LEAD	Attain a market leadership position in each strategic business unit and extend our franchise into select promising markets in Sub-Saharan Africa
BALANCE	Balance short-term performance with long-term health, delivering strong near-term earnings while making requisite investments for long-term growth

Corporate strategy

In support of our aspirations, we have laid out a 10-point plan of how we intend to build a more dominant banking group. Our strategy is designed to make FirstBank a more competitive bank, playing to its strengths – which are a wide distribution network and resulting funding advantage, a rich legacy, and deep customer relationships. In the last three 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. As earlier indicated, our medium-term strategy is premised on a set of prioritised financial and non-financial initiatives to ensure we achieve rounded growth across key metrics.

FINANCIAL PRIORITIES

- Fees and commissions increase
- Selective loans and advances creation
- Pricing optimisation
- Low-cost deposit liability generation
- Operating expense containment

STRATEGIC BUSINESS UNITS AND ROLES

I	**Institutional Banking**	Improved value proposition and tailored solutions to serve largest corporations
C	**Corporate Banking**	Lending at managed risk; improved penetration of mid-sized corporates
PS	**Public Sector**	Bank of choice for government bodies at the Federal and State levels
R	**Retail Banking**	Strong affluent/SME customer acquisition with continued deposit drive and credit expansion
P	**Private Banking**	Premium/differentiated sales and service model for high net worth individuals

NON-FINANCIAL PRIORITIES

- Service excellence
- Credit quality/ process excellence
- Brand transformation
- Talent management
- Performance management

The financial priorities have largely been channelled through the SBUs. There has been increased emphasis on a holistic approach towards managing customers of the Institutional Banking SBU with the value chain approach and an enhanced relationship management model to provide 360-degree coverage for customers in this segment of the market. Capabilities are being built in infrastructure financing to position the Bank to harness opportunities in this emerging space.

The Corporate Banking SBU set out to be the leading provider of integrated banking products/services for mid-cap corporates in Nigeria by expanding the 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. The setting up of the Emerging Corporates division within the Corporate Banking SBU has provided the necessary platform to achieve the penetration required to succeed in the mid-tier corporate market in Nigeria. During the year ended 31 December 2012, the Emerging Corporates division grew its customer base by 852% and recorded net revenue of ₦1.6 billion in the first six months of operations. This represents 4% of total Corporate Banking net revenue in the period under review.

The Bank continued to be the preferred financial service provider to many State Governments, Federal Government departments, ministries, etc., in the public sector space in Nigeria. This is particularly strategic as the public sector remains the largest source of deposits in the local economy. The Bank has also harnessed significant cross-selling/referral opportunities from the public sector relationships, i.e., referrals between public sector (government contractors) and Corporate Banking; HNIs in Public Sector and Private Banking; and structured finance in Public Sector and Institutional Banking SBUs.

The Retail Banking franchise remains key to the Bank with respect to the provision of low-cost stable deposits. As part of the initiative to drive the required growth in this segment, the Bank has instituted a new relationship manager/customer model. This model allows for closer account management and a more structured approach to engaging the affluent sub-segment of the retail space. Dedicated outlets have been created to provide unique value proposition and deepen that segment of the market for the affluent.

The various non-financial initiatives are targeted at enhancing the efficiency of the Bank and also providing the backbone for growth. During the period under review, the Bank embarked on various transformation initiatives aimed at enhancing cost efficiency, i.e., procurement process review, rationalisation of non-profitable branches, branch-manning review, etc. As it relates to service excellence, the Bank has embarked on an enterprise process review aimed at transforming the management of processes in the Bank. Significant progress has been made with clear definition of SLAs (service level agreements), robust repository of processes, policies and documentation all in place.

Transformation update

The Bank's transformation programme consists of a series of initiatives from a drive to push online banking to measures to make the Bank run more efficiently. Here, we give an update on our progress made against these initiatives in 2012.

Initiative	Description	Update on progress in 2012
Enterprise process management	BPMS (Business Process Management System) deployment: business user-led automation enables visual management, process measurement, etc.	Governing policy for BPMS programme management developed.
	Process repository created to warehouse all process and policy documentation.	All pre-existing process-related documents collapsed and harmonised for relevancy.
	SLA and measurements to lay foundation for process-based performance management.	SLAs defined; focus is on improving the performance of the monitoring tool.
	Process change management for tactical coordination of process improvement initiatives.	Process change management launched.
Online banking/cashless	Corporate module for online banking.	Design of user interface ongoing.
Cost efficiency	Branch-manning review project.	Branch transaction review (types, volumes, complexity, branch size, etc.) undertaken and branch-manning requirements determined by job function and grade mix.
	Procurement process review.	Historical data reviewed and priority areas identified.
	Branch print optimisation project.	POC conducted in 12 branches with four vendors; independent cost benefit analysis carried out by FINCON.
	Rationalise unprofitable branches.	Turned around 15 branches to profitability; implementation of revised mothballing/closure of 14 branches.

Initiative	Description	Update on progress in 2012
Priority segments	Redefine commercial sales model for retail business.	Sub-segmentation of retail customers, new sales model and scorecard developed, business development managers and regional managers trained.
	Increase market share of customers in affluent, youth and SME segments.	The affluent project underway, with premium desks and access cards launched. Youth project ongoing; products and cards to be launched at the end of the first quarter 2013.
	Boost cross-selling using customer analytics.	Phase 2 of CRM/FirstCustomer ongoing; training of relationship managers of Retail Banking, Institutional and Corporate Banking SBUs ongoing. Completion of this project is dependent on the deployment and suitability of the FirstCustomer solution to be deployed by the IT project team.
Service excellence	Branch experience-improvement project.	12 branches (South and North) have been selected for a pilot study, which has commenced with Mobil, Apapa branch. Study in data gathering and analysis stage.
	Service contingency plan and complaints-handling policy, as well as other consumer protection mechanisms, are being implemented.	Other service improvement drives including mystery shopping and customer engagement forums have been undertaken.

Strategy and performance

Review of business units

C Corporate Banking SBU

Overview

The Corporate Banking SBU serves the middle segment of the Nigerian corporate landscape. The corporate banking market generally has a higher-risk profile. 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 Corporate Banking SBU in FirstBank is delineated along two broad lines – emerging corporates team (catering to small corporates with turnover in the range of ₦500 million to ₦2 billion) and large corporate teams (managing relationships of the larger clients – in excess of ₦2 billion turnover annually). Given the unique demands of the customers of the Corporate Banking SBU, it offers a broad spectrum of products required to serve the unique needs of this market segment. It 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

In 2013, the Corporate Banking SBU will be exploring opportunities in the emerging infrastructure landscape, the power segment with a focus on the distribution companies, oil and gas, and agriculture. These segments are pivotal to the medium-term strategic goals of the nation and will be the catalyst for the anticipated resurgence of the economy in the near future.

Consequently, we have built capacity and significantly enhanced our backbone to serve customers in this market space by identifying growth areas. Various initiatives to ensure coverage for our growth strategy in 2013 include:

- dedicated desks and industry experts to provide superior value proposition to our target customers, while partnering them to ensure achievement of sustainable long-term goals; and
- a robust product engine that allows for customisation of products to fit customers' unique needs, with the speed of product programming platform.

Strategies and objectives

The strategy deployed by the Group in 2012 was a focus on the emerging corporates by creating specialised products and dedicated relationship managers to serve this niche within the Corporate Banking SBU. We also provided tailored products/services with improved relationship management.

Our key strategic objectives are as follows:

- Assume market leadership in emerging corporates (mid-level infrastructural financing, distribution sub-segment in power industry, agriculture, etc.) through superior competence and market know-how, buoyed by institutional capacity to consummate transactions. This is imperative given the vast opportunities in the market space and the high-yield potential in emerging corporate sub-segments.
- Consolidate our achievements in the lower markets of corporate banking space (emerging corporates) through aggressive new account sign-ons, trade finance and channel migration. In the first six months of the creation of the emerging corporates team, it has grown deposits to ₦10.2 billion; net revenue to ₦1.6 billion; and achieved a 852% growth in customer base – highlighting the aggressive account acquisition drive. Clearly, there is market to harness.
- Robust cash management platform leveraging our coverage and IT solutions in addition to traditional e-banking offerings, i.e., POS, internet banking, etc.
- Enhanced data mining exercise to capture the full benefits of tracking and managing all aspects of the customer's value chain.

Financial performance

The Corporate Banking SBU contributed 12.9% of total net revenue for the Bank. This translated into a net revenue growth of 7.5% for the financial year ending December 2012 to ₦33.8 billion (FYE 2011: ₦31.4 billion). The growth was driven by volume growth in risk assets of ₦287.2 billion and effective pricing/re-pricing of existing risk assets.

Outlook and 2013 priorities

Going forward, we will focus on deepening existing business, while exploring opportunities in the growth segments of the economy. Specifically, we shall pursue the following:

- business diversification/mix;
- explore new opportunities in growth segments/sectors;
- business coverage across key sectors – sweating business opportunities in non-oil export and infrastructure;
- robust market intelligence across key economic sectors (i.e., agriculture and infrastructure financing);
- deepening the emerging corporate platform; and
- extensive cross-selling initiatives.

I Institutional Banking SBU

Overview

Institutional customers represent the top-end of the business banking value chain and are essentially made-up companies that are structured, i.e., with good and visible corporate governance; an annual turnover of ₦10 billion; and requiring a wide breadth of sophisticated products/product specialisation; such companies are usually listed. These customers comprise the largest organisations across our target industries, i.e., oil and gas, conglomerates and services, manufacturing, telecommunications, transport, financial institutions/multilaterals, construction and infrastructure. They traditionally provide the anchor for our value chain value proposition and also:

- ensure linkage of lending to transaction banking/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).

The value proposition for this segment is to provide bespoke end-to-end service to the top tier of the market, designed to address the peculiar needs of the Institutional Banking customers. Given the depth of industry expertise in the Bank, we also partner our Institutional Banking customers in charting new growth platforms by providing advisory services.

Update on business opportunities

We continue to build strategic partnerships in key business segments of the institutional market by financing cutting-edge transactions that drive revenues or adding value to customers' businesses or projects through the provision of advisory services. Despite challenges faced in the sector in 2012, particularly the removal of the oil subsidy and protracted subsidy payments to oil marketers, our Energy group continued to deepen business relationships in the oil and gas industry. In the upstream sub-sector we provided financing to indigenous oil and gas companies for the acquisition of oil mining leases (OMLs) from divestments by international oil companies (IOCs). As part of our strategic alignment, the Telecommunications, Construction and Infrastructure groups are focused on banking the entire value chain of customers within their respective market segments, with emphasis on increasing our 'share of wallet' of the major players within this space.

Our Manufacturing group participated in notable transactions in the FMCG sector, including the nearly completed Golden Sugar Refinery project (estimated to cost US$227 million upon completion), which we partly financed. The Financial Institutions and Multilaterals group serves local and foreign banks as well as non-bank financial institutions across the world. During the year, the pioneer non-interest bank in the country, Jaiz Bank Plc, signed us on to provide clearing and correspondent banking services. New relationships with development finance institutions and export credit agencies such as AFD-Proparco, United States Agency for International Development (USAID), and The Export-Import Bank of the Republic of China, as well as sustained discussions with already existing client institutions provides added impetus to our actualising an expanding list of pipeline transactions.

The Conglomerates and Services group closed several deals during the year, with FirstBank committing to ₦30 billion of the ₦150 billion club lending facility for the purpose of cement expansion projects, and being selected from a consortium of banks as the facility coordinator. Several pipeline projects set out for FY2013 include Dangote Cement's expansion project in Congo DRC, Dangote Industries Limited's agricultural-based project worth US$1.5 billion and a petrochemical project at Edo State with a projected production capacity of 2,200 metric tonnes per day.

Strategies and objectives

The strategy deployed by the SBU was a focus on the value chain of the customers' businesses as a tool for increasing the wallet share of customers in the various sectors the Bank plays in, by providing a bespoke value proposition for each client.

The overriding objective of the Institutional Banking SBU in FY2013 is to deepen and increase wallet share across target markets and also diversify the loan/asset base into more trading tenured facilities and short-term loans.

Financial performance

The Institutional Banking SBU remains one of the major contributors of net revenue for the Bank with a contribution of 16.9% of total net revenue. The SBU recorded a net revenue growth of 12.6% to ₦44.2 billion for the financial year ending December 2012 (FYE2011: ₦39.3 billion). The major source of growth was through the non-interest income (fees and commission).

Outlook and 2013 priorities

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 including:

- working closely with syndicate banks, leveraging our balance sheet size to play key roles in syndications;
- introducing Treasury products, e.g., derivatives like hedging crude oil prices and other derivatives to enhance our product offering and value proposition; and
- increasing the available trading facilities in areas of crude lifting contracts.

PS Public Sector SBU

Overview

FirstBank's Public Sector SBU provides the full range of integrated banking products, financing and collection services for the Federal and State Governments, as well as Federal Government departments/agencies, which collectively account for significant deposits in the economy. The Public Sector SBU is the largest provider of liquidity to the banking sector; hence, we have developed versatile multi-level products and services to serve these customers effectively across regions. The overarching goal of the Public Sector SBU is to be a leading partner in the Government's economic development projects, and to achieve transaction excellence, while harnessing the substantial deposit-generating capacity of the public sector. Consequently, the Bank has leveraged the SBU to:

- target revenue/expenditure accounts (e.g., Federal allocation accounts in the wealthiest states and business in key ministries);
- 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 portends significant opportunities for the Bank to play in.

Strategy and objectives

Our key strategic objectives are as follows:

- Aggressive client acquisition – marketing and dimension high-value opportunities, market/environmental scanning, activation and re-activation of dormant accounts;
- Effective relationship management – customer intimacy, share of mind, high-level contacts, multi-layered relationship management, visibility and accessibility; and
- Robust client retention proposition – CSI (corporate social investment), Eduportal/e-health memorandum of understanding – lock-in arrangements, capacity building, pricing review, superior service deliverables, robust IT platform.

Financial performance

The Public Sector SBU contributed 16.4% of the total net revenue for the Bank. The SBU recorded a net revenue growth of 41.4% for the financial year ending December 2012 to ₦43 billion (FYE2011: ₦30.4 billion). This growth was driven by the aggressive acquisition of clients, effective relationship management and robust client retention proposition. The SBU will continue to provide superior value propositions (covering revenue, collections, cash management, loans and financial advisory services) to customers.

P Private Banking SBU

Overview

The private banking market is the premium bracket of individual customers. FirstBank's Private Banking SBU serves high net worth individuals (HNIs), providing them with 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 SBU specifically for high-value customers. There are opportunities for Private Banking to sell higher margin investment products, thereby increasing the margin per customer and adjusting the value proposition to its unique customers' needs.

The value proposition of the SBU is built around quality relationship management and a seamless interface for services. As its contribution to the Bank, the Private Banking SBU provides the window for deposit mobilisation and quality risk asset creation, in addition to driving transaction and fee income via investment products/assets under management and interest income via credit cards/mortgages (onshore/offshore). The SBU also provides the platform for customer acquisition and a defined referral management system for cross-selling. In so doing, it provides strategic inroads via referrals for other business units to have access to decision makers in the corporate world.

Update on business opportunities

The premise for competition and opportunities in the private banking segment will always be on the quality/breadth of service and product offerings. As the wealth creators in the local economy become more discerning, there is demand for wealth management that allows customers to harness opportunities across the major economic hubs in the world. This segment hitherto has been the exclusive preserve of the multinational banks. However, there is an emerging desire of these customers to have consolidated/synchronised portfolio management that encompasses their wealth in the local economy. This service is currently not well provided and will determine the winners and losers in the coming years.

Another growth platform in the private banking space is the asset under management (AUM) proposition. Currently, the market is under penetrated in the local economy and the Private Banking SBU has focused on providing world-class advisory/investment services to grow its market share in this space. The proposition spans local and international investment services/products. In the year ended 2012, the Private Banking SBU grew AUM by 76% to ₦38.9 billion in 2012.

Strategies and objectives

Our key strategic objectives are as follows:

- Institute a global private banking platform that gives customers access to international markets, while providing coverage for their local investments.
- Establish clear positioning as a trusted partner. Make and communicate strategic changes, especially as we move to the global private bank structure in 2013.
- Aim for the right segmentation granularity to improve profitability.
- Make products transparent and simple enough for the client to understand.
- Enhance client advisory services with a major focus on wealth management.
- Enhance business processes that facilitate client-centric service delivery.

Financial performance

The Private Banking SBU contributed 0.7% of the total net revenue for the Bank. The SBU is just entering the second year of operation albeit recording a revenue growth of 14.9% for the financial year ending December 2012 to ₦1.83 billion (FYE2011: ₦1.59 billion). This growth was achieved via collaboration with other Strategic Business Units and providing a different value proposition from the competition.

Outlook and 2013 priorities

We will continue to focus on the acquisition of private banking clients, the provision of superior services leveraging the other entities under the holding company structure, expanding scope and markets, and the provision of end-to-end relationship management to ensure the Group becomes the first point of contact for clients seeking private banking services in Nigeria.

R Retail Banking SBU

Overview

The Retail Banking SBU of FirstBank predominantly constitutes mass-market customer segments contributing ~95% of the retail banking customer base. However, it also covers SMEs, local governments and affluent customers. Each customer segment is offered a differentiated value proposition, services and products in line with segment characteristics. The Retail Banking SBU provides the outlet to reach out to a customer base of about 8.5 million through a network of about 714 branches/other delivery platforms. The Retail Banking SBU also serves as the bedrock for stable and low-cost deposit mobilisation with about 50% of total deposits in the Bank. The Retail Banking SBU also plays some other strategic roles for the Group, i.e. to:

- continue to generate low-cost stable funding via CASA deposit mobilisation;
- expand consumer and small business credit (secured lending, cards);
- provide a customer analytics system to enable insight-driven marketing, sales and service; and
- be a key lever to achieve dominant POS penetration to embrace the cashless initiative in Nigeria.

Update on business opportunities

The mass market continues to provide a stable source of deposit for the banking industry. Increased focus on financial inclusion by the Nigerian Government and the Central Bank of Nigeria provide the springboard to harness innate deposit opportunities in the mass market. Consequently, channel optimisation will provide a huge growth area for banks in Nigeria in the medium and long term. Competitive advantage will be on the basis of cost to serve the mass market in the retail segment. The emergence of mobile money might be a credible model to bridge the gap in the banked/unbanked population.

Channel migration for our customer base still provides the opportunity for us to be more efficient and cheaper in the delivery of service to the mass market. The emergence of the middle class in Nigeria portends a sweet spot for consumer finance and deposit mobilisation. Increasing market share in the affluent segment is a clear growth path for banks in the local banking industry. Hence, our relationship management model (which provides a robust account/customer platform to efficiently serve target customers) and channel optimisation strategies are focused on capturing market share, while providing access to banking services.

Strategies and objectives

Our strategy going into 2013 is focused disproportionately towards increasing our market share among the affluent and the SME segments, while straddling our dominance in the mass market:

- specific initiatives have been developed around an effective engagement model to unlock opportunities in existing and proposed relationships, i.e.:
  - premium desk to be created in selected branches to solely cater to affluent customers and ensure they get personalised and preferential services;
  - enhanced relationship management model, which ensures that customer/relationship is optimised for effective account coverage;
- in order to ensure we increase our share of the SME market, we are enhancing our go-to-market strategy to provide adequate coverage of the target market by:
  - reviewing the relationship manager/customers ratio to ensure optimal productivity and focus;
  - providing advisory/business management services to SME customers as a way of building capacity; and
  - working closely with industry associations to provide composite solutions relating to the various SMEs to enable product programming.

Financial performance

The Retail Banking SBU is the highest contributor to total net revenue for the Bank contributing 54.5%. The SBU recorded net revenue growth of 31% in 2012 to ₦142.8 billion (FYE2011: ₦109.2 billion) as a result of an increased drive for consumer loans for salary account holders of the Bank, particularly targeted at Institutional Banking customers.

Outlook and 2013 priorities

Summarised below are the strategic priorities of the final year of our current strategic planning period.

- Enhance cost efficiency – implement tactical initiatives to further improve cost efficiency including staff productivity, review of unprofitable branches, etc.
- Optimise channel architecture – perform comprehensive optimisation of the branch expansion strategy and develop an investment model to objectively measure profitability and returns; and deepen business intelligence on channel economics to properly influence customer behaviour.
- Accelerate growth in priority segments, i.e., Retail Banking and Emerging Corporates; continue implementation of modified service model for affluent, youth and SME customers; continue aggressive rollout of FirstMonie, our mobile money business (emphasis on auto-enrolling existing Bank customers and extending through bank network while simultaneously building our formidable agent and distribution/CICO point network). In Emerging Corporates, increase transaction-based income while building a broader portfolio of clients with low individual exposures (including programme lending approach for key sectors/opportunities, sufficiently tight but flexible risk acceptance criteria, strong credit risk assessment, strong monitoring and collections, and emphasis on speed of decisions).
- Drive operational excellence to attain a top three position in service levels/customer satisfaction across the Board – ensure strong linkages to corporate aspiration at all levels/functions through service-level agreements.
- Enhance capabilities in infrastructure financing/banking – build the specialist capabilities required to capture the growing infrastructure financing opportunity and leverage strong investment banking platform to increase client value proposition.

Strategy and performance

FBN Bank (UK)

Overview

FBN Bank (UK) Ltd, a wholly owned subsidiary of First Bank of Nigeria Ltd, aspires to provide world-class international banking and trade services in support of commercial relations between Africa and the European Union. It is an authorised banking institution regulated by the Financial Services Authority and provides a range of domestic and international banking and financial services. The overall vision of the Bank is to continue to be the leading Nigerian-owned bank in the UK offering excellent services to African countries through the integration of various business units within the Group. To drive achievement of this goal, its operations are coordinated from its head office in London with a branch office in Paris to tap into the francophone opportunities.

FBN Bank (UK) Ltd has core competence in providing financial solutions for mid-tier to large corporates, operating specifically within or with the African market. FBN Bank (UK) Ltd's core target markets are affluent and high net worth individuals, mid-tier to large corporate institutions, financial institutions, government and parastatals. The Bank focuses on providing quality services to both new and existing customers; hence it targets customers with business interests all over the globe, but predominantly in Africa and Europe.

The principal activities are the provision of correspondent banking, corporate banking, structured trade commodity finance, private banking, property finance, structured finance and Treasury services to our clients.

Business model

The Bank is structured into six Strategic Business Units: Corporate Banking, Correspondent Banking, Private Banking, Project and Structured Finance, Property Finance and Structured Trade Commodity Finance in line with its principal line of business activities.

Each Strategic Business Unit addresses one or more of these markets with adequate support from the Bank's operational structure, management leadership and capital base. The Bank's business model is couched within a strict risk, regulatory and governance framework, which supports its drive for sustainable growth and better corporate responsibility.

Strategy

The Bank's main strategic objective is to continue to provide world-class international banking services to African-related businesses and individuals, which is supported by its market consolidation and penetration strategy. Its strategic business units are now well-established in their markets and the focus going forward is to continue to grow market share as it expands operations in each of the markets that it is already in.

The Bank is currently well ahead of its three-year strategic plan, which was implemented 2.5 years ago, on both balance sheet and profit and loss metrics. The Bank, as at the end of 2012, has exceeded profit and total asset targets set for 2013. However, FBN Bank (UK) Ltd will continue to strive for improvements, while implementing measures that would drive the business forward.

The Bank has maintained a competitive advantage over its UK competitors due to the fact that it has a vast experience of local knowledge in its strategic target market in Nigeria and across Africa. This has seen its Trade Finance business remain stable, maintaining a consistent level of business activity over the year. Remarkable business growth was made within the Bank's Structured Trade Commodity Finance and Project Finance businesses, as they continued to establish themselves in a highly competitive market.

The Bank was able to capitalise on its expertise and growing opportunities within Africa by establishing a fully fledged Corporate Banking SBU. A team headed by a new director, ably supported by a strong team of business development managers was put in place to drive the Corporate Banking business. In spite of the fact that 2012 was the first year of operations of the Corporate Banking SBU, the team achieved significant strides by meeting its financial targets for the year.

The Bank has fully identified risks associated with its business model and has put in place appropriate measures to mitigate these risks.

Operating environment

The UK economy contracted for most of the year, except the third quarter of 2012 when it experienced 0.8% growth boosted by the Olympics. But according to official statistics released by the Office for National Statistics (ONS), the UK economy shrank by 0.3% in the last quarter of 2012. The UK Government's borrowing level and unemployment rate remained high and there were no signs of an immediate solution to the bleak economic outlook. However, the inflation rate reduced from 4.2% at the close of December 2011 to 2.7% as at December 2012, its lowest level for 2.5 years. This was greatly influenced by the decline in oil prices and broader-based weakness in price pressures.

The regulatory environment in the UK remained very challenging, with the policies posture more restrictive. The regulatory policies stance is skewed towards the introduction of stringent banking rules in order to ensure banks are in better health and maintain financial stability going forward. Some of the proposed new rules are quite restrictive and costly, but are to become effective in the medium term.

Basel III is imminent in 2013 and its principles are being delivered in Europe through both the Capital Requirements Directive (CRD4) and the Capital Requirements Regulation (CRR). The main thrust of these new regulations is about banks holding more capital and liquidity to support their operations. These are expected to have significant cost implications for banks and invariably put pressure on profitability. However, the UK regulator has compelled UK-based banks towards early compliance.

In the UK, the FSA introduced a number of measures to increase financial market regulation including the 'Recovery and Resolution Plan' (RRP). It is strongly evidenced that the application of the liquidity rules have frustrated the supply of credit to the economy and this has led to recent calls by industry experts and policymakers for the FSA to relax the requirements so as to help fight the current economic crisis.

FBN Bank (UK) Ltd continues to carry out comprehensive reviews of its capital and liquidity positions, keeping ahead of regulations, a measure of its prudent risk management policy. FBN Bank (UK) Ltd will continue to respond positively to the ongoing adverse economic conditions and more stringent regulatory requirements through its conservative approach to business.

Performance

FBN Bank (UK) Ltd posted improved profitability in 2012. This improved performance was due to successful implementation of its market consolidation and penetration strategy. The Bank grew its corporate banking business significantly in the year 2012, with total portfolio income from this business segment representing 54.4% (2011: 34.1%) of the Bank's total income for the period under review. The corporate portfolio of the Bank expanded, with substantial inroads made especially with the Structured Trade Commodity and Project Finance businesses. Consequently income generated from these businesses also increased in the year under review. Income generated from corporate banking business increased in 2012 by 106% compared to 2011.

Despite operating in a challenging economic condition in 2012, private banking business continued to show great potential, growing over the year. Property investment continued on its upward trend, comparable with previous years despite the continued downturn in the UK housing market. Gross income generated by private banking and wealth management in 2012 increased by 39% in comparison to 2011. The increase was on the back of a good performance from its property portfolio. The portfolio income performance represented 11% (2011: 10.2%) of the Bank's total income.

FBN Bank (UK) Ltd acted as correspondent bank for a number of African banks and helped facilitate trade flows between the various African countries and the rest of the world. The business continued to perform well, though its percentage share of income contribution reduced in 2012 to 34.6% (2011: 55.8%) due to the corporate banking business expansion.

Overall for 2012, riding on improved performance in all its business lines, FBN Bank (UK) Ltd recorded a 21.4% growth in revenue compared with 2011. The increase in gross earnings compared to the prior year resulted from the expansion of customer-lending activities. Its portfolio of earning assets increased by 10.95% year on year with a better quality and more profitable assets mix achieved in 2012. With improved asset quality, credit impairment cost reduced by 52.8% in 2012. Operating cost increased by 23% year on year in 2012; however, these additional expenses generated stronger growth in operating income, thus resulting in an improved cost-to-income ratio of 44.23% (2011: 49.67%). This impacted its profitability positively, which grew by 48.4% year on year in 2012 to ₦6.4 billion (GBP26.1 million).

Outlook and 2013 priorities

The near-term economic outlook for the UK economy is projected to be weak and open to significant downside risks. Growth is projected to be flat for the most part of the first half of 2013, but will pick up momentum gradually in the latter part of the year as the global economy recovers. The regulatory stance in 2013 is not expected to be different from what played out in 2012; the expectation is that the regulatory authorities will push for full compliance with the capital and liquidity requirements of Basel III.

In real terms, 2013 will be challenging as a result of the current economic situation and the stricter regulatory environment in which the Bank is expected to operate. Nevertheless, we look forward with optimism and confidence to identify and execute viable business opportunities, which in turn should produce excellent financial performance.

Strategy and performance

Banque Internationale de Crédit (BIC)

Overview

Banque Internationale de Crédit is one of the leading commercial banks in the Democratic Republic of Congo (DRC). The Bank commenced business operations as Banque Internationale de Crédit in 1994, when a presidential approval was granted for the new institution to operate the old liquidated Barclays Bank licence it acquired. In late 2011, FBN as part of its regional expansion aspirations acquired controlling interest (75%) from Thorens Limited that controlled a 99.9% stake in Banque Internationale de Crédit.

Banque Internationale de Crédit (BIC) is rated the fifth largest bank by assets size in the Democratic Republic of Congo. The Bank provides a wide range of financial solutions for individuals, SMEs, corporate institutions and public institutions operating in the DRC. Its target markets are affluent and high net worth individuals, mass market, mid-tier to large corporate institutions and government institutions. The Bank focuses on banking solutions that provide lasting value to customers.

The principal activities are the provision of trade finance, project finance, Treasury, cards and other banking services to clients.

Business model

As part of its integration process and to align with FirstBank Group's overarching aspirations of providing world-class services to satisfy its customers, BIC's operating model was changed to a more customer-centric model that caters for different strata of its customer segment. The operation of the Bank has been modified so as to ensure that the right product is delivered through the right channel to the right customer. To provide a better platform to penetrate its different strata of customers, the Bank has three Strategic Business Units, Retail Banking, Corporate Banking and Public Sector/NGO. The Retail Banking SBU is focused on serving SMEs, high net worth individuals, affluent and mass market. Corporate Banking SBU coverage includes corporate clients with annual revenue of less than US$3 million and private institutional clients with annual revenue greater than US$3 million. Public Sector/NGO SBU is saddled with the responsibility of business development with public institutions such as provincial government, assembly, presidency, state-owned monopolies, ministries departments and agencies (MDAs). These SBUs are ably supported by back-office functions such as risk management, operations and finance.

Strategy

Banque Internationale de Crédit's long-term aspiration is to be the Congolese bank of first choice. In line with this aspiration, the Bank's strategic objectives for the 2015 planning period include being in the top three banks in the Congo in terms of returns and total assets, and second by brand perception among others. To achieve the set strategic objectives, the Bank has implemented the following strategic initiatives.

Market segmentation

To tap into the growth opportunities in the fast-growing Congolese economy and to ensure the right financial solutions are provided to meet the different needs of a wide range of customers, the Bank segmented its market to have a better understanding of the need of each stratum. The current portfolio has been divided into wholesale (corporate and institutional clients), retail (mass market, SMEs, affluent and high net worth individuals) and public institutional clients. Furthermore, these clients are regrouped according to their industry with specialised customers' relationship officers to better understand and manage the specific needs of these clients.

Product development

Leveraging on the knowledge of the customers, the Bank is embedding desired features in its products to maximise revenue from existing clients and to attract more sophisticated new customers. An e-banking suite of products and services (internet, mobile, ATM, cards, etc.) and improved services (reduction in customers' issues resolution time) have been put forward as key competitive tools for the Bank.

Synergies/cross-selling with other members of the Group

Leveraging on the FBN Group, the Bank is looking to tap into DRC's huge trade and investment flows with China, South Africa, Belgium and other countries where FBN and its other subsidiaries are present. In addition to these, the Bank is in the process of syndicating loans with FBN UK for high-profile mining clients in the DRC.

Internal process re-engineering

The Bank is re-engineering its business processes to transform itself into a customer-focused bank. And to ensure that BIC is up to speed with the best practice in its service delivery system, competences are being transferred via secondment of staff from the parent to BIC, and training of BIC staff in FBN. IT infrastructure as well as front-of-office operations, especially in branches, are being geared to optimise processes and to reduce time to deliver products and services.

Organisational structure redesigned

The organisation structure has been modified with strategic business units created to cater for the banking needs of its segmented market. To ensure that staff members are goal driven and to have an incentive system that measures performance and help inculcate a performance culture, a performance management system was introduced. The performance management system was modelled after that of the parent bank, but adapted to BIC reality, while reward and recognition schemes are being developed.

Operating environment

The Congolese economy is one of the fastest-growing economies in Sub-Saharan Africa. The country's GDP grew by 6.5% in 2011, driven chiefly by the mining and transportation sectors as well as communications (with a boom in mobile telephony), wholesale and retail trade, and construction. The economy is projected to grow by an average of 6% in the next four years, which is faster than the projected growth rate of South Africa in the same period. The Congolese economy has a predominantly young population (97% below 64) and a large workforce (40% are 18 years and above), which could be a source of economic advantage.

The Congolese banking industry is still at infancy stage in terms of sophistication of offerings and penetration. Banking penetration is still very low as only 0.6 million out of its working population of 27.8 million have bank accounts. This portends a huge opportunity for banking relationships in a near virgin market, with strong fundamentals for economic growth.

Performance

In its first year of full integration into the FirstBank Group BIC carried out structural changes to its service delivery systems and operating structure to better service its customers and tap into business opportunities in the Congolese economy. These business enhancement initiatives are gradually impacting business performance even at its early stages of implementation, with a noticeable increase in business volumes across all segments in 2012.

The net revenue grew by 34% to ₦7.9 billion from ₦5.9 billion and with non-interest income contributing 69.5%. Net revenue from BIC represents a 2.8% contribution to the Commercial Banking group.

Profit before tax closed the year at ₦907 million, a growth of 42% against 2011.

Outlook and 2013 priorities

With strong growth fundamentals and a highly under-banked population, the Congolese economy is a virgin market waiting to be fully exploited. With structural changes and strategic initiatives implemented, Banque Internationale de Crédit is better equipped to fully take advantage of these opportunities and provide value-adding financial solutions to meet the various needs of different segments of its customers.

Strategy and performance

First Pension Custodian

Overview

First Pension Custodian is a fully owned subsidiary of FirstBank, licensed in 2005, and is one of the foremost pension custodians in the Nigerian pension industry.

First Pension Custodian offers services covering its assigned responsibilities under the Pension Reform Act 2004. These include, but are not limited to, pension contributions collection directly from employers on behalf of the pension fund administrators (PFAs) for the benefit of the contributors; investment transactions settlement; safe keeping of assets; corporate actions across all categories of assets; pensions and benefit payment nationwide; portfolio valuation; cash management; and performance measurement and compliance monitoring assistance. Its key focus in the business is delivering quality service that guarantees retention of our clients and possible acquisition of new ones.

FPCNL currently has custodial relationships with 15 pension fund custodians (PFCs) and three closed pension fund administrators (CPFAs) and holds about a 34% share of the market.

Business model

The company operates a model, which offers clients a full spectrum of services to meet their business needs. This is achieved through the efficient use of information technology and a dedicated relationship management team, aside from various initiatives at developing value-added services. The growth of the assets under custody is primarily dependent on the performance of both the money and capital market, which ensures organic growth. Equally important are fresh contributions and its continued quest to capture new businesses, while ensuring any existing businesses are not lost. We focus primarily on generating higher returns by achieving a consistent growth in our assets under custody (pension and non-pension assets).

This will be accomplished by our continued aim for operational efficiency achieved through continuous training and retraining of our staff to ensure that they develop adequate skills on the job. We also continue to leverage on effective use of IT processing power and the Group brand to deliver a sustainable quality service to our clients.

Strategy

The strategic focus of the company has been on growth, excellent service, operational efficiency, effective controls, talent and performance management. To this end, the company has implemented a lot of initiatives aimed at achieving each of these strategic imperatives.

The company conducted a process re-engineering exercise, which set out to build its operations round our customers by providing world-class processes that deliver benefit-related services in order to meet the growing needs of our customers for more value at lower costs.

For the redesigned processes, performance measures were designed to align with the business processes. The performance measures were integrated with the business processes, to ensure that all staff are clear about what is expected of them and to serve our customers better.

Operating environment

The earlier part of the year 2012 was a challenging one for the entire financial industry, with the high level of sectarian violence recorded, causing foreign investors to shun the Nigerian market. But in spite of these challenges, the Nigerian stock market ended the year on a positive note, riding on the back of market-making programmes in the capital market and activities of bargain hunters. The positive improvement was also attributable to the increased inflow of funds from foreign investors and renewed interest by domestic institutional investors and pension fund administrators (PFAs).

Domestic industry

The Nigerian pension industry is a very large and critical sector. As at October 2012, over 180,000 employers of labour have joined the scheme, with about 5.28 million registered contributors with total assets under custody of ₦2.94 trillion, and a total of 54,558 registered retirees. The pension reform has positively impacted on the Nigerian economy, and will continue to do so, considering the rapid growth of the funds.

Pension funds act as intermediaries into a lot of financial assets, including corporate equities and government bonds, while providing long-term financial intermediation for the real sector through corporate debt instruments and investment funds.

The reforms in the Nigerian pension industry continue to gain traction on the heels of its just concluded recapitalisation process.

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.

The insurance sector is poised to commence business relationships with pension custodians, due to increased confidence in the custody business in Nigeria.

As part of the ongoing developments in the industry, the National Assembly has stated that it is prepared to amend the Pension Reform Act 2004 to give the National Pension Commission, the regulatory body for the pension industry, more power to fight the abuse of the pension scheme by both corporate and public organisations. There have been several cases of fraudulent mis-management of pension funds, and refusal of some organisations to join the scheme, while others who have joined do not remit the monthly contributions into their employees' retirement savings accounts (RSAs) as and when due. Compliance with the contributory pension scheme is still far below the expected level.

There is the likelihood of a shift from the old pension scheme to the contributory pension scheme by all government agencies, which will eradicate the incidence of fraud. This initiative will also improve the level of compliance in the private sector.

To resolve the issues around contributions and outstanding reconciliation balances, there is ongoing industry discussion, aimed at partnering with the Nigeria Interbank Settlement System (NIBSS) to provide an electronic platform for the upload of pension contribution schedules and making payments.

Regulation

The pension industry is heavily regulated by the National Pension Commission (PenCom) to ensure the continued safety of pensioners' assets and to avoid the collapse of the industry. In the wake of the financial crisis, the regulators have remained extremely vigilant, building measures to ensure the continued safety of assets. FPCNL maintains a positive stand to regulation, seeking to be involved in the policy discussion in a constructive manner, and taking a serious approach to ensuring compliance with the resulting regulations and initiatives.

During the year under review, the pension industry witnessed a number of regulatory actions and interventions, which had and will have future impact on the industry's operating context. Most significant was the increase in the paid-up share capital of licensed pension fund administrators (PFAs) from ₦150 million to ₦1 billion unimpaired by losses effective 30 June 2012.

This did not only drive some consolidation among the PFAs, it also improved the financial conditions as well as business processes of the PFAs, in reaction to current market challenges. The industry is in a much healthier state and we expect further consolidation and sustained improvement in the aggregate financial condition of players.

The collaboration with NIBSS by custodians to develop the 'electronic pension collection system' is expected to reduce and eventually solve the challenge of unreconciled pension contribution. These unreconciled contributions directly result from contributors providing insufficient information during payments at the Bank.

Also modalities are in place to open the transfer window. This could be a two-edged sword, in terms of the effect on our business. However, with improved operational efficiency and leveraging on the Group brand, we expect a positive impact on our business.

Competition

The business environment is highly competitive as the market is closed, with limited customers. There are four fully licensed pension fund custodians, namely: First PFC, Zenith PFC, UBA PFC and Diamond PFC. The first three custodians almost share the total assets under custody at par.

The contributors under the contributory scheme are not yet permitted to transfer between PFAs. Should the transfer window be opened, competition will become more intense.

Consequently, an RSA holder, who is dissatisfied either for reason of poor service or rate of return on investment, can conveniently transfer to another PFA. This will change the market share of each PFA and ultimately the PFCs. A PFA will have to deliver efficient service and offer good returns on investments to retain its current clientele and possibly attract new contributors.

The insurance sector is in competition with the pension custodian as regards the retiree funds, because the law allows a retiree to choose between pension industry programmed withdrawal for retirees OR buy into an annuity scheme provided by the insurance companies.

However, given the fact that insurance companies are poised to commence placing under custody their premium funds, this development might not adversely affect our total assets under custody.

Performance

First Pension Custodian recorded an impressive performance in 2012 with revenue and profit before tax growing year on year by 50% and 64% respectively. This impressive growth in revenue and profitability was driven by execution of its strategy. This impressive business performance was driven by increased business volume of its custody business, with income from custody operations accounting for 80% of its total revenue. Leveraging on implementation of its operational and service delivery initiatives, First Pension Custodian was able to drive its cost-income ratio down to 48.6% in 2012, an improvement over the 55% average of the last five years.

Outlook and 2013 priorities

The outlook for the industry is positive, with changes in the investment guideline and the impending multi-fund structure promising to offer new opportunities for the economy and capital markets. It is expected to create renewed demand for equities, corporate bonds and other neglected asset classes to the benefit of the economy. It will also stimulate activities in other asset classes, particularly real estate. It is expected that new investment vehicles will come on stream, for example commodity, and more developmental projects from government, which should drive increased vibrancy of the government bonds market.

The industry consolidation has set the stage for intensified competition among the top players, with increased scrutiny of performance of individual PFAs. This should further improve the overall structure of the industry ahead of the proposed opening of the transfer window. This will allow contributors to transfer their assets across PFAs, for the first time since the scheme was launched.

The various state-of-the-art information and communication technology initiatives adopted by the Commission are expected to enhance the efficiency of the Commission and ultimately the operators.

There is an expected inverse relationship between fee rate and increase in size of assets. This can be accelerated by the sensitivity of the managers of the assets. The situation may, however, be corrected through a sharp increase in total assets under custody compensating for a reduction in negotiated fees.

Nevertheless, the outlook for the operating environment remains positive and we in FPCNL are optimistic about the future.

Strategy and performance

FBN Bureau de Change

Overview

FBN Bureau de Change Ltd is a wholly owned subsidiary of First Bank of Nigeria Ltd that commenced business operations on 8 August 2006. It was established to engage in currency trading/bureau de change services in Nigeria. The company is situated at No 1–5 Odunlami Street, Lagos Island, Lagos, and leverages on all First Bank of Nigeria Ltd business locations nationwide and in the diaspora to reach out to customers. FBN Bureau de Change is committed to a high level of business standards to meet the foreign exchange needs of its customers, for their personal and business travel, imports, school fees, credit cards and more.

To better serve its customers, FBN Bureau de Change Ltd products/services cover both visible and invisible foreign exchange transaction needs of customers. The visible transactions are cash-based and target non-bank BDC outfits. The invisible transactions include basic travelling allowance (BTA), personal travel allowance (PTA), and school fee remittances; master card; medical bill payments and FX brokerage. The company's target markets are basically non-bank bureau de change firms, travellers and travelling agents, and remittances of school fees/credit card uploads.

Business model

Given the nature and size of its business, FBN Bureau de Change Ltd is structured into two departments: Marketing/Treasury operations and Finance departments, both reporting directly to the MD/CEO. The Marketing/Treasury operations department is the market-facing arm of the company that ensures that foreign exchange services are provided for both its retail and wholesale customers. The finance arm provides general finance and other back-office services to the company.

Strategy

FBN Bureau de Change Ltd's aspiration is to be the leading bureau de change company in Nigeria. To attain this objective, in spite of a challenging operating environment occasioned by unfavourable regulatory policies, FBN Bureau de Change Ltd is aggressively seeking to deepen its position in the retail end of its market. To ensure its business fortune is shielded from the volatility of foreign exchange supplied by CBN to BDC operators, and to reduce its dependence on the regulatory authority for supply of foreign exchange, alternative supply sources are being aggressively pursued.

Operating environment

Over the last two years, CBN, in its bid to ensure naira foreign exchange stability, embarked upon many administrative measures to curtail the demand side of the foreign exchange market. Bureau de change operators have been on the wrong side of the regulatory authority actions to defend the value of the naira.

Since November 2010, the regulatory authority has implemented various policies that have limited the scope of the foreign exchange trading activities of the BDC operators. The industry witnessed a policy reversal in November 2010 when the CBN withdrew all existing class A licences, and downgraded all operators in this category to a class B licence upon application and meeting necessary conditions. According to the regulatory body, the revised policy measure was to address the observed gross abuses of operators in the class A category. Therefore, the class B BDCs are not allowed under any circumstance to carry on the transactions of money transfer and foreign exchange importation.

This restrictive policy position of the regulator continued in 2012, with a downward review of the maximum amount of foreign exchange cash sales to each licensed BDC operator from US$1 million per week to US$50,000 per week. Bureau de change operators were also barred from engaging in money transfer and foreign exchange importation. This regulatory posture has affected bureau de change businesses significantly in terms of loss of patronage and revenue in 2012.

Performance

CBN policy pronouncement and circulars on bureau de change business negatively impacted on the ability of FBN BDC to post impressive performance. With the massive reduction on foreign exchange supply from CBN, FBN BDC business fortunes dipped in 2012. Its performance further nose-dived in 2012, with revenue at ₦202.4 million and profit before tax at ₦65.9 million reducing by 11% and 26% respectively when compared with previous-year positions.

To make up for the massive reduction in foreign exchange supply, FBN BDC resorted to sourcing funds from the interbank and had to sell relative to buying price. This has created less stability for planning and holding stock as price volatility could lead to huge losses.

FBN BDC is restricted from charging higher margin on its reduced business volumes due to saturation of the market with the free entrance of new BDCs and foreign exchange peddlers. To ameliorate this shortage of foreign exchange supply, FBN BDC plans to leverage the business locations and customers of its parent bank to improve business patronage.

Outlook and 2013 priorities

The policy posture of the regulatory authority in the near term is not expected to be different from what was observed in 2012. With the restrictive policy environment that has reduced business volume expected to persist in the coming year, and operating cost becoming high in the face of declining revenue, FBN BDC has embarked on business reorganisation measures to reduce its cost of operations. We expect that successful implementation of these interventions should reduce its operating cost by 50% in the next financial year.

To improve business patronage and deepen its presence in the retail segment of the market, FBN BDC plans to better collaborate with branches of FirstBank. This initiative would help increase business volume and improve profitability.

Strategy and performance

FBN Mortgages Ltd

Overview

FBN Mortgages is a wholly owned subsidiary of First Bank of Nigeria Ltd, with its head office in Lagos and branches in Abuja and Port Harcourt.

FBN Mortgages was licensed by the Central Bank of Nigeria (CBN) in March 2004 under the Mortgage Institution Decree No. 53 of 1989 to carry out the business of mortgage banking in Nigeria. Its goal is to provide integrated real estate and mortgage finance solutions.

The company is an ambitious and innovative property development company, committed to excellence in contemporary design and construction, leading a team of professionals to deliver high-quality, tastefully finished properties in prime locations across the country. FBN Mortgages also provides integrated mortgage solutions to individuals, estate developers and property investors. It aims to take customers on the entire journey from provision of high-quality residential and commercial accommodation choices to facilitating acquisition via a wide range of innovative financial products and solutions across a wide spectrum. Its mortgage finance product and service offering includes mortgage refinancing, outright purchase mortgage, equity release mortgage, construction mortgage and balance transfer.

Business model

FBN Mortgages operates a structure that supports its business mandates of providing innovative solutions in real estate development and mortgage financing. Its operations, projects and real estate, mortgages, and investment with finance are all separate functions coordinated by separate highly skilled individuals who report to the MD/CEO. These functions are strategically positioned to maximise opportunities across mortgages, investments and real estate services. These functions are ably supported by the legal department, which provides a strong legal framework to support the business among other back-office functions.

Operating environment

The Nigerian mortgage banking sector is relatively underdeveloped, accounting for only about 0.5% of the country's GDP. This underperformance is not unconnected with general socio-economic factors prevalent in our environment: dearth of low-cost, long-term funding/financing for mortgage businesses, inadequate legal framework and institutions to support effective/efficient mortgage operations, weak legal/land registration systems leading to difficulty in perfecting land titles, absence of mortgage refinance/functional secondary mortgage markets, and dearth of relevant skills to grow the mortgage banking business, just to mention a few.

With inflation still running at double digits and the disappearance of the middle class in the society, accessing mortgage products has become increasingly difficult for those that really need it. Thus, the external landscape in which FBN Mortgages operates is in a constant state of flux.

The restrictive monetary policy stance of the Central Bank of Nigeria that led to a hike in the monetary policy rate (MPR) from 8% to 12%, three times in the 12 months to June 2012, had negative effects on the creation of risk assets within the banking industry.

The real estate/mortgages sub-sector had its share of industry upheaval. It performed sub-optimally due to a combination of economic factors as well as ripple effects of government policies, which had their unwholesome consequences on the sector. The glut in the high-end real estate market has consistently forced down prices while high interest rates have not encouraged potential borrowers, with adverse effects on mortgage lending.

Several initiatives/actions with significant potential to reposition the industry are continuously being considered. These range from the establishment of mortgage intervention funds, development of uniform underwriting standards for the industry, and injection of low-cost, long-term funding for mortgage lending to mention a few. In addition, CBN has commenced regulatory reforms in the mortgage and banking climes, leading to the present holding structure for banks and divestment from real estate investment for primary mortgage institutions.

In the year under review, the CBN released the final Revised Guideline for Primary Mortgage Institutions (PMI). The Guideline, among other things, redefined permissible business operations for mortgage institutions and pronounced two licensing regimes under which PMIs can operate in Nigeria. The new guideline restricted PMIs from equity investment in real estate development. The revised guidelines created two categories of PMI: State and National PMIs. The minimum capital requirement for operating a State PMI licence is ₦2.5 billion while a National licence requires a minimum capital base of ₦5 billion. PMIs were given a deadline of 30 April 2013 for compliance with the revised guidelines.

FBN Mortgages is finalising modalities towards full compliance of the guidelines by winding down on real estate investments. Nonetheless, renewed concerted efforts towards execution of all existing projects is ongoing and still in line with the CBN directive.

Performance

The glut in the high-end real estate market and operating in a high-interest environment that is a deterrent to the creation of mortgage loans impacted FBN Mortgages negatively in 2012. Its total revenue for 2012 at ₦1.54 billion was 9.6% below 2011, while its profit before tax also fell by 15% to ₦1.04 billion compared with last year, due to lower earnings. Effective management of operating cost during the year led to a 3% reduction in its total operating cost compared with the previous year.

Outlook and 2013 priorities

As we approach the deadline for compliance for recapitalisation of PMIs, we expect to see a series of downscaling, management buy-outs, mergers and acquisitions within the mortgage sector, as players in the industry strive to meet the minimum capitalisation requirements increased from the previous minimum capitalisation requirement of ₦100 million. This is expected to have minimum effect on the industry's competitive dynamics.

Compliance with the new requirement is also expected to impact FBN Mortgages' operations significantly. With income from properties generating about 60% of the Bank's gross earnings, it becomes obvious that the new CBN restriction to divest from real estate investments will impact seriously on the future of the organisation. Notwithstanding the above, but depending on strategic intentions, the Bank has the capacity to forge ahead with its PMI licence having already crossed the ₦2.5 billion mark for downscaling to a State PMI.

The continuous sustainability of FBN Mortgages within the above context is questionable. With the HoldCo structure now established for the Group, the winding up of FBN Mortgages into the HoldCo regime has become the obvious option. Downscaling into a State PMI with minimal share capital is also an option that may be considered.

Strategy and performance

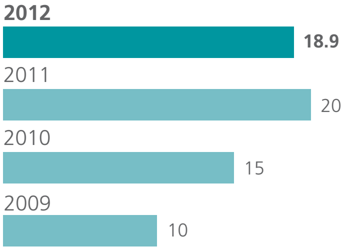
Key Performance Indicators (KPIs)

Commercial Banking business group

Commercial Banking Group | FirstBank Group (based on NGAAP figures)

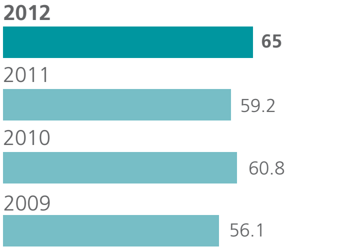
Fee income

Percentage of net revenue



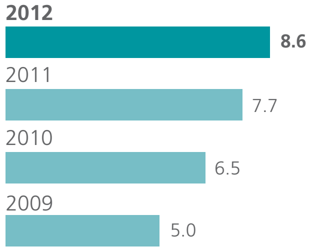
Cost to income

Percentage of operating expenses to operating income



Net interest margin

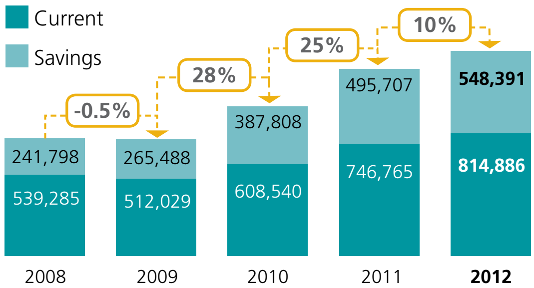
Percentage measure of pre-tax return on average equity deployed



	Fee income	Cost to income	Net interest margin
Target	Outperform industry to enhance yields	Contain OPEX growth rate at level sufficiently below revenue growth rate	Implement strong risk-based pricing regime and manage revenue 'leakages'
Outcome	Strong growth in core fee income driven by increase in transaction volume	Sustained reduction in cost to serve	Growth driven by higher profit margins and increased leverage

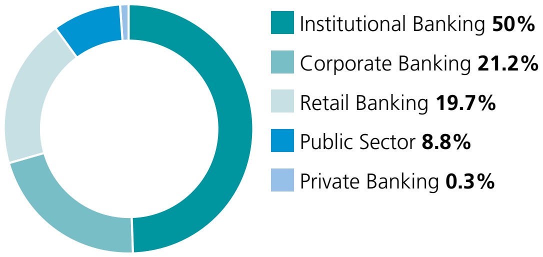
CASA profile (₦'m)

Percentage growth in demand deposits



Loan portfolio

Percentage contribution of each SBU to total bank loan book



	CASA profile	Loan portfolio
Target	Drive strong low-cost current and savings account (CASA) deposit liability generation	Selectively and prudently grow loan portfolio in key sectors and shift mix towards assets with higher (risk-adjusted) total yield
Outcome	Sustained growth in low-cost customer deposits, benefiting from growth in our collections business, and increased adoption of e-payment solutions at public and corporate institutions	Emphasis on high quality risk assests, due to caution taken in areas with substantial shifts in regulatory environment e.g., oil and gas

Customer satisfaction ratings

Value rank in satisfaction surveys

Target

We aim to consolidate our industry leadership by growing our customer base and broadening our appeal to wider market segments

Outcome

We have made impressive strides in the last 4 years and are now aiming for a 'Top 3' position in all customer segments

Strategy and performance

Principal risk summary

Overview

The Banking Group considers effective risk management of utmost importance to its overall operations. Accordingly, it has put in place a robust risk management framework that clearly monitors, evaluates and manages the principal risks it assumes in conducting its activities. These include credit, market and operational risks, as well as legal, compliance, reputational and information security risks, each of which is discussed in the key risk summary on page 60.

Responsibility for risk management exists at all levels within the Banking Group, from the Board and the management committees down through the organisation to each business manager and risk owner. The Board drives the risk governance and compliance process through the Board Audit & Risk Assessment Committee and the Board Credit Committee. The Board Audit & Risk Assessment Committee evaluates the processes for identifying, assessing, monitoring and managing key risk areas; it also evaluates the adequacy of the banking group's risk management systems and control environment. The Board Credit Committee is responsible for approving the Banking 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, Asset & Liability Committee and Business Risk & Compliance Committee) that help it develop and implement various risk strategies. Management assurance processes are assessed by the Group's Internal Audit and the effectiveness of the Banking Group's control framework is assessed by the Board Audit & Risk Assessment Committee.

The Banking Group continually modifies and enhances its risk management policies and processes to reflect changes in markets, products and international best practices such as the adoption of the International Financial Reporting Standard (IFRS) for financial disclosures, implementation of the business continuity management system (BCMS) to ensure continuity of business operations and the adoption of the Payment Card Industry Data Security Standard (PCI DSS) to ensure safety of card-based transactions.

Performance in 2012

The Banking Group recorded a 25% growth in its loan portfolio for the 2012 financial year reflecting an aggressive expansion of lending especially to moderate risk assets. Asset quality ratio for the period was 2.6% and within the acceptable threshold of the Group.

Market risk was moderated during the year by a strict regulatory stance and a stable macro-economic environment. The Banking Group maintained a strong liquidity position in the face of keen competition due to its renewed focus on customer-centric products and processes, which translated to growth and stability.

The prestigious BS 25999 certification was received by the Group from the British Standard Institution (BSI) on its Business Continuity Management System (BCMS) in the period under review, and was a call for continuous improvement.

Responsibility for risk management

Risk factors overview

This key risk summary highlights the major risks impacting on the Banking Group's activities, the mitigation measures put in place to curtail these risks, and personnel or units responsible for the management of these risks.

Credit risk

Credit risk is the risk of loss that may arise if an obligor fails to perform an obligation under a loan or trading contract.

Type of risk

Credit

- Default/counterparty risk
- Performance risk
- Payment risk
- Diversion risk
- Managerial risk

Impact 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

Mitigation 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 realisability 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

Impact on business

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

Mitigation measures

Adherence to portfolio limits and regulatory requirements

Responsibility

Strategic Business Units, Risk Management and Chief Risk Officer

Market and liquidity risk

Type of risk
Interest rate risk
This is the possibility of loss in portfolio value, or income, as a result of changes in interest rates.

Impact 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.

Mitigation 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 two currencies.

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

Mitigation measures
- Daily monitoring of 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
- 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.

Impact on business
Could lead to diminution in the value of investments.

Mitigation measures
- Significant investments approved by the Board and all others by the Management Committee
- 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 credit risk
Pre-settlement and settlement 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.

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

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

Type of risk
Liquidity risk
Liquidity risk is the risk of not having sufficient financial resources to meet obligations as they fall due or having to meet the obligations at excessive costs. This risk arises from mismatches in the timing of cashflows.

Impact on business
Could lead to insolvency and eventual reputational risk.

Mitigation measures
- Efficient Asset & Liability Committee that oversees liquidity management
- Diversified sources of funding
- Contingent funding plan
- Effective cashflow planning

Responsibility
The primary responsibility for mitigating the above risks lies with the risk-taking units of the Group, which include, e.g., the Treasury unit, Product groups or the Trading Desk. However, the risk identification, measurement, monitoring, control and reporting lies with the Head, Market & Liquidity Risk department, who reports to the Executive Director/Chief Risk Officer.

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.

Impact 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.

Mitigation 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 of the Group 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.

Impact 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.

Mitigation measures

- A comprehensive Control Administrative and Accounting Procedure (CAAP) Manual put 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
- 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.

Impact 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.

Mitigation measures

- The Group has a Disaster Recovery Centre (DRC)
- 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

Operational risk continued

Type of risk

External events and third-party risk

Impact 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.

Mitigation 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, 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.

Impact 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.

Mitigation 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

The primary responsibility for mitigating the above operational risks lies with the risk-taking units of the Group, which include all the Strategic Business Units and support functions, e.g., branches, operations group, e-business and Human Capital Management and Development (HCMD). However, the operational risk management function serves as a thought partner in risk management and mitigation, develops operational risk toolsets, and coordinates and aggregates the operational risk management activities of the Strategic Business Units and support functions.

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

Impact 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.

Mitigation 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.

Legal risk

Type of risk

Litigation and adverse claims

Impact 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.

Mitigation measures

- Consistent application of professional standards
- Transparency and fairness while transacting
- Bespoke documentation and clarity to reduce areas of possible conflicts
- 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

Impact on business

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

Mitigation 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

Impact on business

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

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

Mitigation 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 – Head, 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

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.

Impact 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.

Mitigation 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.

Impact on business

Reputational risk leads to negative publicity, loss of revenue, litigation, loss of customers, exit of key employees, share price decline, and difficulty in recruiting talent. It could also result in loss of correspondent banking relationships, loss of investor community confidence and significant financial loss occasioned by damage to the Group's image as a result of negative publicity and eventual loss of business.

Mitigation 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

The primary responsibility for complying with regulatory requirements lies with 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.

First Bank of Nigeria divisional review

Corporate Banking

Leadership

Kehinde Lawanson

Executive Director,
Corporate Banking

The key target market of the Corporate Banking SBU includes mid-size corporates with annual turnover in excess of ₦500 million and large less structured businesses with revenue in excess of ₦5 billion.

Percentage of net revenue	Accounts at end of 2012
12.9%	9,802

Percentage of loans and advances

21.2%

Percentage of deposit

7.9%

Introduction

Corporate Banking activities cover a broad spectrum of mid-sized, large and emerging businesses in all sectors of the economy. These include oil and gas, power distribution, construction, marine services, manufacturing, infrastructure and private educational institutions.

The SBU comprises 13 groups focused on identified core customer clusters across Nigeria, with relationship management teams operating from 49 locations nationwide.

First Bank of Nigeria divisional review
Corporate Banking

What differentiates us

Corporate Banking as an SBU manages clientele in different sectors of the economy, having built a team of personnel with the diverse backgrounds, experience and exposures required to bank and harness the business potential of corporate clients. These clients often require diverse product offerings and relationship management attention.

Products and services

Our diversified product offerings involve the Bank's full range of products and services, including oil and gas services; petroleum products importation, distribution and crude exports; trade, agriculture and project finance. We are committed to using our robust technology to drive these. In addition, our new Business Intelligence Desk has assisted greatly in sharpening our focus on new opportunities and crafting more innovative tailor-made product offerings. Examples are the Oil and Gas Contract Financing product (OGCF) and key distributor financing schemes for large corporates.

In the 2012 financial year, we made a guided entry into the financing of the critical power sector, which we see as a major growth area. We expect to be more prominent in this sector in the 2013 financial year.

Business update

Opportunities

We have identified significant opportunities in the following sectors: small and medium enterprises (SMEs), non-oil exports and public–private partnerships in power and infrastructure.

In the power sector, following the unbundling of the Power Holding Company of Nigeria and the drive for full privatisation of the power generation and distribution, financial intermediation opportunities now abound with the entrance of investors in the power generation and distribution space.

These are being explored by adopting the following strategies:

- building capacity through exchange programmes with selected correspondent banks, for hands-on skills development. We have further leveraged on our improved service outlook to overcome the narrow consideration of attracting businesses based on pricing only;
- a deliberate drive to grow and intermediate in trade finance opportunities;
- the establishment of the Emerging Corporate business unit in 2012, a sub-business unit within the SBU to focus exclusively on SMEs and smaller businesses; and
- working with our products engine to establish a non-oil export desk that will develop the non-oil export business.

Risks and mitigants

- Notable characteristic risks of our target market include corporate governance, low financial reporting integrity, over trading and/or high leverage levels, etc.
- Recognising the above risks, we approach the business by focusing on close-knit transactions, collaborations and partnerships. We seek a thorough understanding of the business, from industry players as well as specialised local and foreign institutions. In addition, we learn from other banks in other countries where the business environment is similar to ours. Altogether, our human capital portfolio has benefited from these exposures and sharpened its competencies and skills. Further efforts at improving our performance included training by top industry experts in oil and gas finance, power and infrastructure, and export/finance trade, among others. This has tremendously improved the technical abilities of the relationship teams and the confidence to approach the market with the required energy.

OPI International Nigeria Limited

OPI International Nigeria Limited was awarded the Forcados Yorkri integrated project (FYIP) offshore flares down works by Shell Petroleum Development Company (SPDC).

The contract involves underwater laying of pipeline in the deep high seas between Forcados and Yokri terminal of SPDC offshore locations. The Bank provided the needed liquidity for the project to succeed by financing the acquisition of a pipe-lay barge including working capital. The project is currently near completion.

First Bank of Nigeria divisional review
Corporate Banking

Strategies and objectives

Our Corporate Banking SBU business aligns with the overall enterprise objective of industry leadership position and extending this especially to profitability and efficiency. The Group targets mid-sized and large transactions by offering a wide range of products. Accordingly, 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;
- adopting the value chain approach to deepen, interlock and wrap around customers' businesses. This would involve exploiting the forward and backward integration of our key customers both at the purchasing and supplying ends of their business; and
- migrating cash management services of our customers to alternative channels improving the relationship management, credit and international trade skills of our people with emphasis on power and infrastructure financing.

Our performance

Corporate Banking SBU increased its risk assets portfolio by 4% during the period under review, with corporate banking loans now representing 21.2% of the Bank's total loan book. This has resulted in broadening our revenue base, with net revenue increasing by 7.5% in the same period. However, deposit grew by over 59.6% over the corresponding year.

The 2013 KPMG Customer Satisfaction Survey further attested to the improved quality of our service delivery, moving Corporate Banking SBU up to second place from third compared to our competitors. This was in tandem with the improved market perception of our brand as a customer-focused one. Our target remains to be the clear leader in corporate banking.

Our deliberate profiling of businesses yielded tangible results in the sign-on of leaders in the oil and gas and its support service, commodity/fast-moving consumer goods, automobile service and lately in the power distribution sectors.

Outlook and 2013 priorities

One of the priorities in the 2013 financial year would be to harness the opportunities in the power sector by building on the achievement of the current financial year. We hope to explore the entire value chain of the power generation and distribution sectors. Further to the reforms in the downstream sector, we plan to focus on major players who are developing competencies in the gas sector, to support their infrastructural developments against existing capacities.

In addition, the ongoing Petroleum Industry Bill (PIB), if passed, should bring about opportunities in creating quality assets and drive collection and revenues, for example, vessel financing and the financing of manpower contracts from middle-size players.

KAM Industries Nigeria Limited

KAM Industries Nigeria Limited is a major nail and wire manufacturing company with diversified interest in galvanised and coloured roofing sheets production. The company is also involved in the construction of its cold rolling mill complex suitable for producing 1,000mm wide steel strip with capacity of 150,000 metric tons per annum.

The cold rolling mill complex under construction consists of a 6-Hi single stand reversing cold rolling mill, a push-pull pickling line, a wet flux continuous galvanising line, a HR slitting line, a rewinding-cum-trimming line and two cut-to-length lines as well as four barrel-type corrugation machines.

The construction of the cold rolling mill complex is financed by FirstBank and the project is expected to be commissioned in 2013.

The Rehabilitation and Reconstruction of Okrika Jetties, Port Harcourt, Rivers State, by LEE Engineering and Construction Company Limited

The image shows newly installed product lines for loading and unloading petroleum products at Okrika Jetty, Port Harcourt, Rivers State. The project was financed by the Bank.

First Bank of Nigeria divisional review

Institutional Banking

Leadership

Bashirat Odunewu

Executive Vice President,
Institutional Banking

Introduction

The Institutional Banking SBU banks 'several key organisations' across five industry groups – energy; telecoms, construction and infrastructure; conglomerates and services; manufacturing; and financial services/ multilateral agencies. During the financial year, we decided to merge our telecommunications and construction groups into one – telecoms, construction and infrastructure.

As a flagship strategic business unit of the Bank, our target market and clients include multinationals, large corporates and corporate players, specialised businesses like international oil traders, and financial institutions, both local and international.

Overview

The Group provides an array of banking and financial services ranging from project finance, trade and corporate finance, reserve-based lending, term loans, foreign exchange, Treasury services, cash management, guarantees, etc. Another unique strength that distinguishes us is the ability to provide bespoke solutions that are unique to individual client requirements.

We will continue to build strategic partnerships in key business segments of the institutional market either by financing cutting-edge transactions that drive revenues or via adding value to customer business or projects through the provision of advisory services.

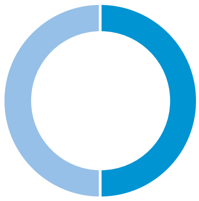
Percentage of net revenue

16.9%

Accounts at end of 2012

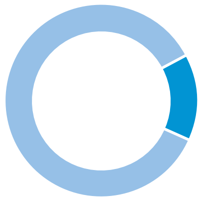
3,911

Percentage of loans and advances



50.0%

Percentage of deposit



14.7%

Business update

Markets and business environment

Despite the challenges faced in the oil sector in 2012, particularly the removal of oil subsidy and protracted subsidy payments to oil marketers, our Energy group continued to deepen business relationships with clients in the oil and gas industry. We also increased our appetite for upstream transactions via participating in the divestment programmes of the International Oil Companies (IOCs) by providing financing to indigenous oil and gas companies for the acquisition of oil mining leases (OMLs). Our commitment of over US$1.19 billion (over ₦191 billion) in project and trade finance during the year demonstrates our strategic intent. We intend to prospect for and finance 'choice transactions' that enhance performance and translate to headline revenues in FY2013.

As part of our strategic thrust, the Telecoms, Construction and Infrastructure group is focused on banking the entire value chain of customers in this market segment, with emphasis on growing market share with the various major players within this space. The Group has continued to lead, extend and defend its businesses in the sector with innovative solutions and strong market presence. Within the year, there were disbursements of the various syndicated facilities in which we participated. Some of these include a ₦4.3 billion balance disbursement for the MTN medium-term loan syndication in which we made a ₦25 billion commitment, US$20 million and ₦3.8 billion balance disbursement to Emerging Market Telecommunication Services Limited (EMTS), being part drawdown on the US$650 million syndicated medium-term facility where we had committed ₦21.25 billion and US$20 million. The Group also won various awards including the ICT/Telecoms Deal of the Year Awards at the Africa Investor Infrastructure Awards for 2012 at Melrose Arch, Johannesburg. These awards underscore the Group's leading position in providing financial services and solutions to drive economic growth in the telecommunication sector of the Nigerian economy.

Despite two weeks of national strike on account of the fuel subsidy removal and the security challenges in certain parts of the country and their attendant effect on the economy, particularly FMCGs, our Manufacturing group achieved increased business volumes along the entire value chain, i.e., 27% increase in revenues and 15% increase in trade transactions, and also participated in notable transactions in the sector. The multi-million dollar Golden Sugar Refinery project, which we partly financed, has reached an advanced stage of completion, with the factory projected to cost US$227 million on completion. Several new client relationships were also initiated in the financial year and the group is poised to improve on this performance in FY2013.

The Financial Institutions and Multilaterals group serves local banks, foreign banks and non-bank financial institutions across the world. Our team of experienced professionals seeks to understand the specific needs of this highly specialised sector and provide tailor-made solutions that will meet these requirements. We have continued to leverage our extensive branch network to provide correspondent banking services to both local and multinational institutions operating within Nigeria. In the course of the year, we were signed on by the pioneer non-interest bank in the country, Jaiz Bank Plc, to provide clearing and correspondent banking services, and are also in discussions with a newly licensed merchant bank to provide these same services. On the international front, we have expanded our outlook to focus on banks in the Middle East, South Africa and Asia to add to our ever-growing list of correspondent banks for the facilitation of trade and project finance opportunities.

Our continued courtship of the development finance institutions and export credit agencies has seen the cultivation of new relationships in AFD-Proparco, the United States Agency for International Development (USAID) and the Export-Import Bank of the Republic of China, to mention a few. We have also sustained discussions with existing funding source institutions with a view to actualising our growing list of pipelines.

The Conglomerates and Services group closed several deals during the year, with FirstBank selected as the facility coordinator of the ₦150 billion club lending facility from a consortium of banks for the purpose of cementing expansion projects and also committing ₦30 billion. We also participated in financing the construction of a 6 million metric tonnes per annum (MMTpa) of cement plant at Ibese, Ogun State. The group also financed a ₦15.5 billion term loan facility during the financial year for EDO Cement Company Limited to develop a new 2.5 million metric tonnes cement production line. There are several key projects being outlined for FY2013 such as Dangote cement's expansion project at Congo DSR, Dangote Industries Limited's agricultural-based project worth US$1.5 billion, and a petrochemical project at Edo State with a projected production capacity of 2,200 metric tonnes per day.

Opportunities

We intend to increase trade transactions, particularly with the revived subsidy payments by the Federal Government, closely monitor the continued divestment of international oil companies' (IOCs') assets to marginal field operators, and untapped mid-stream financing and reforms in the power sector for 'choice transactions' that have compelling financing opportunities. There has also been a shift in our customers' operations to the e-payment platform and we recognise that the ability to provide seamless, cutting-edge payment solutions to institutional clients will ramp-up business and provide an avenue to increase wallet share.

The need to build more strategic alliances in the telecoms and infrastructure sector and make inroads into Chinese institutional clients in order to leverage the potential of this segment of the market will provide additional revenue streams.

Strategies and objectives

Our strategy for FY2013 is to consolidate our position in our niche market by increasing wallet share of existing customers by 30% with a view to banking a minimum 55% of all customers' business. We intend to diversify our LAD/Asset base into more trading-tenored facilities and short-term loans.

A central objective is to increase presence in select target markets, grow business volumes and leverage on our huge balance sheet potential to participate in projects that will further position us as the bank of choice for institutional clients. The key to achieving these goals is being customer focused at a 360-degree level, innovative and giving excellent service delivery that appeals to our customers.

Key risks and mitigants

The market in 2012 presented several opportunities that we exploited and also had attendant risks that were challenging and required innovative robust risk management techniques to overcome.

The major risks confronting us remain uncertain government regulation, particularly in the energy market, such as the subsidy reforms and delayed subsidy payments in the downstream sector in the oil industry. Other factors include price-sensitive clients, intense competition from other banks and reduced margins as a result of pricing pressure.

To mitigate these risks, we intend to diversify our risk assets to include more trading tenured and short-term facilities, grow letters of credit and FX transactions, and drive other ancillary 'revenue-generating streams' like Collections and CASA.

Performance

The SBU achieved considerable growth across key metrics during the year. Net revenue increased by 12.6% to ₦44.2 billion, deposits closed at ₦319 million and loans and advances at year end were ₦677 million. A loans and advances increase of 17.7% from 2011 was constrained due to growing competition, pricing pressure from more sophisticated customers, reduced borrowing from large corporates, and the effect of government policy that affected the downstream sector of the oil industry. More importantly, the SBU achieved a profit before tax of ₦40.7 billion, an increase of 17% over 2011 figures.

These positive figures demonstrate a steady and increasing growth in our desire to become the leading banker to large corporates and multinationals and reflect our resolve to bank more of their value chain. We intend to consolidate on gains achieved in FY2012, by being more efficient in service delivery to clients, understanding their unique business needs better, and offering more value-adding products that drive performance.

Outlook and 2013 priorities

A key priority is to increase net revenue contribution to the Bank by 30%, via growth in profitability, improved performance across all metrics, a high level of cross-selling the Bank's products, deepening relationships with customers and growing transaction volumes.

We also intend to participate in the ongoing reforms by the Federal Government in the power sector by closing ongoing power holdings company of Nigeria assets acquisition finance deals and collaborating with FBN Capital/other lenders to syndicate financing of key infrastructure projects. The need to diversify our portfolio over the course of the new financial year has become imperative as the market becomes increasingly competitive.

Dangote Cement Plc – Expansion of the Obajana Plant

The plant was first opened in 2006 with two F L Smidth designed cement production lines with a capacity of 5 million metric tonnes per annum. The most recent production line is now under stabilisation. These three cement production lines put the capacity of Dangote Cement Plant (DCP), Obajana unit, at 10.25 million metric tonnes per annum (MMTpa). A Line 4 Turnkey project will provide an additional 3 MMTpa to the current capacity of 10.25 MMTpa. The project is scheduled for completion in 2014.

This will make Dangote Cement Plc Obajana Plant the largest cement plant not only in Nigeria but also in Africa and one of the largest in the world, with a total capacity of 13.25 MMTpa.

The Bank financed ₦30 billion of the ₦150 billion Term Loan club lending arrangement by a consortium of banks.

First Bank of Nigeria divisional review

Public Sector

Leadership

Dauda Lawal

Executive Director,
Public Sector North

Urum Eke

Executive Director,
Public Sector South

Introduction

Nigeria's public sector comprises Federal Government, State Governments, MDAs and Government Tertiary Institutions, and is primarily funded by the Federal Government through a public finance and distribution framework. It is a priority sector for banking as it is the largest provider of liquidity to the banking sector and the economy at large.

Percentage of net revenue

8.5% North
7.9% South

Accounts at end of 2012

4,775 North
4,453 South

Percentage of loans and advances

North
1.5%

South
7.3%

Percentage of deposit

North
21.0%

South
7.3%

Business update

Public sector business is stratified into South and North Directorates. Putting this in context, the Public Sector SBU North Directorate manages the federal ministries, departments and agencies in addition to the states in northern Nigeria. Public Sector SBU South then focuses on the southern states. The common grounds include embassies and tertiary institutions.

The SBU strives to deliver top-quality services, anchored on professionalism and expertise. We consciously recruit knowledge workers, a critical element in crafting and deploying customised solutions. Capacity-building training programmes and exposures are undertaken to ensure standards are sustained.

Strategy and objectives

Aggregate revenues of, and expenditure by, all tiers of government present the compelling reason for an undiluted focus on the public sector. For FirstBank, which has played historical roles including acting as banker to the Federal Government long before the creation of the Central Bank, this focus becomes understandable.

One of the Bank's strategic objectives is to extend our market leadership across all frontiers. Public Sector as an SBU, strives for synergy with other SBUs to unlock opportunities and bank Government's verticals. In this regard, other SBUs in the Bank will benefit across the value chain of public sector relationships, i.e., Retail and Private Banking arms bank local governments, high net worth individuals, civil servants, etc; Corporate Banking SBU banks the contractors, service providers, etc; Investment Banking provides financial advisory services, project financing, bonds issues, etc; and Electronic Business is involved in taxes, levies, collections, etc.

Government continues to emphasise private sector-led reform initiatives and our partnership with governments, ministries, departments and agencies has created competitive advantage for the Bank in Nigeria and allied subsidiaries of FBN Holdings.

The SBU's core strategic objectives are:

- enhancing 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 concessioning;
- 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.

First Bank of Nigeria divisional review
Public Sector

Key risks and mitigants

In Nigeria, dependence on oil as the major revenue earner implies that volatility in government earnings and spending will remain. In addition, deficit financing will also be sustained. This then creates the opportunity for aggressive revenue collection, lending and bond issuance as key financial products for the public sector. Growth in foreign reserves and moderate inflation, as well as the focus on reforms across various sectors of the economy, give hope that macro-economic stability will be achieved and sustained. Regardless, we are resolute and committed to retaining our top position in the industry.

We will continue to support governments at all tiers in expanding revenue sources beyond oil and federal allocation by consolidating debt, enhancing the internally generated revenue base, fiscal discipline, capacity building, attracting multilateral lending agencies and providing guarantees for foreign support.

The Bank will encourage full compliance with extant laws for prudence and transparency. Indeed, the Government's continuing drive towards privatisation/commercialisation, reforms, transparency and due process will support our interest in government business.

We see a threat in the area of consolidation of major government accounts with the Central Bank, under the announced Treasury Single Account policy. However, we will continue to acquire the ultimate beneficiaries of these funds to ensure reduced velocity and funds retention in our books.

Performance

Metric	2012 (₦'bn)	2011 (₦'bn)	% growth (y/y)
Deposits	614	508	21
Loans and advances	119	102	17
Net revenue	43	30	41

The SBU has sustained its position as the industry leader in the public sector, dominating both the Southern and Northern states in addition to Federal Government businesses. We retained all existing businesses and expanded into new territories/frontier states. This is attributable to our superior service and product offerings, the professionalism of our staff and our ability to support the funding needs of clients at competitive rates.

Outlook and 2013 priorities

- Provide sustainable deposits to support the Bank's liquidity and funding needs.
- Deliver superior financial returns.
- Create risk assets in a prudent manner and with zero delinquency.
- Maintain the highest ethical standards.
- Build synergy with other Strategic Business Units within the Nigerian business as well as FBN Holdings subsidiaries.
- Attract and retain knowledge workers for effective relationship management.

Cross River State Government

Commencing a meaningful relationship with Cross River State Government in 2008, FirstBank has significantly enhanced the revenue base and infrastructure assets in this model state, turning it into an unparalled investment destination. The model revolved around consolidating the debts to several banks and availment of one-stop financial services using resources across the FBN Group. From a modest internally generated revenue base of ₦500 million monthly, the implemented automated platform has pushed the monthly take to over ₦1 billion as at December 2012.

The partnership has led to a more prudent and efficient management of the Treasury and financial discipline, making Cross River State Government a model for multilateral agencies and international donor organisations keen on supporting focused and transparent governments.

The image below shows the foundation building at the Calabar international convention centre, Calabar, Cross River State.

First Bank of Nigeria divisional review

Retail Banking

Leadership

Abdullahi Ibrahim

Executive Vice President,
Retail Banking North

Gbenga Shobo

Executive Director,
Retail Banking South

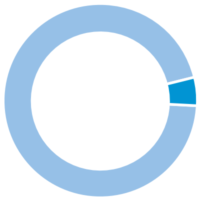
Percentage of net revenue

12.1% North
42.4% South

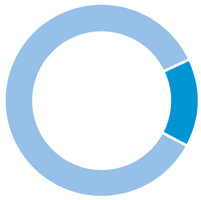
Accounts at end of 2012

2,222,121
North
6,282,104
South

Percentage of loans and advances



North
4.8%



South
14.9%

Percentage of deposit

North
10.1%

South
36.7%

Introduction

FirstBank's Retail Banking SBU is focused on offering financial services to individuals (annual turnover between ₦5m and ₦50m), small and medium enterprises (SMEs) (annual turnover between ₦5m and ₦500m) and local governments.

The Bank's Retail Banking SBU business is run out of over 601 branches spread across Nigeria, giving FirstBank the largest bank branch network in Nigeria.

The Retail Banking Strategic Business Unit (SBU) has the largest number of retail customers in Nigeria, with about 8.5 million accounts, and the largest branch network, with about 714 branches, QSPs and agencies, placing us right next to our customers. We also have the highest number of debit cards with about six million cards. In addition, we are the only Retail Bank in Nigeria with over ₦1 trillion in deposit .

The Retail Banking SBU is headed by Gbenga Shobo and Abdullahi Ibrahim.

What differentiates us

FirstBank's Retail Banking SBU is differentiated by our aggressive focus on providing quality and high-speed banking services to all customers, irrespective of the income levels and no matter the location. The SBU is also rapidly deploying innovative cutting-edge electronic banking technologies to its customers across the nation to make the banking experience less stressful. The above two factors are anchored by a team of dedicated and focused relationship managers with a strong knowledge of our customers.

Business update

Markets and business environment

Opportunities within the retail banking space in Nigeria are varied. Available statistics show that there are over 87 million people of working age in the country out of which only about 28.6 million people have bank accounts and well over 34 million do not have access to any type of financial services at all. There are also more than 17 million SMEs in the country indicating significant room for growth for the Retail Banking SBU with regard to new customer acquisition and product sales.

Opportunities and challenges

2012 was quite challenging for the Retail Banking SBU due to the tight monetary policies of the CBN that led to high interest rates in the money market. This made it more difficult for the SBU to raise deposits as a lot of customers moved their funds into government securities and fixed deposits. There is also a strong possibility that regulatory interference might also affect the Retail Banking SBU's revenue base in 2013 with the CBN considering removal of various bank charges. The security situation in the northern part of the country has also adversely affected our branches as well as client businesses in certain locations within the geopolitical zone.

The turmoil of the last three years in the banking sector has gradually been resolved and a wave of mergers and acquisitions and consolidations has been completed. The newly restructured banks have begun an aggressive push to reclaim lost customers and deposits, increasing the level of competition in the industry. Tier 2 banks are pushing for deposit mobilisation through the offering of incentives to customers to open accounts with them, which has translated into an increased struggle for deposits. Technological innovation is also creating a more level playing field with all banks deploying similar products.

The licence obtained by the Bank for Mobile Payments is a great opportunity for the Retail business as it will allow us to grow our customer base rapidly. This will also translate to deposit growth. It would also eventually lead to agency banking in the near future. Mobile banking and POS are presently changing the way Nigerians engage in the traditional businesses of transferring money and buying and selling goods and services. Our FirstMonie, First Mobile and POS allow the Bank to sit at the nexus of all customer transactions (transfer and payment).

Strategy and objectives

Business model

We have revised our business model to reflect our new strategic thrust. All customers across the SBU now have a specific relationship manager responsible for their business and customers have been segmented based on income (proxy) into affluent, SME and local governments. The model enables us to carefully target our offerings based on the profile and specific needs of each customer segment.

Strategic objectives

- Low-cost liability generation: This is to ensure that we continue to increase our deposit contribution to the balance sheet of the Bank through attracting low-cost funds.
- Increase 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.
- Grow market share of all Retail segments: We are carefully profiling our customers to better discover needs and preferred sales points to drive an increase of our business with them.

The completion of construction works and the stocking of birds under the Commercial Agriculture Credit Scheme (CACS) in Premium Poultry Limited, Abuja

The image displays maize and soya grain silos used for the storage of cleaned grain and soya maize for feed production. The insert shows feed mixers, a component used in feed production. The farm has 360,000 poultry capacity, a fully automated closed house system, and an automated egg collection system.

Strategic progress

For SMEs, we plan to actively engage our customers in capacity building programmes, give online banking support and also provide them with products that are focused on addressing their specific needs while providing advisory services to them through our relationship managers. We are currently working on finalising and implementing our SME strategy.

The Retail Banking SBU is in the middle of the implementation of a bouquet of schemes targeted at first building a market-based perception as an SME-friendly bank; secondly, significantly increasing its share of the SME market in the country; and lastly developing a profitable SME portfolio. This will be built on a two-pronged approach of SME capacity development and SME business advisory and partnership.

For affluent customers, our strategy is founded on enhancing service delivery to our top affluent customers. We have also allocated relationship managers to each customer and launched premium lounges in selected branches (see picture below); we have provided premium cards that serve as access cards to the premium lounges, international cards and other electronic banking products.

The Retail Banking SBU is rapidly moving away from the focus on branches as the predominant interaction channel for customers with the aggressive deployment of various electronic media to move a significant proportion of customer activities online. These include mobile banking, online banking, and deployment of ATMs. This also serves the dual purpose of decongesting the banking halls.

For the mass market as mentioned earlier, FirstMonie mobile payments will be a key driver in banking the un-banked. Branch sales officers have been appointed in large- and medium-sized branches to take care of issues involving mass-market customers in a bid to drive improved services to that segment.

We also have a strategic need to attract more youth customers to the Bank because they are the future. To actualise this, we are building a lot of branches in tertiary institutions. These are specially designed youth branches that predominantly cater for youth proclivity for electronic channels.

Key risks and mitigants

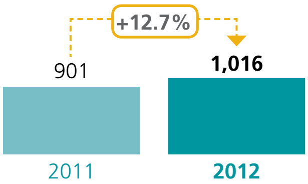
The CBN is presently reviewing bank charges and this might impact on revenue in the short term. However, the Retail Banking SBU is aggressively focusing on increasing the generation of revenue from other sources including non-interest income to mitigate the impact of this possible action.

We are intensifying our training programmes for our relationship managers to ensure that our customer base is retained and grown. We are also positioning ourselves to benefit from the recent growth in e-commerce by providing payment platforms and the advisory services to SME clients in that space.

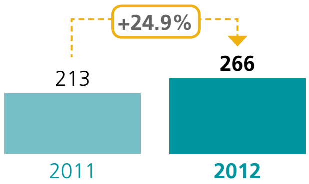
Performance

Balance sheet

Deposits (₦'bn)

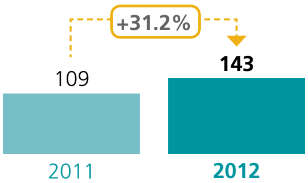


LAD (₦'bn)

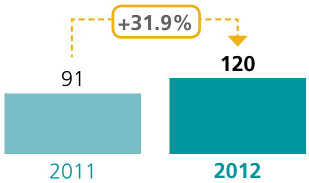


P&L

Net revenue (₦'bn)

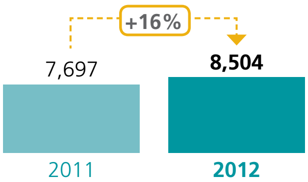


Profit contribution (₦'bn)



Customers

Customers



Outlook and 2013 priorities

Our priority for 2013 is to increase our share of the affluent and SME markets to drive up our profitability and deposit base by providing value-added services, including premium banking services to our high-end individual and corporate customers, while ensuring that all our customers have access to our suite of innovative electronic services.

First Bank of Nigeria divisional review

Private Banking

Leadership

Bernadine Okeke

Executive Vice-President, Private Banking

Private Banking is focused on the high and ultra high net worth individuals' customer segment. The Bank has three hubs in Lagos, Abuja and Port Harcourt, with teams located in a total of nine clusters where the majority of their customers can be found.

Overview

In 2012, FirstBank Private Banking Strategic Business Unit (SBU) improved on its successful debut into the Nigerian financial services industry in 2011, engaging existing high net worth customers (HNIs) of FirstBank and expanding its clientele base. This 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 wealthy customers. The current year saw an increased level of activity in its wealth management services.

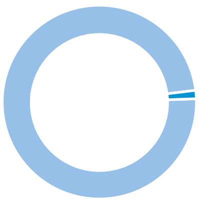
Percentage of net revenue

0.7%

Accounts at end of 2012

934

Percentage of loans and advances



0.3%

Percentage of deposit

1.1%

Implementation

Despite the significant volatility in yields in local and offshore financial markets, constantly changing policy statements from local regulators and a generally challenging operating environment, Private Banking SBU was able to live up to its commitment of adopting a more robust wealth management services structure aimed at preserving and growing value for our clients. As a result of this shift in emphasis to wealth management, Private Banking SBU was able to grow net revenue by 14.9% to approximately ₦1.83 billion in 2012. We have achieved this through a combination of efficient asset/portfolio management and first-class customer service delivery, consistently providing world-class solutions to our clients' investment needs and objectives. Over the course of 2012, we continued to engage our staff in various training programmes aimed at improving their appreciation of the concept of private banking and wealth management. Our staff were able to complete the minimum requirement of 40 training hours per staff member in wealth management and private banking-related courses.

In 2013, we would continue to leverage on the relationships existing within the Group as well as build more external ones.

Products and services

Our products and services offerings have been broadly divided into two major areas in order to ensure delivery of the highest-quality service to customers:

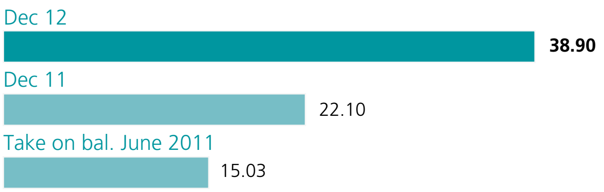
Personal banking and lifestyle management: This area provides our customers with products and services aimed at meeting their transactional and day-to-day living needs. We also provide our customers with access to various world-class privileges through a concierge service supported by Visa International. Such privileges include: cash delivery and pick-up, currency transfers, custodian services for assets, cash-backed loans, limousine services at destination points, private jet hire and bespoke services (such as attendance of social events and pick-up of wards from various destinations).

We expect growing patronage in this area as our clientele base continues to grow. We forecast an improved growth in our active customer base of approximately 25% in 2013, an improvement on the 20% achieved in 2012. We envisage this growth occurring mainly due to more aggressive business development and referrals from existing clients. Of our estimated customer base for the coming year (800 clients), we expect 30% patronage of our personal banking products and services as against 23% achieved in 2012.

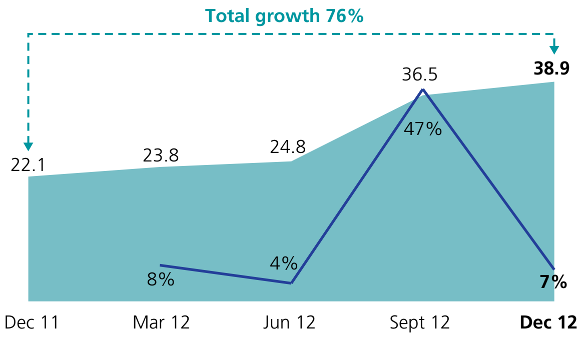
Wealth management: In 2012 we made good progress in significantly increasing our activity in the wealth management space, growing the business by 76% to ₦38.9 billion in assets under management. We were able to achieve this by providing customers with investment outlets in products yielding competitive returns through our Treasury Department, Investment Banking and Asset Management subsidiary as well as other investment partners. We expect a significant growth in the volume of our AUM over the coming year as we further develop our business development capabilities in this area and strengthen our portfolio management arm.

First Bank of Nigeria divisional review
Private Banking

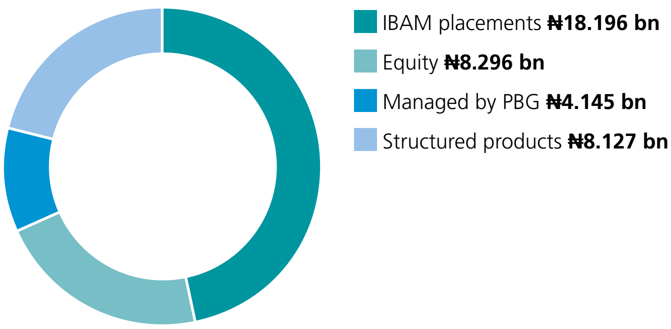
AUM (₦'bn)



Growth in AUM



Components of AUM



Safety deposit box facilities: We look to deliver best-in-class safety deposit facilities in the coming year to cater for the safekeeping needs of our clients. We are currently in talks with reputable partners and expect to commence operations in the third quarter of 2013.

Business update

Private Banking SBU clients are an elite group who are very discerning and sensitive about service. They are willing to pay a premium for service well delivered. They represent less than 1% of the Nigerian population and control a significant percentage of the country's wealth.

Currently, the private banking business in Nigeria is dominated by foreign banks. However, FirstBank Private Banking SBU is one of the few Nigerian banks making a mark in this segment.

Opportunities: The private banking business in Nigeria has seen an increase in the number of indigenous banks; however, the advantage will belong to those who provide customers with the option of executing investments in various structured products and services locally and globally. In order to exploit this opportunity, we leverage the extensive framework of our Treasury department and Investment Banking and Asset Management business group to provide our clients with offshore investment outlets and instruments that enable them to optimise returns on their investments.

Market risks: A key differentiating factor in guiding a customer's decision to either maintain their relationship with 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, as charted by various government policies, will also play a key role in helping customers decide whether or not to relocate their assets.

Strategies and objectives

While the launch of FirstBank's Private Banking SBU was reasonably successful, the SBU is still some way from achieving the vision for Private Banking SBU to be the private bank of first choice; setting the pace in wealth management. Therefore, in addition to our previously stated strategic imperatives, we intend to improve on the following in 2013:

2012 objectives	Achievements to date/plan for 2013
Provide offshore and foreign currency-denominated investments	Formulated, articulated, sought and obtained approval for the implementation of a 'Global Private Banking model' which would grant all our clients access to a suite of products in the Nigerian and UK markets Integrating financial reporting and portfolio management systems internally with a view towards ensuring full take-off by the second quarter 2013
Grow Trustee business	Commenced education of staff and clients on the need to preserve wealth for the next generation and ensure ease of transfer as well In the process of developing marketing documentation specifically targeted at clients who are at the point in their careers where plans for their estate is essential
Ensure continuation of talent management	All staff of Private Banking achieved a minimum of 40 training hours in wealth management and private banking-related topics during the year Growing focus on training staff on more specific areas of wealth management in the coming year with foreign training and orientation 'site visits' proposed

Our performance

Notwithstanding the developing nature of the SBU, Private Banking still achieved approximately 76% growth in AUM in 2012 to ₦38.9 billion (a year-on-year improvement on the 46.7% achieved in 2011), retaining 100% of the accounts inherited and opening over 60 new AUM accounts. In 2013, we forecast significant improvements on our approximately 1% contribution to FirstBank's profitability and a 35% growth in our customer base across our product types.

Conclusion

Though the Private Banking SBU business is still in its nascent phase, we believe opportunities exist in this industry and continue to position the business to benefit over the coming years. Our target clients are leaders in their respective fields and industries, and therefore provide the FBN Holdings group with opportunities across the board.

Our goal is to serve as a conduit through which the businesses and institutions with which our clients are affiliated, the staff of these institutions, their partners and the potentially bankable members of their family, establish banking and other mutually beneficial relationships with members of the FBN Holdings group, thus firmly establishing FBN Holdings as Nigeria's foremost one-stop financial services conglomerate.

Financial review

Macro and industry review

Global economic growth, though positive, remained slow with developing economies continuing to outperform their developed counterparts. The eurozone sovereign debt crisis persisted and remained the major factor in declining activity growth. In addition the US dollar remained volatile during the year.

Similar to 2011, global economic growth in 2012, estimated at 3.3%[1], has been largely driven by developing economies and the growth in Sub-Saharan Africa being generally robust; the IMF in April 2012 revised estimated growth to 1.5% for developed economies and 5.75% for developing economies.

In Nigeria, the GDP growth was estimated to be 6.61%[2] compared to the earlier forecast of 6.5% for 2012 (2011: 7.36%), driven largely by the non-oil sector – 7.95% (mainly agriculture and wholesale and retail trade sectors). The decline in GDP relates mainly to a contraction in the oil and non-oil sectors of the economy during the year under review. The contribution of the oil sector to the GDP was mixed in the period under review, as there was strong performance in the first quarter of the year; there was also a sharp reduction in imports, while exports rose sharply all in the first half of the year 2012. Fig 1 Fig 2

Inflation figures declined 60 basis points during the year from 12.6% year-on-year in January 2012 to 12% as at December 2012; bringing the average inflation rate for 2012 to 12.2% (2011: 10.9%). Inflation figures during the year remained in double digits despite efforts by the CBN to reduce it.

The year also witnessed the adoption of a new reporting standard from 1 January 2012; public companies with operations in Nigeria migrated to the International Financial Reporting Standards (IFRS) from the Nigeria Generally Accepted Accounting Principles (NGAAP).

The year also saw four banks getting approval from their shareholders to operate the holding company structure. First Bank of Nigeria Plc, as it was then known, was one of these Banks and now operates as FBN Holding Plc – a non-operating financial holding company.

In spite of the challenging operating environment during the year, First Bank of Nigeria banking group recorded gross earnings of ₦339 billion and profits of ₦86 billion, up 27.6% and 120% respectively.

Economic factors impacting results

The year under review was impacted by various economic factors:

- at the beginning of the year 2012 there was partial removal of fuel subsidies and domestic fuel prices became higher;
- the phased implementation of the Treasury single account commenced and posed challenges as there is a prospect of an eventual withdrawal of the Federal public sector's deposit and there was increased velocity of money from these accounts during the period under review;
- higher oil export than import in the first half of the year resulted in higher revenues for the Government;
- the higher interest rate regime in the economy as the CBN attempted to maintain a stable exchange rate and manage liquidity as well as inflation;
- a flood crisis in some regions of the country;
- the growth of our external reserves to $44.5 billion resulting from improved crude oil prices as well as the impact of foreign direct investment; and
- yields on government securities reduced due to an influx of foreign direct investment as a result of high yields and Nigeria's inclusion in the JP Morgan Government Bond Index – Emerging Markets (GBI-EM) on 1 October 2012.

There were also policies instituted during the year to check the liquidity position as well as manage inflation in the Nigerian economy:

- the rate-setting arm of the CBN, the monetary policy committee, maintained the monetary policy rate at 12% throughout the year under review;
- an increase in cash reserve ratio by the CBN from 8% to 12%, which increased the amount of money kept by banks with the apex bank and this had an effect on the cost of funds for Deposit Money Banks (DMB) and led to re-pricing of assets;
- a decrease in Net Open Position (NOP) of foreign exchange to 1% from 3% to reduce the appetite of DMBs for foreign exchange; and
- support of some sectors (agriculture) of the economy by the CBN through the provision of credits at below market rates in order to boost outputs in such sectors.

The cashless initiative by the CBN kicked off during the year with Lagos state pioneering it on 1 April 2012; this helped to reduce the transmission of cash and the burden on banks for cash-based transactions/ cash management.

1 Source: IMF
2 Source: NBS

Financial review

Fig 1 **GDP growth (%)**[3]

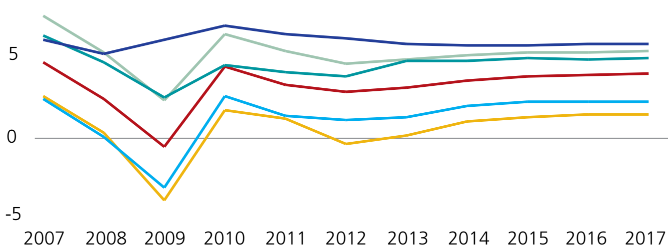


Fig 2 **Credit to private sector growth (%)**[4]

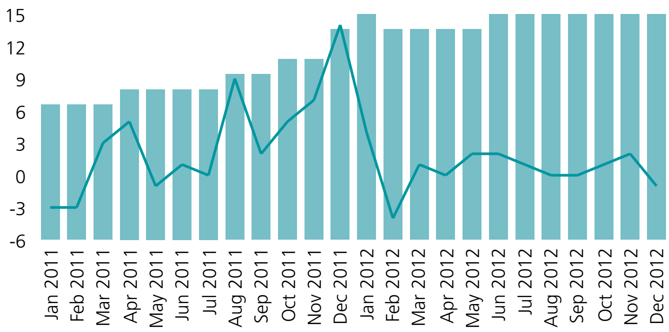


Fig 3 **Liability breakdown as at December 2012 (%)**

Customer deposits **77%** (2011: 68%)

Equity **13%** (2011: 13%)

Other liabilities **5%** (2011: 6%)

Due to other banks **3%** (2011: 6%)

Long-term borrowings **2%** (2011: 4%)

Liability on investment contracts **0%** (2011: 1%)

Tax liabilities **1%** (2011: 1%)

In this section, the analysis refers to the performance of First Bank of Nigeria Ltd, the arrow head for the Commercial Banking group[5] of FBN Holdings Plc. Where our analysis relates to any other commercial banking subsidiary, it is stated as such.

Balance sheet analysis

Selected balance sheet data As at Dec 2012	**2012 ₦ million**	**2011 ₦ million**	**% change**
Assets			
Cash and balances with Central Bank	298,024	199,228	49.6%
Due from other banks	393,125	462,856	(15.1%)
Loans and advances to customers	1,563,005	1,252,462	24.8%
Investment securities	734,908	772,362	(4.8%)
Other assets	138,146	173,261	(20.3%)
Total assets	**3,127,208**	**2,860,169**	9.3%
Liabilities			
Customer deposits	2,405,858	1,951,321	23.3%
Due to other banks	87,551	183,500	(52.3%)
Long-term borrowings	75,541	104,473	(27.7%)
Other liabilities	163,725	252,296	(35.1%)
Total liabilities	**2,732,675**	**2,491,590**	9.7%
Equity	**394,533**	**368,579**	7%
Total equity and liabilities	**3,127,208**	**2,860,169**	9.3%

The Commercial Banking group grew its balance sheet in 2012 by ₦267 billion to ₦3.1 trillion (2011: ₦2.9 trillion); this represents a 9.3% increase year on year, driven largely by strong growth in our deposit liabilities, which form 77% of our entire funding base[6] (2011: 68%). Equity and long-term borrowings represents 15% of our entire funding base, interbank funds made up less than 3%, while non-interest bearing liabilities, tax liabilities and other payables make up the remaining 5%. FirstBank maintains a very stable and relatively inexpensive funding base, providing an appropriate platform for strong earning assets growth as well as flexibility in operations.

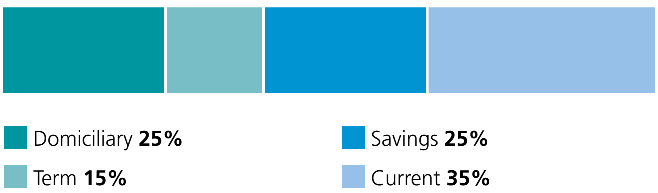
The reduction in the long-term borrowing was due to repayment of our US$175 million (₦27.2 billion) eurobond and other external debt obligations as part of optimising profitability. Fig 3

3 Source: IMF
4 Source: CBN
5 FirstBank of Nigeria Plc, FBN Bank UK, Banque Internationale de Crédit, First Pension Custodian Limited, FBN Bureau de Change and FBN Mortgages
6 Total liabilities and equity

Deposits

Deposit liabilities grew by 23% year on year to ₦2.4 trillion (2011: ₦2.0 trillion) on the back of increased customer accounts, higher volumes of deposits and the Bank's increased branch network. CASA constitutes 85% of deposits by the Bank, 80% of the Banking Group, and contributed 60% and 53% of growth, while the balance of 40% and 47% growth in deposits was driven by term deposit in the Bank and Banking Group respectively. Across business units, growth in deposits was driven by the Retail Banking Strategic Business Unit (SBU) with a growth of 12.7% to ₦1 trillion (2011: ₦901 billion), while the Institutional Banking SBU drove deposit growth by 38.3% to ₦319 billion (2011: ₦230 billion). We recorded a blended average cost of funds of 2.43% for the period under review for the Banking Group and 2.46% for the Bank. Fig 4

Fig 4 FirstBank Deposit mix by type of account (%)



CASA constitutes 85% of our deposits while term deposits makes up 15% of our deposit base. Fig 5 Fig 6

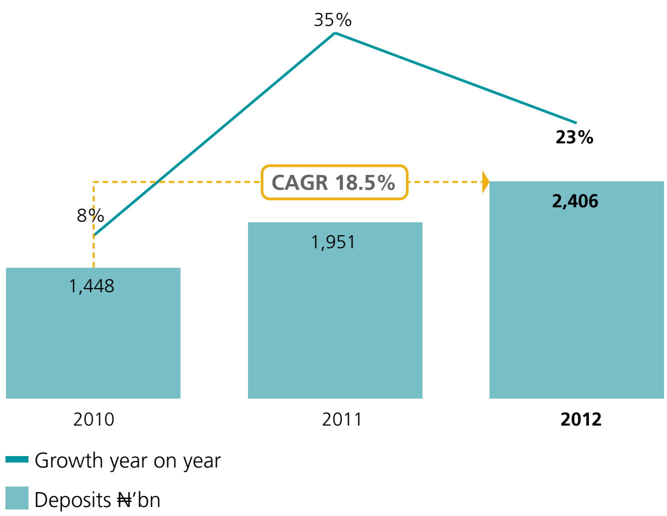
The growth in CASA was largely driven by a 29% growth in domiciliary deposits, which was aided by various existing products such as the FirstDiaspora account targeted at non-resident Nigerians and rising local content participation in the upstream oil and gas industry leading to increasing local domiciliation of proceeds.

Current accounts, which represent the greatest share of our deposit base (35%), increased by 8.5% year on year to ₦765 billion due to existing products, such as the First Current Plus account, and new product offerings, such as the First Current Business account, deepening the existing relationship with our customers and a better understanding of their needs. Savings accounts, representing 25% of deposit liabilities, grew by 10% year on year due to 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. Our tenored funds grew by 93% year on year and made up 15% of our deposit base leading to an increase in cost of funding. Increase in cost of funds was also due to a higher interest rate environment and a need for a defence strategy to retain deposits as the Government offered higher rates on Treasury Bills and they became more attractive to customers.

Operationally, we have continued to leverage on our transformation agenda as seen by our various product offerings geared to encourage new and younger customer acquisition (HiFi and the First Instant Savings account); increased migration to alternative payment channels making banking with us simpler and more convenient; as well as developing enhanced revenue collection from public parastatals and the private sector with respect to the cashless policy driven by the Central Bank of Nigeria (CBN).

Across the Strategic Business Units, growth in deposit liabilities was mainly driven by our Retail Banking (12.7%), Institutional Banking (38.3%) and Corporate Banking (59.6%) SBUs. We have continued to record substantial success in the performance of the various strategic business units in deposits mobilisation. We will continue to deepen our relationships and trap deposit flows via a holistic management of the value chain. We will also continue to leverage on the operating structure (HoldCo) in existence and our expansive branch network to address competitiveness and position FirstBank for long-term leadership in market share of customers and deposits. Fig 5 Fig 6

Fig 5 Three-year historical trend – deposits (₦'bn) Banking Group

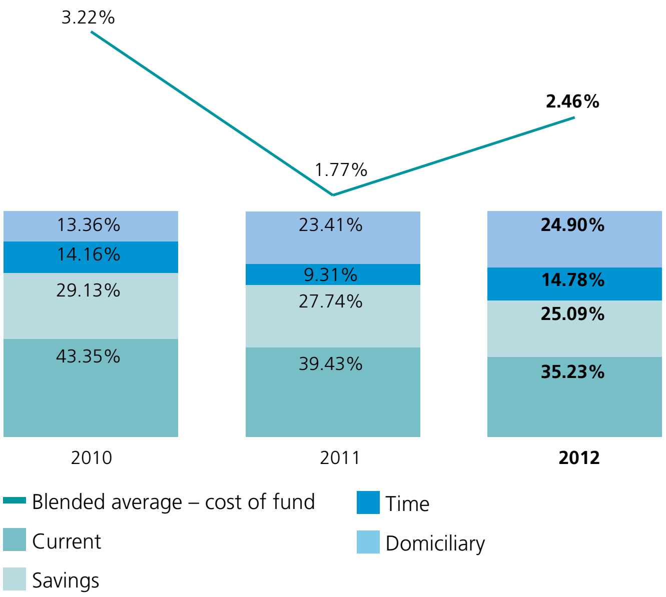


Deposits by strategic business units (FirstBank only)

Strategic business unit	2012 ₦ million	% of total deposits	2011 ₦ million	% of total deposits	% growth year on year
Corporate Banking	172,540	7.9%	108,084	6.1%	59.6%
Institutional Banking	318,690	14.7%	230,374	12.9%	38.3%
Private Banking	22,870	1.1%	14,894	0.8%	53.6%
Public Sector	614,200	28.3%	507,830	28.5%	20.9%
Retail Banking	1,015,530	46.8%	901,070	50.5%	12.7%
Corporate office*	27,977	1.3%	21,526	1.2%	32.2%
Total	**2,171,807**		**1,783,778**		21.8%

* Corporate office includes the Treasury unit and other activities not allocated to specific SBUs. Corporate office deposits include deposits not yet allocated to specific SBUs.

Fig 6 **Three-year historical trend – deposit mix by type of accounts (₦'bn) FirstBank only**



Corporate Banking SBU recorded a 59.6% growth year on year in deposits to ₦173 billion (2011: ₦108 billion) driven by the deepening of existing relationships with our Corporate Banking clients, creation of our emerging corporates segment of the business, and the existing benefit across the value chain of public sector relationships. For more on our Corporate Banking SBU please go to pages 67 to 69

Private Banking SBU grew its deposits by 53.6% year on year to ₦23 billion (2011: ₦15 billion) as a result of an increased level of activity in its wealth management services. It achieved this by growing the business through assets under management segment. This service is more attentive and provides customised services specifically suited to meet wealth management needs. For more on our Private Banking SBU please go to pages 78 to 79.

Public Sector SBU, responsible for 28.3% of total deposits, grew by 20.9% year on year, driven by the acquisition of new customers and growing of existing relationships at the Federal and State Government levels spanning Federal and State revenue allocation accounts as well as collection accounts, aided by our expansive branch networks. The continuous implementation of the Treasury Single Account will likely impact the robust growth in deposits and income from this sector. The Public Sector SBU services the Federal Government, state governments and their ministries, departments and agencies (MDAs), the Nigerian armed forces as well as state and federal tertiary institutions, including oil subsidiaries owned by the Nigerian Government (such as the Nigerian National Petroleum Corporation), police, civil defence organisations and foreign embassies. For more on our Public Sector SBU please go to pages 73 to 74.

Retail Banking made up 46.8% of total deposits and is the major driver of low cost current and savings account. It grew by 12.7% year on year due to the development of innovative products (First Instant Savings account, First Current Business Account, etc.), a growth of 15.1% in the number of customers, improved services, introduction of our mobile money service to cater for the banked, unbanked and under-banked, growth in our various alternative distribution channels (online banking, ATMs and POS terminals) with about six million debit cards, and more effective relationship management of customers' accounts. We further segmented our Retail Banking SBU to affluent, mass market and small and medium enterprises to extend our leadership position as the bank with the largest market share of customers, number of branches and bank of first choice. For more on our Retail Banking SBU please go to pages 75 to 77.

Foreign currency deposits in the banking group rose by 29.6% to ₦541 billion to deliver 22.5% of total deposit liabilities. This was due to increased foreign currency product offerings through our FirstDiaspora suite of products and increased trade finance transactions in our United Kingdom subsidiary, FBN Bank UK, including domiciliation of proceeds from oil and gas transactions.

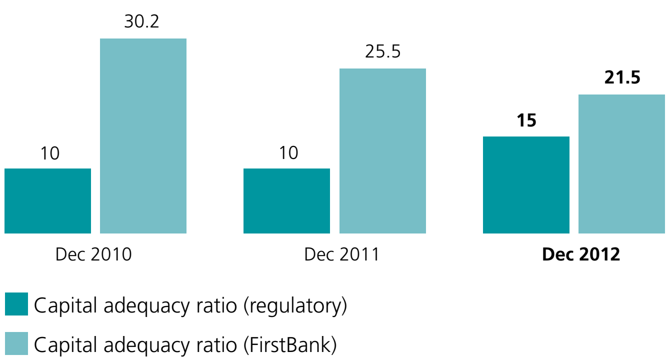
We aim to grow our deposit base in a competitive and profitable way while maintaining an efficient deposit mix. We expect to achieve this by:

- leveraging on our expansive branch network (about 714 branches, agency and quick service points) as we have the largest branch network in Nigeria;
- leveraging on the other subsidiaries in the parent company; and
- growing alternative channels (ATMs, POS and online banking) and the introduction of innovative products targeted at the under-banked/unbanked so as to provide high-quality funding to boost our performance and reduce our cost of funds.

Capital and liquidity management

We recorded 21.53% total capital adequacy ratio (2011: 25.50%), in the period under review with the minimum regulatory requirement being 15%. This is attributable to the intra-group capital movement on account of the emergence of FBN Holdings Plc, a significant growth in risk-weighted assets during the year and reduction of tier 2 capital. Tier 1 capital reduced by 8% to ₦330 billion (2011: ₦358 billion) in the period under review. This was driven by a reduction in share premium in spite of retained earning, while tier 2 capital increased by 84% to ₦43 billion (2011: ₦24 billion) due to an increase in the fair value reserve and statutory credit reserve. Over the coming periods we will focus on optimising our capital efficiency, as we grow our business in a measured manner. The banking industry's earnings will be impacted by capital buffering globally, as well as the expected implementation of Basel II and III, which will impact capital. Fig 7

Fig 7 **Capital adequacy ratio comparison (%)**



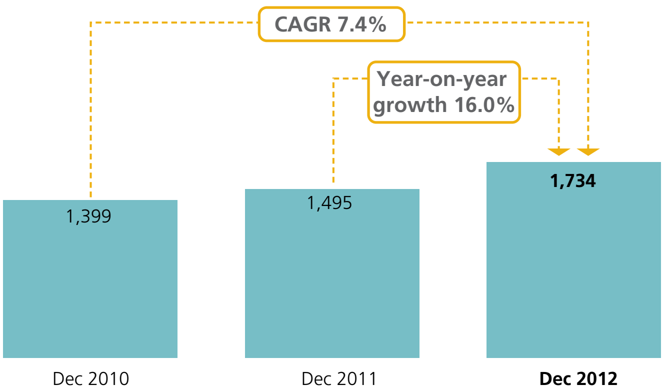
Financial review

Capital adequacy	2012 ₦ million	2011 ₦ million	% change
Tier 1 capital	330,095	357,584	(8%)
Tier 2 capital	43,339	23,603	(8%)
Total regulatory capital	**373,434**	**381,187**	(2%)
Risk weighted assets	1,734,439	1,494,667	16%
Capital adequacy ratio	21.53%	25.50%	
Tier 1 capital ratio	19.03%	23.92%	

Assets

In 2012, 86% of our total assets were made up of earning assets (2011: 87%) mostly loans and advances, interbank placements and bond investments. As a result of the high interest rate environment and the significant increase in loans and advances to customers, we expanded our government bonds portfolio to take advantage of the higher rates of yield. Cash and balances with the Central Bank of Nigeria (CBN) grew by 50% to ₦298 billion as a result of the increase in cash reserve ratio by the CBN to 12% from 8%. We will continue to optimise our balance sheet, skewing our assets to interest-earning assets to increase interest and non-interest income growth. This we intend to drive by our innovative business solutions, creation of cutting-edge products for customers and better relationship management of our customers. Fig 8 Fig 9

Fig 8 Three-year historical trend – risk-weighted assets (₦'bn)



Risk-weighted assets

Fig 9 Asset breakdown as at Dec 2012 (%)

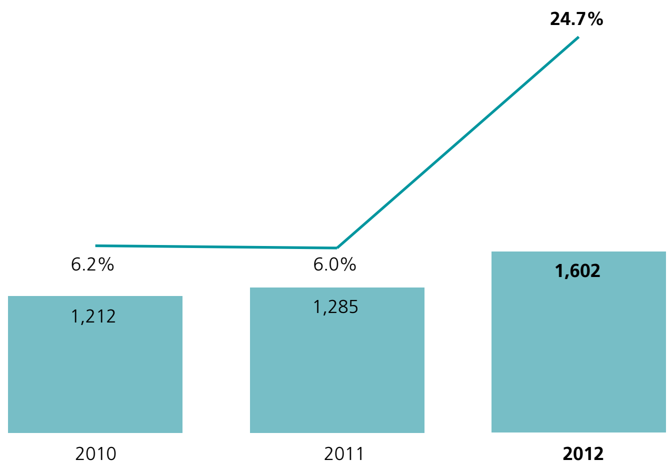
- Net customer loans and advances **50.0%** (2011: 44%)
- Investment securities **23.5%** (2011: 26.8%)
- Due from other banks **12.6%** (2011: 16.2%)
- Cash and balances with central bank **9.5%** (2011: 7.0%)
- Other assets **1.4%** (2011: 3.7%)
- Property and equipment **2.4%** (2011: 2.3%)
- Deferred tax asset **0.3%** (2011: 0.2%)

Loans and advances

The focus of our loan growth at the beginning of the year was a guided approach to loan creation, at a pace we believe is consistent with the present economic realities. The various components of our Commercial Banking group experienced a significant increase in their loans and advances Fig 10 Fig 11 Fig 12 Fig 13 :

- FirstBank's gross loan book increased by 15.4% year on year to ₦1.35 trillion in 2012 (2011: ₦1.17 trillion), while the net loan book also grew by 15% year on year to ₦1.32 trillion (2011: ₦1.14 billion);
- FBN UK's gross loan book increased by 59.4% year on year to ₦232.1 billion in 2012 (2011: ₦145.6 billion); and
- BIC's[7] gross loan book increased by ₦3.6 billion to ₦20.5 billion in 2012 (2011: ₦17.2 billion), thereby recording a year-on-year growth of 19.2%, while the net loan book grew by 24% year on year to ₦18.7 billion.

Fig 10 Three-year historical trend – gross loans and advances (Commercial Banking group) (₦'bn)



Growth

Gross loans and advances ₦'bn (banking group)

7 Banque Internationale de Crédit

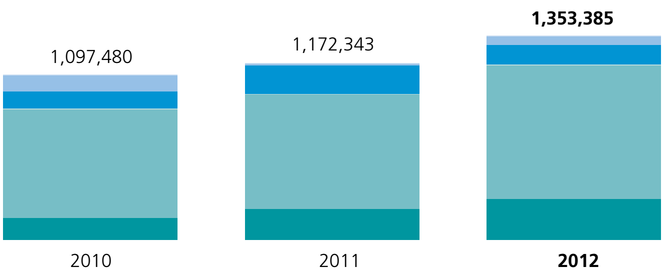
Financial review

Fig 11 Gross loans and advances by sector – FirstBank only (%)

- Agriculture **2.1%** (2011: 1.8%)
- Oil and gas[8] **37.4%** (2011: 30.6%)
- Consumer **10.8%** (2011: 7.9%)
- Manufacturing **12%** (2011: 11.5%)
- Real estate **6.4%** (2011: 7.3%)
- Construction **2.6%** (2011: 0.7%)
- Finance and insurance **1.4%** (2011: 5.9%)
- Transportation **0.4%** (2011: 0.5%)
- Communication **6%** (2011: 5.9%)
- General commerce **4.8%** (2011: 8.1%)
- Utilities **0.4%** (2011: 0.4%)
- Retail services **6.8%** (2011: 10.5%)
- Public sector **9.1%** (2011: 8.9%)

Gross loans and advances by strategic business units – FirstBank only	2012 ₦ million	2011 ₦ million	Year-on-year growth
Corporate Banking	287,208	276,604	3.8%
Institutional Banking	677,003	575,322	17.7%
Private Banking	3,721	5,258	(29.2%)
Public Sector	119,441	102,202	16.9%
Retail Banking	266,012	212,957	24.9%
	1,353,385	1,172,343	15.4%

Fig 12 Gross loans and advances by type of facility – Commercial Banking group (%)



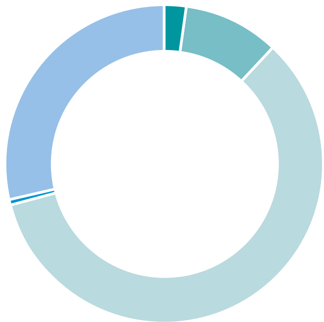
	2010	2011	2012
Overdrafts	13.97%	13.88%	**17.28%**
Term loans	66.66%	69.78%	**70.47%**
Staff loans	0.57%	0.51%	**0.37%**
Commercial papers	9.45%	14.48%	**7.92%**
Project finance	8.67%	0.98%	**3.73%**
Advances under lease	0.68%	0.37%	**0.24%**

8 Oil and gas includes upstream and downstream sectors

Fig 13 Gross loans and advances by SBU – FirstBank only (%)

- Corporate Banking **21.2%** (2011: 23.6%)
- Institutional Banking **50%** (2011: 49.1%)
- Private Banking **0.3%** (2011: 0.4%)
- Public Sector **8.8%** (2011: 8.7%)
- Retail Banking **19.7%** (2011:18.2%)

Fig 14 Retail portfolio by type (%)



- Consumer auto loan/ operational vehicles **2.26%**
- Home loan **9.7%**
- Personal loan **59.05%**
- Asset acquisition loan **0.63%**
- Overdraft/term loans **28.36%**

Our loan book in the Commercial Banking group is well diversified across all sectors of the economy, with overall growth driven by the Nigerian and United Kingdom operations. By currency, our loan book is split into foreign and local currency with foreign currency loans representing 39% and local currency loans representing 61%. Our foreign currency loans were driven by growth in the short term trade and commodity financing in the UK while our local currency loans were driven by higher exposure to the oil and gas sector and manufacturing sector. By proportion, our major exposures in descending order in Nigeria were led by oil and gas, general, manufacturing and public sectors, while growth in the United Kingdom leaned towards structured commodity assets, project loans, mortgages, corporate loans and trade finance assets. We had exposures to the real estate sectors, finance and insurance, and general commerce sectors as we drove our strategic focus while supporting other sectors of the economy.

Our loan book (FirstBank only) grew by 15% year on year to ₦1.35 trillion (2011: ₦1.17 trillion) driven by a 25% year-on-year growth to ₦266 billion (₦213 billion) in the Retail Banking segment and 18% growth to ₦677 billion (2011: ₦575 billion) in the Institutional Banking books.

In forthcoming periods, our focal point will be on diversifying our loan book by increasing exposure in the retail market, as well as focusing more closely on our emerging corporates (lower end of corporate customers) and the corporate segment, as we see them as the growth drivers of the economy and areas with profitable yields.

Our intention is to grow our loan books along sectors in the macro environment where we see growth. These include power, agriculture, trade and infrastructure, etc. Fig 10 Fig 11 Fig 12 Fig 13 Fig 14

Across sectors we see growth opportunities in the Retail Banking, Corporate Banking and Private Banking Strategic Business Units.

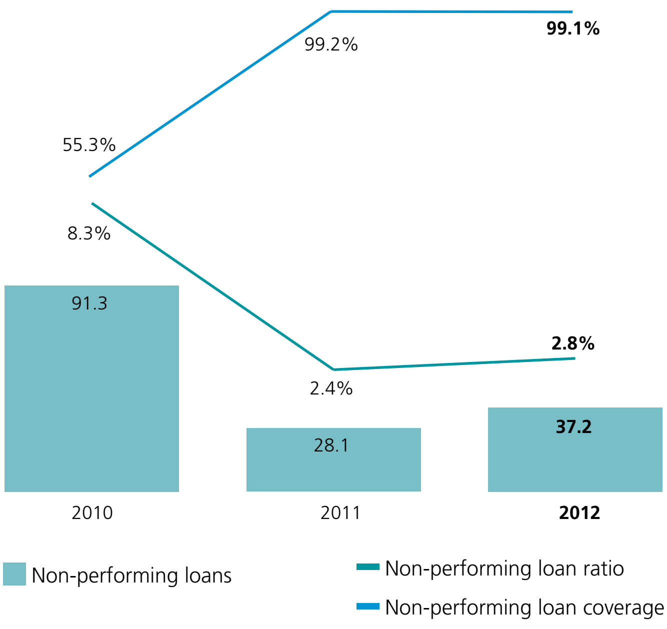
Asset quality

The Bank recorded a non-performing loan (NPL) ratio of 2.8% in 2012 (2011: 2.4%) and actual NPLs of ₦37.3 billion (2011: ₦28.1 billion). The increase in the NPL portfolio was driven by exposures, classification of some accounts that became impaired and subsequent write-offs of some accounts; the increase in the size of NPLs was largely impacted by exposures to the oil and gas sector, which constituted 35.7% of our NPLs. We continue to intensify our efforts on remediation, regularisation and recovery management as we work down challenging loans.

Within customer segments, we recorded NPLs of ₦17.6 billion and ₦19.7 billion in the Retail Banking and Corporate Banking business segments, which represent 47% and 53% of the NPLs respectively, with both recording decline in their NPL ratios to 6.6% and 6.9% respectively. NPLs in Corporate Banking were as a result of higher exposure to the oil and gas sector (downstream and oil and gas services). The NPL ratio for FBN UK remained low at 0.17%. This was driven by a reduction in exposure to loans to banks, specifically banks in Eastern Europe, and a resultant increase in loans to customers, specifically short-term trade and commodity-related assets.

On a sectoral basis, we recorded our highest NPL exposure in the oil and gas sector downstream (22.3%) followed by oil and gas services (13.4%). This is as a result of write-offs and early recognition of problem facilities, the highest NPL exposure is in the oil and gas sector (₦13.3 billion – 35.7%) followed by general[9] (₦7.7 billion – 20.8%) and personal and professional sectors (₦3.4 billion – 9.1%). Fig 15 Fig 16 Fig 17

Fig 15 FirstBank three-year historical trend – non-performing loans (₦'bn)



9 General includes: hotels and leisure, personal, religious bodies, retail (others), logistics

Fig 16 Three-year historical trend – non-performing loan classification (%)

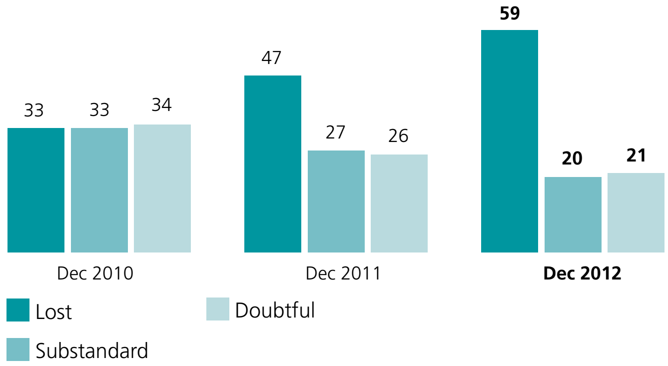
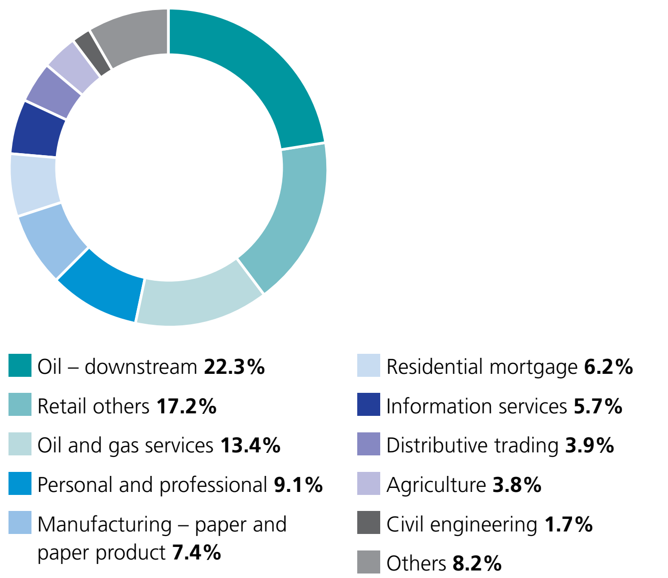


Fig 17 Non-performing loans by sector (%)



Profit and loss account analysis

In 2012, the Commercial Banking group recorded a 27.6% year-on-year increase in its gross earnings to ₦339 billion (2011: ₦266 billion) driven by interest income growth. Increased income growth was as a result of rise in income from investment securities, fee income and income from loans and advances to customers as a result of optimal pricing of our assets. Operating profit increased by 109.4% to ₦85 billion (2011: ₦41 billion) while our profit after tax grew by 302.9% to ₦75 billion (2011: ₦19 billion); these were driven by a 33.7% year-on-year increase in our interest income with significant contribution from fees and commissions to the Bank on transactions carried out in the period under review. Interest expense increased year on year by 68.5% to ₦59 billion (2011: ₦35 billion) while our loan loss expense witnessed a significant reduction year on year by 66% to ₦13 billion (2011: ₦38 billion).

Selected income statement data As at Dec 2012	**2012 ₦ billion**	**2011 ₦ billion**	**% change**
Gross earnings	339	266	27.4%
Interest income	277	207	33.7%
Interest expense	59	35	68.5%
Net interest income	218	172	26.7%
Non-interest income	62	59	6.1%
Operating profit	85	41	109%
Operating expenses	182	137	33.4%
Loan loss expense	13	38	(66%)
Profit before taxation	**86**	**39**	**120%**
Taxation	15	19	(20.9%)
Profit after taxation	**75**	**19**	**302.9%**

Net interest income

Our net interest income grew by 26.7% to ₦218 billion (2011: ₦172 billion); this was due to a 33.7% increase in our interest income to ₦277 billion (2011: ₦207 billion) and 68.5% growth in interest expense to ₦59 billion (2011: ₦35 billion) which reflected an increase in rates paid on deposits from customers.

Increase in our interest income was due to improved margins from re-pricing of our loan book as a result of the higher interest rate environment during the course of the year, in addition to increased income from Treasury Bills. A tighter monetary policy stance by the CBN led to increased open market operations (OMO) and an increased cash reserve ratio of banks, thereby reducing loanable funds to customers by the Bank. Interest income was also positively affected by an increase in higher-yielding assets in our portfolio, which involved booking of more loans and advances and a better management of customer loans and advances.

FBN UK and BIC also recorded increases in their net interest income; FBN UK's increase in net interest income was attributed to a 50.3% growth year on year to ₦8.8 billion, largely driven by increased interest income with a combination of increased customer lending activities and improved asset yield.

The high interest rate environment, growth in tenored funds and volume growth in customer deposits all led to a significant increase in interest expense, which was mitigated through our high-quality funding base. Interest expense increased by 68.5% year on year to ₦59 billion (2011: ₦35 billion) and the total cost of funds came to 2.3% (2011: 1.75%). This achievement was notwithstanding a 23.3% increase in customer deposits in an environment where interest rates remained high. Increase in interest expense was observed in our time deposits and current accounts.

During the year, the net interest margin for the Bank was 9.5% (2011: 8.8%) and was considerably impacted by a better asset mix and an interest rate environment that was higher.

Non-interest income

Non-interest income predominantly made up of fees and commissions increased by 6.1% to ₦62 billion (2011: ₦59 billion). Fees and commissions grew by 25.9% to ₦55 billion (2011: ₦44 billion) while other income increased to ₦7.3 billion. Our focus to grow non-interest income, thereby improving our gross earnings, yielded results. Growth drivers for non-interest income were:

- a rise in commission on turnover (COT) of 56.6% year on year, driven by higher volume of deposits, increasing turnover on customer accounts and closer monitoring of concessions on COT;
- a rise in income from collections for various public and private institutions;
- an increase of 18% in money transfer transactions, with FirstBank extending its leadership position through the introduction of the Ria money transfer to increase our international money transfer offerings and First Domestic transfer during the year under review;
- growth in credit-related fees resulting from loan structuring to short-tenored higher yielding facilities and changing the loan structure and pricing;
- an increase in fees generated from letters of credit through trade finance transactions; and
- an increase in revenue from collections, bonds and guarantees.

The introduction of CBN's cashless policy has produced positive impacts on the increase in the number of cards issued to customers; non-interest income; operational expenses, by reducing the burden on banks for cash-based transactions; and the use of alternative channels. We await its full implementation nationwide as it is seen as an avenue to increase non-interest income.

The increasing consumer protectionism of customers by the CBN in subsequent periods will be of negative impact to net interest margins of banks; these include:

- the ₦100 ATM surcharge removal, which will lead to banks paying inter-exchange expenses of their customers;
- lower bank charges in the form of reduced COT to ₦3 per mile from ₦5 per mile, an increase in interest on savings deposits to 3% and a reduction in SMS alert fees; and
- rising regulatory costs, i.e., the AMCON levy from 0.3% to 0.5% of year-end total assets and NDIC premium due to increased customer deposits.

Non-interest income breakdown – bank only	2012 ₦ million	% of total	2011 ₦ million	% of total	% growth year on year
Other fees and commissions	18,647	30%	14,989	25%	24%
Commission on turnover	28,935	47%	18,477	32%	57%
Other income	3,398	5%	12	0%	28,217%
Credit-related fees	2,532	4%	4,406	8%	(43%)
Letters of credit commission and fees	4,748	8%	5,719	10%	(17%)
Income from investments	892	1%	3,286	5%	(73%)
Dividend income	518	1%	4,175	7%	(88%)
Foreign exchange income	2,456	4%	7,497	13%	(67%)
	62,126	100%	58,561	100%	6%

Cost efficiency

Operating expenses increased by 33.4% to ₦182 billion (2011: ₦137 billion). This was largely driven by a 24% growth in personnel expenses and a 53% increase in other expenses. Increase in personnel expenses was primarily due to an increase in costs relating to adjustments to recognise the actuarial valuation conducted at year end under the Group's defined benefit plans, as well as a one-off staff rationalisation exercise during the year to improve productivity of the workforce and optimise our staff mix. Our costs were also impacted by increased regulatory cost as the AMCON and NDIC fees increased in the period under review, and the increased expansion costs of branches, quick service points and significant growth in expanding our alternative channels including ATMs and POS.

Operating expenses	2012 ₦ million	% of total	2011 ₦ million	% of total	% change
Personnel expenses	65,808	36.1%	53,072	38.8%	24%
Depreciation	9,895	5.4%	8,975	6.6%	10.3%
Amortisation	645	0.4%	1,199	0.9%	(46%)
Auditors' remuneration	251	0.1%	193	0.1%	30.1%
Directors' emoluments	2,910	1.6%	3,294	2.4%	(12%)
(Profit)/loss on sale of property, plant and equipment	(1,760)	(1%)	107	0.1%	1,745%
Deposit insurance premium	9,159	5%	6,504	4.8%	40.8%
Banking sector resolution cost	7,391	4.1%	5,872	4.3%	25.9%
Other operating expenses[10]	88,030	48.3%	57,452	42%	53.2%
	182,329	100%	136,668	100.0%	

Our cost to serve declined by 6% year on year to ₦211.17 and was driven by the various automation and alternative channels we have leveraged on to serve our various customers.

We recorded a cost-to-income ratio of 65% from 59.2% in 2011; this was due to a 68.6% rise in interest expense and a 33.4% rise in operating expenses, largely impacted by staff costs in the period under review as mentioned earlier.

The following cost optimisation initiatives will help us lower our operating expenses in coming periods and improve on the quality of our expenditure:

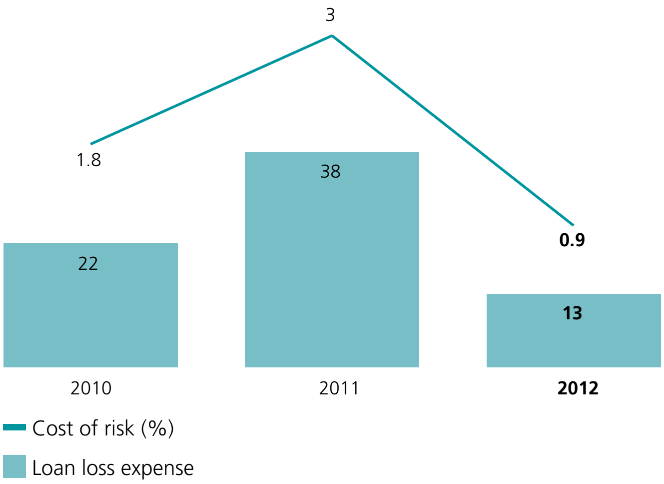
- centralised processing of our back-office branch processes, and a reduction in turnaround time, which has led to increased volumes;
- reduction in our cost to serve via the branches;
- optimisation of our various alternative delivery channels and migration of customers to such channels;
- expansion of our automated solutions across a higher proportion of our branch network; and
- the continuous review of our current staff mix.

10 Other operating expenses include maintenance, rent and rates; advertising and corporate promotion; legal and professional fees and other operating expenses

Provision for losses

Our loan loss expense declined by 66% to ₦13 billion (2011: ₦38 billion) for the period under review. This was primarily due to a decrease in specific impairment charge attributable to the clean-up of the Bank's loan books via the write-off of our delinquent facilities and remediation of non-performing loans that occurred during the financial year. The delinquent facilities were due to non-performance of the facilities. Our credit policy is continuously reviewed to align with international standards and these steps have seen the cost of risk of the Banking Group reduced from 3% in 2011 to 0.9% in 2012. Fig 18

Fig 18 **Three-year historical trend – loan loss expense (₦'bn) and cost of risk (%)**

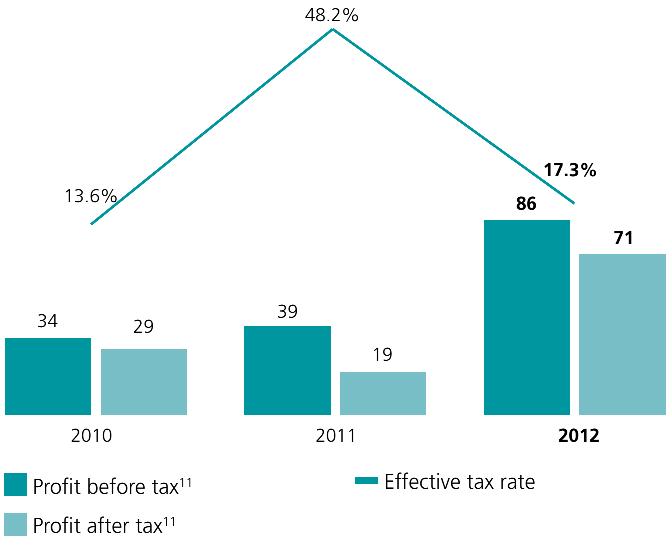


Profits

FirstBank delivered profit before tax of ₦86 billion in 2012, an increase of 120% (2011: ₦39 billion) largely due to growth in business volumes and lower cost of risk. The results were negatively impacted by increased operating expenses and increased interest expense. Fig 19

For improved future earnings, numerous strategies such as the cashless policy focus on non-interest income growth, higher earnings asset mix and various cost optimisation strategies; increased market penetration and market share; improvement in the understanding of our clients' businesses, and provision of improved and innovative products and services to enhance their business needs, will be implemented.

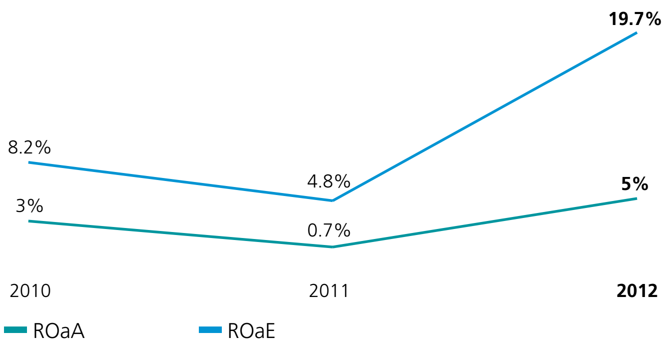
Fig 19 **Three-year historical trend – profit (₦ 'bn)**



Key Performance Indicators

The FirstBank Banking Group's return on assets improved to 2.5% (2011: 0.7%), while the return on average equity improved to 19.7% (2011: 4.8%). The Group recorded a 303% growth in earnings per share of ₦2.30 (2011: ₦0.57). Fig 20

Fig 20 **Three-year historical trend – returns on average assets and equity (%)**



11 Profit before and after tax relate to continuing operations

Doing business responsibly

Our citizenship approach

When we began business operations over a century ago, our goal was not just to provide excellent banking products and services, but also we were committed, from inception, to positively impact the lives of our key stakeholders and society at large. At FirstBank, we believe that a business should be established to make profit. We equally believe that while profit making is significant, we must do so in a responsible and sustainable way.

As a good corporate citizen, doing business responsibly involves making conscious efforts to enable a truly rewarding career for our employees; providing value-added, innovative and sustainable products and services for our customers; minimising our environmental impact and empowering the communities in which we operate.

Engaged employees, inclusive workplace

Our responsibility to our employees includes consistently ensuring that they are motivated and truly rewarded. One of the various ways we empower our employees to help deliver a sustainable business is through robust training. This is why in 2012, out of about 7,920 employees, a total of 7,909 went through robust training programmes – this number represents 99% of the entire staff.

FirstBank recognises that for good corporate citizenship to thrive, workplace diversity and inclusion should be promoted. Our employees are representative of the diverse ethnic tribes in Nigeria. This also applies to other countries in which we operate. We currently have four women on the FirstBank Board as part of our efforts to encourage diversity and inclusion. In addition, we have created platforms for our employees to actually express themselves and have truly fulfilling experiences. The Employee Volunteering Scheme is a good example of platforms dedicated to providing opportunities for staff engagement. It fosters employee connections and builds healthy relationships as they engage in community service, which is an integral part of our corporate culture.

Meeting customer needs, empowering communities

Our responsible approach to doing business has seen us design sustainable products and services tailored to suit the needs and expectations of our numerous customers including the unbanked segments. For instance, FirstMonie is an innovative product introduced by FirstBank targeted at the unbanked segments. FirstMonie has an unprecedented advantage of allowing our customers and non-customers to withdraw money from any FirstBank ATM without a payment card. To uphold financial inclusion as well as grow the economy, FirstBank has been partnering with the Government and other stakeholders to provide loans and other financial services in developing small and medium enterprises (SMEs).

Our citizenship approach ensures that the voices of our customers are heard. Because we value the contributions of those we provide products and services for, we have provided about 714 outlets to help channel their expectations. These outlets are part of the overarching customer service approach aimed at entrenching an excellent customer service culture.

Part of our long-term approach to sustainability is minimising our direct and indirect impact on the environment. This includes our efforts at conserving energy to reduce global warming by reducing CO_2 emissions as well as conserving resources – a key aspect being through the reduction in the use of paper in our business operations, anchored on our print optimisation programme.

Corporate citizenship involves developing and sustaining mutually beneficial, trusting and meaningful relationships between us and our stakeholders. One of these key stakeholders is our communities. We recognise that part of our responsibility is empowering the communities in which we operate. The communities remain one of the key stakeholders our business depends on for its survival and growth, so we continually work with them for a win-win approach to meeting their needs and wants. With regard to the communities, we are focused on three key areas, namely, education, economic empowerment and environment. In addition to these major platforms, we have a support platform, and tagged special projects, through which we demonstrate our support for significant initiatives in the areas of sports, arts and culture, health and welfare, as well as security.

The above are anchored on an unwavering dedication to good corporate governance as well as our values of Passion, Partnership and People. We remain committed to corporate citizenship by driving sustainability and upholding the tenets of corporate responsibility best practices.

Our citizenship journey

Corporate citizenship is a journey. It's an endless process of commitment and improvement. As stated, we have begun a journey to sustainability; a journey that is challenging, but surely rewarding. We promise to provide regular progress updates on the challenges and milestones achieved as we go along.

Doing business responsibly

People

Overview

The Bank 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 Bank are achieved. To sustain and extend its leadership position across the Sub-Saharan region and beyond, the quality of its people must be unparalleled. This also supports the vision of the Bank on human capacity building, which is 'to be a hub of talent in Sub-Saharan Africa'. The ability to sustain the momentum of change and continually innovate to create immense value depends largely on the quality of the workforce and accompanying people-management initiatives to drive people-intensive growth.

Beyond capacity building, the Bank also pays additional attention to attracting and retaining talents to continuously drive and create unique value/experiences for its numerous customers. This is reflected in its compensation and performance management strategy in order to promote a merit-driven system.

To promote staff development and growth, the Bank embarked on numerous projects and initiatives such as:

- talent management;
- cross-posting;
- secondment;
- knowledge management;
- mentoring and counselling;
- First Academy schools; and
- succession planning.

These initiatives were aimed at deepening the breadth and depth of staff knowledge and providing them with relevant leading industry and global best competencies that will make them excel in the market. The Bank has always seen staff development as a differentiating factor with which to excel in the provision of services in the industry.

Against this background, the fundamental focus of the Bank in 2012 was to continue the implementation of strategies to drive the achievement of its strategic aspirations with effective talent management/development, towards 'Building Sustainable Leadership'.

Building sustainable leadership

One of the goals of the Bank is to maintain a leadership position in the industry. This can only be achieved by building sustainable leadership through effective development and management of the numerous talents existing in the workplace. For this reason, the initiatives to achieve a high level of quality workforce were overriding factors considered in 2012. These initiatives are detailed subsequently.

Talent management

In line with its human capital vision of providing the best place for talents, the Bank designed the talent management framework as an essential platform for capacity building. Talent management is positioned as a strategic HR process that will continue to guide the attraction, development and retention of the skills and capabilities required for the continuous achievement of business objectives. The framework reinforces our commitment 'to becoming the hub for the best industry talent', while cultivating a highly motivated, capable and entrepreneurial workforce.

The Bank, in 2012, commenced the development of the talent management framework, which covers areas such as talent pool identification, career management and development, as well as succession planning. In line with the framework, the resourcing and recruitment process was reviewed. In addition, the capacity-building platform of the Bank was enhanced by the establishment of First Academy. Similarly, the performance and reward management processes were linked to set goals and objectives. Continuously, the Bank strikes to balance the development/utilisation of existing talents with the acquisition of new talents.

For the purpose of on-site talent utilisation, a number of internal recruitments were made that provided the in-house talents with new career paths, opportunities and motivation. Furthermore, we integrated our competency-based mode of selection across all grades to enrich our selection process. The Assessment and Development centre-based approach was also deployed to drive our recruitment activities, seeking to attract the best talent in the industry for the Bank.

Another initiative to support the talent management framework is the Board-approved policy on diversity and inclusion. It is obvious from the policy that irrespective of a person's origin, sex, colour, etc., the Bank gives equal opportunity for growth to its workforce without discrimination. Across countries and states, the diversity policy is all inclusive.

The First Academy: enhancing staff skills and expertise

First Academy is FirstBank's ivy-league learning and development centre. The Academy, which was established in 2011, has a vision to develop a learning organisation by providing a robust framework for implementing and managing a competency-based learning and development system. The Bank's learning and development strategy has been designed to be a major catalyst for transformation and continuous achievement of corporate goals and objectives. Hence, to grow and develop various in-house talents identified in the Bank, curricula for the various schools in the First Academy have been developed with relevant structures to support their running.

The Academy is structured into four schools namely:

- Foundation School, Tier 1 and 2;
- Specialised Schools;
- Management School; and
- Leadership School.

Doing business responsibly
People

The Foundation School

In 2012, 114 fresh graduates went through the Tier 1 Foundation School of the Academy, out of which 107 graduated from the four-month intensive programme.

From left: The GMD, Bisi Onasanya, congratulating the best graduating student Funmilade Adesurure, Head Human Capital Management and Development, Ayodele Jaiyesimi and Head, First Academy, Oshiomha Irumhekha.

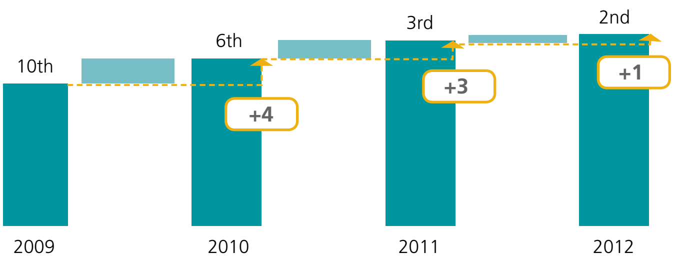
Specialised, Management and Leadership Schools

The Operations and Credit Schools (two of the four specialised banking schools) commenced operations earlier in the year. Management and Leadership Schools kicked off later in the period with eCornell's **'Unlocking Your Leadership'** programme by Cornell University Graduate School of Management.

The running of the two specialised schools established earlier influenced positively on service delivery to our customers and also on the quality of assets acquired by the Bank.

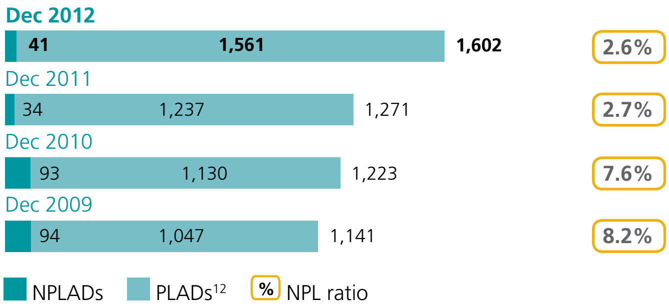
The **KPMG banking service rating** showed significant improvements on the Bank's rating as shown in the graph below. The Bank moved from the 10th position in 2009 in Corporate Banking Service Rating to sixth, third and second positions in 2010, 2011 and 2012 respectively, while the NPL development graph also showed improvements in the quality of assets by the Bank.

FirstBank KPMG ranking (corporate)



12 NPLADs (Non-performing loans and advances) and PLADs (Performing loans and advances)

NPL development



The above graph showed significant improvement year on year in the quality of assets acquired by the Bank. The Bank achieved a 68% improvement on asset quality in 2012 against what it had in 2009. Staff competencies in the area of credit packaging are constantly being up-skilled through the Credit School in First Academy.

Emphasis was equally placed on the training of the sales market force with a view to building critical marketing and relationship management skills in our staff.

As a matter of priority, training interventions were structured to support all our employees in their career development. The table below summarises the achievement in training hours and number of staff trained during the year.

Training hours

Year	Budget	Actual	% achieved
2012	**257,278**	**396,232**	**154**
2011	442,776	421,284	95

Staff trained

Year	Staff strength	No of staff trained	% trained
2012	**7,920**	**7,909**	**99**
2011	7,789	7,626	98

The primary phase of the physical infrastructure upgrade project for the academy (i.e., bare-bone' upgrade of the Iganmu Learning Centre) was successfully completed. Furthermore, a full corporate identity (CI) for First Academy was developed and launched in February 2012 with the 'look' and 'feel' of Iganmu Learning Centre changed to reflect the new persona.

Competency framework

In consonance with the Central Bank of Nigeria's (CBN) competency model, we had developed a comprehensive competency framework for the entire Bank. This formed a major input in our resourcing and development strategies. The framework was also a key concept driving our talent management strategy.

In 2012, the following major milestones were achieved with respect to the competency framework initiative:

- Employees were informed of the required competencies including expected proficiency levels for various jobs and functional areas within the Bank.
- We identified the minimum competencies required of potential employees at the recruitment stage.
- We established similarities in competencies across functions, thus serving as input to job rotation and transfer decisions.

In addition, the competency framework was a building block for the development of learning curricula for all the four schools in the First Academy. Our training interventions are now executed based on the competencies developed. This is supported with action and blended learning solutions to deliver superior performance. The blended learning solutions make use of practical, classroom, syndication, simulation, etc., sessions to inculcate relevant skills and competencies in the workforce. Our recruitment process is also driven by the job competencies developed. This has greatly enhanced people fit on the job thereby encouraging a high level of staff engagement, which was 95% compared to the 75% benchmark for Fortune 500 Best Companies (Great Place to Work Survey).

Mentoring and coaching

The use of mentoring and coaching as a developmental tool has gained currency around the world in the past decades. Organisations are increasingly recognising the importance of this tool in the workplace. Be it at the executive or junior staff levels, mentoring and coaching have been deployed as an important employee development strategy to ensure high levels of employee performance. To take advantage of this employee development tool, the Bank revised its mentoring and coaching framework. Also revised, is the manual for mentors and protégées relationship. This is with a view to enhancing relationship in the workplace.

First Learn

To provide an alternative and more efficient means of reaching out to a great number of employees across the federation, the Bank introduced its variant of e-learning solutions, tagged the First Learn and mobile learning training intervention. The advantages of this method of training are numerous. It provides ease of learning, convenience, safety and the opportunity to enhance learners' competencies/experiences through the utilisation of new and emerging technologies. It is also a cost-effective way of administering training to a greater percentage of the workforce. The cost saved from this initiative in 2012 was ₦362 million.

The Bank successfully used the First Learn training platform to train 2,352 relationship managers in products and marketing courses. Also 1,200 staff were trained on credit programmes and 8,123 staff (transactions and core staff) were trained on cash, funds transfer, clearing, customer services and basic banking operations modules.

Action Learning

This method of training intervention is a pragmatic approach requiring action simulation on challenges identified in the workplace. A total of six Action Learning sessions were organised with 11 problems effectively discussed and resolved. The sessions led to a massive improvement in most of our processes in 2012.

FirstBank became a registered member of the World Institute of Action Learning (WIAL) in 2011, and consequently 12 FirstBank staff were trained in July 2012, representing one of the requirements towards becoming Certified Action Learning Coaches. This approach to training going forward will frequently be used in addressing challenges identified in the workforce.

Knowledge management

The need to manage both tacit and explicit knowledge in the Bank has become more apparent with the depletion of experienced staff over the years. The erosion of institutional knowledge if not redressed, might lead to dearth of capacity/institutional knowledge with the exit of a great number of experienced hands, hence the need for a knowledge management framework. The main benefit of the framework is to husband the Bank's tacit and explicit knowledge and make it available to a larger percentage of staff to ensure business continuity.

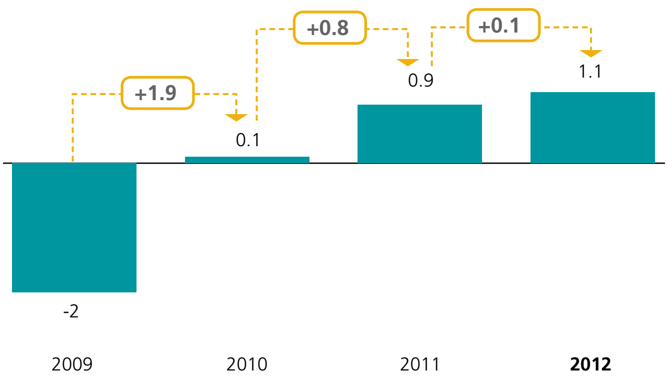
Conceptual framework for knowledge management

The illustration represents a conceptual framework on which the Bank built its knowledge management framework. With a heritage of successful operations spanning over a century, the urgent need for FirstBank to institute a structured process for knowledge management and information harvesting was identified. This is more crucial especially with the looming threat of potential loss of tacit knowledge, given the number of experienced staff that may be due for retirement soon.

Employee engagement

The Bank has consistently introduced initiatives such as town hall and village meetings, appointments of change and brand champions, road shows, etc., to promote a high level of staff engagement. The belief is that a high level of employee engagement will lead to staff motivation and subsequently result in high staff productivity. Year on year, the ratings on the Bank's engagement index moved from a negative index in 2009 to a positive rating of 1.1 in 2012. The graph below trends the Bank's achievement on the employee engagement index.

Employee engagement index



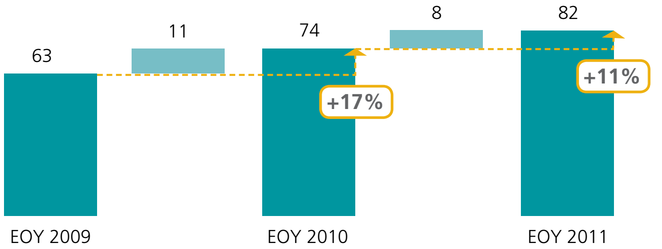
Great Place to Work award

This achievement was corroborated by the various workplace surveys the Bank subscribed to in 2012. Such workplace climate surveys include the Great Place to Work, KPMG, CIPD International Workforce climate and Gallup International Employee Engagement surveys. Two of the awards won from the surveys are the Best Indigenous Company to Work for in Nigeria and Second Best Place to Work among the 10 best companies that cut across various sectors. The first place position was won by Diageo, a multinational company.

The awards reinforced Management's commitment to creating a mutually beneficial relationship with both existing and potential employees in line with the Bank's **Employer of First Choice** aspiration and **Brand Essence**.

Furthermore, as a result of the high level of staff engagement in the Bank, the enterprise scorecard has consistently recorded improvement from 63% in 2009 to 74% and 82% in 2010 and 2011 respectively as shown in the following graph. Staff engagement continued to be on the front burner to drive enterprise performance.

Trend analysis of enterprise performance



Performance management

In tandem with our resolve as a performance- and merit-driven organisation, the Bank's performance management system (PMS) is centred on defending the Bank's strong leadership position in the industry. The system is geared towards maintaining a high-performing workforce with a strong governance culture. The Bank maintains an integrated performance management system (PMS) for setting, cascading, tracking and measuring performance objectives against organisational goals.

Essentially, the system is targeted at developing the capabilities of individuals and teams in order to deliver sustained success. It also provides relevant data to support fact-based decision-making. In addition, it aligns team and individual objectives to that of the organisation to drive the achievement of strategy objectives.

In specific terms, the Bank succeeded in deploying assessment centres for staff eligible for promotion between principal manager (PM) grade and the grades above PM. It also tweaked the behavioural section of the scorecard to reflect the competency framework developed. The Bank continued the use of the FirstBank Annual Merit Award (FAMA), Chief Executive Annual Merit Award (CAMA) and Pay for Performance (PFP) as incentive and reward schemes to encourage high performance in the Bank. For example, 7,377 staff were paid PFP, showing that 81% of the workforce received 100% of the value of their PFP. The Bank will continually drive initiatives to develop a highly performance-driven culture in the organisation.

Health and well-being

Stress remained the main health challenge in the workplace. The Bank recognises the fact that health is wealth and that a healthy workforce is a productive team. It is for this reason that FirstBank established a comprehensive health and well-being scheme/package that is unparalleled in the industry. The aim is to develop the workforce into a fit and agile team working in a healthy environment to achieve the productivity aspiration of the organisation. The major components of the scheme are: medical schemes such as BUPA International Health scheme; office health and safety; preventive health; sports and recreation; health education and counselling; hospitals audit and management; health and sickness benefits.

In conclusion, the Bank places greater 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 2013, we intend to undertake full implementation of FirstBank's talent management framework, roll out more schools in First Academy, deploy the FBN knowledge management framework and make maximum use of our e-learning (First Learn) solutions.

Doing business responsibly

Customers

Providing responsible financial services and ensuring high customer satisfaction remain our key priorities. We seek to continuously maintain and improve on the highest levels of integrity and customer service. We recognise our responsibility to our customers in ensuring excellence in service delivery, understanding their needs and tailoring our products and staff to meet these needs. The importance of ensuring we act responsibly to our customers cannot be over emphasised considering the highly competitive banking environment. Our overarching priority is customer focus; this means we will continue to focus on our customers' financial goals to enhance their lives and businesses.

Customer satisfaction is one of our key performance indicators. In 2012, we continued to progress towards our customer satisfaction goals across our key business segments. A major indicator of the progress achieved is the result of the industry survey that was conducted by KPMG. It revealed an improvement in our service ratings in the Corporate, SME and Retail segments. Another measure of our performance in customer service is the Voice of the Customer (VoC) forum, which gives customers an opportunity to air their views, express their concerns and get responses to their queries in a face-to-face engagement with the Bank. We actively encourage feedback from our customers through various channels and regard complaints as opportunities that enable us to improve our products and services.

We have diligently embarked on rigorous customer-centred initiatives to significantly improve the quality of services rendered to our customers. During the latter part of 2012, we developed and implemented the service dashboard as a major tool in tracking, monitoring and measuring service delivery to our customers across all the Bank's touch points. This contains key metrics that will be reviewed on a quarterly basis.

FirstBank continues to focus on the customer and improving the overall customer experience.

We recognise that it is only by focusing on customers' needs and addressing those needs adequately, that we can expect to deliver benefits to our stakeholders.

Main activities in 2012

- Introduction of a new service governance model to increase the strategic focus given to service issues, including the formation of a service committee with senior management participation.
- Strengthening our service performance measurement and reporting, including external customer service as well as internal service performance through Service Level Agreements (SLAs).
- Development of the customer engagement framework through Voice of the Customer (VoC) and Voice of the Employee (VoE) forums by gathering information from internal and external customers on improving customer satisfaction.
- Deepening our understanding of the expectations of customers in different segments to enable us to understand their service expectations, thus enabling us to refine our value propositions to these segments.
- Continuation of the branch transformation project to manage the consistency between the brand promise and the customers' experience across all branches.

Service delivery excellence

Our objective is to become the beacon for service in the Nigerian financial services industry; consequently, in 2012, we focused on improving the quality of service to over three million discerning customers, and strengthened this cross-functional effort even further. We were pleased to note improvements in our service ratings in 2012, as measured by the KPMG Banking Industry Customer Satisfaction Survey (BICSS), where we moved from third to second position in the corporate segment, and were ranked fifth in the SME segment, and seventh in the retail segment, up from eighth position.

During the year, we introduced a new service governance methodology that further elevates management's focus on our multifaceted service improvement effort. We conducted extensive research to determine the most critical areas of focus for our service improvement effort, which has led us to concentrate on reducing the queues in our branches, improving our internet banking services, deepening the knowledge of our relationship managers about our clients' industries, and streamlining our complaints-handling processes. Major initiatives are underway in each of these areas. In addition, we have strengthened the supervisory focus on service as a strategic issue in our Banking Services group. Investments have been made in training and retraining staff to ensure the quality of service experienced by customers is consistent and pleasant.

Convenience for our customers

Given our strong retail footprint, we continued to concentrate on initiatives that make our services more accessible and convenient for our customers across all channels. With about 714 branches and 1,865 ATMs as our conduit for more than 32 million transactions yearly, our customers across the country are assured of better accessibility and convenience. We have located our branches strategically – ensuring that customers have easy access to their banking needs.

To further reduce queues in our branches, we have introduced quick service points (QSPs) in strategic locations, which offer specific services and products. Our newly introduced premium desks at selected branches cater to the unique needs of affluent customers by providing expedited services in a comfortable and aesthetically pleasing environment.

Accessibility to support and prompt issue resolution is yet another criterion for a fulfilling customer experience. To achieve this, significant investments have been made in deploying multilingual Interactive Voice Response (IVR) software, with advanced add-on such as chat to ensure a wider reach and added values across demographic borders. Our contact centre, FirstContact, boasts a bouquet of services including local language support and the IVR self-service banking option. The local language support allows customers to communicate with the contact centre in Hausa, Igbo, Yoruba or Pidgin English based on the customer's preference, while the IVR affords the opportunity to carry out banking transactions from the comfort of the home or office. Customers can also do the following on the IVR – listen to their account balance, hotlist lost/stolen cards, stop cheques, setup SMS alert, make intra and interbank fund transfers, pre-confirm issued cheques, pay utility bills, etc.

Self-service functionalities for our techno-savvy customers have also been deployed for foreign exchange transfers. Our First Trade platform offers our customers the convenience of initiating and concluding online foreign exchange transfers from the comfort of their homes and offices any time of the day or night. With the convenience of our customers in mind and repositioning the Bank for the soon to be cashless economy, we have introduced the FirstInstant payment platform, which facilitates inter and intra funds transfers. The success of the deployment can readily be inferred from the volume of transactions executed on the platform which stood at 448,000 and 434,000 for inward and outward transactions respectively as at third quarter 2012.

The drive for excellent customer service has resulted in the reduction in mundane processes through automation to effectively and efficiently service customers, providing services in shorter time, via convenient means and at an affordable rate. This has resulted in the deployment of the template generator, which provides customers with letters of reference, bankers' confirmation of signature, status enquiry, proof of investment and letters of non-indebtedness.

In line with industry best practice and the efficient delivery of quality service the Bank deployed the cheque truncation process to reduce turnaround time and improve overall service quality.

We also made good progress with our branch transformation project by redesigning more banking halls to create the total brand experience, improve our branch ambience and also reduce the wait time in our branches and across all touch points.

Our online banking platform has been enhanced for ease of navigation and offers more services round the clock.

Building strong relationships

FirstBank recognises the strategic importance of building strong relationships with customers. Since the implementation of the customer segment-focused operating structure for market-facing functions in 2010, we have continued to deepen our understanding of different customer segments, and to refine our value propositions to each segment. In 2012, we introduced a new relationship management model for Retail customers which realigns relationship management resources according to the customer segment, while ensuring that each customer segment is covered by sales and service resources. The coverage ratios for each Retail customer segment have been adjusted to enable relationship managers to invest sufficient time in their customers to truly understand their needs, and thus provide the right products and services. Our new Customer Relationship Management (CRM) application was launched to support this effort. We are convinced that our approach of investing in our customer relationships creates long-term value both for the customer and for the Bank.

Handling complaints

Complaints handling is a key element to our overall customer experience management across the Group. In the Bank, we have enhanced our complaint management framework this year to ensure that all complaints received through different channels are centrally collated and resolved by designated complaints handlers using standard guidelines. These reports are collated and sent on a monthly basis to the Central Bank of Nigeria, which is the regulatory authority that monitors all financial institutions registered in Nigeria. Specifically for the Bank, as at the end of the year, the total number of complaints received was 18,080 with 17,694 resolved (97.9%) and 386 (2.1%) yet to be resolved. Total disputed amount: ₦1,316,965,049.90. This figure includes the value of disputed amounts resulting from unresolved complaints made up until 31 December 2012; the resolution of these claims is ongoing.

We have created several feedback channels to ensure customers reach us with ease and have put in place processes to ensure prompt resolution of their complaints. On a daily basis, we engage our customers through interface with our field and operations staff. We also make available the names and phone numbers of our departmental heads and executive officers through our various communication channels including the website.

Customer satisfaction measurement

The Bank relies on independent customer satisfaction surveys as well as its internal mechanisms for receiving customer feedback. The survey results are used to identify service failures as well as areas of customer satisfaction. Customer satisfaction is the central pillar of our service delivery strategy and as part of efforts to ensure we meet service expectations, we developed a service measurement dashboard that will periodically track, measure and report on our service performance.

Our customer engagement framework ensures that we use the VoC to drive our improvement plans; this way we focus and address customer expectation and specific financial needs. Our newly introduced customer engagement forum affords customers the opportunity to engage with the Bank's top management in a conducive atmosphere; during this forum customers are taken through the Bank's service improvement agenda and have their concerns and complaints addressed. The feedback received is used to drive improvement plans and determine areas of focus for service delivery.

Regular conclaves have been instituted to facilitate effective communication within the Group as we believe that to succeed at putting the customer first the voice of the employee is critical. Several feedback media have been deployed to encourage staff to share ideas with management and have the opportunity to contribute towards attaining seamless efficient service delivery to the delight of our customers. We constantly solicit feedback from our customers by engaging them through various channels including but not limited to surveys, FirstContact and our branches. The feedback gathered from these sources is reviewed and used in making the required changes that help us to satisfy our customers better.

We have also expanded our mystery shopping so that we drive consistency and standardisation in all our branches and across all our touch points by walking in the customer's shoes.

Influencing positive staff attitude and entrenching excellent service delivery culture within the Group has led to introducing customer perception-related metrics by which staff are evaluated. The performance evaluation encompasses both internal and external customer feedback to include detailed SLA fulfilment monitoring, which culminates in a dramatic decline in service failure incidents.

Financial inclusion

FirstBank has a large stake in society and a strong drive to bank the unbanked. Part of our approach in achieving this is to make available products and services suitable for the various types of customers in our society. For instance, the FirstInstant Savings account was introduced during the course of the year to cater for the needs of the underprivileged and low-income earners in our society. This account can be operated with minimal balances.

We continue to maintain some branches in rural areas to cater for the needs of those in remote locations and reach the unbanked/under-banked people. To further align with the Bank's strategy of growing its customer base, deposit mobilisation, providing alternative banking channels and overall delivery of excellent service, the Bank also launched FirstMonie. FirstMonie is an active mobile payment campaign to enable phone users to send and receive money, pay bills and carry out other transactions without having a bank account. This would grow the customer base, increase the Bank's profit and also make banking more convenient.

Protecting our customers

As a trusted custodian of our customers' financial interests, we are committed to protecting our customers' entrusted information, as well as their assets and their personal privacy. A review of our policies and procedures earned us the ISO 27001 certification (information security management). We are also PSI DSS (card data protection) and BS 25999 (business continuity management) certified.

We have implemented significant physical and electronic security features to prevent unauthorised access to customers' information. On a regular basis, we conduct reviews of our computer systems, security features and vendors, ensuring that customer information is protected in accordance with our security policies and standards.

When the Bank learns of a potential identity theft situation involving a customer, measures are taken to minimise the chance of unauthorised activity on the customer's accounts. This service is available for 24 hours a day through our contact centre and employees are trained regularly in security awareness to optimise customer information protection and privacy. Also the use of tokens for online banking transactions was made mandatory to restrict unauthorised access to customers' funds.

The key focus for 2013 is to further improve our service rankings in all segments. This will be achieved through our 2013 objectives stated below:

- Expanding our service measurement and monitoring programme.
- Improving our complaints management process and upgrading the level of automation used in complaints management.
- Ensuring closer engagement and feedback strategies with various customer segments and staff to drive product innovation and expected service levels.
- Expanding of the internal service measurement via SLAs to engender a customer-centric culture.
- Continuing focused service improvement programmes based on the outcomes of our service measurement programme.
- Expanding our service rewards and sanctions.

Doing business responsibly

Innovative banking services

Strategy and innovation

We are focused on delighting our customers by improving the service we provide to them and innovating our processes to be able to reduce their cost of doing banking transactions with us. For example, we enhanced our card and PIN issuance processes to issue and activate debit cards for customers across our branches in just 15 minutes, saving our customers the cost and inconvenience of having to visit our branches multiple times to collect their cards and PINs, a strategy that was fundamental to the phenomenal growth in our card portfolio in 2012. We also created a 24/7 customer support team that provides prompt support to our customers' e-transaction issues, and set up a 24/7 dispute resolution desk, which ensured that all customer transactions disputed were resolved in line with our service commitments.

We also believed that focusing on our customers is critical to our sustaining the business and to running a profitable business that delivers returns consistent with the Bank's strategic objective of improving profitability through growth of fees and other incomes. We recognised that happy customers will carry out more transactions, which will translate to growth in our key product volumes and in turn, grow revenues from fees. At the end of the financial year, we had a clear lead in the number of ATMs and point-of-sale (POS) terminals deployed, making FirstBank the financial institution with the widest retail footprint in the country. This unparalleled reach makes it convenient for our customers to carry out banking transactions, and reduces travel time and cost as we are closest to the customer. Our ATMs dispensed over ₦1.3 trillion in 2012, a growth of 87% from the over ₦714.2 billion dispensed in 2011, with over 82% of the transactions done by our customers.

We introduced a number of innovative products and services especially in the areas of mobile financial services – Firstmonie®, Go Pilgrimage cards, and a 'design it yourself' card solution – 'eXpressions on card', that allows our customers to choose the look and feel of their cards from the comfort of their homes or offices. We believe that this product will appeal to young people and will serve as the driver for growing our market share of the youth segment in line with the Bank's Retail Banking SBU strategy.

Firstmonie® is an innovative product that promotes financial inclusion. It provides an opportunity for customers to have access to banking services, while addressing the financial access needs of people who currently do not have access to formal financial services. As part of the launch proposition, customers of FirstBank can send money to any mobile phone user in the country (irrespective of network) on any of FirstBank's ATMs using a debit card or from their phones, and the recipient can withdraw the cash from any FirstBank ATM without a payment card (cardless) by entering a code generated from the system for that transaction. We are extending the Bank's internet banking capabilities to allow customers to also send money to any mobile phone in Nigeria. This is similar to what is being done on the mobile and ATM platform.

With our integrated mobile and internet financial services offerings, innovations on cardless ATM deposits and withdrawals, instant debit card and PIN issuance, and biometric authentication using fingerprints, we are redefining the financial market boundaries in Africa, creating new markets and offering unparalleled quality and affordable financial services to our customers.

Performance

At the end of the year, our earnings from cards and channels grew by about 44% from ₦3.6 billion in 2011 to ₦5.2 billion in 2012. We are convinced that we will continue to record growth in our revenues given the focus on cashless society and our drive for financial inclusion.

The number of POS terminals deployed grew significantly from less than 2,500 terminals at the end of 2011 to over 18,500 at the end of 2012. FirstBank accounted for over 30% 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.

Within the year, the Bank crossed the five million mark of issued payment cards having issued about 5.93 million cards, a 65.3% growth from about 3.59 million cards in 2011, and thus became the first financial institution in West Africa to achieve this feat. Over 88% of the Bank's issued cards are active, which is significantly above the average industry active card rate of 75%.

How we are driving financial inclusion

In the last quarter of 2012, the Bank successfully launched Firstmonie®, a mobile financial services solution targeted at extending banking services to the unbanked and under-banked segments of the market, while enabling existing customers of the Bank to conveniently perform banking transactions from their mobile phones. Customers are able to, among other things, to send money, buy airtime, pay bills, buy things at shops, and withdraw money from agents, our branches and at the ATMs. Being a service targeted at the unbanked and the rural masses, Firstmonie® will reach customers through agents who are located very close to the customers, thereby reducing the overall cost of transactions to customers and increasing their confidence to take up financial products. We closed the financial year with about 10,000 agents who are currently on-board the scheme. We will also leverage on this growing agent network to offer branchless banking services.

We will continue to develop innovative products for our Firstmonie® customers to enhance financial access needs through a mobile financial suite.

Increasing access

Our internet banking offering is helping to increase access to banking for our customers and to reduce our costs to serve. For instance, in 2012, our customer transactions on the internet banking platform amounted to over ₦91.9 billion, representing about 194% growth from about ₦31 billion in 2011. We expect this performance to keep improving as the Bank upgrades the platform to a more robust system capable of improving the turn-around time of enrolling new customers while offering better and more appealing customer interface and experience.

In addition, more ATMs and POS terminals have been deployed nationwide to make it easier and more convenient for our customers to access their accounts and to pay for goods and services at retailers.

Achievements in 2012

First in number of electronic transactions processed

- We have maintained our leadership position on all channels as the Bank continues to account for over 30% of total electronic transactions processed on the InterSwitch network. Total processed transaction volume within the period grew by 74% from 239,333,794 recorded a year ago to 416,569,634 recorded at the end of 2012.

First West African bank to cross the five million card issuance mark

- We have progressively led the card payment industry in Nigeria and indeed in West Africa, making the Bank the first West African bank to cross the five million issued debit card mark. With a 31% share of the Verve market, the Bank is proud that 'One out of every three Verve cards in the market is a FirstCard.'

First in number of active Verve cards

- We are the first bank to record an over 88% active card rate in the industry's largest network – InterSwitch. The number of active to total issued cards across the three card brands being issued by the Bank grew by 63% from about 3.2 million in December 2011 to over 5.2 million recorded at end of December 2012, bringing our card active rate to over 88%.

First in number of ATMs deployed

- With about 1,865 ATMs spread across the nation and still growing, including cash deposit and biometric ATMs, FirstBank has the highest number of ATMs deployed.

First in number of deployed POS

- We are leading the industry in the total number of POS terminals deployed. At the end of December 2012, we had deployed a total of 18,581 POS terminals, which represents 16.2% of the total industry install base of about 114,589 terminals.

First in number of ATM transaction volume and value

- The aggregate amount dispensed through our ATMs grew by about 55.9% from ₦714.1 billion in 2011 to ₦1.3 trillion recorded at the end of 2012. This increase can be attributed to growth in the total number of cards issued within the same period.

Recognition and awards:

23 April 2012 – ACI Worldwide (NASDAQ: ACIW), a leading international provider of payment systems

- The award for Adoption – in recognition of the bank that has endorsed the greatest number of electronic funds transfer products over the past two years, including the number of Postilion modules licensed, implemented and generating live transactions.
- The award for Growth – in recognition of the bank that processes more than one million transactions per month and has seen the highest percentage growth in transaction volumes over the past two years.

28 July 2012 – The Cyber Nigeria Forum/Africa Information Security Merit Awards

- **Best Application in Technology – in recognition of our First Mobile and First Connect services.** The awards celebrated innovations that are transforming African landscape from business to finance, tourism to entertainment and the media.

8 September 2012 – Nigerian Telecom Awards 2012

- **Best in Mobile Banking award** – initiated to recognise and celebrate iconic contributions to ICT applications, usage, deployment and development across Africa.

30 November 2012 – Nigeria Financial Technology Awards

- **Best use of IT in Mobile Payments** – in recognition of the Bank's innovative Firstmonie® product, and aggressive development of mobile payments agent network.

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® product, we will continue to enable the Bank to grow its retail and corporate franchise and to deliver strong returns to its shareholders.

Doing business responsibly

Communities

As stated, our corporate citizenship approach involves empowering the communities where we operate. As an important stakeholder, we continually work with the communities – listening and meeting their reasonable needs and wants.

Education – ₦392,909,615

FirstBank professorial endowments

As far back as 1994, long before CSR became commonplace, the Bank instituted its first professorial chair endowment in Business Ethics in the University of Lagos. The Bank has instituted 15 professorial chairs in Nigerian universities, some of which have been converted to strategic infrastructural projects in the universities. To date, we have professorial chairs in 10 Nigerian universities, with the total endowments worth over ₦400 million. The universities and endowed academic fields include:

- University of Lagos: Business Ethics;
- Nnamdi Azikiwe University, Awka: Banking and Finance; and
- University of Agriculture, Makurdi: Agronomy.

Our choice of business ethics was informed by our belief that a business should operate ethically. We recognise that businesses are reluctant to go beyond the basic legal requirement of incorporating or embracing ethical principles. The business ethics chair is a platform to further grow the knowledge on ethics in business, and provide opportunities for debates as well as demonstrating how businesses can do better by focusing on the ethical dimension.

In addition, agriculture remains a key driver of economic growth. This significance ranges from providing food for the nation to acting as a catalyst for employment. Our commitment to this sector has seen us establish a special unit to drive various agricultural transactions and partnerships with government ministries.

Educational infrastructure development

FirstBank has complemented the Government's efforts in the development and advancement of education nationwide by providing much-needed infrastructure in universities spread across Nigeria. Some of the Bank's infrastructural projects over the years include an ICT park at Ahmadu Bello University in Zaria to demonstrate our commitment to the growth of ICT in Nigeria, as well as an Entrepreneurship Centre in the University of Abuja to further our support for entrepreneurship development in Nigeria. In the past year, the Bank developed a sports complex in Ekiti State University, Ado Ekiti and supported infrastructural development at the Police College Training School, Kaduna. The Bank has also committed to the development of an infrastructural project in the International Financial Reporting Standards (IFRS) Academy Nigeria, which will serve as the hub for all Nigeria's financial reporting training and research.

Teaching resources

The Bank has partnered with institutions to provide educational facilities and create a conducive environment for learning. The Bank provided The Regent Secondary School with a 30-seater coaster bus and Lagos State University with two Toyota coaster buses. We renovated and equipped the chemistry, biology and physics laboratories of Onarubi Secondary Technical School, Abiriba, while laboratories in Egwuena Girls Secondary School and Enuda High School, both in Abiriba, were upgraded and equipped, under the auspices of the League of Abiriba Professionals Educational Trust Fund. The Bank also supported Langbasa Primary School with portable drinking water through the Victoria Garden City (VGC) Rotary Club.

Faculty of Social Sciences Lecture Theatre, constructed with support from the **Bank's Endowment Programme** in Obafemi Awolowo University Ife.

Educational infrastructure development: refurbishment of four classroom blocks in the Police College, Kaduna.

Donation of two 30-seater buses to Lagos State University (LASU) as part of the Bank's support for **teaching resources**.

Economic empowerment – ₦169,353,729

Nigeria Leadership Initiative – Guest Speaker Forum

FirstBank has a collaborative relationship with Nigeria Leadership Initiative to create a global network of young, credible, accomplished, community-spirited Nigerian leaders who will positively impact and drive positive change in the nation. The Guest Speaker Forum programme is a series of values-based leadership fora focused on providing experiential learning to the NLI Associates through discussions with NLI's senior fellows, who share the underlying and fundamental passion: leadership is generational and transferable. The experiential learning consists of building blocks for effective leadership, character and the psychology of a leader, and responsible and accountable leadership. The senior fellows engage the associates within and outside Nigeria on untested, unconventional and new leadership ideas. These fora provide the platform for the associates to learn how leaders make tough decisions and tackle critical issues, as well as imbibe the ideals that define a good society.

Former President, Olusegun Obasanjo speaking at the Nigeria Leadership Initiative (NLI) Guest Speakers Forum in August 2011, supported by FirstBank as part of its **youth and economic empowerment initiatives**.

Second African Women Economic Summit

As part of the Bank's efforts to increase access to finance for women in business and promote financial literacy, it supported the 2012 African Women Economic Summit in collaboration with New Faces New Voices (NFNV) and the African Development Bank (AfDB). Through the summit and a research report also supported by the Bank on the 'Challenges and opportunities of the SMEs funding gap in Nigeria', about 500 women were empowered with solutions to grow their businesses, access credit facilities and become more financially inclusive.

Students in Free Enterprise (SIFE) and Student Economic Forum

In harnessing the entrepreneurial potential of youth and to re-orientate their perception to making a change in their communities, FirstBank partners with SIFE to encourage entrepreneurial skills in undergraduates across Nigeria.

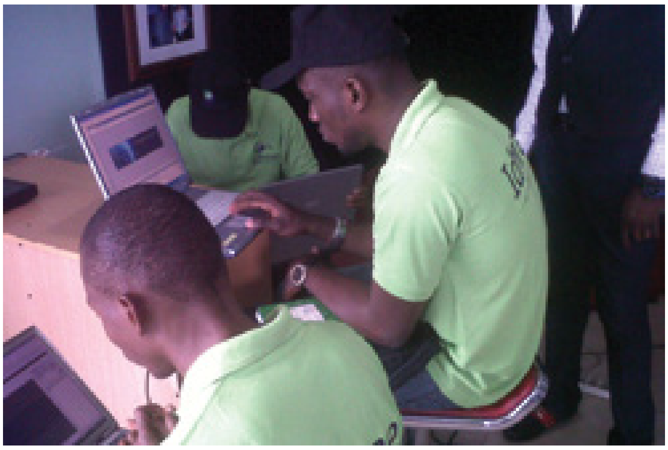
One such initiative is the Business Smart Campus and online competition: the Business Smart Project, a new initiative of the Bank, implemented by SIFE, that seeks to support and promote entrepreneurship and economic empowerment of youth across Nigerian campuses.

The Bank again supported the annual SIFE Competition, 2012. After, a rigorous selection process, the most sustainable community project is showcased at the SIFE World Cup Competition. Federal University of Technology, Owerri, emerged as winners of the 2012 national competition and represented Nigeria at the 2012 SIFE World Cup Competition held in Washington DC.

FirstBank **empowers youth** across Nigeria with entrepreneurial skills through its partnership with Students in Free Enterprise (SIFE).

IDHRAE Value-oriented Initiative

The Bank supported a number of unemployed youths in partnership with IDHRAE Value-oriented Initiative, a non-governmental organisation in Nigeria to build entrepreneurial capacity and instill values. With support from the Bank, these youths went through three months of intensive training, choosing from vocations like mechanised farming, fishery, catering, web designing, fashion and makeover. Upon graduation, these youths also received seed funding to start a business in their chosen vocation.



Youths developing entrepreneurial capacity in computer skills with support from FirstBank in partnership with IDHRAE Value-oriented Initiative.

Environmental sustainability – ₦1,000,000

Our commitment to environmental sustainability is demonstrated in a number of ways. Firstly, we are currently putting in place a planned integration of environmental and social (E&S) management systems with the aim of ensuring responsible lending in project financing as well as engaging in environmentally responsible practices. This ongoing process will see us develop a broad-based sustainability policy, corporate responsibility governance structures and monitoring and evaluation framework among others.

Secondly, as part of the ongoing sustainability embedding process, we have begun immediate environmental mitigating schemes such as using teleconferencing for meetings. Three telepresence locations have been set up for meetings. The rationale is reducing our carbon footprint as well as the cost and risk associated with travelling.

The third approach to reducing our environmental impact is through a print optimisation strategy aimed at reducing paper consumption, which helps reduce our carbon footprint. Although we do not currently have specific targets, we have actually begun the print optimisation programme, with a consequent reduction of paper use in the Bank. This is because employees are exploring alternative ways of sharing information such as paperless meetings, reworking of documents via email and the use of tablet devices during meetings.

And lastly, is an external approach. We have shown in the various projects we support, such as our partnership with the National Conservation Foundation (NCF), our commitment to environmental sustainability.

Special projects – ₦481,519,024

Disability support: Down Syndrome Foundation Nigeria

The Bank's disability support includes support for the visually impaired, physically challenged autistic children and children with Down Syndrome.

The Bank assisted children living with Down Syndrome and autism as its contribution to enable them to live a more fulfilling and inclusive life in partnership with the Down Syndrome Foundation and the Grange School. Also, through Theseabilities, an organisation that supports physically challenged people, the Bank hosted a conference on creating an accessible environment for the physically challenged.

Special support: FirstBank support for the Annual Inter-House Sports of the Down Syndrome Foundation.

Disability support: Nigeria Association of the Blind

FirstBank's commitment to diversity and inclusion goes beyond the workplace. This is demonstrated in our support programmes, which involve actively walking with the blind. The Nigeria Association of the Blind (NAB) is one of the organisations supported by the Bank in our efforts to foster inclusion in society, and NAB received a contribution of 150 white canes for the visually impaired.

Sports development

Support for the development of sports is a valuable part of the Bank's tradition and a platform that we engage to grow and polish talents, thus building brand values, rewarding loyalty and crafting relevance.

With a broad portfolio of major support of sports and sports development focusing on polo, golf, tennis, parabadminton and various inter-house sports competitions, the Bank's partnership in sports is to ensure the development of sports in every community in which we operate. This includes:

First@ Polo – sponsorship of the Georgian cup of Kaduna International Polo Tournament, an annual International Tournament which the Bank has supported for over 92 years).

First@Golf – this is the most prestigious golf tournament in Nigeria that the Bank has supported annually for the last 51 years. The Kiddies Coaching clinics with European professional golf players as coaches, further demonstrates our commitment to honing talents.

First@Tennis – towards growing tennis among talented youths who have passion for the game, FirstBank was the official bank and major sponsor of the Dala Hard Court championship in line with our goal of promoting youth and sports development.

Security

The Bank demonstrated its support for safety and security of lives and properties through various donations of security vans and patrol vehicles and through contributions to the State Security Trust Funds in various states of the nation, among other safety and security interventions.

The Group Managing Director, Executive Governor, Abia State and the ED, Public Sector, South during the official handover ceremony of Hilux Vans to the Abia State Security Trust Fund.

Arts and culture

Through its support for arts and culture, the Bank has created a platform to speak to the family, society and encourage nation building. This has enabled the Bank to revive cultural values and strengthen family ties, while also creating employment in the creative industry.

In line with preserving cultural legacy and promoting the dynamism of Nigerian heritage the Bank has helped close the gap in Nigeria's cultural terrain through arts, theatre, carnivals (Calabar Carnival), art exhibitions (Didi Museum re-opening, Sunmi Smart Cole Art exhibition and a book launch featuring rare and special expressions of art), thereby creating an avenue for cultural appreciation and value. The performing arts platform has become a major vehicle used to impact knowledge and build capacity. Major stage plays and performances supported include Five Maids of Fadaka, Rubiewe, Umoja Mad King of Ijudiya, etc.

Support for arts and culture has brought a new dimension to visual arts, and also boosts economic growth and commerce. It has served as a major business tool and a platform for bonding with our customers across the board.

Employee engagement and volunteering scheme

The Employee Engagement and Volunteering Scheme is a platform through which FirstBank is currently harnessing its employee volunteerism engagement strategy, enabling the Bank to effectively translate to employees and stakeholders that 'giving back', through varied CSR initiatives, is an integral element of the FirstBank corporate culture. This approach complements the business goals and values as it builds the morale of our workforce. It creates an enabling environment for teambuilding and leadership activities and opportunities. More importantly, it addresses and helps to alleviate community development challenges, as our employee-inspired initiatives are mutually beneficial.

These employee-driven programmes, executed in fun ways, connect the FirstBank family with the community, yet address pressing social issues, thus creating room for partnerships through access to valuable resources and skills. They generate a platform for new ideas, talents and concepts. It is significant to note the open and clear lines of communication that this approach creates between the different sectors of the community and the Bank.

Staff volunteers at the 'in the spirit of giving' **Employee Volunteering Scheme** (EVS) activity that took place in December 2012 with a visit to the Centre for the Destitute Development, Idimu.

Staff volunteers at the 'in the spirit of giving' **Employee Volunteering Scheme** (EVS) activity in December 2012 visiting an old people's home, Yaba.

The highpoint of the year's EVS activity is at the FirstBank's CEO Annual Merit Award, CAMA, where a member of staff is selected through a raffle draw for a ₦5 million prize, which must be donated to a bona fide charity of the winner's choice anywhere in Nigeria. Patricia Duru, winner of the 2011 CAMA CSR grand prize, chose the 50-year-old Mercy Motherless Babies Home, Okwelle, Imo State and on 12 September 2012, visited the home to make the presentation.

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 with a strategic fit with our business.

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 sectors, 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 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 thinking and outcomes in line with local understanding and relevance. Our subsequent reports will be ISO 26000-based after the adoption ceremony scheduled to take place in the second quarter of 2013.

The Nigerian Sustainable Banking Principles (NSBP)

The Nigeria Sustainable Banking Principles (NSBP) programme was constituted under the auspices of the Central Bank of Nigeria 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 Ltd is a member.

With support from FMO Entrepreneurial Development Bank (FMO), International Finance Corporation (IFC) and an independent advisor, the Strategic Sustainability Working Group (SSWG) was instituted to work under the Bankers' Sub-Committee on Economic Development and Sustainability to develop the Nigeria Sustainable Banking Principles (NSBP). The priority focus areas for the sustainability programme were: agriculture (including water resources-related issues and NIRSAL), power (with an emphasis on renewable energy) and oil and gas.

The Bank actively participated in two of the sub-committees (Agriculture Sub-Committee and Oil and Gas Sub-Committee), which made submissions that were approved by the Bankers' Committee for implementation by the sector regulators, banks and other related financial institutions. Following from this, a cross-departmental Sustainable Banking Working Committee has been established in the Bank to drive the implementation process of the principles in the Bank beginning from January 2013.

As an institution and based on the NSBP guide, FirstBank has begun a process of putting the necessary frameworks in place (such as environmental and social systems and procedures as part of the sustainability policy) to harmonise all the elements that will drive the sustainability embedding process in the Bank. We are working towards meeting the NSBP suggested timelines and we are on track to delivering our first progress report at the end of December 2013.

However, in line with the principles of Women Economic Empowerment, Financial Inclusion and Collaborative Partnerships, we have made reasonable progress in our approach. In demonstrating our commitment, we have consistently supported small and medium enterprises (SMEs) by providing easy access to loans. We have over 40,000 SMEs as customers. One of our key focus areas is on agriculture. In partnership with the Federal Ministry of Agriculture in its various schemes, which involve interest rebate, interest drawback and single digit lending, we have contributed significantly to the growth in this sector. The Bank has a market share of 26% under the Federal Government's Growth Enhancement Support Scheme.

We promote women's empowerment through our support for women driving SMEs. Currently, over 3,000 SMEs run by women get support from FirstBank. In terms of business operations, our Board composition consists of four women out of 19, representing 21% of the Board. The FirstBank Board has one of the highest women compositions in the financial industry and our focus in the next year is to provide capacity for women running SMEs.

The UN Global Compact

We started the process for UN Global Compact membership in late 2012 with the goal of supporting the principles of the organisation. We aim to become a member of the body in the first quarter of 2013.

Stakeholder engagement

Stakeholders are those who affect or are affected by an organisation. Our key stakeholders include the Board of Directors; executive management; employees; customers; shareholders; suppliers; regulators; media. There are different types of stakeholder engagement models and often times, each with a guide and/or principles on best ways to engage stakeholders.

While this is so, the mechanism of stakeholder consultation is not cast in stone. Currently, our major consultation approach with our stakeholders includes personal interviews, workshops and surveys. And because we know that employing the appropriate consultation mechanism for each stakeholder group is significant for desired outcomes, we are, as part of the sustainability embedding process, reviewing the current approach.

Our objective is to enhance relationships with our stakeholders and provide opportunities to further align our business goals with their needs and wants, which ultimately fosters long-term sustainability.

Doing business responsibly

Social role

We understand how important it is for our customers to be served with the right mix of products and services that positively impact their economic standing. Be it an individual customer or a corporate or government body, we go beyond the traditional role of intermediating between savings and lending, to tailoring products that suit the various corporate and individual needs of our customers, giving them enhanced value for their money. These services help individuals in their daily living, enabling them to provide for their families, build/purchase their own houses, provide comfortable living conditions for their loved ones, save towards their children's future and so much more. We have also helped companies to expand by enabling them to access facilities that have grown their businesses and providing needed equipment and facilities for their business operations, while supporting them with a wide range of products that facilitate trade. For the government agencies, our robust offerings for driving government revenue collections have contributed to the growth of internally generated revenue both at the Federal and State levels, which has aided the Government in project executions and infrastructural development. In addition, our e-payment offerings have made payment services a convenience to our customers in all sectors of the economy.

In 2012, we continued to provide our esteemed customers with various products that helped them manage the prevalent economic environment. This includes support to small and medium enterprises (SMEs), individuals, corporate bodies, religious bodies, government agencies, etc. We provided the platform for revenue and sales collections for government agencies and corporate bodies alike, while enabling SMEs to access lending with ease. The Federal Government, through the Federal Ministry of Agriculture and Rural Development (FMARD), has implemented various ground-breaking initiatives in the form of interest rebate schemes, interest draw-back schemes, and single digit lending among others to encourage lending to the agricultural sector by Deposit Money Banks (DMBs), thereby increasing performance in this sector. Most DMBs consider lending to the agricultural sector a sticky business, but we have keyed into these agricultural intervention initiatives of the Federal Government and brought these benefits closer to home for our agricultural sector customers to help them grow their businesses at affordable lending rates. Our farmers were able to access agricultural loans in single digits under the Federal Government of Nigeria's intervention schemes thus reducing their operating costs and increasing their yield. Nigerians in the diaspora were not left out as we provided the diaspora banking platform for this category of Nigerians to enable them to enjoy our special products and services that help them save towards target investments and provide for their loved ones in Nigeria while they live and work abroad.

Providing the best products and services for our customers

Following the implementation of the cash-lite policy by the CBN, we provided an enabler for our customers, both corporate and individuals alike, to transact easily and conveniently, by pushing more products to various customer touch points thereby helping our customers conveniently comply with this regulation. As part of our continual effort to offer the best to our customers, we constantly review our product features, improving on them to ensure the availability of suitable financial products in the society even as customers' needs and the economic environment change. In 2013, we are poised to continue to support our customers by providing suitable products and services that will see the growth of not only the individuals, but the businesses as well. We will continue to support the SME-type businesses to drive the economic growth of the society and increase employment opportunities by providing financing to the agricultural sector as well as key distributors of large manufacturing concerns, while ensuring we provide the necessary support to government agencies to engender growth and development of society.

Customer support

First Instant Account – our liability generation initiatives have provided a platform for individuals with limited or no access to financial services to enjoy banking relationships with FirstBank with ease. This product allows them to operate a savings account with suitable know-your-customer requirements and reduced opening and operating balances while also leveraging the Bank's electronic channels. Presently, over 247,000 under-banked or un-banked individuals have benefited from this initiative.

The FirstBank Hi Fi Young Savers Account

The HiFi Young Savers Account is a product for children of 0–18 years of age, which helps parents to save towards their children's education while inculcating a savings culture in them. In the current financial year, the product continued to dominate the market evidenced by its recent awards of 'The Product of the Year' and 'Bank Product of the Year' by *Global Excellence Magazine* and *News of the People Magazine* in 2011. Yearly through a raffle draw 12 HiFi young savers are rewarded with ₦1 million each as tuition fees towards their educational development.

Unizik Branch presenting a one million naira cheque to HiFi winner in the middle.

In a similar vein, the **FirstBank Save & Excel** promo that is the fourth in our savings promotional campaign series has rewarded lucky customers with an assortment of gifts including sponsorship of 10 winners on an all-expenses-paid trip to watch the 2012 London Olympic Games.

Winners of the 2012 London Olympic Trip prize receiving their gift certificates

Doing business responsibly

Resource efficiency

With about 714 branches, Quick Service Points (QSPs) and agencies, the efficient use of the Bank's resources to achieve its desired goals and objectives is of topmost priority and cannot be overemphasised. It reduces costs, ensures a better industry rating which helps the Bank remain competitive, increases profits and ensures the long-term sustainability of the Bank. In addition, it can increase our stakeholders' confidence in FirstBank, and generate more return on investment for them and more performance incentives for staff. Over the past few years, several systems and initiatives have been put in place to ensure the Bank's goal in the area of resource efficiency is achieved. Some of these initiatives are stated below.

Centralised Processing Centre: In order to provide better services for our customers through our branch network, we introduced the Centralised Processing Centre. Specifically, we aimed to improve customer satisfaction and standardise service-related processes. Since 2010 when we initiated this project, we have continued to identify and centralise various processes so as to free up branch staff to focus on rendering excellent service to customers who walk into the branches. We have seen significant improvements in turnaround times for various transactions including account opening, loan processing, setting up online banking and bulk salary upload. Currently, the CPC supports over 400 branches and we will continue with the implementation Bankwide in 2013.The whole process is supported by a workflow application which reduces the paper trail while providing electronic copies for daily use and archiving/backup purposes in line with international business continuity best practice.

Expense requisition workflow: In 2012, the Group launched the expense workflow application to handle all expense requisition within the Group, the objective being to eliminate the paper trail including the need to print and dispatch documents for sign-offs and approvals. The application further facilitates reporting which clearly identifies areas of high expense enabling us to make further investigations and informed decisions on how best to address these areas. Since the implementation of the expense workflow in branches, we have been able to track, monitor and review the day-to-day costs associated with running each location. This has made it easier for branches to get approvals for their expenses, ensured they are accountable and, most importantly, ensured that they use the resources allocated to them judiciously.

Print optimisation: We are focused on reducing paper consumption by tracking print expenditure on an individual basis and reviewing print reports quarterly. This has ensured that staff find alternative ways of sharing information with each other, such as holding paperless meetings, reworking documents via email and using tablet devices during meetings. Since its implementation at the Head Office in April 2011, savings from total print is estimated at about 8% and we have started to implement this process Bankwide.

Online training: Our training school, the First Academy, has introduced online staff training and employees now have real-time online access to about 17 courses they would erstwhile not have been nominated for due to resources and logistics. This has helped increase the number of staff trained regardless of the location; reduced employees' travel costs associated with training, risks attributed to travelling from one location to the other, and the number of staff absent from work as a result of training; and improved the efficiency of our training curriculum. Also, having achieved new skills, our workforce is better equipped to deliver excellent service to our customers. The cost saved from this initiative in 2012 was ₦362 million.

The Bank successfully used the FirstLearn training platform to train 2,352 Relationship Managers in products and marketing courses. Also, 1,200 staff were trained on credit programs, and 8,123 staff (transactions and core staff) were trained on cash, funds transfer, clearing, customer services and basic banking operations modules.

Fleet management: The underutilised resources have been eliminated with the introduction of the centralised Fleet Management System (FMS). This has reduced the number of cars and drivers hitherto acquired by the Bank and ensured the effective allocation of resources as needed and on a first-come basis.

Powering-down timers in the office building: Lights are powered down at 8pm to fundamentally encourage a healthy work–life balance.

Use of telepresence locations for meetings: Three telepresence locations have been set up to reduce the costs and risks associated with travelling. This has not only reduced costs but increased the speed with which quality decisions are agreed upon without the participants having to gather in the same location.

Efficient resource utilisation is critical for the survival and sustainability of any business; hence it is a guiding element in policy formulation and process design. It drives continuous process improvement in our banking services group. With this in mind, the Commercial Paper booking process was automated within the Group to facilitate seamless document flow from initiation to consummation. The process eliminates errors which would usually result in increased turnaround time, rework and, ultimately, customer dissatisfaction. The Group is currently identifying several other opportunities to improve resource efficiency within the Group.

Facilitating payment for our customers

Through our Payments & Collections department, we develop and facilitate the delivery of third-party collections (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. FirstBank is the market leader in revenue collection – a position that it maintains by continually improving the business of our customers in terms of financial growth and operational efficiency. Our various offerings enable both individual and corporate customers to seamlessly meet the challenges and requirements of the cashless policy initiative, which took effect from 1 April 2012 in Lagos state. Through our cutting-edge innovations in collections and e-payments, products and service delivery, customers and non-customers are able to carry out transactions in our bricks and mortar locations or through alternative channels, in a manner that ensures compliance with the regulatory authorities. As part of our continued drive to provide easy and convenient services for our customers, our alternative payment channels are available 24/7 to customers for their bill payments. In fact, over 65% of TV subscription payments (for DSTV, Startimes, MyTv, Infinity TV, etc.) through FirstBank occur via our alternative channels (ATMs, FirstMobile, FirstOnline, POS, etc.). We have also implemented a multilingual (English, Pidgin, Hausa, Yoruba and Igbo) banking services contact centre with offerings including intra and inter bank real-time funds transfer, balance enquiry, stop cheque, card hot-listing and statement requests. This service is accessible to customers 24/7, via voice prompts and keypad selections on their phones with no interaction with human consultants required. Our robust web-based educational portal solution (FirstEduPortal), designed to enable educational institutions to manage their academic, administrative, professional, logistics and payment processes, has tremendously improved the operations of our customers. According to the Vice Chancellor of one of the tertiary institutions where we deployed the FirstEduPortal solution, 'The partnership with FirstBank Plc on the EduPortal project is yielding good fruits. Our overall performance index has increased since the deployment of a Campus-wide Internet access facility (Wi-Fi) and an EduPortal solution in November 2011,' while the ICT Director of the same institution said, 'ICT is a super game changer. This FirstBank EduPortal project is the most successful ICT project since the inception of the University.' Revenue leakages have been blocked, while efficiency of all segments of the institutions, including tertiary institutions where this has been deployed, has been significantly increased.

Firstbank staff with representatives of the University at the launch of the FirstEduPortal Solution.

Supporting our customers through finance schemes

As part of its resolve to support the real sector of the economy, in 2012 FirstBank, through our various key distributorship finance schemes, availed over ₦40 billion to distributors in the telecommunications, cement and fast-moving consumer goods industries, and in downstream petroleum subsectors, with the aim of increasing their capacity and the availability of related goods to consumers nationwide. Furthermore, with the Federal Government laws on local content development in the oil and gas industry and the awaited Petroleum Industry Bill, the Bank has positioned itself to impact the oil and gas sector by making available funds totalling about ₦60 billion in various forms to finance the activities of indigenous contractors and companies in this sector, empowering and positioning them to benefit from the chains of activities in the industry to promote growth and foster social development. As part of our contributions to the growth of SMEs in the oil and gas industry, FirstBank, through Shell Contractors Support Fund and the Shell Kobo Fund, provided USD1 billion and ₦1 billion respectively to finance all contracts awarded by Shell Petroleum Development Company (SPDC) to support its SME contractors and other contractors from their host community as a way of giving back to society. Through our various finance schemes, we have helped our customers grow their businesses and improve efficiency. A typical example is the case of one of our customers with CBG Ikoyi whom the Bank funded to execute the Product Quality & Management System (PQMS) contract of ₦50 million and Invoice Discounting Facilities (IDF) contracts of ₦16.5 million and US$103,000 awarded to them in October 2011 by a leading international oil company (IOC). At the time, the company had 16 staff. Upon successful completion of the contract, the same IOC awarded another contract to the company for its Manpower Supplies (MAPO contract) worth ₦500 million. As at year end December 2012, the company workforce had efficiently grown from 16 to 27 excluding five expatriates.

FirstBank staff with SPDC staff at the launch of the Shell Contractors Fund in Port Harcourt.

Our role in the agricultural value chain

FirstBank is a signatory to the Nigerian Sustainable Banking Principles that guide the financial intermediation and social and environmental impact of agricultural lending in input supplies, production processes and distribution, storage and logistics provision, agro-processing and marketing in the agricultural value chain. By following these principles, FirstBank recognises its role in driving long-term economic development in Nigeria in a way that is not only economically viable, but also environmentally responsible and socially relevant. To improve agricultural output, the Federal Government of Nigeria developed the Agricultural

Transformation Action Plan (ATAP) that emphasises the value-chain approach to interventions in the agricultural space. A key initiative in the plan is the Growth Enhancement Support (GES) scheme. To effectively participate in this initiative, FirstBank's Farm Input Finance Product Program (FIFP) under the GES scheme has assisted in organising the input segment of the agricultural value chain and provided a platform for effective farm input subsidy administration. The FIFP has contributed to strengthening the capacity of the organised private sector to handle agricultural input procurement and distribution which was hitherto controlled by the Government. This is a vital link in the agricultural value chain that will drive increased access to improved agricultural inputs by farmers, output growth, efficiency and competitiveness in the agricultural sector. The Bank controls a market share of 26% under the Federal Government's GES scheme. FirstBank's agricultural financing policy draws heavily on its historical antecedents, competencies and social responsibility. It guarantees a firm commitment to continually study the operating environment with a view to deploying suitable products in support of agricultural businesses. Some of our offerings are designed to enable our valued farming customers to key into government incentive schemes such as the Commercial Agric Credit Scheme (CACS) and the Agric Credit Guarantee scheme. Other product offerings include the Industrial End-User Outgrowers' scheme, Guaranteed Fund Credit and Agricultural Produce Finance.

Impacting lives and societies

Through its money transfer promos, FirstBank has impacted lives and societies. The IGUE Festival of Benin Kingdom, a traditional ceremony commemorating the Benin Kingdom's New Year festival that heralds another year and brings all the sons and daughters of the Benin Kingdom in the diaspora home, has been sponsored annually 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, increase brand awareness, encourage affinity to the two brands (FirstBank and Western Union) and drive revenue. Through this sponsorship, the Bank is able to give back to the community for the high patronage we enjoy from the area, identify with the community in its special festival, show appreciation to the Oba for his people's belief in the Bank, and create brand awareness in the minds of the people so that when they think of Western Union, they think of FirstBank.

2013 priorities

Our focus in 2013 is to continually provide the best services to our esteemed customers with innovative products that give increased economic benefits. We plan to implement various reward programmes like promos, loyalty schemes that will ensure every customer is rewarded for their loyalty and patronage. In addition, in liaison with the relevant Strategic Business Units, we will engage in various capacity-building activities for SME-type businesses across various industries, as our way of giving back to our customers and the society at large.

A case study on the impact of the Commercial Agric Credit Scheme (CACS) on our customers

Nature of business: Cassava cultivation for the production of industrial starch

Location: Iseyin, Oyo State, Nigeria.

A medium scale agricultural company – CASS International Limited benefited significantly from our Commercial Agriculture Credit Scheme (CACS). Prior to the injection of the CACS fund, the customer's total asset was about ₦500 million. This increased to over ₦764 million after the fund injection. The facility enabled the company to part-finance the establishment of a cassava starch factory and also provided working capital for the smooth operation of the company. This product has assisted the customer to cultivate 500 hectares of cassava and to import the cassava starch plant. It has also provided employment to 58 personnel. The company had 12 permanent and 30 temporary staff which have increased to 20 permanent and 80 temporary staff respectively.

Corporate governance

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The Board of FirstBank are committed to implementing initiatives that improve corporate governance for the benefit of all stakeholders.

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Chairman's statement

Prince Ajibola Afonja, Chairman

How do we govern for long-term sustainability?

As our marketplace evolves, we have continued to reposition the business accordingly. We believe that fundamental demand trends remain intact across the domestic economy, and by extension for our business, fuelled by the natural financial needs of expanding economies. In addition, we continue to skew the business outside Nigeria in regions with attractive trade flows to Nigeria as well as growth prospects for the banking industry.

Adoption of the holding company structure

At the Extraordinary General Meeting of the Bank held on the 24 September 2012, shareholders resolved to swap their shares in FirstBank with shares in FBN Holdings Plc; thus giving FBN Holdings Plc a 100% equity holding in the Bank. As part of our strategic restructuring since 2009, and in compliance with CBN regulation, we have aligned our business by adopting the holding company structure, aimed at providing clarity on the conduct of banking business. Consequently, FirstBank was delisted on 23 November 2012 and FBN Holdings Plc was listed on 26 November 2012. From the latter part of 2012, First Bank of Nigeria Ltd ('Bank', 'Banking Group', 'FirstBank' or 'Group') became a fully owned subsidiary of FBN Holdings Plc, the shareholders being FBN Capital Limited and FBN Holdings Plc.

The migration to the holding company structure resulted in FirstBank being the arrowhead for the commercial banking business of the Group. The FirstBank Group is made up of five subsidiaries operating in banking, pension, mortgage and bureau de change industries; making it one of the largest financial services groups in Nigeria and Sub-Saharan Africa excluding South Africa. FirstBank has presence in London, Johannesburg, Paris, Beijing, Abu Dhabi and the Democratic Republic of Congo.

"We as the Board of FirstBank are committed to implementing initiatives that improve corporate governance for the benefit of all stakeholders and to moving our governance practices in line with international best practices."

FirstBank and its subsidiaries ('the Group') operate a governance framework that enables us to balance our role of providing oversight and strategic counsel with our responsibility to ensure compliance with regulatory requirements and acceptable risk tolerance parameters. The Board continues to monitor the risks inherent in our business and, in the past year, reviewed our credit policies to reflect changes in the dynamics in certain sectors of the economy, as well as product programmes guiding our retail business. In addition, we strengthened our business continuity management practices and also paid a lot of attention to further entrenching the culture and shared values of 'passion, people, partnership' within the Company. The Group operates in highly regulated industries and compliance with applicable legislation, regulations, standards and codes, including transparency, accountability and disclosure, remain an essential characteristic of FirstBank's culture. Nonetheless, as a board, we have strived to maintain critical balance between the oversight of risk, growth, performance and strategy. Incorporating risk into the design of initiatives, and integrating our risk appetites and/or risk tolerances within the various business units, helps ensure that the associated risks are visible, thereby providing greater assurance that they will be fully identified and properly managed.

In line with trends globally, we have seen the Central Bank of Nigeria (CBN) increase minimum capital requirements, enhancing focus on liquidity as well as a clear trend towards rising consumer protectionism. Indeed, pending implementation of Basel II and III suggest there is certainly more to come on the regulatory front. This is driving us to think very differently about our business, particularly against the backdrop of heightened competition as the industry emerges from the effects of the crisis and continued impact from developments on the global scene. The CBN has made significant progress in its drive towards implementation of its risk-based supervisory framework, aimed at strengthening the overall fabric of the financial sector, and in particular, banking.

Our governance framework

The major subsidiaries of the Bank – FBN Bank (UK) Limited, First Pension Custodian Limited, Banque International de Crédit (BIC), FBN Mortgages Limited and FBN Bureau de Change Limited – have their own distinct boards and take account of the particular statutory and regulatory requirements of the industries they operate in. They have also aligned their respective governance frameworks to that of the Group. We monitor compliance with these by means of management reports, which include information on the outcome of any significant interaction with key stakeholders.

The Board established a number of committees to assist in fulfilling our stated objectives. The committees' roles and responsibilities are set out in their charters, which are reviewed periodically to ensure they remain relevant. The committee charters set out their roles, responsibilities, scope of authority, composition and procedures for reporting to us. (More information on this can be found on pages 136 to 142 of this corporate governance report.)

On a quarterly basis, the performance of the various segments of the business is monitored through management and committee reports, with the format of the meetings leaving room for extensive discussions on key issues. In addition, the non-executive members of the Board have access to management and other subject matter experts when required in order to improve their overall understanding of issues being discussed and their ability to critique constructively. The Board plays an active role in strategy development and also continuously monitors implementation and drives improved performance.

Overview of Board and management committees and chairmen

Committee	Chairman
Executive Committee	Bisi Onasanya
Management Committee (General)	Bisi Onasanya
Management Committee (Credit)	Bisi Onasanya
Board Credit Committee	Mahey Rasheed OFR
Board Finance & General Purpose Committee	Ebenezer Jolaoso
Statutory Audit Committee	Chief Peter Asu
Board Audit & Risk Assessment Committee	Ambrose Feese
Board Governance Committee	Ambrose Feese
Assets & Liabilities Management Committee	Bisi Onasanya
IT Steering Committee	Bisi Onasanya

The Board is well-diversified, with members being distinguished individuals of varying ages possessing experience in various fields of endeavour, ranging from private to public service, legal, entrepreneurship, accounting, corporate finance, information technology, etc. They each bring their valued perspectives and expertise to the Board's deliberations. This Board diversity is considered a significant strategy in achieving the Bank's goals. A good percentage of Board members are very well accomplished women in their respective fields.

What are our standards of reporting and disclosure?

- Continued improvement in the quality of disclosure in our operations, interim and annual reports by providing information on the financial and non-financial aspects of our banking services beyond the standards of CAMA.
- FirstBank awarded the Bank of the Year 2012 in the African Governance & Corporate Leadership Award and an Award for Excellence in Corporate Governance by ICSAN.
- FirstBank has adopted the IFRS, the highest global standard in financial reporting, thereby enhancing shareholder value and encouraging relationships with business partners.
- FirstBank's annual report and accounts, usually prepared in accordance with international best practice, has been further improved by strengthening the discussion around governance and has also included a section on our business model to improve overall understanding of our business.

Stakeholders' expectations continue to grow regarding the performance of organisations and the quality, transparency and timing of the information they disclose about their activities; from traditional financial topics to non-financial subjects including the environmental behaviour, workplace practices, community social responsibility, and more. We have continued to improve the quality of disclosure in our operations, interim and annual reports by providing information on the financial and non-financial aspects of our banking services. This professional disposition is now well beyond the standards of the Companies and Allied Matters Act (CAMA) and is globally recognised. FirstBank emerged the Bank of the Year 2012 in the African Governance & Corporate Leadership Award and received an Award for Excellence in Corporate Governance at the 36th Institute of Chartered Secretaries and Administrators of Nigeria (ICSAN) Annual Conference.

Besides enhancing transparency and disclosure, the Bank has adopted the International Financial Reporting Standards Rules (IFRS) correlating with the highest global standards in financial reporting. The adoption of IFRS will further enhance shareholder value and further encourage business relationships with correspondent banks, multilateral agencies and international investors. Local standards are complied with by remaining up to date with changes in reporting standards as required by the Nigerian Accounting Standard Board/Financial Reporting Council.

Our annual reports are very detailed and well thought through, with the intention of providing users of the report with useful and insightful commentary on our business and helping them make informed decisions. We prepare our annual report and accounts in accordance with international best practice. This year, we have further improved on the annual report by strengthening the discussion around governance and also included a section on our business model to help people understand how we run the business.

Increasing regulatory focus on governance

During the preceding financial year, the CBN released an Exposure Draft of the Revised Code of Corporate Governance for Banks (Exposure Draft). This mirrors the trends seen globally where regulators have strengthened the focus on governance and turned the searchlight onto the boardroom. The increase in regulations in this regard is aimed at improving overall levels of accountability and effectiveness of boards. We are extremely supportive of this development.

Although not yet promulgated, the Exposure Draft reflected a leaning by the apex bank towards entrenching increased regulatory oversight on the compliance levels observed by boards of banks on corporate governance issues. This further reflects global trends emphasising regulatory compliance and improved disclosure in the wake of significant destruction of shareholder value through a failure to adopt sound corporate governance practices.

Some of the key issues on the global corporate governance agenda are:

- board composition and diversity;
- board classification;
- leadership structure;
- related-party transactions;
- anti-corruption efforts;
- sustainability; and
- say-on-pay.

In addition to the Revised Code of Corporate Governance for Banks when promulgated, the Bank is required to conform to the provisions of the Code of Corporate Governance by the Securities and Exchange Commission (SEC) Code, which regulates all corporate governance issues involving listed and public companies in Nigeria. Other applicable regulatory requirements impacting the corporate governance space are provided for in the CAMA, the SEC Act and the Banks and Other Financial Institutions Act (BOFIA).

Chairman's statement

2013 Board priorities

In the coming year, as in the past, the Board and its committees will continue to focus on successfully adapting strategies to turn challenges into opportunities and leverage compliance requirements to make innovative developments. Key themes on the agenda will be:

- overseeing enterprise risk management;
- ensuring corporate strategy will achieve long-term value creation and at the same time maintaining short-term flexibility;
- optimising capital efficiency;
- developing and executing a formal framework for sustainability concerns;
- overseeing strategic planning amid rising fiscal and economic uncertainty;
- addressing cyber security;
- overseeing the management of reputational risk;
- monitoring the Company's need for, and ability to retain, key talent; and
- preparing for more government regulations.

Concluding remarks

While there is a limit to the effectiveness of prescriptive governance rules and external metrics, we expect that over the coming periods, there will be further regulatory push locally, towards enforcement and entrenchment of best practices stipulated in the corporate governance codes. Globally, the financial services sector is undergoing a lot of changes, calling for boards and management to continually challenge existing business models. We remain confident in the sustainability of our business model, leveraging on the attractive demographics and dynamics of the different markets we choose to operate in. We recognise that the task of embedding high standards of corporate governance is never complete; we remain committed to embedding them across our business. This, we believe, will help us perform well in our chosen markets, ultimately resulting in a higher return on capital relative to cost. We believe this will also give us continued access to public capital and market liquidity.

Certainly regulation has become more complex and taxing. Events such as the LIBOR fixing scandal, ensuing resignation of high-ranking officers and widespread loss of faith in the sector's conduct, remain potent reminders of what can go wrong when leaders fail to instil a principled tone from the top. For us, this highlights, more than ever, that the entire structure for good corporate governance begins and permeates throughout the boardroom.

I, on behalf of the Board, pledge to ensure continued adherence to global best practices and will remain unrelenting in the long term to our commitments to the observance of good corporate governance practices.

Prince Ajibola Afonja,
Chairman

Key global trends in corporate governance

Differing corporate governance practices in the international arena can provide new perspectives for board members and may influence standards in a particular country. Corporate governance is gaining momentum due to various factors as well as the changing business environment. While the solutions do not always converge at international level, the issues of concern to governments, regulators, directors, investors and other stakeholders are often similar. Not surprisingly, there has been rising focus on global board governance and scrutiny of the board and boardroom. The following topics have been the subject of most interest and action in many jurisdictions in the recent past.

Board composition and diversity

Some countries have set diversity targets with a specific time frame, and others have established quotas to improve the representation of women on boards. In today's times, the trend is changing and board composition and diversity are two significant topics that are at the heart of corporate governance. With increased emphasis on director qualifications, gender, ethnicity and age, a new group of directors are bringing unique experience and perspectives to the boardroom.

Board classification

A high number of board declassification proposals (annual election of all directors) can be expected in 2013 – continuing the trend over the past two years. Shareholder proposals to remove classified boards have been largely successful.

Leadership structure

Board leadership structures continue to be top of mind around the world, particularly with regard to whether the roles of chairman and chief executive officer should be separate or combined. The appropriate board structure depends on applicable laws and regulations, as well as on company circumstances, all of which vary among countries. There have been a lot of changes in board leadership structure during and following the financial crisis, which has led to a heightened focus in 2012 on leadership structure.

Related-party transactions

Countries have adopted a variety of approaches to address related-party transactions. Common solutions include one or more of the following: approval of such transactions by the board or a special committee of the board; full disclosure of transactions or disclosure of material transactions; incremental policies and procedures for transactions; and the evaluation of material transactions by independent experts.

Anti-corruption efforts

There is ongoing debate regarding how best to implement effective anti-corruption programmes. The World Forum on Governance (the Forum) published the Prague Declaration on Governance and Anti-Corruption in March 2012. The declaration included 10 principles regarding bribery, personal financial disclosures and conflicts, law enforcement systems, open government, corporations, investors, campaign finance, lobbying, whistleblowers and nongovernmental organisations and media. The Forum recommends that boards should:

- adopt policies with zero tolerance for corruption, not only for their companies, but also for third parties such as suppliers and vendors;
- disclose information about anti-corruption policies and practices; and
- develop best practices regarding the disclosure of corporate payments to governments and their agencies.

Sustainability

Sustainability includes ethical, social and governance factors, including workplace and community relations, compliance and reporting in addition to the organisation's impact on the environment. Organisations' corporate social behaviour is closely scrutinised from all corners of the marketplace, including investors, employees, regulators, competitors, customers, and communities, and is factored into their investment, business, purchasing and employment decisions.

Say-on-pay

Say-on-pay is a primary way for shareholders to express their views on their satisfaction with the company's CEO pay and overall executive compensation programme. Say-on-pay provisions continue to be a trigger for shareholder engagement.

Key global trends in corporate governance

Corporate governance developments in Nigeria in 2012

- The launching of the Monetary, Credit and Foreign Traded Exchange Policy Guidelines for 2012 by the CBN. The Policy requires banks to adopt the International Financial Reporting Standards (IFRS) starting from January 2012. This is to ensure that the standard of financial reporting by Nigerian banks is in line with international standards. FirstBank had already adopted IFRS before this date.
- The SEC's establishment of a whistle-blowing hotline, expansion of capital market surveillance in accordance with Section 306 of Investment & Securities Act (ISA) 2007 and strengthening of the bond market.
- The Assets Management Corporation of Nigeria (AMCON)'s establishment of three committees, namely the Board Audit Risk and Compliance Committee, Board Credit and Asset Management Committee and the Board Compensation and Performance Committees. This is to ensure that transparency is entrenched in the management of companies and their processes.
- AMCON's publication of 113 large debtors to banks in Nigeria having exposures of over ₦5 billion and barring all named debtors and their directors from further collecting any loan or credit facility. This was part of its 'name and shame' policy geared towards ensuring effective debt recovery and entrenching better risk management practices.
- The Financial Reporting Council (FRC)'s establishment of a directorate of corporate governance to ensure all regulated financial reporting organisations comply with corporate governance codes.
- CBN's engagement of a specialist to enforce its corporate governance code for Nigerian banks.
- Continued focus by the Nigerian Stock Exchange (NSE) around the 'five pillars' of its transformation strategy – (1) targeted business development; (2) enhanced regulatory programmes; (3) 21st-century-technology strategies; (4) enhanced market structure; and (5) investor protection initiatives. These were aimed at increasing visibility into the market, and providing a higher level of transparency. Below are some of the key milestones in this regard.

– Implementation of a value-added services programme, Xvalue, for listed and prospect companies, around equity research coverage, investor relations, corporate governance compliance, institutional services and corporate access.

– New website launch by the NSE in January 2012 with a real-time feed to a ticker, and rolled out X-Net, a virtual private network (VPN), to enhance brokers' connectivity (20x faster than the previous offering) to the Exchange's trading systems.

– In November, the Exchange commenced direct delivery of real-time and delayed market data feeds to key information providers, including Reuters, Bloomberg, Google, Six Telekurs and Interactive Data Services (IDS).

– **Enhanced market structure**
  - Through the commencement of a Primary Market Making (PMM) programme in equities, a major effort to bring liquidity and depth into the market.
  - Expansion of the limit up/limit down threshold from 5% to 10% for stocks with PMMs. The programme was launched in conjunction with securities lending and short selling.
  - The Debt Management Office appointed a government stockbroker to improve liquidity for FGN bond trading on the floor of the NSE.

– **Investor protection initiatives**
  - The NSE kicked-off a financial literacy programme as a first step in protecting investors.
  - Inauguration of the Investor Protection Fund (IPF). The IPF provides investors with a statutorily backed solution for reducing losses they might suffer as a result of the bankruptcy, insolvency, negligence or wrong-doing by dealing members.

– **Market development**
  - Policy advocacy – in early December, the Federal Government of Nigeria (FGN) announced the elimination of value added taxes (VAT) and stamp duties on all stock market transactions, to provide investors with relief on transaction costs. This is yet to be reflected in the Federal Government Gazette so implementation can start.
  - The Federal Ministry of Finance also announced a ₦22.60 billion (US$145.39 million) debt relief package on the margin loan debt of 84 brokerage firms.

Effectiveness

How do we ensure our Board is effective?

With an understanding that the combined quality and effectiveness of a board is a summation of the quality of its individual members, the Bank seeks to enrich the Board's collective quality by appointing to the Board individuals who have displayed excellent and proven business knowledge and Board experience. The 'shareholder spring', which saw institutional shareholders find their voice, most notably about executive pay and board elections, highlights the close alignment that should exist between the effectiveness and the performance of the Board, and the creation of shareholder value.

Performance management is taken very seriously at executive management level, and this is cascaded through the rank and file of the institution. Each executive director, as well as other members of the executive management team including Executive Vice Presidents (EVPs), have individual score cards, which aggregate all the relevant KPIs. These KPIs are set and agreed at the beginning of the year and form the basis upon which performance is monitored quarterly as well as the basis on which year-end bonuses are paid.

Process for monitoring performance

Process for monitoring performance

As part of its oversight role, the Board continuously contributes new ideas and is engaged from the planning phase to the execution and continuous monitoring of the strategy. At an annual Board retreat, 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 enough detail to critique the process and implementation of the strategy. During this process, the Board is continuously updated on significant risks or challenges encountered in the course of implementation, and the steps being taken to mitigate those risks. On a quarterly basis, management reviews financial and performance indicators with the Board, and the Board weighs in on progress and confirms alignment or otherwise with the strategic goals and objectives on a continuous basis. Actual performance is presented relative to planned/budgeted performance, to provide the Board with ongoing insight into the level of achievement. In addition, peer benchmarking forms a continuous part of our board meetings in order to benchmark how our competitors are doing.

Report of the External Consultants on the Appraisal of the Board of Directors

In compliance with the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks in Nigeria Post Consolidation ("the CBN Code"), First Bank of Nigeria Ltd ("First Bank" or "the Bank") engaged KPMG Advisory Services to carry out an appraisal of the Board of Directors ("the Board") for the year ended 31 December 2012. The CBN Code mandates 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 Bank's 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 the Bank's corporate governance report prepared by the Board, which is included in this Annual Report for the year ended 31 December 2012, and assessed the level of compliance of the Board with the CBN Code.

On the basis of our review, except as noted below, the Bank's corporate governance practices are largely in compliance with the key provisions of the CBN Code. Specific recommendations for further improving the Bank's governance practices have been articulated and included in our detailed report to the Board. These include recommendations in the following areas: Directors' remuneration, independent Director and related party transactions.

Olumide Olayinka
Partner, KPMG Advisory Services

FRC / 2012 / ICAN / 00000000427
21 March 2013

How does corporate governance affect our business strategy?

The primary purpose of the Board is to build long-term shareholder value and ensure effective management oversight. Ultimate responsibility for governance rests with the Board, which ensures that appropriate controls, systems and practices are entrenched to safeguard the assets of FirstBank. Each executive director and EVP has a defined score card that dovetails into the corporate strategy.

The Board considers and approves FirstBank strategy and financial objectives. FirstBank runs a three-year strategic planning cycle that is validated annually by the Board at a Board strategy retreat. Key members of senior management and the Board attend each annual session. Once the financial and strategic objectives for the following year have been agreed, the Board on a quarterly basis monitors performance against financial objectives and detailed budgets.

The Board has the responsibility to ensure management effectively discharges its duties and responsibilities with respect to the management of the Company and creating value for shareholders. The Board is also charged with the responsibility of succession planning. Though the Board is satisfied with its current pool of management talent, it is making new initiatives to enlarge and deepen this pool so as to sustain short- and long-term performance.

The depth of banking knowledge and experience in the Group extends from executive directors to non-executive directors, EVPs and executive management. Non-executive directors have access to the Group's management and company information strategies to enable them to discharge their responsibilities effectively.

Carrying out an appraisal of the Board provides a powerful and valuable feedback mechanism for improving board effectiveness, maximising strengths and highlighting areas for further development. This is useful in assessing the role of the Board and its committees in formulating and directing the strategy of the Company. Having been independently appraising the Board over the past six years, we have made steady progress with respect to strengthening the fabric of our overall governance framework.

- Defining, reviewing and articulating the vision, mission and core values of the organisation.
- Providing leadership and direction in developing a strategic plan.
- Challenging management to determine that significant risks have been considered in the development of the plan.
- Assessing and improving the planning process.
- Confirming that key performance indicators and financial objectives are developed.
- Monitoring performance against set goals, indicators and objectives.

What was the focus of the Board review?

FirstBank requested KPMG, an independent consulting firm, to conduct a Board appraisal and individual director peer appraisal for the year ended 31 December 2012. The Board appraisal was carried out in compliance with the SEC Code of Corporate Governance (the SEC Code) and the CBN Code of Corporate Governance (the CBN Code). This was driven by our commitment to strengthening the Bank's corporate governance practices and enhances the capacity of the Board of Directors in the effective discharge of its responsibilities.

The appraisal covered the Board's structure and composition, processes and relationships, competencies, roles and responsibilities. The evaluation criteria were all carefully crafted and feed very strongly into the overall strategy of the Bank. The appraisal focused on the following five key areas of board responsibility:

Board focus area	Description
Board 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	The Board's responsibility towards shareholders and other stakeholders and accountability for their interests.

The scope of work performed in carrying out the appraisal covered the following activities:

- a review loop to consider how effective the Board evaluation process has been, referencing the level of implementation of the prior year's recommendations;
- review of Board operations and existing governance documentation;
- facilitation of a director peer appraisal through one-on-one interview sessions with each director; and
- a feedback session with the entire Board.

The consultant's work approach incorporated the following corporate governance models:

- the Central Bank of Nigeria's Code of Corporate Governance Post Consolidation (the 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.

At the end of the exercise, recommendations were made where necessary and areas needing improvements were identified. These are discussed in the next section. The outcome of the Board evaluation is normally shared with the whole Board and feeds back, as appropriate, into the Board's work on 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 were communicated to the Chairman.

What did we learn?

Below is a summary of areas identified as requiring further attention by the Board and the steps we have taken to address some of these.

2012 priority areas resulting from the 2011 Board review	Progress to date
Minimise the use of anticipatory approvals.	Use of anticipatory approvals minimised.
Further improve the effectiveness of Board Committees.	This has been noted by the Board accordingly.
Circulate minutes of Board committee meetings to directors that are not members of such committees.	This has been noted for implementation.
Board committee chairmen to present the reports of their committees.	This has been noted for implementation.
Improve oversight functions over the Boards of subsidiaries.	This has been noted for implementation.
Implement a sustainable strategy reporting framework for the Bank.	The Bank has recently engaged the services of an independent consultant to develop its sustainability framework.
Expand the direct reporting line of the Chief Internal Auditor to the Audit Committee, in addition to the Board Audit & Risk Assessment Committee.	This had been done. However, in view of FirstBank's conversion to a private limited liability company and subsequent termination of the Statutory Audit Committee, the Bank will explore the possibility of expanding the reporting line to the Statutory Audit Committee of FBN Holdings Plc.
Appoint a second independent director.	FirstBank's nominee as a second independent director was not ratified by the CBN. Arrangements are ongoing for the appointment of a second independent director to the Board.

What is our appointment philosophy and induction process?

Our appointment philosophy ensures strategic alignment of all relevant regulations especially the provisions of CAMA, BOFIA, ISA and the Company's Memorandum and Articles of Association.

Board appointments and evaluations are conducted in a formal and transparent manner in accordance with the Board's appointment policy taking cognisance of the skills, knowledge and experience of the candidate as well as other attributes necessary to the prospective role. Consideration for appointment of directors also takes into consideration appointments to external boards to monitor potential conflicts of interest and ensure directors will dedicate all their skills and experience to the Bank's operations.

The Bank has in place a Board Governance Committee (BGC), which is saddled with the responsibility of nominating suitable candidates to its Board and the Board of subsidiary companies. The BGC is headed by a non-executive director.

When a vacancy exists, the Governance Committee identifies candidates with the requisite expertise and experience using external consultants (if required) to shortlist and make necessary recommendations to the Board. Board appointments are based on a careful analysis of the existing Board strengths, weaknesses, skills and experience gaps, appropriate demographic representation, and diversity, all to ensure the Board meets FirstBank's strategic objectives. The Board also considers length of tenure, recognising that continued tenure brings industry-specific knowledge and understanding while new members invariably contribute new ideas and fresh perspectives.

The factors considered by the Governance Committee in identifying or nominating a candidate to the Board is having the requisite qualification and wealth of experience. Pools of candidates for consideration for executive directors and non-executive directors are drawn from both internal and external sources. Prior demonstration of business acumen and successful management of business is also a factor considered in appointing a non-executive director to the Board of the Bank.

How long do our directors serve?

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. Hence, the maximum tenure of non-executive directors is nine years and subject to a retirement age of 70 years. Executive directors are appointed for an initial term of three years and their tenure can be renewed for another three years subject to the performance of the director as indicated in the result of his/her annual performance evaluation. Hence, the maximum tenure of an executive director is six years. Executive directors are discouraged from holding several other directorships outside FirstBank.

How do we train our directors?

With an understanding that the collective effectiveness of a board is the summation of the quality of its individual parts – each director – FirstBank places emphasis on the training of its directors. The Board of FirstBank, in accordance with the CBN Code, established a continuous induction and training programme for new directors to familiarise incoming directors with the Bank's operations, business environment, fiduciary duties, responsibilities, etc., in line with leading corporate governance practices. Consequently, KPMG was engaged to work with the Company Secretariat to coordinate the development and facilitation of a robust interactive induction programme for our directors.

The objective of the directors' induction training programme is to enable new directors to make maximum and effective contributions to the Board as quickly as possible after their appointment. The scope of the induction programme covered the following:

Training focus area	Description
Overview of the Bank and the banking industry	This module covered the banking industry in Nigeria, the history of the Bank, an overview of applicable rules and regulations and an overview of the Bank's operations, strategy and key policies.
Overview of First Bank Corporate Governance Framework	This module covered the Directors' legal obligations, liabilities, the roles and responsibilities of the Board, the roles and responsibilities of key officers of the Board and highlights of the Bank's Governance Framework.
Performance Expectations for Directors	This module entailed briefing the new Directors on the expectation of the Bank from them.
Introduction to Senior Management and Site Tours	This section entailed the introduction of the new Directors to key senior management staff and conducting the new Directors round the Bank's key facilities.

The last induction programme was held in March 2011. No induction programme has been held since then as the four new appointees to the Board were all internal, already existing members of the management team and thus conversant with FirstBank's processes. They were Gbenga Shobo, Adebayo Adelabu, Dauda Lawal (all previously Executive Vice Presidents) and Bello Maccido (previously on the Board of FirstBank as an Executive Director until his appointment as CEO of FBN Holdings Plc). Bello sits on FirstBank's Board as a Non-Executive Director representing FBN Holdings Plc. This reflects another pointer to FirstBank's succession policy where executive vice presidents are persons capable and prepared for directorship should any vacancy arise on the Board.

Moreover, all business heads also undertake regular presentations to update the Board on the progress, challenges, opportunities and risks facing the business areas. This is achieved by way of management reporting and quarterly Board meetings, which are structured to form part of ongoing training. The Bank attaches significant premium in the training of its directors. In addition to the induction programme, existing directors are continuously trained through different courses internationally and locally.

What is the role of our Company Secretary?

An effective board is one that observes corporate governance and the effective Company Secretary is accountable to management and the Board on all corporate governance 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 that 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 ensures this by being involved in compliance, disclosure, accountability and ensuring transparency in administration of the Bank as the first source of legal advice to the Board. The Board has ultimate responsibility for the appointment and removal of the Company Secretary.

Access to independent professional advice

The Board has the power to obtain advice and assistance from, and to retain, at the Bank's expense, subject to the prior approval of the Chairman, such independent or outside professional advisers and experts as it deems necessary or appropriate to aid the Board's effectiveness.

Independence of the internal auditor

The internal audit function serves as the third line of defence in the Bank's risk management, control and governance framework. It provides independent and objective assurance services that enable the Bank to meet its business objectives via the deployment of a risk-based, technology-enabled methodology in line with best practice.

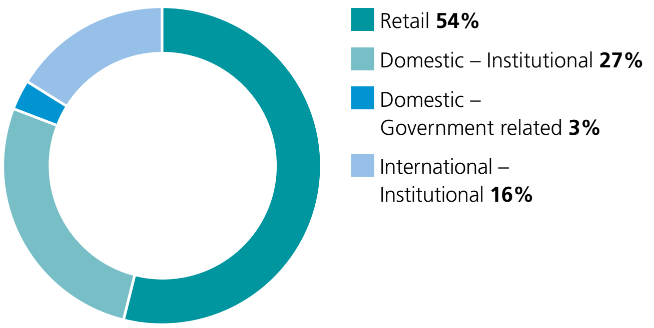
The Chief Internal Auditor reports to the Statutory Audit Committee in addition to the Board Audit & Risk Assessment Committee.

Engagement

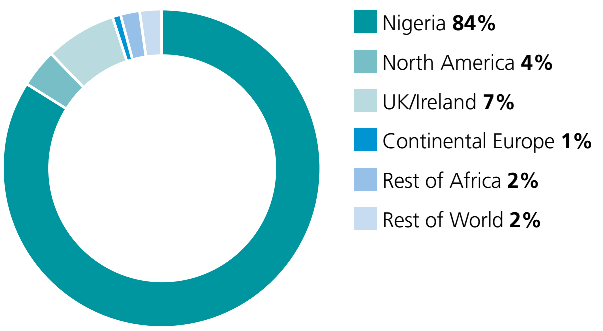
Who are our shareholders?

FirstBank is principally owned by FBN Holdings Plc. Until the Bank's court-ordered meeting held on 24 September 2012, the Bank was a publicly quoted company with a diverse shareholder profile and owned by nearly 1.3 million shareholders. With the migration of shareholders to FBN Holdings, the shareholders previously holding FirstBank shares moved to FBN Holdings Plc. The shareholder base of about 1.3 million, makes it the listed company with the largest shareholder base on the Nigerian Stock Exchange. With no shareholder owning up to 5% of the issued ordinary shares, this makes the ownership structure one of the most diversified. As at year end, the shareholding structure was 43.37% institutional, 53.46% retail and 3.17% in government-related entities.

Breakdown of FBN Holdings shareholders by type



Geographical breakdown of FBN Holdings shareholding structure



What is the role of shareholders?

The shareholders' role is to, through representatives in the Audit Committee:

1. Ascertain that the accounting and reporting policies of the company are in compliance with legal requirements and agreed ethical practices;
2. Review the scope and planning of audit requirements;
3. Review the findings on management matters in conjunction with the external auditor and departmental responses;
4. Keep under review the effectiveness of the Company's system of accounting and internal control;
5. Make recommendations to the Board in regard to the appointment, removal and remuneration of the external auditors to the Company; and
6. Authorise the internal auditor to carry out investigations into any activities of the Company which may be of interest or concern to the committee.

In addition, shareholders approve the appointments of the Board of Directors and the external auditors, as well as grant 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. Their role is extended to holding the Board accountable and responsible for efficient and effective corporate governance. Representation on the Board is determined by the votes of shareholders. Similarly, decision-making is not restricted to the Board, but extends to shareholders who ultimately own the Bank.

Directors are appointed and/or elected by shareholders, while all shareholders are invited to the Bank's general meeting at which they are free to air their views. The Bank's shareholders are carried along and communicated with on all developments within the Bank, through press releases, publications in the newspapers, meetings with shareholder institutions, results conference calls, attendance of investor conferences and other one-on-one meetings, online via the website and other social media as well as during the annual general meeting or any extraordinary general meetings called. We distil feedback from our various engagements with investors and these form part of our strategic thinking and feed into our decision making.

What does our investor relations function do?

The Bank has an investor relations function, which, in addition to the company secretary, manages relations between FirstBank and its investors/shareholders, ensuring that investors/shareholders' views are escalated to management and the Board. Following the migration to the holding company structure in September 2012, the investor relations function for the Group now sits at FBN Holdings, maintaining close contact with all subsidiary companies. Essentially, the Investor Relations function aims to:

- expand the potential pool of capital the Group has access to, to finance its growth objectives;
- reduce the cost of capital;
- increase the confidence of the market in the management team;
- promote fair value of the Company's shares; and
- increase the liquidity of the shares.

To improve the confidence of shareholders/investors, it is becoming increasingly important for companies to engage shareholders/investors including analysts[1] in good-quality communication/dialogue through effective engagement of shareholders/investors/analysts. At FirstBank, there is a clear, well-thought-out programme of events laid out to ensure effective engagement with shareholders/investors/analysts. These activities are outlined in a well-documented investor relations calendar and programme, with detailed information of planned investor engagements for the year. The financial reporting calendar specifically is published on the investor relations website as well as the annual report.

The various activities hosted by representatives of executive/senior management, description of the activity, frequency, channel and target audience at these engagements are:

Activity[2]	Description	Frequency	Channel	Target audience
Results press release	Press release describing the performance of the Group for the period under review. This document is released to a broad mailing list of investors and analysts immediately after the results are announced on the floor of the NSE. Once the results are made public, the results release is uploaded onto the website.	Quarterly	Website Email Newspapers	Shareholders Investors Analysts Rating agencies Others
Quarterly conference call	This activity occurs after publishing the quarterly results. A results presentation is prepared and uploaded to the IR website providing details of the performance of the business during the quarter. A question and answer session is held after the presentation of the material by members of the executive management. An assessment of the call is reviewed including the extent of representation of respondents, along with comments and recommendations. This engagement is usually hosted by the GMD/CEO and his executive/senior management team, including but not limited to the Chief Financial Officer, other executive directors, the Chief Risk Officer and the Chief Strategy Officer. In 2013 the quarterly presentation is planned to be hosted by the CEO, FBN Holdings; from FirstBank: the Group Managing Director, Chief Financial Officer, Chief Risk Officer, Chief Strategy Officer, Executive Director Public Sector SBU South, Executive Director, Corporate Banking SBU, and other members of senior management; others are: the Chief Executive Officer, FBN Capital for the Investment Banking and Asset Management business group and the Chief Executive Officer, FBN Life Assurance for the Insurance business group.	Quarterly	Telephone The transcript and audio recording of the call is usually available on the IR website 48 hours after the call	Shareholders Investors Analysts Rating agencies Others

1 These are sell-side and buy-side investment houses representing the interest of their entities as investors or for investors/shareholders in their portfolio

2 First Bank of Nigeria transited to FBN Holdings Plc after the third quarter in 2012. No results presentation or investor engagements were held after commencement of FBN Holdings in 2012 other than the Nigeria Stock Exchange (NSE) Facts behind the figures event

Engagement

Activity[2]	Description	Frequency	Channel	Target audience
International non-deal road shows	FirstBank has two teams on the road. Enables engagement with and updates key international institutional investors and shareholders on overall performance, outlook and key strategic objectives. Helps 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. Enhances international visibility. Key locations visited reflect where the majority of our international investors sit – largely the United States and Europe. Participants at the road show during the year include: the Group Managing Director/Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Strategy Officer, Executive Director, Public Sector SBU South, Head Credit Risk Management and Head Investor Relations.	Semi-annually	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. It creates access to senior management. Participants at the last key institutional investor meeting were: Group Managing Director/Chief Executive Officer, Chief Financial Officer, Executive Director, Retail Banking SBU North (now Chief Executive Officer, FBN Holdings), Executive Director, Public Sector SBU South and some other members of senior management.	Semi-annually	One-on-one meetings Group meetings	Shareholders Investors Analysts
Pension Fund Administrators (PFA) day	This engagement is held with top pension fund administrators in the country to ensure further understanding of the Group's strategy, performance and outlook. Helps build confidence in the management team with this segment. The meeting was hosted by the Group's Executive Management team, comprising the Chief Executive Officer, FBN Holdings Plc, Group Managing Director/CEO, FirstBank, Chief Risk Officer, Chief Financial Officer, Executive Directors and other senior management.	Semi-annually	Group meeting	Pension Fund Administrators
Investor conferences	These are conferences organised by investment banks – locally and internationally. Creates 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. Creates access to senior management, builds confidence in the management team, and enhances 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; HSBC Annual CEEMEA Investor Forum, London; JPM Emerging Corporate Conference, Miami; Bank of America, Merrill Lynch GEMs Conference, California. FBN representatives at these conferences were the Chief Financial Officer, Chief Risk Officer, Executive Director, Public Sector SBU South, Executive Director, Retail Banking SBU North (now Chief Executive Officer, FBN Holdings) and some other senior management staff.	At least once per quarter	One-on-one meetings Group meetings	Shareholders Investors Analysts

Engagement

Activity[2]	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 Bank's strategy and performance. Management presents the strategy and performance and also holds a question and answer session subsequently. During the year, two such sessions were held – to discuss FY 2011 results as well as the migration of FirstBank of Nigeria to FBN Holdings. The last event was hosted by the Chairman, Chief Executive Officer, and the Company Secretary of FBN Holdings and representatives from FirstBank including: the Group Managing Director/Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Executive Director Public Sector SBU South. Others are the Managing Director of FBN Capital for the Investment Banking and Asset Management business group, Managing Director of FBN Life Assurance for the Insurance business group and Managing Director of FBN Microfinance for the Other Financial Services business group.	Annually	Physical visit at the Nigerian Stock Exchange	Stockbrokers and indirectly retail investors Media The rest of the financial community

In addition to the above, other regular engagements with the financial community include:

- email correspondence;
- telephone conversations; and
- in-house meetings.

In providing information about the business to the wider shareholders, information is uploaded on the investor relations website in addition to the corporate website, where general information about FirstBank is available. In addition, investors have the opportunity of providing feedback through the contact details[4] available on these sites. Information available on the investor relations website include: business overview, risk management and corporate governance, interim results, current and previous year's annual reports, quarterly presentations, transcripts and audio recording of quarterly presentations, credit ratings and reports, financial reporting calendar, etc.

To ensure effective shareholder engagement, an independent assessment of the quality of engagement is measured quarterly. The focus of the study is to provide feedback on how investors view our business along the following considerations: strategy and performance, our competitive landscape, their investment considerations of our business and finally disclosures, transparency and IR. Specifically on the disclosure, transparency and IR measurement, the following are key considerations: disclosure and transparency, efficiency i.e., the investor relations (IR) team's responsiveness and interaction with investors/analysts, communication i.e., the quality of communication, relative performance i.e., IR team's comparative to its local peers and overall IR rating including the programme.

In ensuring we continuously build a sustainable engagement programme and most importantly develop and implement the feedback from shareholders/investors/analysts in running a leading institution, executive management is provided with detailed feedback on the various engagement activities. In 2012, points of interest to investors and analysts focused on messaging, clarity of guidance/performance, disclosure, asset quality, international expansion, capital management strategy and corporate governance.

NSE's focus for 2013

While the NSE's focus has been on cleansing, restructuring and making the market more accessible, in 2013, the authorities intend to continue with innovations centred on technology and product development, as well as on advocating changes to policy. By the end of 2013, the intention is to have established technological competitiveness, restore regulatory soundness, and advocate the policy changes necessary to enable the Nigerian capital market to absorb the forces of change currently reshaping global financial markets and the global exchange landscape. With dependability, scale, scope and cost-efficiency being priority areas for exchanges around the world, achieving competitiveness will be at the forefront of the Exchange's agenda in 2013.

3 These are professional securities experts trading on behalf of several retail shareholders
4 Kindly see contact details on the back cover of this report

What happens at our Annual General Meeting (AGM)?

FirstBank encourages shareholders to attend the AGM and other shareholder meetings where interaction is welcomed. Shareholders meetings are duly convened and held in line with the Bank's Articles of Association, CAMA and existing statutory and regulatory regimes in an open manner, for the purpose of deliberating on issues affecting the Bank's strategic direction. This occurs through a fair and transparent process and also serves as a medium for promoting interaction between the Board, management and shareholders. A separate resolution is proposed on each item on the agenda on the Notice of the AGM. Voting on resolutions at general meetings is determined by a show of hands unless a poll is, in line with the articles of association, demanded before or on the declaration of the result of a show of hands.

Attendance at the Annual General Meeting is open to shareholders or their proxies, while proceedings at such meetings are usually 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 Board ensures that shareholders are provided with adequate notice of meetings. An Extraordinary General Meeting may also be convened at the request of the Board or of shareholders holding not less than 10% of the Bank's paid-up capital.

The Bank's general meetings afford shareholders the opportunity to appraise the performance of the Bank, particularly as they are not actively involved in the day-to-day running of the Bank. The medium affords them the opportunity to give approvals on certain decisions. This forum gives them an opportunity to assess the performance of the Bank and by implication, the performances of the directors who are saddled with the responsibilities for effective management of stakeholders' interest. The Chairman, during general meetings, calls on any shareholder who indicates by show of hand, the wish to express his or her opinion, be it on the Bank, management, staff or service delivery. While some of these comments could be of commendation, suggestions could be made on how management can improve on any observed lapses. The Bank also encourages and welcomes suggestions and recommendations from shareholders.

“The Bank's general meetings afford shareholders the opportunity to appraise the performance of the Bank particularly as they are not actively involved in the day-to-day running of the Bank. This forum gives shareholders an opportunity to assess the performance of the Bank and by implication, the performances of the Directors who are saddled with the responsibilities for effective management of stakeholders' interest.”

Prince Ajibola Afonja
Chairman

“We operate an institutionalised governance process, where power and its distribution is never concentrated in one position or office. Checks and balances have also been incorporated into our governance model, such that not one individual is in a position to unduly/un-proportionately commit the organisation. Similarly, our ability to reinvent and respond to the banking yearnings of our customers always gives us the edge ahead of our competition. These practices have evolved over time, and not only keep us ahead of the competition; they also ensure the sustainability of our business.”

Bisi Onasanya
GMD/CEO

“As the first source of legal advice to the Board on corporate governance matters, I am committed to ensuring that appropriate Board procedures are followed, and that good governance and ethics, regulations, statutes, corporate governance codes, rules and regulations in accordance with local and global best practices are adequately complied with.”

Tijjani Borodo
Executive Vice-President/Company Secretary

The online experience

In providing information about the business to the wider shareholders, information is uploaded on the investor relations website in addition to the corporate website where general information is available. In addition, investors have the opportunity of providing feedback through the contact details[5] available on these sites. Information available on the investor relations (IR) website includes: interim results, current and previous year's annual reports, quarterly presentations, transcripts and audio recording of quarterly presentations, credit ratings and reports, financial reporting calendar, etc.

To enable our shareholders and other stakeholders to further understand our business, we are able to offer our annual reports for the past 30 years on our IR website. In addition, from 2009, we have been providing our annual reports online. Our online report shares our financial and operating results with a global audience. It attempts to give a robust, fair and comprehensive view of our activities. The online report combines clear presentation of information with a range of added-value features such as:

- compare page tool: this opens the equivalent page in last year's report;
- download tool: This saves sections of the report in PDF (or downloads the whole report in PDF);
- share tool: this links particular pages to social media sites including Facebook, Twitter and LinkedIn; and
- useful links: this provides quick access to related pages in the report and on our corporate website.

For further information about our business and to experience our online activities, kindly visit the following sites:

Corporate website:
www.firstbanknigeria.com

Investor relations:
www.firstbanknigeria.com/ir

What is our approach to citizenship?

Our goal is not just to provide excellent banking products and services, but also to positively impact the lives of our key stakeholders and society at large. At FirstBank, we believe that a business should be established to make profit. We equally believe that while profit-making is significant, we must do so in a responsible and sustainable way. As a good corporate citizen, doing business responsibly involves making conscious efforts to enable a truly rewarding career for our employees; providing value-added, innovative and sustainable products and services for our customers; minimising our environmental impact as well as empowering the communities in which we operate. It is about our ability to engage with our stakeholders today in a way that allows us to competitively thrive in the future. In order to create long-term value for our stakeholders, we ensure as part of our responsibility, to involve our stakeholders' perspectives in decision-making knowing that our business decisions affect them. This approach informs our citizenship priorities.

Our projects continue to improve lives directly through financing and indirectly through education and capacity building. Going forward, we seek to better understand the impact of our business from three perspectives – economic, social and environmental – and through stakeholder engagement, ensure we continue our tradition of carrying out our business activities in a responsible and sustainable fashion.

Corporate ethics and culture

The code of ethics rolled out in the Bank in 2007 remained in force during 2012.

The Board of Directors, in conjunction with its committees, oversees compliance programmes by:

- setting the tone at the top, both internally and externally, and promulgating a compliance charter or values statement;
- focusing attention on critical risk areas;
- ensuring the institutionalisation of the whistleblower helpline process and taking active control when appropriate; and
- working with management to incorporate leading practices (e.g., protocols for investigating complaints, helpline statistics and internal reporting).

To influence culture and tone, the Board:

- reviews metrics and key performance indicators with respect to the Company's compliance with law and policy;
- maintains a deep understanding of the compliance monitoring, testing and issue resolution processes; and
- assesses the adequacy of management's response to specific issues and areas of internal control weakness.

At FirstBank, management takes the lead in developing tools to establish the Company's culture, through messaging, updating and distributing codes of conduct, communicating helpline processes, and carrying out annual cultural surveys to test the effectiveness of the programme. The Board and management, working together, have been able to strengthen ethics and compliance in the organisation, thus leading to higher-quality information, process optimisation, improved effectiveness, a protected reputation and reduced costs.

5 Kindly see contact details on the back cover of this report

Customer complaints and resolution

Complaints management is an integral part of our overall Service Delivery Excellence framework, and we take every complaint we receive seriously and work with our customers to deal with them quickly and in a satisfactory way. By listening to dissatisfied customers and taking actions to remedy issues, where appropriate, we are able to review our service standards and delivery processes to meet these standards.

Our Complaints Handling policy ensures that complaints received are dealt with in a clearly defined, effective and expeditious manner. We encourage customers to deal with their local branch, or the business unit in which the problem originated because our goal is to resolve these complaints at the local level; where this is unsuccessful, we have an escalation mechanism in place.

Bank-wide, all complaints are recorded and classified to indicate the nature of the complaint, along with the product or service the complaint is about. Once complaints are classified, the data is analysed and reported on a regular basis through our service measurement dashboard and on a quarterly basis, our complaints management activity receives senior executive attention and accountability. Our goal is to identify themes or trends that occur with front-line service delivery. With recurring issues identified, we take action to improve front-line service delivery, including reviewing products and services, providing additional training to staff on products and services, updating service standards and improving communications. Changes are tracked and monitored closely to ensure actions result in fewer customer complaints.

It is our policy to acknowledge complaints within 24 hours of receipt and also communicate a final resolution to the customer. We strive to resolve most complaints received within three to five days; however, where there are complexities involved that could extend resolution for more than five days, we provide the customer with a progress report. Where customers are not satisfied with the resolution provided, the Bank's Service Ombudsman will act as an independent arbiter in resolving cases.

In addition to our complaints management process, it is essential that customers who complain are satisfied with the complaints management process. Hence, we also have a complaints feedback system, through which, customers who complain are surveyed for feedback on the handling process, and the feedback received helps us identify areas for improvement.

Whistleblowing procedures

Whistleblowing is a process of raising concern about a wrong doing, illegal or unlawful conduct, e.g., fraud, corruption, bribery or theft. The Board of Directors attaches priority to high ethical standards and probity, and expects all its employees and officers to observe these standards in all their dealings with the Bank. Thus, in compliance with the statutory requirement from CBN in its circular on Code of Corporate Governance for Banks in Nigeria, FirstBank's whistleblowing framework, which had been established in 2010, was restructured.

The Bank'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 where concerns on misconduct, irregularities or malpractices can be raised without fear of harassment and/or victimisation. Concerns are taken seriously and investigated and the outcome communicated.

The phone lines are 0700-34778-2668228, 01-4485500 and 07080625000, while the email address for the public is firstcontact@firstbanknigeria.com. Members of staff may contact Adeyemi.O.Ogunmoyela@firstbanknigeria.com or Internalaudit.Head@firstbanknigeria.com. In addition, whistleblowers can also log onto www.firstbanknigeria.com and click on the whistleblowing portal to report misconduct. Other avenues open to whistleblowers are through a letter to the Group Managing Director/Chief Executive or directly to the Chief Internal Auditor.

During the 2012 financial year, a total of 12 cases were recorded. Five of these were inconclusive due to insufficient information and five others are undergoing investigation. One was found to be baseless while the remaining one has been concluded and earmarked for disciplinary measures. The Bank maintains confidentiality of data revealed and the identity of the whistleblower.

Leadership

Who is on our Board?

The FirstBank Board comprises 19 members made up of 12 non-executive directors (NEDs) and seven executive directors (EDs) including the Group Managing Director/Chief Executive Officer (GMD/CEO). This is in line with the CBN Code, which requires that the number of non-executive directors should be more than executive directors subject to a maximum Board size of 20. Mahey Rasheed OFR, a Non-Executive Director, is the only Independent Director on the Board. He was appointed in line with the criteria provided by the CBN for appointment of independent directors; he has no significant shareholding interest or any special business relationship with the Bank.

The number of non-executive directors ensures effective deliberations of various contributions towards decision making of the Board. This ensures a balance of authority and power, so no one individual has absolute influence and power. In the area of equal opportunity and diversity in the workplace, FirstBank implements and enforces the SEC Code, which provides that boards should consider the diversity of gender when making board appointments. Consequently, there has been a significant increase in the number of women on the Board, rising from 6% in 2008 to over 20% currently.

Below are the profiles of the members of the Board of Directors:

Prince Ajibola Afonja
Chairman

Appointed 23/08/2005

Prince Ajibola Afonja, a Chartered Accountant, joined the Board of the Bank as a Non-Executive Director in 2005 and was appointed as Chairman of the Board in 2010. He is a renowned entrepreneur and established the first fibreglass manufacturing company in Nigeria in 1974, International Glass Fibre Industries Limited, Ibadan, and was the pioneer Managing Director. He was also the Chairman/CEO, Integrated Dimensional Systems Limited, Oyo. Prince Afonja has served on various committees of the FirstBank Board and continues to provide invaluable leadership for the Bank from his extensive experience in business administration and executive management in both public and private sectors of the economy. He has held distinguished appointments with the Federal Government of Nigeria, and was Federal Minister of Labour and Productivity in 1993. He is married with children, and enjoys folk, country and rock and roll music. His hobbies include reading biographies, science magazines and children's storybooks.

Bisi Onasanya
Group Managing Director/Chief Executive Officer (GMD/CEO)

Appointed Executive Director 01/01/2009, Appointed GMD 04/06/09

Bisi Onasanya was appointed Group Managing Director/Chief Executive Officer in 2009. 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 judgement. Bisi is a Fellow of the Institute of Chartered Accountants of Nigeria, Fellow of the Chartered Institute of Bankers of Nigeria with 29 years' post-qualification experience, and an 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 and 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.

Kehinde Lawanson
Executive Director (Corporate Banking)

Appointed 29/08/2007

Kehinde Lawanson joined the Board of the Bank in 2007 as the Executive Director, Lagos & West. He has over 26 years' banking experience with executive management positions in corporate, investment and commercial banking in several banks. In 2006, he won the prestigious FirstBank MD/CEO Merit Award as the best team/group leader for the year. In 2007, he anchored the FirstBank Big Offer that is reputed as the most successful public offer in Nigeria. His far-reaching banking experience is evident in the Bank's corporate banking directorate. Kehinde sits on the board of Airtel Nigeria Limited, Financial Institution Training Center and the Equipment Leasing Association of Nigeria. He is a Chartered Surveyor and an alumnus of Harvard Business School's Advance Management Programme. He is married with children and loves reading, organising, writing and travelling.

Remi Odunlami
Chief Risk Officer

Appointed 16/03/2009

Remi was appointed to the Board of the Bank in 2009 as the Chief Risk Officer. Before this appointment, she was Executive Director and Country Risk Manager at Citibank Nigeria Limited. At Citibank, she was the first Sub-Saharan African female to be appointed to the level of Senior Credit Officer and was also a member of various management and board committees. She has over 23 years' cognate experience in banking with several management positions in commercial banking, risk management and people development. She holds a Bachelor of Science degree in Mathematics from University of Warwick, Coventry, England, and is a Fellow of the Chartered Association of Qualified Accountants (FCCA). Remi is the Chairman of FirstBank's subsidiary, Banque Internationale dé Credit (BIC) in the Democratic Republic of Congo and sits on the Board of FBN Capital Limited and FBN Bank UK, Limited. She is married.

Urum Eke
Executive Director (Public Sector SBU South)

Appointed 24/03/2011

Urum Eke joined the Board of FirstBank in 2011 as Executive Director, Public Sector SBU South. Before his appointment, he was Executive Director, Regional Businesses, Lagos & West, Diamond Bank Plc. His work experience spans Deloitte Haskins & Sells International, where he rose to Senior Audit Consultant, and Diamond Bank Plc, where he was Branch Manager, Regional Manager and Divisional Head before he became Executive Director. He has over 28 years' experience in financial services, auditing, consulting, taxation, process engineering and capital market operations. His sound managerial and motivational skills, coupled with his vast experience, have helped develop the Bank's businesses within the Public Sector SBU as well as on the Board. Urum is a member of the Institute of Management Consultants and a Fellow of the Institute of Chartered Accountants of Nigeria. He is involved in philanthropy and mentoring and is married with children.

Dauda Lawal
Executive Director, Public Sector SBU (North)

Appointed 11/09/2012

Dauda Lawal joined the Board in 2012 and was, until his appointment, Executive Vice President, Public Sector SBU (North). He has held several management positions within the Bank including Business Development Manager (BDM), Maitama Abuja, where his principal remit grew the Bank's business in the Abuja metropolis. He has over 24 years' post-qualification experience, which covers commercial and public sector banking. Dauda's dexterity has recorded strong achievements in his present function within the Public Sector SBU. He is a two-time recipient of the FirstBank CEO Merit Award for Outstanding Performance as the Best Business Development Manager in 2006 and The Most Enterprising Staff in 2009. He is married with children.

Gbenga Shobo
Executive Director (Retail South)

Appointed 11/09/2012

Gbenga Shobo was appointed to the Board of the Bank in 2012. Prior to his appointment, he was Executive Vice President (Retail South). Gbenga was also General Manager in charge of Products and Channel deployment for the Bank in addition to several management positions held within the Bank. His banking career spans over 22 years with experience in corporate banking, institutional banking, commercial banking and Treasury. His vast proficiency is epitomised in his achievements within the Bank's Retail Banking SBU South Directorate. He is a member of the Institute of Chartered Accountants of Nigeria and a recipient of the FirstBank CEO Merit Award for Most Outstanding Business Development Manager in 2007. He is married with children.

Adebayo Adelabu
Executive Director/Chief Financial Officer (CFO)

Appointed 13/12/2012

Adebayo Adekola Adelabu was appointed to the Board in 2012, and retained his portfolio as the Chief Financial Officer (CFO) of the Bank. Prior to this, he was the Group Financial Controller of the Bank and the pioneer head of the Business Performance Monitoring Department. Bayo also worked in Standard Chartered Bank as General Manager and the West African Regional Head of Finance and Strategy. He started his career with Pricewaterhouse (now PricewaterhouseCoopers) where he worked for eight years before joining the banking industry in 2000. Bayo has 20 years' professional experience in banking, audit and management consulting. His extensive knowledge of financial management and banking provides him with robust insight into financial services, which has helped place the Bank ahead of competitors in the industry. He is a member of the Institute of Chartered Accountants of Nigeria. He is married with children.

Bello Maccido
Non-Executive Director

Appointed 13/12/2012

Bello Maccido joined the Board of FirstBank in 2011 as Executive Director, Retail Banking, North and was in that role until September 2012, when he was appointed the Chief Executive Officer (CEO) of FBN Holdings Plc. He subsequently rejoined the Board of the Bank as a Non-Executive Director in December 2012. He has over 23 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. Bello was the pioneer Managing Director of Legacy Pension Managers, a Pension Fund Administration (PFA) company, a position he held before joining the Board of FirstBank, bringing altogether very diverse experiences across the financial services industry to the Board. He was at various times 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. Between March 2009 and June 2012, he was also a Council Member of The Nigerian Stock Exchange. A Chartered Stockbroker, Bello is married with children.

Ibiai Ani
Non-Executive Director

Appointed 20/08/2008

Ibiai Ani was appointed to the Board in 2008. She is a human resources professional with over 20 years' of core HR experience at senior management level. Ibiai began her career in the Rivers State Ministry of Justice and worked in the Federal Ministry of Justice. She then joined the Shell Petroleum Development Company of Nigeria, where she garnered experience in diverse human resource functions including human resource project management and change facilitation. She moved on to Citibank Nigeria where she was Country Head of Human Resources, covering Nigeria and Ghana. She brings her extensive HR experience to the Board, giving direction to the Bank's human capital development. She is an accredited teambuilding trainer with the teambuilding network in the UK, a member of the Chartered Institute of Personnel Development (CIPD) and sits on the Governing Council of the Chartered Institute of Personnel Management of Nigeria. Ibiai is married. She plays the piano and loves swimming.

Lawal Ibrahim
Non-Executive Director
Appointed 28/10/2010

Lawal Ibrahim joined the Board in 2010. He is an astute development banker, a strategic transformation manager and his working career spans the National Bank for Commerce and Industry, and New Nigeria Development Bank Limited, Kaduna, where he rose through the ranks to become the Acting Group Managing Director. Lawal was a Director in over 15 companies spread across Nigeria and in different sectors of the economy and he brings this immense experience to bear on the Bank's business. He has professional certificates in Investment Banking, Managing and Measuring Organisation culture, and Leading with Impact from the Africa Development Bank, Witwatersrand University, South Africa, and Harvard Business School respectively. He served as a member of Vision 20:20 Technical Working Group SMEs Thematic Area and is presently on the boards of Borini Prono Nigeria Limited and Peugeot Automobile of Nigeria Limited. He holds the traditional title of Dallatun Kankia and is married with five children.

Ambrose Feese
Non-Executive Director
Appointed 28/10/2010

Ambrose Feese joined the Board of the Bank in 2010. He has had over 25 years' banking experience spanning development, commercial and investment banking. He attained the position of Managing Director/Chief Executive at ICON Limited (Merchant Bankers) and has extensive boardroom experience, having served as Chairman and Director in several quoted blue-chip companies in the financial services and manufacturing sectors. Ambrose has served on several Government Committees and assignments, including service as the Federal Minister of State for Works and Housing in 1998/99. He qualified as a Chartered Accountant in 1970 and his varied experience establishes profound relevance, which he exerts on the Board of the Bank. He is married with three children and loves cricket, reading and listening to global radio.

Ebenezer Jolaoso
Non-Executive Director
Appointed 28/10/2010

Ebenezer Jolaoso joined the Board of the Bank in 2010. He has rich work experience in banking spanning over 22 years, with exposure to commercial banking, corporate banking, credit and risk management. He has also functioned as Head, Corporate Services & Administration at Nigerian Eagle Flour Mills Plc, with a wide range of responsibilities including corporate communications, branding, facilities management and human resource management while he spearheaded and managed the organisation's corporate responsibility initiatives to give back to the immediate society within which the business is operated. He is an associate of the Chartered Institute of Bankers, UK (ACIB) and an associate of the British Institute of Management (ABIM). His cognate experience has been requisite in the administration of the Bank's business. He is the proud father of five children.

Ibukun Awosika
Non-Executive Director
Appointed 28/10/2010

Ibukun Awosika joined the Board in 2010. An outstanding and multiple award-winning entrepreneur, she is the founder and Group CEO of The Chair Centre Group. Ibukun is the chairperson and promoter of After School Graduate Development Centre (AGDC), a social enterprise set up to address employability and enterprise development among young Nigerians. She is a Fellow of the Aspen Global Leadership Network and is a co-founder and member of the Board of Trustees of Women in Management and Business, an NGO created to elevate the influence of women in business. She brings her managerial and entrepreneurial abilities to bear on the Board of the Bank. She is married with children and is a pastor at the Fountain of Life Church, Lagos.

Mahey Rasheed, OFR
Non-Executive Director
Appointed 21/07/2009

Mahey Rasheed was appointed to the Board of the Bank in 2009. He started his career at New Nigeria Development Company, Kaduna and was Principal Investment Executive before joining the Central Bank of Nigeria, as Assistant Director and rose to the position of a Director. Subsequently, he was appointed a Deputy Governor of the Central Bank. He was Chairman of the CBN Audit Committee, CBN Budget Committee, CBN's implementation of the Enterprise Management System Committee and served on several Board Committees within CBN before he retired. He is an Edward Mason Fellow, Harvard University, has held several Federal Government appointments and sits on the boards of various institutions in the country. He was conferred with the national honour of Officer of the Federal Republic (OFR) in 2004. He wields his in-depth expertise across industries on the implementation of the Bank's strategic objectives. He is married with two children, loves gardening and playing table tennis.

Khadijah Alao-Straub (LLB, LLM)
Non-Executive Director
Appointed 01/01/2011

Khadijah Alao-Straub was appointed to the Board of the Bank in 2011. Her working career spans Lister Group of Companies and The Fantastic Corporation, Switzerland where she led legal negotiations and supervised attorneys that worked for the firm. She also worked with EurotaxGlass International AG, Switzerland, where she managed litigations and advised executive management on business strategy and legal matters. Khadijah is an active attorney, a member of the New York Bar and her diverse experience in the formulation of structure, business and legal strategy is germane for her role on the Board. She is married with children.

Obafemi Otudeko
Non-Executive Director

Appointed 01/01/2011

Obafemi Otudeko was appointed to the Board of the Bank in 2011. His work experience spans the Honeywell Group, where as Executive Director he leads Group Corporate Development and is responsible for the comprehensive transformation of the Group into a world-class admired company, and was at PricewaterhouseCoopers, where he led and managed various audit and consultancy engagements for major banks and non-bank financial institutions in Nigeria as well as other special projects. He also has wide experience managing oil and gas projects. Obafemi is an Associate Member of the Institute of Chartered Accountants of Nigeria. He is the second Vice President of the Nigerian Gas Association and also sits on the board of Airtel Networks. He impacts his wealth of experience in corporate finance and business development on the Board. He is married with children.

Tunde Hassan-Odukale
Non-Executive Director

Appointed 01/01/2011

Tunde Hassan-Odukale joined the Board of the Bank as a Non-Executive Director in 2011. He is an Executive Director of Leadway Assurance Company Limited. His executive management experience spans over 20 years and includes asset management, finance, IT and life insurance operations. He has a keen disposition to evaluating proposals as well as forming IT strategy and direction which are beneficial to the Bank's Board. Tunde also sits on the board of Total Health Trust Limited and other Leadway Assurance Subsidiaries. He is married with a child.

Ibrahim Waziri
Non-Executive Director

Appointed 01/01/2011

Ibrahim Waziri was appointed to the Board of the Bank in 2011. He has over 30 years' professional experience in banking and oil and gas businesses. His work experience includes: Group Executive Director at the Nigerian National Petroleum Corporation (NNPC), Financial Analyst and Manager, International Merchant Bank Limited, Executive Director, Nigeria Gas Company Ltd and the Pipeline and Product Marketing Company Ltd, Deputy Managing Director, Nigeria LNG Limited, and Managing Partner, Gulf of Guinea Petroleum Consulting Limited. He is a fellow of the Institute of Directors (IOD) and his extensive experience across industries is brought to bear on his Board contributions. Ibrahim is married with five children and loves reading, swimming, golfing, listening to music and nature conservation.

Executive Vice Presidents

Tijjani Borodo, LLM
Executive Vice President/Company Secretary

Tijjani Borodo was appointed Executive Vice President in 2011. Prior to this promotion, he was a General Manager and the Company Secretary of the Bank. His banking career spans 24 years and he occupied various managerial positions within the Bank. He is in charge of running the Bank's Secretariat as well as the Secretary to the Board of Directors and Annual General Meeting of the Bank. Before joining the Bank, he served with the Ministry of Justice, Kano, and rose to the position of Director, Public Prosecutions.

Tijjani sits on the Boards of First Registrars Nigeria Limited and In-Sourcing Limited and has over 30 years of post-call to the Bar experience. He is a Member of the Nigerian Bar Association, International Bar Association, Fellow of the Institute of Directors, Member of Society for Corporate Governance, and an Honorary Senior Member of the Chartered Institute of Bankers. He attended courses and programmes in various business and management schools including Harvard Business School, USA. Tijjani loves swimming, listening to music, travelling and is married with children.

Bernadine Okeke
Executive Vice President, Private Banking

Bernadine Okeke was appointed Executive Vice President and Head of Private Banking SBU in 2011. Before this appointment, she had been Business Development Manager (BDM), Lekki. Prior to this, she was Head, Human Capital Management & Development where she led major service quality and change management initiatives, which helped improve the overall service standard of the Bank. Bernie has over 23 years of diverse management and operational experience in banking and manufacturing. Her varied banking experience includes domestic banking operations, corporate banking, Treasury, credit and marketing, as well as branch development and roll out. This integrated experience supports her function in facilitating the Bank's Private Banking SBU business. She is married with children.

Bashirat Odunewu
Executive Vice President, Institutional Banking

Bashirat Odunewu was appointed Executive Vice President, Institutional Banking SBU in 2011. Until this appointment, she was Group Head, Ikoyi/Victoria Island, in the Corporate Banking Directorate of the Bank. With over 24 years' experience across institutional banking, corporate banking, commercial banking, investment banking and Treasury in various financial institutions, Bashirat brings her deep market-facing experience to bear on the Institutional Banking SBU. She was the recipient of the 2010 FirstBank CEO's Annual Merit Award for The Best Business Development Manager. She is a Fellow of the Institute of Chartered Accountants of Nigeria. She is married with children and is passionate about mentoring.

Abdullahi Ibrahim
Executive Vice President, Retail Banking North

Abdullahi Ibrahim was appointed Executive Vice President, Retail Banking SBU North in 2012. He was formerly Group Head, Manufacturing, in the Institutional Banking SBU. Abdullahi had served as the Business Development Manager, Ikeja 3, with responsibilities across consumer, retail, commercial and wholesale banking segments and the Group Head, Multinationals, under the defunct Corporate Banking directorate. His banking experience cuts across investment, wholesale and commercial banking and his proven ingenuity in these areas is brought to bear on the Bank's retail business. He is married with children.

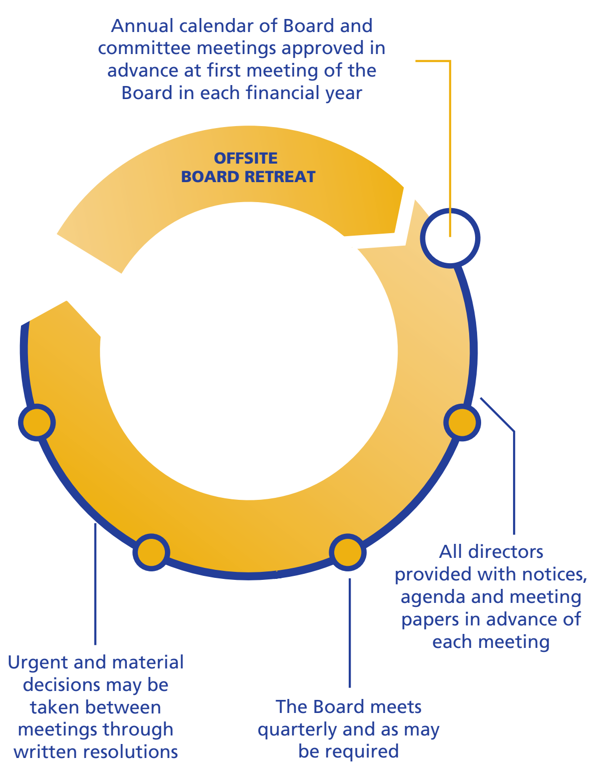
What changes were made to the Board during the year?

During the preceding year, the Board witnessed several changes. The adoption of the holding company structure resulted in Bello Maccido being appointed as CEO of FBN Holdings Plc, and reappointed a Non-Executive Director on the Board of First Bank of Nigeria Ltd. Similarly, Bisi Onasanya was appointed as a Non-Executive Director to represent FirstBank on the Board of FBN Holdings Plc.

Gbenga Shobo, Dauda Lawal and Adebayo Adelabu were also appointed as Executive Directors on the Board. Gbenga Shobo, prior to his appointment, was the Executive Vice President responsible for the Bank's retail business in the South and was appointed as Executive Director with the same responsibility, while Dauda Lawal was Executive Vice President responsible for the Bank's public sector business in the North and was appointed Executive Director with the same portfolio. Adebayo Adelabu was, until his appointment, an Executive Vice President and also the Chief Financial Officer of the Bank.

How do our Board meetings work?

The Board meets quarterly and extraordinary meetings are convened as may be required. The annual calendar of Board and committee 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 Bank's Articles of Association.



- The Board meets quarterly and as may be required.
- The annual calendar of Board and Committee 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 Bank.
- Urgent and material decisions may be taken between meetings through written resolutions.
- All directors are provided with notices, agenda and meeting papers in advance of each meeting.
- The FirstBank Board met eight times in 2012, three of which were extraordinary Board meetings.
- Notices for meetings are usually sent at least 14 days before the scheduled meeting.
- The Company Secretary is responsible for setting the agenda of topics to be covered at meetings and does so through consultations with the Chairman and the Group Managing Director/CEO based on memoranda submitted by the various departments.
- The Bank migrated from hard copy circulation of Board memoranda to electronic circulation of memoranda to members of the Board, exemplifying the Bank's cost efficiency, dynamism and embrace of technology.

The annual calendar of Board activities includes a Board retreat at an offsite location, to consider strategic issues and review the opportunities and challenges facing the institution. All directors are provided with notices, 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 and reserves the right to discuss with the Chairman, matters he/she may wish to raise at the meeting.

The FirstBank Board met eight times in 2012, three of which were extraordinary Board meetings. Notices for meetings are usually sent at least 14 days before the scheduled meeting. The duration of each meeting ranged between 30 minutes to six and a half hours.

The number of issues slated for deliberation and above all, complexity of the issues, play a major role in the duration of the meetings. Board memoranda are dispatched in advance to enable directors to have adequate time to review and prepare for meetings. The time that each director spends in preparing for a meeting would vary based on the peculiarity and workings of each director.

In addition, to drive well-informed and high-quality decision making, and ensure the Board is effective, we:

- provide high-quality Board documentation; typically, our Board papers describe the process that has been used to arrive at and challenge the proposal prior to presenting it to the Board, thereby allowing directors not involved in the project to assess the appropriateness of the process as a precursor to assessing the merits of the project itself;
- obtain expert opinions when necessary;
- allow time for debate and challenge, especially for complex, contentious or business-critical issues;
- achieve timely closure; and
- provide clarity on the actions required, and timescales and responsibilities.

During the year the Bank migrated from the previous method of circulating hard copies of Board memoranda to circulating electronic memoranda to members of the Board. The Bank's embrace of technology exemplifies the Bank's dynamism and also focuses on cost optimisation.

The process for setting the agenda of topics to be covered at meetings is usually the sole responsibility of the Company Secretary based on memoranda submitted by the various departments. The Company Secretary consults the Chairman and the Group Managing Director/CEO in this regard. Any director may request that a topic be considered at meetings. In addition, any director may bring up any issue deemed deserving of discussion and this is usually taken under any other business (AOB) during the course of the meeting.

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 its purpose and responsibility. The charter covers policies regarding Board memberships and composition, Board procedures, conduct of directors, risk management, remuneration, Board evaluation and induction. The key responsibilities of the Board are as follows:

- Approve the Group strategy and financial objectives and monitor the implementation of those strategies and objectives.
- Review and approve the Group's capital and liquidity positions, approve proposals for the allocation of capital and other resources within the Group.
- Oversee the establishment, implementation and monitoring of a Group risk management framework to identify, assess and manage risks facing the Group. This includes credit, markets, compliance, strategies, reputational and operational risks.
- Decide and approve the expenditure, authorisation, investment and credit-lending limits to be delegated to the Board committees, Boards of subsidiaries, executive and management members.
- Review on a regular and continuing basis the succession planning for the Board and senior management staff (especially the Group Managing Director and other executive members).
- Approve all appointments of directors to the Board of the subsidiary and affiliate companies.
- Review the recommendation of independent consultants on annual review/appraisal of the performance of the Board and approve actions to be enforced.
- Maintain a sound system of internal controls to safeguard shareholders' investments and Group assets.
- Review significant audit and compliance issues and approve action and remediation plans.
- Establish and maintain appropriate accounting policies for the Group.
- Approve any significant changes in the organisational structure of the Group.
- Approve the Group's performance-based compensation policy.
- Approve the Group's secondment /mobility policy.

Board discussion for 2012

What key themes did the Board focus on?

A few of the deliberations held by the Board for the year under review focused upon:

International expansion

The Board deliberated on the Bank's international expansion drive with the fundamental objective being to dominate Nigeria primarily while diversifying into other African markets. The Board agreed that the international expansion plans will be subject to adequate capital availability and further clarity of the CBN's guidelines on capital exportation by Nigerian banks.

Branch expansion

As part of deepening our retail footprint and ensuring our continued ability to mop up cheap deposits, the Board deliberated on the branch strategy, including the planned and actual creation of 135 new branches/quick service points for 2012.

Alternative delivery channels

The focus here was on leveraging technology to extend our reach, build scale and improve customers' banking experience. The Bank sustained its leadership position in domestic card issuance, electronic transaction processing and ATM deployment. The deployment of the mobile money platform, given the potential for reaching the un-banked and under-banked, also received significant Board attention.

Appointment of directors

- The appointment of a second independent director

  According to the CBN, FirstBank's appointment of a second independent director did not meet its criteria and the appointment was subsequently withdrawn. Arrangements are ongoing for the appointment of a second independent director to the Board.
- The appointment of a director to fill casual vacancies on the Board

  The Board deliberated on the appointments of new directors Gbenga Shobo and Dauda Lawal to fill the casual vacancy on the Board occasioned by Bello Maccido's appointment as CEO of FBN Holdings Plc. The Board further deliberated on the latter's subsequent reappointment as a Non-Executive Director representing FBN Holdings Plc on the Board. Similarly, the Chief Financial Officer (CFO) Bayo Adelabu was appointed as an Executive Director in line with global best practices of having the CFO on the Board.

Adoption of and conversion to a holding company structure

Considerable time was spent on the implementation of the holding company structure. Deliberations were also held preparatory to the Bank's Annual General and Court-Ordered Meetings held on 30 May 2012 and 24 September 2012 respectively. The incorporation of FBN Holdings Plc is a key milestone as it is the culmination of FirstBank's proactive stance in optimising the operating and governance structure of the Group.

A reactionary response to regulations over a period in our history led to a portfolio of subsidiaries with a low degree of coordination resulting in sub-optimal returns. Today, each company under FBN Holdings, including FirstBank, possesses clear business mandates and deeper specialisation/client focus. The migration to the holding company structure has thus repositioned the Group for growth as synergies are more deliberately quantified and extracted.

The divestment from First Registrars

The Board considered the divestment from First Registrars Limited in line with a directive of the CBN.

Business line expansion

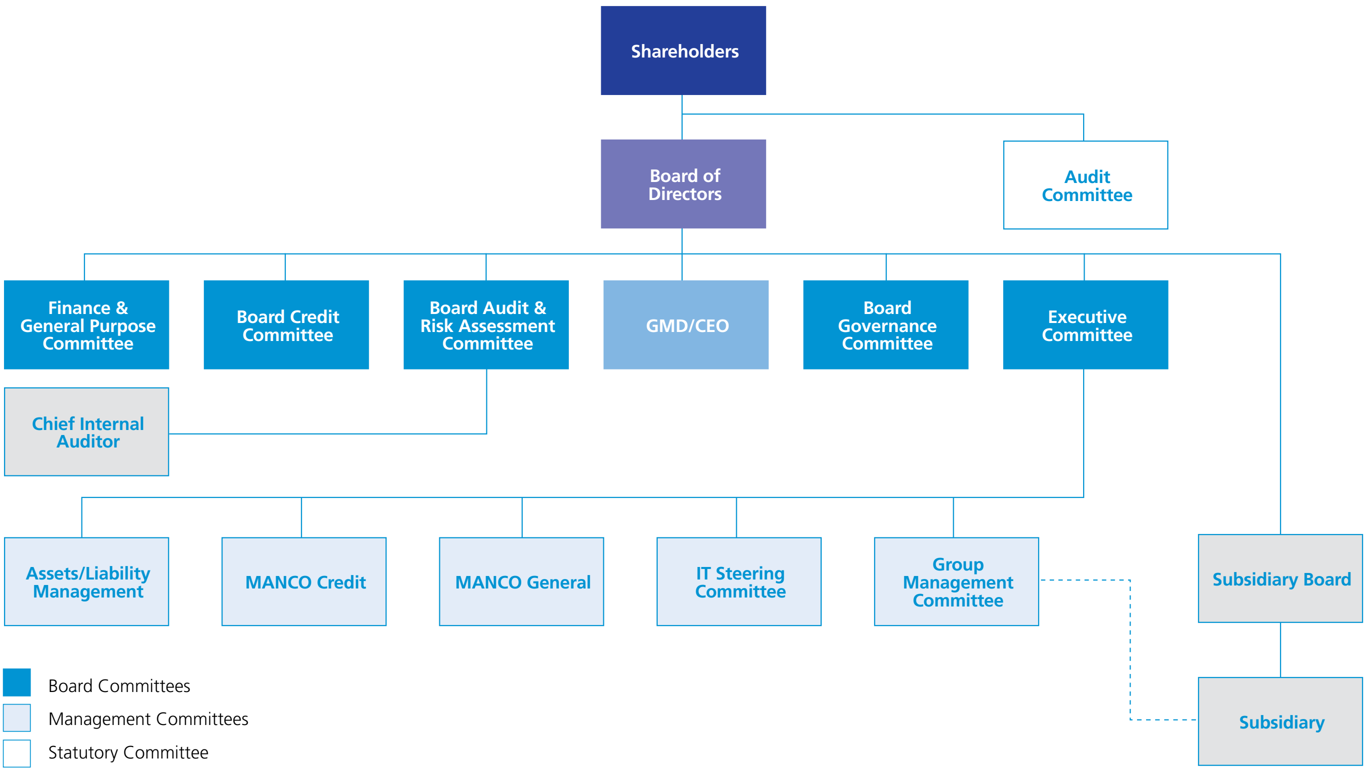
Over the last year, the Board discussed FirstBank's growth capacity leveraging on its strong product platform and superior risk management capabilities to address the middle corporates' segment, which is considered economically important and which has been traditionally untapped given the challenging risk profile. Within the non-banking space, the Board considered asset management as an area in which the Bank had limited scale and had not performed to potential. Under Investment Banking Asset Management (IBAM), that line of business had been strengthened to cultivate investor relationships and aggressively market products through an expanded sales and distribution network.

Priorities for 2013:

Our focus and priorities for 2013 shall be to:

i. Finalise the divestment from First Registrars Limited in line with the provisions of CBN regulations;
ii. Accelerate growth in priority segments of the economy;
iii. Drive operational excellence in order to attain a top three position in service levels/customer satisfaction across the board;
iv. Enhance capabilities in infrastructure financing/banking;
v. Optimise channel infrastructure;
vi. Enhance cost efficiency;
vii. Sustain the focus on directors' training on relevant issues though formal and informal training sessions;
viii. Continue to enhance the level of interaction and information provided to shareholders, investors and stakeholders;
ix. Ensure that the Bank fully complies with the requirement for two independent directors; and
x Implementation of a sustainability reporting framework.

What is our corporate governance framework?



How do we delegate authority?

The ultimate responsibility for the performance of FirstBank Group rests with the Board. The Board retains effective control through a well-developed governance structure of Board committees. These committees provide in-depth scope of specific Board responsibilities. The Board delegates authority to the Group Managing Director/Chief Executive Officer (GMD/CEO) as well as the Executive Management Committee of which he is also the Chairman. The GMD/CEO manages the business and affairs of the Group on a day-to-day basis within such limits as defined by the Board from time to time.

The GMD/CEO has the authority to sub-delegate such authority and power to any member of the executive management team as he/she shall determine from time to time. The Management Committee (MANCO) comprises seven executive directors (including the CEO) and three executive vice presidents (who have equal responsibilities as the executive directors with the exception of Board functions). MANCO is responsible for the management of the day-to-day affairs of the FirstBank Group. Biographies of the executive vice presidents are provided on page 131 of this corporate governance report.

What are the roles of the Chairman and Chief Executive Officer?

In compliance with strict corporate governance codes and practice, the roles of the Chairman and Chief Executive Officer are separate and distinct. The Chairman, Prince Ajibola Afonja, is a Non-Executive Director and has responsibility for chairing the Board. The Group Managing Director/Chief Executive Officer, Bisi Onasanya, has the responsibility of leading the executive management team. In addition, the Chairman does not act as Chairman of any Boards of the subsidiaries or any of the Board committees.

The record of Board attendance for year 2012 is provided below:

Name	Attendance
Chairman	
Prince Ajibola Afonja	8 of 8
Executive Directors	
Bisi Onasanya	8 of 8
Remi Odunlami	8 of 8
Kehinde Lawanson	8 of 8
Urum Eke	8 of 8
Dauda Lawal*	2 of 8
Gbenga Shobo*	2 of 8
Bayo Adelabu**	1 of 8
Non-Executive Directors	
Ibrahim Waziri	8 of 8
Obafemi Otudeko	8 of 8
Khadijah Alao-Straub	8 of 8
Lawal Ibrahim	8 of 8
Ibukun Awosika	8 of 8
Ibiai Ani	7 of 8
Mahey Rasheed	8 of 8
Ambrose Feese	8 of 8
Ebenezer Jolaoso	8 of 8
Tunde Hassan-Odukale	8 of 8
Bello Maccido***	8 of 8
Other attendees	
Employees and external parties including consultants may attend to give the Board insight depending on the decision to be deliberated on at the instant meeting	

* Appointed on 11 September 2012. Attended all Committee meetings held from date of appointment.

** Appointed on 13 December 2012. Attended all Committee meetings held from date of appointment.

*** Resigned from the Board due to appointment as Chief Executive Officer of FBN Holdings Plc. He was subsequently appointed a Non-Executive Director of FirstBank representing FBN Holdings Plc on the Board of FirstBank.

Statement of compliance

The Bank is a public limited liability company and subject to the jurisdiction of the SEC as well as CBN Codes and regulations. Save for the breach of the Code stated below, we have complied with the relevant provisions of the CBN Code. Where there is any conflict between the provisions of the two codes regarding any matter, the Bank will defer to the provisions of the CBN Code as its primary regulator.

Breaches of the Code

With respect to the minimum number of independent directors, we are in compliance with the SEC Code, which requires a minimum of one independent director, but not yet in compliance with the CBN Code, which requires at least two independent directors on the Board.

Similarly, the sum of ₦2.1 million was levied on the Bank by the Nigerian Stock Exchange as penalty for the allegedly unauthorised publication of its court-ordered meeting in the newspapers without obtaining its permission before doing so.

Leadership

Board and committee governance structure

The Board carries out its oversight function through its six 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 directors confirm that the committees functioned in accordance with their terms of reference during the financial year under review. Listed below are the committee membership and attendance together with details of the other attendees who are invited to the respective committees.

The following Board committees operated within FirstBank in 2012:

Board Finance & General Purpose Committee (BFGPC)

Committee chairman
Ebenezer Jolaoso

Role and focus

a) Considering and approving the Bank's capital expenditure plan and specific capital projects above the approval limit of the Management General Committee (MANCO General or MGC) and making recommendations for the consideration of the Board; and

b) Advising the Board on its oversight responsibilities in relation to recruitment, compensation and benefits, promotions and disciplinary issues affecting senior officers of the Bank on Principal Manager Grade and above.

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 Bank's procurement policy to the Board;
- ensuring that the Bank 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 Bank'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.

Focus of BFGPC discussions for 2012

Discussion	Rationale	Objective
Appointment of a Chief Risk Officer for BIC.	Need to step up the integration of the Bank's staff with the acquired Bank to complement the ongoing policy integration with the subsidiary.	To ensure proper integration of the Bank's subsidiary with the Bank.
Review of the 2011 end-of-year appraisal exercise.	To reward performance and appraise output of members of staff.	To ensure a competitive workforce.
Upgrade of the Bank's data backup and recovery solution.	Bank's strategic growth has led to rapid growth in financial and non-financial transaction volumes, hence the need to upgrade the Bank's data protection infrastructure.	Need to upgrade the Bank's data protection infrastructure, which was installed in 2010.
Upgrade and comprehensive renovation of the head office building.	Deliberated upon the need to upgrade existing head office facilities.	To make favourable brand projection, increase comfort and staff productivity.
Firstmonie mobile infrastructure.	The focus here was on leveraging technology to improve customers' banking experience through the deployment of the Bank's mobile money platform.	Part of Bank's plan to reach the un-banked and under-banked and expand the Bank's market share.

The record of BFGPC attendance for year 2012 is provided below:

Name	Attendance
Committee chairman	
Ebenezer Jolaoso	3 of 3
Executive Directors	
Bisi Onasanya	1 of 3
Remi Odunlami	2 of 3
Kehinde Lawanson	2 of 3
Gbenga Shobo*	1 of 3
Non-Executive Directors	
Ibrahim Waziri	3 of 3
Obafemi Otudeko	3 of 3
Khadijah Alao-Straub	3 of 3
Lawal Ibrahim	3 of 3
Ibukun Awosika	1 of 3
Ibiai Ani	2 of 3
Other attendees	
Employees and external parties including consultants may attend to give the Board insight depending on the decision to be deliberated on at the instant meeting.	

* Appointed on 11 September 2012. Attended all Committee meetings held from date of appointment.

Board Audit & Risk Assessment Committee (BARAC)

Committee chairman
Ambrose Feese

Role and focus

The overall purpose of the Committee is to protect the interest of FirstBank 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.

Focus of BARAC discussions for 2012

Some of the deliberations held by the BARAC for the year under review focused upon:

Discussion	Rationale	Objective
Litigation involving the Bank and the Federal Inland Revenue Service (FIRS).	The need to amicably resolve the litigation involving the Bank and the Federal Inland Revenue Service (FIRS).	To ensure the Bank's exposure is reduced to the barest minimum.
Deliberation on the provision of the CBN Code of Corporate Governance requiring the Chief Internal Auditor to report to the Audit Committee and not BARAC.	To check local best practices for the Bank's adoption with regard to the CBN Code requiring the Chief Internal Auditor to report to the Statutory Audit Committee and not BARAC.	To ensure compliance with CBN regulations.
Stress testing using the CBN template.	To comply with CBN's requirements for banks to test their positions against credit, market and liquidity factors using a Microsoft Excel template developed by the CBN.	To ensure compliance with CBN regulations and ensure a proper review of the Bank's position.
Information security management review of assessment procedure.	Review done in conformity with the requirement of ISO 2700I standard.	To bring the Bank's information security structure in line with international standards.

The record of BARAC attendance for year 2012 is provided below:

Name	Attendance
Committee chairman	
Ambrose Feese	4 of 4
Executive Directors	
Bisi Onasanya*	1 of 4
Non-Executive Directors	
Ibrahim Waziri	4 of 4
Bello Maccido	4 of 4
Tunde Hassan-Odukale	4 of 4
Other attendees	
Employees and external parties including consultants may attend to give the Board insight depending on the decision to be deliberated on at the instant meeting.	

* Was unable to attend all the meetings held as he was away on official functions.

Board Governance Committee (BGC)

Committee chairman
Ambrose Feese

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 MD/CEO;
- ensure proper succession planning for the Group; and
- ensure compliance with the CBN Code of Corporate Governance.

Focus of BGC discussions for 2012

Some of the deliberations held by the BGC for the year under review focused upon:

Discussion	Rationale	Objective
Appointment of a second independent director.	The CBN'S Code of Corporate Governance makes it mandatory to have at least two independent directors on the Board.	To ensure compliance with CBN's regulations.
Appointment of new directors.	To observe global best practices of having the CFO as a member of the Board and two new executive directors on the Board in place of Bello Maccido who was appointed to the Board of FBN Holdings Plc. Bello Maccido's subsequent appointment to the Board representing FBN Holdings was to ensure there is no information leakage between FirstBank and FBN Holdings Plc.	To ensure seamless transition from the previous banking model to the new HoldCo structure.
Review of remuneration of non-executive directors.	To ensure that remuneration for non-executive directors remains competitive.	To serve to motivate members of the Board in the discharge of their duties.
Succession planning framework for principal members of the Board.	To ensure there is adequate cover for principal members of the Board.	To have a succession policy for principal members of the Board.
Board tenure policy.	To put in place a standard policy on tenure of Board members.	To ensure compliance with provisions of the Companies and Allied Matters Act.

The record of attendance for year 2012 is provided below:

Name	Attendance
Committee Chairman	
Ambrose Feese	3 of 3
Non-Executive Directors	
Mahey Rasheed OFR	3 of 3
Ebenezer Jolaoso	3 of 3

Remuneration report

This section provides stakeholders with an understanding of the remuneration philosophy and policy applied at First Bank of Nigeria for non-executive directors, executive directors and employees.

Remuneration philosophy

FirstBank's compensation and reward philosophy represents the values and beliefs that drive compensation decision making in the organisation. Compensation philosophy is in line with FirstBank's quest to attract and retain highly skilled personnel that will keep the Bank ahead of competition. In reviewing our compensation, some of the triggers for compensation review include organisational policy, market positioning, financial performance of the Bank, government policies and regulations, industry trends, inflation and cost-of-living index.

Remuneration strategy

FirstBank's compensation and reward strategy is aimed at attracting, rewarding and retaining a motivated talent pool to drive the Bank's core ideology and strategic aspirations. FirstBank's 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 Bank as an employer of choice within its pay market by offering a well-packaged, attractive and sustainable compensation package. Compensation is equitable and rewards officers based on the 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

FirstBank's compensation policy includes remuneration, perquisites 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 it 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 are structured to support a standard of living for respective grades. These allowances include housing, furniture, lunch, clothing, etc. They are payable in cash and 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.

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.

Perquisites/perks

These are usually 'lifestyle'-induced and designed to ensure comfort, motivation, commitment and retention of staff particularly at the senior level, or high-level potential staff, e.g., status cars. They are acquired by the Bank 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 allowances, 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 also ensure that, in line with the Bank's ethical stance of being socially responsible and a good corporate citizen, payments are structured so that while staff remains liquid, the Bank does not run contrary to tax laws and other statutory regulations.

How much do our non-executive directors get paid?

In line with the CBN 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. The Governance Committee of the Board annually reviews and makes recommendations to the Board on the remuneration of the Chairman and other non-executive directors.

How much do our executive directors get paid?

Remuneration for executive directors is performance driven and restricted to base salaries, allowances and performance bonuses. Executive directors are not entitled to sitting allowances. The Governance Committee reviews and makes recommendation to the Board on all retirement and termination payment plans made to the executive directors.

The amounts specified below represent the total remuneration paid to executive and non-executive directors of the Bank in the period under review.

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Fees and sitting allowances	79	162
Executive compensation	319	520
Total	**398**	**682**

The Group will continue to ensure its remuneration policies and practices remain competitive, incentivise drive performance and are in line with its core values.

Board Credit Committee (BCC)

Committee chairman
Mahey Rasheed OFR

Role and focus

The Board Credit Committee is responsible for approval of credit product programmes and individual/business credits in line with the Bank's credit approval authority limits.

The purpose of the Committee is to advise the Board on its oversight responsibilities in relation to the Bank and subsidiary companies' credit exposure, management and lending practices, and provide strategic guidance for the development and achievement of the Bank and subsidiary companies' credit and lending objectives. In performing this oversight role, the committee works with management.

Key responsibilities

The Committee has the responsibility to:

- approve risk management policies and standard proposals on the recommendation of the Management Credit Committee;
- approve definition of risk and return preferences and target risk portfolio;
- approve assignment of credit approval authority on the recommendation of the Management Credit Committee;
- approve changes to credit policy guidelines on the recommendation of the Management Credit Committee;
- approve credit facility requests and proposals within limits defined by FirstBank's credit policy and within the statutory requirements set by the regulatory/supervisory authorities; and
- recommend credit facility requests above the stipulated limit to the Board.

Leadership
Board and committee governance structure

Focus of BCC discussions for 2012

Discussion	Rationale	Objective
Product programmes	Product programmes are designed to enable the Bank to offer part-finance to individuals/companies to acquire assets for various uses.	To ratify the approval of the product programme in line with the terms and conditions as detailed in the product paper. To review and approve amendment of terms and conditions of product programmes.
Credit portfolio report	Review reports for corrective management action.	To ratify the actions taken by executive management to improve portfolio quality.
Non-performing assets report	Review reports for corrective management action.	To ratify the actions taken by executive management to minimise potential loss on the portfolio.
Approval of credit facilities	To approve credit requests.	To approve credits to be granted by the Bank within specified approval limits and recommend for Board approval credits to be granted at Board level.
Insider-related credits	To approve insider-related credits.	To comply with the Credit Policy and CBN regulation.
Credit recovery matters	To approve credit waivers and concessions on classified accounts.	To approve acceptance of concessions in full and final payments of debts and also write off the residual balance.
Credit portfolio plan	To consider, review and approve the portfolio plan and management methodology, the industry risk rating for the year, the risk appetite proposal (portfolio, industry and other concentration limits) and credit allocation for the year.	To allocate resources to attractive sectors. To approve the credit portfolio plan as a recommendation to the Board of Directors.
Amendments to the credit policy	Review and consider proposed amendments to credit policies.	To ensure that the overall approach to creating and managing risk assets remains relevant and responsive to changes in the environment and the Bank's corporate strategies. To standardise the requirement for acceptability of collaterals for credit facilities. To address the high cost of collateral perfection through the reduction of nominal stamping value.
Delegation of credit authority	Review and consider the request to increase approval limits as recommended by MCC.	To improve service efficiency and curb future breach of the CBN policy on anticipatory approvals in order to avert sanctions.
Project status reports	To consider and approve the report presented by relationship teams, which highlights project completion level and expected project completion date.	To consider the status of various projects.
Investment in bond instruments	To discuss the structure of the portfolio and mechanism adopted in the overall management of same.	To ascertain if there were sufficient funds available to the Bank to invest in long-term assets.
Ratification of sale of eligible bank assets to AMCON in 2011	To provide details of the eligible bank assets (EBAs) sold to the Asset Management Corporation of Nigeria (AMCON) under Phases 2 and 3 and concluded within the financial year ended 2011.	To clarify the composition of the bond received from AMCON and the recognition of the sales in the Bank's books. To ratify the approval of the sale of eligible bank assets and recommend for Board approval.
Appointment of senior credit officers	Approve the appointment of senior credit officers.	To consider and approve the appointments of senior credit officers.

The record of Board Credit Committee attendance for year 2012 is provided below:

Name	Attendance
Committee chairman	
Mahey Rasheed OFR	8 of 8
Executive Directors	
Bisi Onasanya*	5 of 8
Kehinde Lawanson	7 of 8
Urum Eke	7 of 8
Remi Odunlami	7 of 8
Gbenga Shobo **	2 of 8
Dauda Lawal **	2 of 8
Non-Executive Directors	
Ibrahim Waziri	8 of 8
Bello Maccido***	4 of 8
Tunde Hassan-Odukale	8 of 8
Ebenezer Jolaoso	7 of 8
Khadijah Alao-Straub	7 of 8
Obafemi Otudeko	8 of 8
Other attendees	
Employees and external parties including consultants may attend to give the Board insight depending on the decision to be deliberated on at the instant meeting.	

* Was unable to attend all the meetings held as he was away on official functions.
** Appointed on 11 September 2012. Attended all Committee meetings held from date of appointment.
*** Ceased to attend Committee meetings on his appointment as CEO of FBN Holdings.

Audit Committee

Committee chairman
Peter Asu

Role and focus

The Audit Committee is a statutory committee pursuant to Section 359(4) of the Companies and Allied Matters Act 2004 (CAMA). The Committee has oversight responsibility for the Bank's financial statements. The Audit Committee is, however, not answerable to the Board. The Committee comprises six members (three are nominated by the shareholders and three are Non-Executive Directors) whose tenure must be renewed annually.

The CBN requires that the tenure of a bank's external auditors shall be for a maximum period of 10 years, after which the audit firm shall not be reappointed in the bank until after a period of another 10 years. FirstBank makes use of the services of both PricewaterhouseCoopers and Pannell Kerr Forster as joint auditors who have worked for the Bank for three and nine years respectively.

The requirement for the establishment of an Audit Committee is restricted by CAMA to public companies. While the Bank started the year as a public company, its pending conversion to a limited liability company implies that the Bank is not required to have an Audit Committee. On conclusion of the Committee's audit of this year's accounts for FirstBank, and upon FirstBank's transition to limited liability company, the Audit Committee shall cease to operate.

Key responsibilities

Subject to such other additional powers that CAMA may stipulate, the roles and responsibilities of the Audit Committee are to:

- ascertain whether the accounting and reporting policies of the Bank are in accordance with statutory requirements and agreed ethical practices;
- review the scope and planning of audit by the external auditors including identified risk areas, relevance of audit plan to audit approach, and reporting timetable;
- review the effectiveness of the Bank's system of accounting and internal controls;
- review and recommend the annual financial report for approval by the Board;
- review the statutory auditor's management letter and ensure adequacy of management's response;
- make recommendation to the Board with regard to the appointment, removal and remuneration of the statutory auditors of the Bank;
- recommend to the Chief Internal Auditor to carry out any investigations into any activities of the Bank that may be of concern to the Committee; and
- all such other matters as are reserved to the Audit Committee by CAMA and the articles of association of the Bank and the subsidiary companies.

Focus of Audit Committee discussions for 2012

Discussion	Rationale	Objective
Adoption of International Financial Reporting Standards (IFRS).	The need to comply with CBN's mandate for all Nigerian banks to adopt this reporting standard.	To ensure the Bank's reporting is up to globally acceptable standards.
Deliberation on the draft audited accounts for 2011.	To consider the draft accounts as representatives of the Bank's shareholders.	To ensure adequate oversight functions over the management of the Bank.
IFRS training for staff and the Board to be undertaken in conjunction with Pricewaterhouse Coopers.	The need to ensure members of staff and Board are acquainted with IFRS.	To ensure seamless adoption of IFRS by the Bank.

Discussion	Rationale	Objective
Deliberation on management's letter on audit report for 2011.	To consider management's response to the auditor's observations during the 2011 audit exercise.	To ensure adequate oversight functions over the management of the Bank.
2012 audit plan.	To ensure conclusion of the Bank's audited accounts by 28 February 2013.	To ensure timely publication of the Bank's full year 2012 results and publication of its annual reports.

Going concern

On the recommendation of the Audit Committee, 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 Audit Committee attendance for year 2012 is provided below:

Name	Attendance
Committee Chairman	
Peter Asu	3 of 3
Shareholder representatives	
Raphael Attu	3 of 3
Adamu Kiyawa	3 of 3
Non-Executive Directors	
Ibukun Awosika	3 of 3
Kankia Ibrahim	3 of 3
Ibiai Ani	2 of 3

Executive Committee (EXCO)

Role and focus

The Executive Committee is the highest management body within the Bank. The purpose of the Committee is to deliberate and take policy decisions on the effective and efficient management of the Bank. Its primary responsibility is to:

- ensure the implementation of the Bank's strategic and business plan approved by the Board;
- ensure efficient deployment and management of the Bank's resources; and
- provide leadership to the management team.

Key responsibilities

The responsibilities of the Executive Committee are to:

- develop and review on an ongoing basis the Bank's business focus and strategy subject to the approval of the Board;
- confirm alignment of the Bank's plan with the overall Group strategy;
- recommend proposals on the issue of shares, bonds, debentures and any other securities to the Board for approval;
- track and manage strategic and business performance against approved plans and budget of the Bank;
- make proposals to the Board and Board Committees on major policies and principles (e.g., recruitment, promotion and termination of senior management staff, disciplinary measures against erring senior management staff, compensation matters, major capital spending, organisational structure, etc.);
- track and monitor progress and accomplishments on major Bank initiatives and projects;
- recommend opening and closing of new branches to the Board;
- articulate appropriate response to environmental factors, regulation, government policies, competition, etc. affecting the Bank;
- develop high-level policies to assist in the successful achievement of the Bank's overall business objectives;
- make recommendations to the Board on dividends to be paid out to shareholders at year end; and
- make important decisions in all areas where delegation of authority is granted to the Bank's Executive Committee.

Following the delegation of its duties to the Management Committees, the Executive Committee did not meet over the period under review.

Management Committees

FirstBank has the following management committees that are vital to the application of sound governance principles within FirstBank:

Management Committee – General (MANCO General or MCG)

The Committee discharges the responsibilities of the Executive Committee as detailed above, but shall not be responsible for any matters relating to the Board of Directors or Directors, including appointment of Directors, remuneration or termination of Directors and modifications to Board Committees.

Key responsibilities

These include all the responsibilities of the Executive Committee with the exception of all matters relating to the Board of Directors.

Management Committee – Credit (MANCO Credit or MCC)

Role and focus

The Management Credit Committee is the highest management credit approval body in FirstBank and performs the dual role of credit policy articulation and credit approval.

The Committee reviews and recommends to the Board of Directors for approval, credit policy direction including articulation of risk and return preferences at corporate level and for individual asset-creating business units in the Bank. The Committee also, on an ongoing basis, ensures compliance of the credit environment in the Bank with approved policies and framework.

Leadership
Board and committee governance structure

Key responsibilities

In the credit policy articulation and direction setting role, the Management Credit Committee:

- establishes and maintains an effective risk management environment in the Bank;
- reviews proposals in respect of credit policies and standards and endorses to the Board of Directors for approval;
- defines the Bank risk and return preferences and target risk portfolio;
- monitors on an ongoing basis the Bank's risk quality and performance, reviews periodic credit portfolio reports and assesses portfolio performance;
- defines credit approval framework and assigns credit approval limits in line with Bank policy;
- reviews defined credit product programmes on the recommendation of the Head, Credit Analysis & Processing, and endorses to the Board of Directors for approval;
- reviews credit policy changes initiated by management and endorses to the Board of Directors for approval; and
- ensures compliance with the Bank's credit policies and statutory requirements prescribed by the regulatory/supervisory authorities.

Snapshot of MANCO discussions for 2012

Discussion	Rationale	Objective
Sponsorship of the Calabar festival	Sponsorship is done as part of the Bank's CSR initiatives.	To continue to impact the society within which the Bank operates.
Contribution to flood disaster victims in the country	Sponsorship is done as part of the Bank's CSR initiatives.	To continue to impact the society within which the Bank operates.
Bank's international expansion drive	To increase the Bank's presence in other African countries.	To diversify our revenue streams and drive our dominance of the Sub-Saharan African market.
Deliberation on the Bank's complaints management framework	To improve calibration of the service standards and customer experience.	To ensure we remain competitive within the industry and grow our share of the customer's wallet.
Branch development programme	To extend our footprint and improve our access to banking services in locations where we have white spaces.	To improve the convenience of banking services and ability to continue to get a larger share of our customers' wallets.
Capital management and planning	Focusing on optimising the capital efficiency of the Group, ensuring that resources are deployed to the best possible outlets.	Given rising capital requirements, and pending implementation of Basel II and III in Nigeria, there is a need to ensure we allocate resources to the best businesses.
Divestment of FirstBank's 100% equity in First Registrars Limited	To facilitate sale and seamless divestment from holdings in First Registrars.	To comply with CBN's directive that banks should not run registrar business.
Deliberation on the provision of a mini fire service station in the head office	To provide a ready firefighting solution in the event of a fire outbreak.	To ensure adequate firefighting solution in the head office.
Deliberation on the deployment of additional ATMs and infrastructure	To enhance the Bank's accessibility to customers.	Deployment is part of the Bank's network expansion programme.
IT asset replacement policy	To articulate an official policy on the replacement of IT assets infrastructure.	To develop an IT asset replacement policy.

Group Management Committee (GMC)

The purpose of the Committee is to deliberate and take policy decisions on the effective and efficient management of the FirstBank Group.

Key responsibilities

The Group Management Committee is responsible for the following:

- developing and reviewing on an ongoing basis the Group's business focus and strategy subject to the approval of the Board;
- ensuring efficient deployment and management of the Group's resources;
- confirming alignment of each subsidiary company's plan with overall Group strategy;
- recommending proposals on the issue of shares, bonds, debentures and any other securities to the Board for approval;
- tracking and managing strategic and business performance against approved plans and budget of the Group;
- tracking and monitoring progress and accomplishments on major Group initiatives and projects at subsidiary level;
- articulating the appropriate response to environmental factors, regulations, government policies, competition, etc., across the Group; and
- recommending high-level policies to assist in the successful achievement of the Group's overall business objectives.

Snapshot of discussions at the GMC in 2012

Discussion	Rationale	Objective
Group performance highlights/review	Benchmarking quarterly actual performance against corresponding targets.	To ensure that both the Bank and its subsidiaries are on track with set budgets, while articulating action plans and timelines to enhance performance.
Identifying and maximising Group synergies	To further unlock and maximise synergies existing in the Group.	Maximising Group revenue.
Strategic session for representative (rep) offices	The articulation of management expectations from representative offices mode of operation and ensure tight follow through process for representative offices and referred transactions.	To ensure improved performance of the rep offices.
Business review of FBN Bureau de Change Limited	Regulation changes impacting business unfavourably.	To reposition the subsidiary for improved performance.
FBN Mortgages business continuity	The adoption of a holding company structure, and in compliance with regulatory guideline for divestment from real estate business.	To maximise Group returns, cost minimisation and capital optimisation.
Harmonising branding and communication across the Group	To harmonise communication and branding across the Group.	To minimise cost across the Group and fostering the corporate brand.
Group performance highlights – HoldCo structure	Shared services for the Group, i.e., functions such as information technology department and internal audit.	To maximise Group synergy.
Divestment from First Registrars Limited	Updates on the sale of the subsidiary to interested investors.	In fulfilment of regulatory directive for the divestment from registrar business.

Assets & Liabilities Management Committee (ALCO)

Role and focus

ALCO is the highest technical body responsible for market risk management. The Committee is responsible for the following:

- reviewing policies relating to market risk management;
- recommending market risk policies to the Board;
- providing management oversight for the implementation of policies relating to foreign currency rates, interest rates and equity prices risks;
- reviewing market risk strategy and recommending the same 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; and
- reviewing and recommending for approval market risk-related limits, i.e., position, concentration, currency, dealing gap, total portfolio and counterparty limits and approving appointment of dealers.

Snapshot of discussions of the Asset & Liabilities Management Committee in 2012

Discussion	Rationale	Objective
Stress testing	Stress testing is aimed at strengthening the Bank's ability to survive low-tail events associated with market and liquidity risks and support the assessment of the Bank's vulnerability to extreme but plausible market conditions.	To consider the results obtained from the stress tests. To review and approve any changes or amendments to the Bank's contingency funding plan occasioned by the stress test results.
Capital adequacy	Review the capital adequacy position for appropriate management action.	To ensure compliance with the regulatory and Board-approved capital adequacy requirements. To consider any combination of strategic and/or tactical actions to correct any inadequacies.
Liquidity management	Ensure that liquidity risk management efforts support the Bank's strategy, and ensure that regulatory liquidity limits are complied with.	To review liquidity risk reports for appropriate management intervention or action. To consider and/or ratify the actions taken or planned by Treasury management where immediate intervention is required. To approve any changes in strategy for the medium- or long-term liquidity management.
Funding concentration risk	Ensure that dependency on certain significant sources of funding remains within approved thresholds.	To consider the concentration risk in both local and foreign currency deposits. To ensure that sufficient liquid asset cover is in place for any identified concentration risk.
Deposit mobilisation	Ensure the deposit levels support the liquidity and asset creation targets.	To consider the deposit growth achievements of the Bank and strategic business units. To review business units' strategies for bridging any identified gaps. To consider deposit growth initiatives and track their progress.
Fixed income securities portfolio	Ensure that the fixed income securities portfolio remains within approved levels. Ensure that trading and investment positions do not pose significant risk of loss to shareholders' value.	To review fixed income securities positions and the Value at Risk in the positions. To review mark-to-market results. To consider and approve actions or strategies proposed by Treasury and Market & Liquidity Risk Management to sell, buy or reclassify securities.
Foreign exchange risk	Ensure that foreign exchange positions are within approved levels. Ensure that foreign exchange positions do not pose significant risk of loss to shareholders' value.	To consider foreign exchange risk positions and Value at Risk in the positions. To review mark-to-market results. To consider and approve proposed actions and strategies for ensuring minimal losses on positions. To consider reports on adherence to regulatory limits.
Approval of policies	Ensure that the overall approach to managing the Bank's market and liquidity risk is responsive to changes in the environment and Bank's strategies.	To review and approve proposed amendments to market and liquidity risk management policies after in-depth consideration by the Market Risk Policy Committee.
Pricing of deposit and loans and advances	Ensure that pricing of deposit liabilities, and loans and advances respond to changes in regulatory pronouncements and direction of market indices.	To consider the effect of changes in regulatory benchmark rate – MPR – on the Bank's pricing of assets and liabilities. To consider and approve proposed review of deposit rates, and pricing of loans and advances.
Transfer pricing	Funds transfer pricing is a tool for measuring the profitability of business units and driving behaviour towards the overall strategy of the Bank. The Committee ensures that agreed transfer pricing reflects the market direction and drives the desired behaviour.	To review the result of benchmark market indices and compare them to existing pool rates. To consider and approve proposed changes to the pool rates.

Discussion	Rationale	Objective
Economic review	Ensure that the Bank is aware of any development in the regulatory or economic environment, and the impact such development may have on the Bank's business.	To review the liquidity situation of the money market. To review the direction of interest rates, and the effect on market indices and fixed income instruments. To review the decisions of the CBN's Monetary Policy Committee and the effect on the market. To consider any new information from the domestic or foreign economic environment that might impact the Bank's business or strategy.

Group IT Steering Committee (GITC or ITSC)

Role and focus

The purpose of the Committee is to assist the Board to oversee IT-related activities. The primary responsibilities of the ITSC are to:

- ensure that FirstBank derives optimal value from its investments in IT;
- set strategic direction for IT and ensure alignment of IT to business objectives and priorities;
- ensure that the Board is regularly informed on the status of major IT projects or initiatives; and
- ensure the Board has adequate information to make informed decisions about IT investments and operations.

Key responsibilities

The ITSC also has the responsiblity to carry on the following:

- review and recommend the IT strategy and architecture for the Bank;
- review and recommend the IT policy, procedures and standards of the Bank;
- determine prioritisation of IT investment programmes in line with the enterprise's business strategy and priorities;
- review and recommend appropriate IT budget to the Board of Directors;
- monitor on an ongoing basis the achievement of IT strategy including the application of and leverage on technology in the Bank;
- establish framework to measure and monitor IT performance;
- review on an ongoing basis the Group's IT focus and strategy subject to the approval of the Board;
- coordinate priorities between the IT department and user departments;
- monitor service levels of the IT department and service improvements initiatives;
- promote the effective relationship between the business groups and IT by encouraging communication of business requirements to IT management, addressing IT capacity requirements, demanding routine discussions on IT service delivery and continuous service improvement;
- review the adequacy and allocation of IT resources in terms of funding, personnel, equipment and service levels;
- review, ratify and monitor the implementation of training programmes for end-users and IT personnel;
- confirm alignment of IT plan with overall Group strategy;
- provide oversight on activities of the Group IT Management Committee (GITMC); and
- recommend to EXCO for approval of specific IT spending/expense.

Snapshot of discussions at the GITSC in 2012

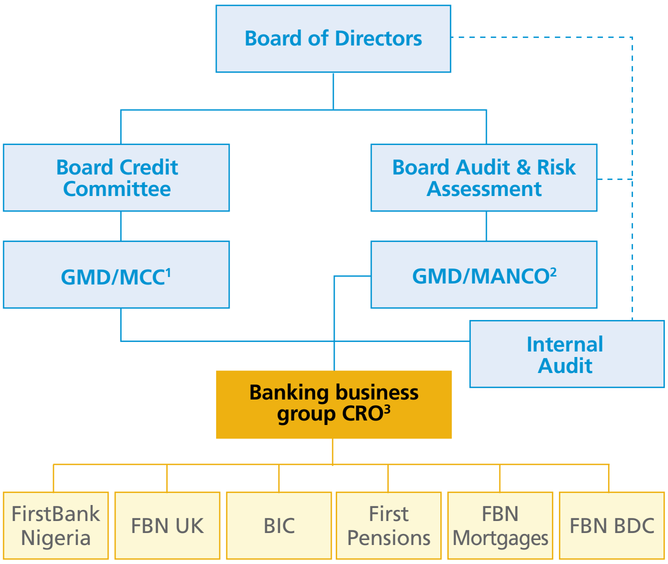
Discussion	Rationale	Objective/ further details
Project status reports	To consider and approve the report presented by IT, which highlights project completion level and expected project completion date.	To consider the status of various projects.
Business continuity plan update	To consider operational business continuity plan for banking services in the event of disruption to IT services.	To ensure an up-to-date business continuity plan is in place.
Business value proposition/ justification for key initiatives	Review business value metrics and justifications for key projects under consideration and also define value realisation plan for ongoing projects.	Some of the projects subjected to review within 2012 include biometric-ATM and IT desktop support outsourcing.
IT budget review	To consider and review IT budget proposals in order to align with business priorities.	To ensure the IT budget is in line with business priorities.
IT policy review and approval	To review and approve new IT policies and amendments to existing IT policies.	Some of the policies reviewed within 2012 include asset replacement policy, and after-business hours (ABH) policy.
Vulnerability assessment remediation update	To review status of resolution on open items identified by IT vulnerability assessment exercise.	To improve the Bank's information security posture.

Accountability

Risk governance

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

Board of Directors

- Approve and periodically review risk strategy and policies.
- Approve the Banking Group's risk appetite annually and monitor the risk profile against the appetite.
- Ensure executive management takes necessary steps to monitor and control risks.
- Ensure that management maintains an appropriate system of internal control and reviews its effectiveness.
- Ensure risk strategy reflects the Group's tolerance for risk.
- Ensure the Group's overall risk exposure is maintained at prudent levels and consistent with the available capital.
- 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 the management highlighting key risk areas, control failures and remedial action taken by the management. This is done at least once every quarter.
- Ensure that the management as well as individuals responsible for risk management possess the requisite expertise and knowledge to accomplish the risk management function.
- Ensure that the Group implements a sound methodology that facilitates the identification, measurement, monitoring and control of risk.
- Ensure that detailed policies and procedures for risk exposure creation, management and recovery are in place.
- Appoint credit officers and delegate approval authorities to individuals and committees.

Board committees

The above responsibilities of the Board of Directors are discharged primarily by two committees of the Board, namely:

- Board Audit & Risk Assessment Committee: and
- Board Credit Committee.

Without prejudice to the roles of these committees, the full Board retains ultimate responsibility for risk management.

Board Audit & Risk Assessment Committee

The primary role of the Committee is to report to the Board and provide appropriate recommendations on matters relevant to risk management and internal 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.

Specifically, the Committee shall perform the following functions for risk management:

i. Evaluate internal processes for identifying, assessing, monitoring and managing key risk areas, particularly:
- important judgements and accounting estimates;
- business risk in the areas of credit risk, market risk and operational risk;
- specific risks relating to outsourcing; and
- consideration of environmental, community and social risks.

ii. Evaluating:
- the adequacy of the Banking Group's risk management systems and the adequacy of the Group's control environment with management, and the internal and external auditors;
- the Group's risk profile, the action plans in place to manage risks, and progress against plan to achieve these actions;
- the processes the Banking Group has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.

iii. Approving the provision of risk management services by external providers.

Board Credit Committee

The Board Credit Committee ensures effective management of credit risk in the Banking Group. It is also responsible for approving the following:

- Banking Group credit risk management strategy, policies and standards;
- credit products, processes and approving authorities;
- credit risk appetite and limits; and
- credit requests above MCC level, including those going to the full Board as a recommendation.

This Committee is made up of the Group Managing Director/Chief Executive, all the executive directors and five non-executive directors. The Chairman is a non-executive director.

Management Committee (MANCO)

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

To be more specific, the management of the Banking Group is responsible for the following:

- implementation of risk strategy approved by the Board of Directors;
- developing policies and procedures for identifying, measuring and controlling risk;
- providing appropriate resources to evaluate and control risk;
- reviewing risk reports on a regular and timely basis; and
- providing all reports required by the Board and its committees for the effective performance of risk management oversight functions.

Management Credit Committee (MCC)

It is the responsibility of this Committee to:

- establish and maintain an effective risk management environment in the Banking Group;
- review proposals in respect of credit policies and standards and endorse them to the Board of Directors for approval;
- define the Banking Group's risk and return preferences and target risk portfolio;
- monitor on an ongoing basis the Banking Group's risk quality and performance;
- define credit approval framework and assign credit approval limits in line with the Banking Group policy;
- review defined credit product programmes and endorse to the Board of Directors for approval;
- review credit policy changes initiated by the management of the Banking Group 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;
- approve credit facility requests within limits defined by the Banking Group credit policy, and within the statutory requirements set by the regulatory/supervisory authorities;
- review and recommend to the Board Credit Committee facilities beyond management approval limits;
- review periodic credit portfolio reports and assess portfolio performance;
- request rapid portfolio reviews or sector/industry reviews from Credit Units where deemed appropriate; and
- approve exceptions/write-offs, waivers and discounts on non-performing credit facilities within specified limits.

Accountability

Internal control

Overview

Internal control concept in FirstBank

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

- that essential business objectives are met, including the effectiveness and efficiency of operations and the safeguarding of assets against losses;
- the reliability of financial reporting and compliance with general accounting principles;
- compliance with applicable laws and regulations including internal policies;
- systematic and orderly recording of transactions; and
- provision of reasonable assurance that undesired events will be prevented or detected and corrected.

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

Strategy and policy

FirstBank operates in an environment that is continuously exposed to uncertainties and changes. Such risks may prevent the institution from achieving its strategic business objectives. To effectively manage these risks, FirstBank has put in place internal control measures that cover the Bank and its subsidiaries.

The Bank has also instituted an effective and efficient internal control environment that ensures minimal operational losses arising from fraud, errors, operational lapses, armed robberies, customer dissatisfaction and complaints, and other risk exposures in the Bank and its subsidiaries.

Strong and effective IT control and revenue assurance

FirstBank has also developed a strong framework for effective information technology (IT) controls. This essentially revolves around ensuring the integrity, security, efficiency and reliability, and compliance of the Bank's information systems and resources, including:

- management and administration of user/access control on the Bank's various applications software to ensure proper user access rights are attached to each job role and to ensure reliability of access control mechanisms on the applications;
- monitoring and review of the Bank's processes, practices and procedures to maximise revenue through a systematic and automated approach, crossing all departmental and functional boundaries, guaranteeing validity, completeness, accuracy and timeliness of financial data relating to the Bank's revenue. This includes interest income, interest expense, commissions, fees, commission on turnover (COT) and management fees validation among others;
- monitoring IT operations, databases, server hardware and server operating systems, network infrastructure and applications systems monitoring; and
- quality assurance, systems development controls and user acceptance testing (UAT); reviewing all new systems end-to-end and coming up with technology-related risk and vulnerabilities in the product, process or system being developed and advising mitigating controls.

Fraud management objectives

The Bank has identified key objectives in the management of fraud. The objectives include:

- prevention of fraud occurrence or losses. Where prevention is not possible they should be promptly detected and mitigated;
- efficient fraud loss mitigation measures, i.e., rapid escalation of fraud occurrence, insurance recovery and effective management of law enforcement agencies;
- prevention of repeat of operational lapses and system defects that facilitate fraud incidents;
- minimisation of other operational losses associated with fraud losses; and
- automation of fraud preventive and detective measures.

Fraud management strategies

FirstBank has adopted an effective, business-driven fraud management approach that encompasses controls at all levels of transactions and activities in the bank. They include the following:

- implementation of world-class enterprise fraud management software with strong emphasis on automated fraud prevention and detection. To this end, FirstBank has deployed the Internal Control & Anti-Fraud Automated Solution (ICAFAS) software in the prevention and timely detection of fraud in the system;
- building fraud prevention and detection controls in processes and systems;
- strict compliance with internal policy, regulatory and statutory requirements;
- implementation of anti-fraud operational, supervisory and independent controls;
- proactive management of financial and non-financial risks;
- holding operators and supervisors personally responsible for fraud occurrence;
- conducting root cause analysis of fraud occurrence;
- automation of reconciliation activities;
- risk-based departmental and independent control checklist for supervisors and Resident Internal Control Officers (RICOs);
- enforcement of General Ledger account ownership policy for operations staff;
- strong handshake/partnership among various stakeholders responsible for fraud escalation, management and loss recovery;
- continuous awareness campaign on fraud learning points;
- dynamic/continuous control improvement measures;
- improve RICOs manning and skill capacity;
- improve anti-fraud operational control capacities among operations staff;
- process optimisation and automation;
- effective fraud escalation mechanism to all levels of management; and
- effective implementation of whistle blowing policy.

Internal Control & Anti-Fraud Automated Solution (ICAFAS) project

To keep in line with the volatile risk environment in the banking industry, FirstBank intensified efforts in the current year to reap the maximum benefits from the Internal Control & Anti-Fraud Automated Solution (ICAFAS) that began in the prior year.

The ICAFAS is broken into two categories:

i) Anti-fraud detection solution

Currently, 18 fraud rules have been deployed using the anti-fraud solution to alert responsible officers of the Bank of activities that may lead to potential fraud based on specific scenarios. The implementation of additional fraud rules and reconciliation scenarios is ongoing.

ii) Governance, risk and compliance software

Easy To Comply (E2C), the integrated GRC (Governance, Risk and Compliance) software, is structured to integrate the activities of inter-related departments within the organisation. This has enabled departments such as internal control, compliance, information security, operational risk, information technology and internal audit to operate from an integrated platform. There are additional cost savings from an internal as well as an external point of view. Internal processes and procedures can be easily tracked and promptly corrected, thereby reducing the overall risk of the organisation. Other benefits in this regard include:

- increasing the efficiencies of these departments by improving the flow of information;
- eliminating redundancies often experienced by such departments in a purely manual process. The current processes performed by these departments will now be documented electronically in line with international best practice;
- allowing easier monitoring of risks and control breaches Bank-wide;
- eliminating a silo approach to risk and control management within the organisation; and
- effectively tracking control breaches and henceforth increase the control consciousness of the operational staff who are the first line of defence.

Review of internal control department by Ernst & Young (Chartered Accountants)

An assessment and review of the current structure, functions, duties and responsibilities of the internal control department was done by Ernst & Young. The review was carried out to assess the current level of performance of FirstBank's internal control function against both the Committee of Sponsoring Organisation of the Treadway Commission (COSO), internal control integrated framework and attributes of internal control commonly experienced in leading financial services organisations.

The review included interviews with a range of internal control stakeholders, including non-executive and executive directors and members of the FirstBank management team. The firm also carried out a detailed review of internal control activities including a desktop review of the Bank's internal control framework and internal control guidelines, as well as various documentation and samples of internal control reports and a comprehensive internal control staff survey with a 99% response rate.

Ernst & Young also had a joint internal control and internal audit design session, which was held in South Africa. The session analysed the roles and responsibilities of leading internal control functions with the three lines of defence model. Achievements for the current year include the introduction of the Internal Control Risk Rating Matrix for FirstBank branches, which helps in determining the frequency of branch visits and allocation of staffing resource of the internal control department.

Ernst & Young is also currently assisting in reviewing the structure, functions, duties and responsibilities of the internal control department with a view to ensuring more impactful internal control and compliance monitoring across all activities of the Bank.

Priorities for 2013

We have identified and set out various priorities for improved and increased efficiency and effectiveness of internal controls in the Bank. These include the following:

- strengthening internal control consciousness in the Bank through effective support and training of banking services staff in their role as the first line of defence in risk management;
- implementation of the hybrid cluster control structure of the department and successful ceding of transactional control functions to banking services department. In this regard, the internal control department would provide support by uploading additional exceptions reports, which would be forwarded to the banking services department on a daily basis;
- strengthening of IT controls and monitoring to ensure adequate controls built around the Bank's software. To this end, user administration controls will be extended to most of the banking applications in the Bank;
- full deployment of the ICAFAS software in effectively preventing and detecting fraud and control infractions. This includes:
  - establishment of a functional ICAFAS helpdesk (investigation/response centre) for handling and managing exceptions;
  - extending fraud rules to e-business and payments and collections applications; and
- expanding the scope of revenue assurance to additional income lines to ensure total elimination of income leakages.

Executive management involvement in managing internal control

The commitment and involvement of senior management of the Bank in actively managing internal control cannot be over emphasised. Various standing and ad-hoc committees exist in the Bank with direct and indirect oversight on internal control activities and reports. They include:

- Business Risk & Compliance Committee (BRCC);
- Board Audit & Risk Assessment Committee (BARAC).

Root cause analysis of control failures

The internal control department is also continually involved in root-cause analytics in determining the remote and immediate causes of internal control failures with a view to identifying and correcting loopholes and controling failure points in our processes and procedures. This is with the ultimate objective of preventing a re-occurrence while also strengthening controls in other facets of similar and complementary transaction processes.

Directors' report

For the year ended 31 December 2012

The directors present their annual report on the affairs of First Bank of Nigeria Ltd ('the Bank') and its subsidiaries ('the Group'), together with the financial statements and auditors' report for the financial year ended 31 December 2012.

Legal form

The Bank, which commenced operations in Nigeria on 31 March 1894 as a branch of Bank of British West Africa Limited (BBWA), was incorporated as a private limited liability company in Nigeria in 1969. It was converted to a public company in March 1970. The Bank's shares were listed on the floor of the Nigerian Stock Exchange by way of introduction in March 1971. During the year, there was a business restructuring within the FirstBank Group, which resulted in the adoption of a holding company structure. Thus, FBN Holdings Plc, a non-operating legal entity organised and domiciled in Nigeria, became the parent company of First Bank of Nigeria Ltd.

Principal activity and business review

The principal activity of the Bank is the provision of banking and other financial services to corporate and individual customers. Such services include: granting of loans and advances, corporate finance and money market activities.

The Bank has five subsidiaries namely: FBN Bank (UK) Limited, FBN Mortgages Limited, First Pension Custodian Nigeria Limited, FBN Bureau de Change Limited and Banque Internationale de Crédit (BIC) SARL.

The Bank prepares consolidated financial statements.

Operating results

Gross earnings and profit before tax of the Group increased by 27.6% and 120% respectively while the profit before tax for the Bank grew by 109.9% during the year.

The directors recommend the approval of a final dividend of ₦32.632 billion (December 2011: ₦26.1 billion). Highlights of the Group's operating results for the period under review are as follows:

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Gross earnings	338,921	265,580
Profit before tax	86,177	39,166
Taxation	(14,918)	(18,864)
Profit after tax from continuing operations	71,259	20,302
Profit after tax from discontinued operations	3,838	(1,666)
Non-controlling interest	57	(884)
Appropriations		
Transfer to statutory reserves	10,828	3,636
Transfer from statutory credit reserves	6,335	(18,454)
Contingency reserve	(13)	13
Transfer to retained earnings reserve	(21,297)	(23,109)

Directors' rotation

In accordance with the Company's Articles of Association, Ibukun Awosika, Ebenezer Jolaoso, Lawal Ibrahim, Ambrose Feese and Urum Eke would retire by rotation and being eligible, offer themselves for re-election.

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.

Property and equipment

Information relating to changes in property and equipment is given in Note 30 to the accounts. In the directors' opinion, the market value of the Group's properties is not less than the value shown in the financial statements.

Shareholding analysis

The Bank is 99.9% owned by FBN Holdings Plc. FBN Capital, the Bank's other shareholder controls 0.01% equity in the Bank.

Donations and charitable gifts

The Bank made contributions to charitable and non-political organisations amounting to ₦1.044,782,368 billion (December 2011: ₦968.6 million) during the year.

Full description	Amount ₦
Presidential Relief Committee – Support for Flood Victims	300,000,000
Calabar Carnival – Cross Rivers State	102,913,488
Nigeria Leadership Institute – 2012 Future Leaders	35,532,500
Nigerian Police – Building Renovation	39,000,000
18th Nigerian Economic Summit	25,000,000
Nigerian Academy of Entrepreneurial Studies	15,000,000
World Economic Conference	13,578,096
Federal Government of Nigeria – You Win Enterprises	10,000,000
The Future Project	10,000,000
Lagos State Government Economic Summit	10,000,000
Oyo State Government Economic Summit	10,000,000
Lagos State Bankers Nite (CIBN)	10,000,000
South-South Economic Summit	8,334,333
African Women's Economic Summit	8,100,000
Red Cross Clinic	7,869,063
SIFE Foundation GTE	8,618,500
Kaduna Chamber of Commerce, Industry, Mine & Agriculture	5,000,000
6th Annual Banking & Finance Conference (CIBN)	5,000,000
42nd Annual ICAN Accountants Conference	5,000,000
51st Firstbank Lagos Amateur Open Golf Championship	4,655,194
Youth Alliance Leadership & Development in Africa – 2012 Conference	2,500,000
Lagos Chamber of Commerce and Industry	2,500,000
Federal Ministry of Trade & Investment	2,500,000
46th Annual Banker's Dinner (CIBN)	2,000,000
Down Syndrome Foundation of Nigeria	1,491,650
44th Annual CIPMN Conference	4,000,000
Association of Advertising Agencies of Nigeria – 2012 LAIF awards	3,000,000
Junior Achievement Nigeria	1,980,000
Africa CEO Roundtable	1,200,000
Cancer Awareness Programme	1,000,000
International Women's Society	1,000,000
Business Hallmark – Zik Prize in Leadership	1,000,000
Queens College Students – Sports Pavillion	28,000,000
Toyota Coaster Bus for LASU	23,200,000
Ekiti State University for Sports Development	26,300,000
Others	309,509,544
Total	**1,044,782,368**

Human resources

Employment of disabled persons

It is the policy of the Bank 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. As at 31 December 2012, 23 physically challenged persons were employed by the Bank.

In the event of members of staff becoming disabled, efforts will be made to ensure that their employment with the Bank continues and appropriate training arranged to ensure that they fit into the Bank's working environment.

Health, safety and welfare at work

Health and safety regulations are in force within the Bank's premises and employees are aware of existing regulations. The Bank 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 Group Personal Accident and 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.

Employee involvement and training

The Bank 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 Bank's policy of continuous development, training facilities are provided in the Bank's well-equipped training school. In addition, employees of the Bank are nominated to attend both locally and internationally organised courses. These are complemented by on-the-job training.

Diversity in employment

The Bank is committed to maintaining a positive work environment and to conducting business in a positive, professional manner by consistently ensuring equal employment opportunity. As at 31 December 2012, the Bank had 29% females in top management positions. The table below shows the gender distribution of top management staff by grade:

	Female	Male	Total
Group Managing Director/ Chief Executive		1	**1**
Executive Director	1	5	**6**
General Manager	2	5	**7**
Deputy General Manager	13	20	**33**
Assistant General Manager	5	21	**26**
Total	**21**	**52**	**73**
% distribution	**29**	**71**	**100**

FBN Holdings

During the year, there was a business restructuring within the FirstBank Group, which resulted in the adoption of the holding company model. Thus, FBN Holdings Plc was set up as a non-operating legal entity domiciled in Nigeria. This necessitated the movement of non-permissible assets from the Bank to the holding company.

Auditors

The joint auditors, PricewaterhouseCoopers and PKF Professional Services, have indicated their willingness to act and continue in office as auditors. In accordance with Section 357 (2) of the Companies and Allied Matters Act, CAP C20 LFN 2004, a resolution will be proposed at the Annual General Meeting to authorise the directors to determine their remuneration.

BY ORDER OF THE BOARD

Tijjani Borodo
Company Secretary

Lagos, Nigeria

March 2013

Risk factors

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FirstBank has pursued its strategic imperatives of growth, service excellence and people management within an updated enterprise risk management framework, and proactively managed financial risks in a highly dynamic and competitive landscape.

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Chief Risk Officer's report

Remi Odunlami
Chief Risk Officer

This risk management disclosure aims to provide stakeholders with information on the enterprise risks to which the Banking Group is exposed, and the policies and procedures put in place to mitigate and manage these risks.

The information provided herein is demonstrative of the commitment of the Board of Directors of the respective entities in the Group to adhere to sound corporate governance and regulatory requirements on disclosures. The disclosures are benchmarked against international standards. The Group has continued to improve the quality and content of its enterprise risk management disclosure framework and has surpassed minimum regulatory requirements.

Sequel to the 2009 regulators' intervention in the banking industry, supervision of the industry has continued to heighten with reforms initiated by the Central Bank of Nigeria (CBN) to further promote stability and improve investors' confidence in the financial system. Central to these reforms was the withdrawal of the universal banking model and, in its place, banks could either opt for a commercial banking licence or a holding company structure, the latter being the option FirstBank Group has adopted. Other reforms initiated by the CBN include the adoption of the International Financial Reporting Standards (IFRS) for financial disclosure, increase in the minimum capital adequacy ratio (ratio of adjusted capital to risk-weighted assets) from 10% to 15% for international banks, and restriction on the recapitalisation of foreign subsidiaries among others.

In the course of the year, aggregate credit growth gradually rebounded albeit at a slower pace than the pre-2009 global financial crisis due to a more favourable operating environment and cleaner balance sheets, as well as the increased focus of banks to grow revenue. With the sale of toxic special assets to the Asset Management Corporation of Nigeria (AMCON), stability has returned to the industry and, with improved liquidity, banks are now in a better position to lend to viable sectors of the economy.

It would be noted that, due to monetary policy initiatives of the CBN in the year under review, which were basically designed to curb inflationary pressures and defend the naira, some banks increased their holdings in government securities given the real positive yields of such instruments and perceived lower risk attached to them resulting in lesser emphasis on loan growth. However, the CBN has continued to embark on stimulating credit growth to the real sector, with about ₦600 billion made available to banks for on-lending to key sectors in the economy including the power, agriculture, aviation, manufacturing and mortgage sectors. It is key to point out that the Banking Group was actively involved in the implementation of a number of regulator-led initiatives as a means of economic development.

In summary, the Banking Group has diligently pursued its strategic imperatives of growth, service excellence and people management, within an updated enterprise risk management framework, and proactively managed financial risks in a highly dynamic and competitive landscape to forestall credit and operational losses. The subsequent section of this report provides further insight on the management of various risk aspects within the Group.

Credit risk

Credit risk is defined as the potential that an obligor or counterparty will fail to meet obligations in accordance with agreed terms.

In the financial year under review, the Group continued to improve its suite of credit products with enhanced focus on improving credit processes to meet market demands subject to the pre-defined risk appetite of the Group. Our risk management processes benchmarked against best practice aim to improve the efficiency while not compromising asset quality. The credit policies were also enhanced to address changes in risk complexities in the business environment.

The Banking Group, especially the bank operating out of Nigeria (First Bank of Nigeria), recorded high demand for credit lines from existing and new customers, necessitating the deployment of appropriate resources to the assessment of credit requests to ensure that only acceptable risks as defined by the Board in an approved risk appetite framework were taken into the portfolio. 15% growth was recorded in the loan portfolio of the Nigerian bank and 25% in the Banking Group in the period under review reflecting an aggressive expansion of lending especially to moderate risk assets. The aggregate loan growth was, however, above the 15% target for 2012, primarily due to business opportunities that came up in the period, in respect of which the Group took a strategic position to fund in view of the limited window for consummation of such deals. These deals were all subject to our robust assessment process and considered to be fair risk, and are currently performing.

Chief Risk Officer's report

The Banking Group will continue to provide credit and financial intermediation to key sectors of the economy to bridge infrastructure gaps in power and telecoms and support growth in the manufacturing and agriculture sectors through well-articulated and viable business models. Additionally, we will continue to promote sound portfolio management practices by ensuring a well-diversified portfolio to dilute any form of concentration risk that may expose the Banking Group to unforeseen risks. Also the Banking Group has provided the requisite collateral securities for eligible companies to access funds at concessionary rates under the various Federal Government stimulus packages through the Central Bank of Nigeria and Bank of Industry for manufacturers, SMEs, power and aviation companies. We will continue to use this platform to support government-led initiatives to revamp the economy.

Our classification and provisioning strategy has remained conservative and well above regulatory guidelines, and with the adoption of the International Financial Reporting Standard, the Group acquired relevant skills and systems aimed at ensuring compliance. Our impairment models have been developed to align with best practice through the acquisition and configuration of internal risk measurement systems. In line with the Group's policy on proactive management of the loan portfolio, we would continue to adopt processes for the prompt identification of delinquent loans and take active remedial and recovery steps on non-performing loans through a combination of strategies including in-house recovery initiatives, external recovery agents, legal proceedings and sale to debt factor companies. Asset quality ratio for the period was 2.6% and within acceptable threshold of the Banking Group.

The Group continues to give utmost attention to staff training and acculturation in order to ensure that there are appropriate human resources to execute the risk and control processes, risk appraisal, measurement, monitoring and reporting requirements in a highly dynamic financial landscape. Our policies will continue to be aligned with international risk and compliance strategies and the Basel Accord frameworks with the objective of building a sound and sustainable financial institution capable of withstanding macroeconomic stress and systemic risks that may occur.

Market and liquidity 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, while liquidity risk is the risk that the Banking Group will not have sufficient financial resources to meet its obligation as they fall due. This risk arises from mismatches in the timing of cash flows.

Market risk was moderated during the year by the strict regulatory stance and stable macro-economic environment.

Foreign exchange risk remained low due to reduced position limits and sustained support for the naira. The benchmark interest rate was relatively stable during the year. Also the Central Bank of Nigeria frequently intervened with open market operation, and changes to the open position limit and cash reserve requirement to stabilise short-term interest rate and supply of base money, leading to reduced interest volatility both in the trading portfolios and banking books and also reduced demand pressure on the naira. In the period under review, security trading was limited by low market liquidity.

The Group maintained a strong liquidity position in the face of keen competition due to our renewed focus on customer-centric products and processes, which translated to growth and stability.

FirstBank Group has clearly identified the potential sources of market and liquidity risks in its operations and hedged material exposures accordingly.

Operational risk

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 and strategic risk for measurement purposes. FirstBank Group is embedding and continuously improving upon a robust operational risk management practice, culture and environment predicated on the three lines of defence principle. The first line of defence is the line management made up of all staff of the strategic business units and support functions with the responsibility for risk identification, assessment, mitigation, management and compliance with standards and policies. The Management Committee (MANCO), Business Risk and Compliance Committee (BRCC) and the respective corporate risk and control functions such as operational risk management, internal control, legal and compliance, financial control, information security and human capital management and development constitute the second line of defence with responsibility for establishing frameworks, standards and policies and providing assurance on policy implementation and quality controls. The internal audit function serves as the third line of defence by providing independent assurance to the Board and other stakeholders on the adequacy of operational risk management. Based on this partnership model, operational risk is managed within acceptable levels through appropriate management focus and resources aimed at minimising operational losses in the Group.

The general security situation in the country remains a concern having taken a different dimension with the political, social and economic undercurrent. FirstBank Group continues to work at ensuring the safety and protection of assets, staff and customers' investments through implementation of a robust business continuity management system (BCMS) in line with global best practice. The prestigious BS 25999 certification received last year by the Group from the British Standard Institution (BSI) on its BCMS was a call for an unending continuous improvement journey. To this end, we are pleased to report that the maiden surveillance audit of the BCMS was carried out in the last quarter of this year with a verdict that the FirstBank Group still earns the retention of the certification. The Group still remains the first and only organisation in Nigeria to have earned this certification.

Information security risk

In its drive to sustain its leadership position in implementing strategic governance initiatives and safeguard the information assets of its customers and staff, the Banking Group has put in place a strong information security framework backed with documented processes and inbuilt controls, to align with the best of international standards in information security and its practices.

From implementation and successful biannual surveillance audits since its certification to the information security standard ISO 27001 in 2010, the Group has continued to expand the scope of certification to include its network of branches, and advanced implementation of the Payment Card Industry Data Security Standard (PCI DSS). The Banking Group, through its implementation of 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.

We will continue to train our staff and partner with leading security organisations worldwide to promote good information security practices and governance in the banking industry, to ensure a more secure operational environment in Nigeria.

Legal and compliance risk

The current regulatory regime places much pressure on financial institutions to identify, assess and understand the money laundering and terrorist financing risks they face in order to ensure that the measures they implement to prevent or mitigate money laundering and terrorist financing are commensurate with risks identified. The risk-based approach is intended to ensure that regulated entities apply their resources more efficiently.

The Banking Group is poised to look inwards with a view to revalidating the compliance risk management processes and procedures of each Group entity to withstand the emerging pressures and is committed to continuously educating its employees, including the Board, on regulatory changes and their attendant implications on the business and our customers.

Environmental and social risk

Recently, the Bankers' Committee approved the adoption of the Nigeria Sustainable Banking Principles by banks, discount houses and development finance institutions in Nigeria. These principles seek to guide financial institutions in the assessment and management of potential environmental and social issues associated with their operations in related sectors including power, oil and gas, and agriculture.

The adoption of the Principles is expected not only to help banks in mitigating the environmental and social risks but also to enable their clients to achieve greater efficiency and better position them to take advantage of opportunities in the global marketplace where environmental and social issues are becoming increasingly important. They will also enjoy higher productivity, higher staff morale, lower turnover and absenteeism due to strong employee relations and workplace practices.

The Central Bank of Nigeria has directed full adoption of these principles and guidelines with effect from 1 September 2012 and has undertaken to provide incentives, as necessary, to institutions that take concrete measures to embed the provisions of these principles and guidelines into their enterprise risk management and other governance frameworks.

FirstBank Group stands to gain reputational and competitive advantage in the adoption and implementation of the sustainability policy as the policy will positively impact the brand. It will provide a competitive edge in public-private projects and attract foreign investors as the Group will be considered to be environmentally and socially responsible and thereby get a higher rating when being assessed for credit.

Conclusion

The Group will continue to foster proactive assessment and management of risks in its different business lines and areas of operations to meet its transformation objectives. Also business initiatives will be subjected to risk considerations and only implemented when the risks associated with such initiatives are considered fair and acceptable. Unguarded and uncalculated risk on capital will be avoided based on our commitment to upholding sound corporate governance, transparency and best-in-class risk management practices.

Remi Odunlami
Chief Risk Officer

Risk management framework

Risk management philosophy

The key elements of the Banking Group risk management philosophy are the following:

- consider sound risk management to be the foundation of a long-lasting financial institution;
- continue to adopt a holistic and integrated approach to risk management and, therefore, bring all risks together under one or a limited number of oversight functions;
- empower risk officers to perform their duties professionally and independently without undue interference;
- govern risk management by well-defined policies and structure that are clearly communicated across the Banking Group;
- aim to build a shared perspective on risks that is grounded in consensus;
- promote clear segregation of duties between market-facing business units and risk management functions;
- take risk-related issues into consideration in all business decisions and continue to strive to maintain a conservative balance between risk and revenue considerations;
- report risk 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 Banking Group and are guided in the exercise of their powers by a deep sense of responsibility, professionalism and respect for other parties; and
- all entities within the Banking Group are guided by the principles enshrined in the risk management policies of the Group.

Risk culture

- The Boards and management teams consciously promote a responsible approach to risk and ensure that the sustainability and reputation of the Banking Group are not jeopardised while expanding its market share.
- The responsibility for risk management in the Group is fully vested in the Board of Directors, which in turn delegates such to senior management.
- The Banking Group pays attention to both quantifiable and unquantifiable risks.
- Management promotes awareness of risk and risk management across the Banking Group.
- The Group avoids products, markets and businesses where it cannot objectively assess and manage the associated risks.

Risk appetite

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 and trading books, or from frauds or operational inefficiencies.

The appetite for risk is governed by the following:

- High-quality risk assets are measured by four key performance indicators:

  1 ratio of non-performing loans to total loans;

  2 ratio of loan loss expenses to interest revenue;

  3 ratio of loan loss provision to gross non-performing loans; and

  4 ratio of unsecured loan to total loan.

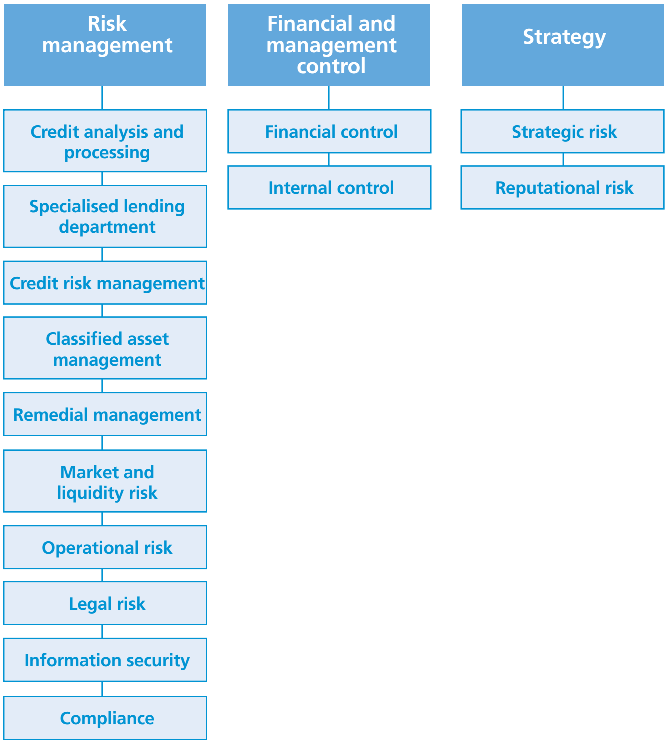
The broad objective is to be among the top three with respect to (1) and (2) above and for (3) maintain a ratio that ensures that there are adequate provisions for all non-performing assets based on their levels of classification.

- Diversification targets are set for the credit portfolio and limits are also set for aggregate large exposures.
- Losses due to frauds and operational lapses are pegged at a maximum of a specified percentage of gross earnings and in any case must be lower than the industry average.
- Financial and prudential ratio targets are pegged at a level more conservative than regulatory requirements and better than the average of benchmark banks. These include liquidity ratios, deposit concentration limits and open position limits.
- The Banking 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.
- Sector, obligor and country concentration limits are set at a percentage of the balance sheet total and subject to overriding maximum amounts.

The Banking Group will not compromise its reputation through unethical, illegal and unprofessional conduct. The Banking Group also maintains zero appetite for association with disreputable individuals and entities.

Risk management oversight

The Bank in Nigeria has a risk management directorate that provides central oversight of risk management across the Group to ensure that the full spectrum of risks facing the Group are properly identified, measured, monitored and controlled to minimise adverse outcomes. The Directorate is, however, complemented by other departments in the management of certain important risks as illustrated below.

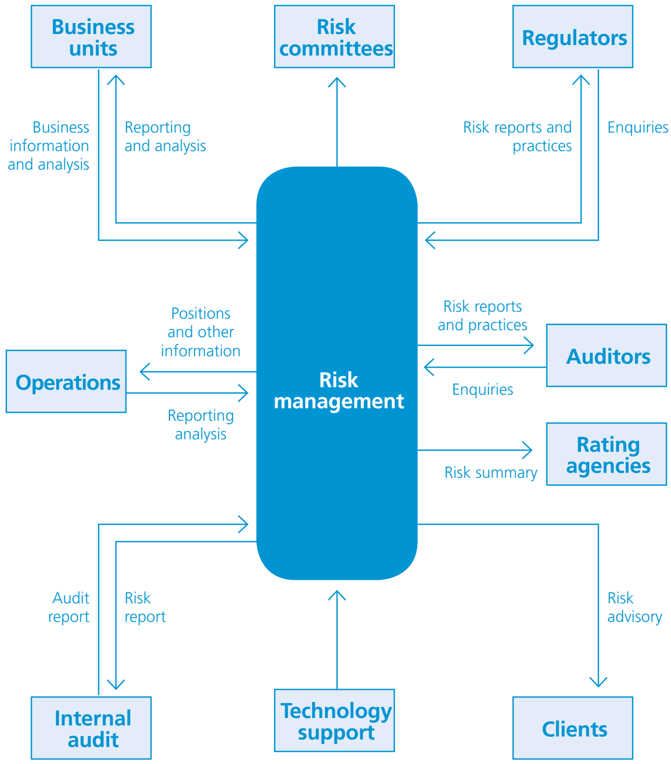


The Directorate coordinates the monitoring and reporting of all risks across the Banking Group, and is headed by a skilled and highly competent executive level.

Without prejudice to the above, the internal control function performs second-level verification of the Banking Group 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 the 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 reward/sanctions based on risk reports.
- Collaborates with the information technology support group to provide relevant automated credit operations processes, such as credit scoring, loss databases, loan origination and management systems, etc.

Risk management disclosures

Risk factors summary

The scope of risk impacting on the Group's activities is as follows:

- Credit risk: risk that an obligor will fail to perform its obligation under a trading or loan contract or when the ability to perform such obligations are 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 such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss to earnings and/or capital.
- 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 without incurring unacceptable cost or losses.
- 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, and may result in fines, penalties, payment of damages and voiding of contracts.
- Strategic risk: potential for loss arising from ineffective business strategies, the absence of integrated business strategies, the inability to implement those strategies and the inability to adapt the strategies to changes in the business environment.
- Reputational risk: risk that may occur to earnings or capital that results from negative public opinion.

Risk management disclosures

Credit risk

Overview

Credit risk management verifies and manages the credit process from origination to collection. In designing credit policies, due consideration is given to the Banking Group'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;
- utilise appropriate, accurate and timely tools to measure 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;
- coordinate credit risk management and other risks inherent in the Banking Group's business activities; and
- set remedial and recovery actions.

Philosophy

The following principles guide credit risk management across the FirstBank Group. The Banking Group shall:

- deliberately manage its risk asset portfolio to ensure that the risk of excessive concentration to any industry, sector or individual customer is minimised, as well as ensure portfolio flexibility and liquidity;
- 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 to only suitable and well-identified customers and never where there is any doubt as to their ethical standards and record;
- never extend credit where the source of repayment is unknown or speculative nor where the purpose/destination of funds is undisclosed;
- never take a credit risk where the ability of the customer to meet obligations is based on the most optimistic forecast of events. Risk considerations shall have 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 based on the risk profile of the counterparty;
- avoid all conflict of interest situations and report all insider-related credits to appropriate bodies; and
- ensure that there are consequences for non-compliance with the Banking Group's credit policies.

Responsibilities and functions of key stakeholders in the credit process

In line with the Banking 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 Management Department (RMD) 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 Banking Group's policy. The department has been reconstituted to handle requests from the Strategic Business Units – Corporate Banking, Institutional Banking, Private Banking, Public Sector and Retail Banking. CAP also engages in the review of wholesale/retail/consumer credit product programmes. It was recently reorganised for a more balanced and better-organised distribution of workload. This, it is believed, will enhance efficiency and effectiveness of the function. It will also foster smoother (internal) customer relationship management.

The Specialised Lending Department (SLD) is responsible for the appraisal of credit requests and processing through to the final decision on 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 the 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.
- Public sector.

Credit Risk Management (CRM) is responsible for the planning, monitoring and reporting of the credit portfolio. The monitoring of loans on an 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 Strategic Business Units (SBUs) to provide independent support and guidance to the relationship teams in the management of facilities, by ensuring early 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 and reports 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 Management: In order to checkmate 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 workout 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, wholesale accounts classified lost with days past due (DPD) of over 540 days, and accounts written off from on-balance sheet into CAM SOL. CAM will continue to liaise with debt recovery agents, receivers/managers and solicitors to ensure effective recovery of bad loans.

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 range of scores as follows:

Internal rating scale

In measuring the 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 – the 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 ratings and their predictive power with regard to default events.

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%	

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 Obligor Risk Rating 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, it 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 Banking Group's target loan portfolio is then distributed across acceptable target market industries, Strategic Business Units and approved product programmes. Portfolio limits are set on:
  - 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 United Kingdom, 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 the 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 IFRS (International Financial Reporting Standard) 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:

1. **Unidentified impairment:** collective impairment on a portfolio of performing loans where individual accounts cannot be identified as having experienced a loss event;
2. **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 been established; and
3. **Specific/individual impairment:** individual impairment on a portfolio of non-performing loans where default has already been established.

Loans with no missed payments	Performing but past due loans	Loans classified as non-performing
↓	↓	↓
Unidentified (IBNR) impairment	Identified impairment	Specific impairment
Assessed collectively	Assessed collectively	Assessed individually for significantly impaired and collectively for insignificantly impaired loans

Under the collective impairment methodology for identified and unidentified impairment, provision is calculated using a set of risk inputs determined based on 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 factor (IBNR).

Under specific impairment, provision is estimated in two ways:

1. Provision is calculated using the expected cash-flow method for significant non-performing loans; and
2. Provision is assessed collectively using a set of risk inputs based on internal loan loss models (PD, LGD) for insignificant non-performing loans.

Write-off and recoveries

After full evaluation of a non-performing exposure, in the event that either one or all of the following conditions apply, such exposure shall be recommended for write-off:

- continued contact with 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.

Risk management disclosures
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.

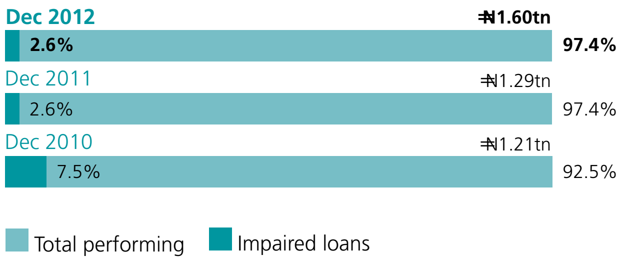
Whenever amounts are recovered on previously written-off credit exposures, such amount recovered is recognised as income on a cash basis only.

Portfolio ratios

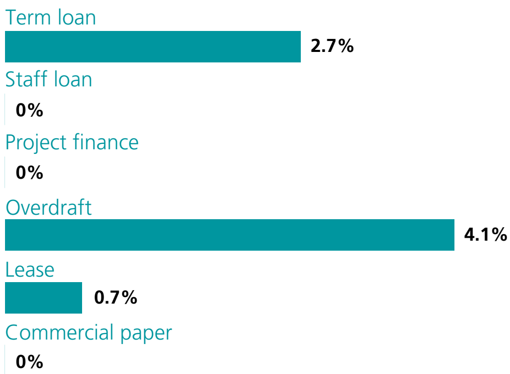
Asset quality ratios

Total non-performing loans as at 31 December 2012 stood at ₦41.4 billion with gross IFRS provisions of ₦39.3 billion resulting in loan loss coverage of 95%. Non-performing loans to gross loans ratio for the period was 2.6% (see chart opposite) and is attributable to the recognition and classification of weak and delinquent assets in the portfolio.

Asset quality ratio



Asset quality by facility type



Performing but past due loans

Performing but past due loans are loans and advances where individual accounts can be identified as having experienced a loss event, however 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 2012 is as follows:

At 31 December 2012	Corporate (₦'mn)	Financial institutions (₦'mn)	Retail (₦'mn)	SME (₦'mn)	Total (₦'mn)
Past due up to 30 days	58,631	124	37,919	217	96,891
Past due 30–60 days	2,758	8	10,162	-	12,928
Past due 60–90 days	60,870	-	3,801	5	64,677
	122,260	**132**	**51,871**	**222**	**174,497**

Group portfolio distribution by business lines (December 2012 in ₦'bn)

Business lines	First Bank Nigeria	FBN UK	BIC	Others	Commercial Banking business group	% of portfolio
Corporate	724	132	4	-	860	54
Consumer	165	-	6	-	171	11
Wholesale	60	-	1	-	61	4
Retail	157	9	2	-	168	10
Financial institutions	7	-	-	-	7	-
Agric/misc.	27	26	-	-	53	3
Public sector	119	5	-	-	124	8
Trade/commerce	49	13	5	-	67	4
Financial market	12	-	-	-	12	1
Treasury/investment	-	-	-	-	-	-
Real estate	33	41	2	3	79	5
Total	**1,353**	**226**	**20**	**3**	**1,602**	**100**

The consumer and retail segments contributed 21% of loan portfolio as at December 2012.

Group portfolio distribution by risk rating (December 2012 in ₦'bn)

Risk rating category	Rating	First Bank Nigeria	FBN UK	BIC	Others	Commercial Banking business group	% of portfolio
Extremely low risk	AAA	-	-	-	-	-	-
Very low risk	AA	47	-	-	-	47	3
Low risk	A	16	22	-	-	38	2
Low risk	BBB	167	18	-	3	187	12
Acceptable – moderately high risk	BB	515	0	-	-	515	32
High risk	B	559	184	20	-	764	48
Very high risk	CCC	12	-	-	-	12	1
Extremely high risk	CC	-	-	-	-	-	-
High likelihood of default	C	0	-	-	-	0	0
Default	D	37	2	-	-	39	2
Grand total		**1,353**	**226**	**20**	**3**	**1,602**	**100**

The obligor – weighted risk rating (obligor – WARR) calculates the aggregate risk rating of the Group credit portfolio weighted against probability of default. It provides a holistic view on the level of risk on the Group portfolio through credit ratings.

WARR for December stood at BB, which is the limit of the Board-approved target.

Credit Risk Management outlook

The Banking Group will continue to promote sound risk and corporate governance practices and actively pursue loan growth in line with its overall strategic imperatives. It is expected that there will be greater demand for financing by the various operators in the power sector in view of the advanced stage of the reform agenda. Accordingly, the Banking Group will consider such proposals against sound risk criteria while ensuring the risks are appropriately priced in line with approved policy. The Banking Group will, however, not compromise the drive for a well-diversified portfolio through effective management of concentration risks. It will also ensure that asset quality is maintained within acceptable thresholds through the execution of portfolio management and control mechanisms.

Inflationary pressure is expected to constitute one of the major issues dominating the economic landscape in 2013 as a result of a likely removal of the petroleum subsidy by the Federal Government and an increase in electricity tariffs, and the hike in import duties paid for some imported food items may have the attendant impact of weakening the disposable income of consumers and contracting the consumer market. However, growth is still envisaged in the consumer market especially the ever-expanding middle-income class, and the Banking Group will continue to tap into this market by creating appropriate credit products for this segment of the market. We will ensure that credit growth in the consumer segment is guided by sound risk processes and controls and ensure that the risk acceptance and target market criterion are not compromised. Production volumes are also expected to grow in the manufacturing and agriculture sectors as a result of a likely increase in electricity generation, resulting in a larger year-on-year growth in the non-oil sector.

The Banking Group will subject its control mechanisms to revalidation and benchmarking to ensure fitness of purpose in the next financial year. Scenario stress tests will be championed and implemented across all risk areas providing information to management on risk assets sensitivity to extreme but plausible macroeconomic and environmental factors to curtail unexpected shocks. Greater focus will also be given to risk analytics and measurement approaches and will be supported by quantitative and statistical analysis using both internal and external data to enhance the risk mitigation, monitoring and pricing strategies.

Risk management disclosures

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 arises from positions in currencies and securities held in our trading portfolio and from our Retail Banking business, investment portfolio and other non-trading activities. The movement in market risk variables may have a negative impact on the balance sheet or income statement.

Through the financial year, the Bank was exposed to market risk in its trading, and non-trading activities mainly as a result of:

- interest rate movements in reaction to monetary policy changes by the Central Bank of Nigeria, fiscal policies changes, and market forces;
- foreign exchange fluctuations arising from demand and supply as well as government policies; and
- equity price movements in response to market forces and changing market dynamics, such as market making on the Nigerian Stock Exchange.

Philosophy

The FirstBank 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.

Our objective is to manage market risk exposures by optimising returns while maintaining a market profile consistent with our status in the financial services industry. 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 for executing relevant market risk controls are documented in a periodically reviewed market risk procedural manual;
- an independent market risk management function reporting directly to the Banking Group 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 Banking Group does not undertake any risk that cannot be managed, or risks that are not fully understood especially in new products; and
- where the Banking 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.

Structure and framework

The Bank ensures that all the market risk exposures are consistent with its business strategy and within the defined risk tolerance. FirstBank therefore manages market risk within:

- a well-defined market risk appetite;
- an overall market risk exposure maintained at levels consistent with the available capital; and
- a stable and reliable methodology for identifying, measuring, controlling, monitoring and reporting market risk in a consistent manner across the businesses within the Bank.

Governance

The Banking Group's market risk management governance structure encompasses a robust committee structure together with a comprehensive framework and set of corporate policies, which are approved by the Board of Directors or its committees.

The Board of Directors provides oversight for the market risk management function through its Board Audit & Risk Assessment Committee (BARAC).

The Board of Directors is responsible for:

- approval of market risk management framework, policies, strategies, guidelines and philosophy; and
- provision of oversight for the implementation of market risk management policies.

Management oversight is provided by the Assets & Liabilities Management Committee (ALCO) in FirstBank Nigeria and its banking subsidiaries.

The ALCO is the highest technical body responsible for market risk management but has delegated its technical functions to an ALCO sub-committee, the Market Risk Policy Committee (MRPC), in order to achieve a more intense analysis of market and liquidity risks and to administer technical policies concerning financial models and valuation techniques. The MRPC makes recommendations to ALCO on 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 the same 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;
- approval of market risk-related limits, i.e., position, concentration, currency, dealing gap, total portfolio and counterparty limits; and
- approving the appointment of dealers.

Each banking subsidiary in the FBN Group also has an Assets & Liabilities Management Committee (ALCO) with the above responsibilities specifically for the entity alone. Implementation of each bank's market risk management policies, procedures and systems is delegated to the entity's Chief Risk Officer.

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 the market risk framework;
- reviewing and recommending for approval or amendments, the Market Risk Limits Package (MRLP), 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, the effectiveness of the market risk systems and other systems used to estimate 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 volatility of the underlying market factors) for different products;
- reviewing capital allocation, charge computations and stress test reports;
- recommending steps to protect the Banking Group capital ratios from the effects of changes in market risk factors;
- reviewing periodically the Banking Group market risk strategy; and
- endorsing the appointment of the Head of Group Market and Liquidity Risk department.

The day-to-day implementation of the Banking Group market risk management policies, procedures and systems is delegated to the Head of Group Market and Liquidity Risk Management department who reports to the Group Chief Risk Officer.

The Market and Liquidity Risk department is responsible for:

- implementation of the framework and establishment of the market risk policy;
- defining of 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.

The FirstBank Group also provides oversight for its entities that engage in limited proprietary trading in quoted equities. In addition, each entity has a risk management policy that is consistent with the Enterprise Risk Management framework.

The Bank does not trade in commodity and therefore is not exposed to commodity risk except in transactions where commodities have been used as collateral for credit transactions. The latter is covered under credit risk management.

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, to a confidence level of 99% and a 10-day holding period (excluding foreign exchange which has a one-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.

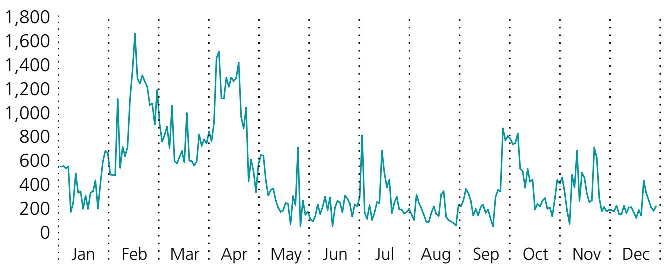
The Banking Group continues to use VaR to estimate the potential losses that could occur on its positions as a result of movements in market factors.

The group 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 Banking Group's positions at close of business daily.

The table and graph below shows the trading VaR of First Bank of Nigeria Ltd. The major contributors to the trading VaR are foreign exchange and Treasury Bills due to high volatility in those instruments impacting positions held by the Banking Group during the period. The yield on various maturities for Treasury Bills dropped over 350 basis points year to date; while the naira appreciated by about 2% in the interbank market.

DAILY VaR @ 99%,10-DAY TRADING (₦'mn)	Average	High	Low	Actual
Bonds	29.13	167.37	-	-
Treasury Bills	235.11	1,135.90	3.38	154.51
Foreign exchange	176.29	1,266.93	1.67	53.75

Daily trading VaR (₦'mn)



Stress testing

Based on the reality of unpredictable market environments and the frequency of regulations that have significant effect on market rates and prices, the Banking Group 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. The Banking Group is exposed to interest rate risk due to the size of its holding in rate-sensitive assets and liabilities.

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

Outlook

The Nigerian economy is expected to show modest but sustained growth through 2013, leveraging on current complementary macro-economic fundamentals despite the gloomy outlook for the world economy.

A favourable interest rates differential is expected in 2013 and this would continue to encourage the flow of investments to friendly emerging markets, particularly Nigeria.

We foresee a more developed and strengthened financial market driven by the ongoing reforms in the banking sector; a stronger system leading to increased confidence in the economy.

The CBN is expected to continue its close control of the benchmark rate to maximise the tremendous achievements of the monetary tightening stance while monitoring government spending till the coast becomes clearer on the downtrend in core inflation (closely tracked by CBN for interest rate decisions as it excludes food and fuel prices which tend to be volatile). Except otherwise, a successive slowdown in general price level and relative fiscal discipline is likely to encourage the CBN to consider a modest cut in monetary policy rate (MPR) to show disposition to supporting the real economy while using open market instruments to regulate market liquidity.

The FX market is expected to remain stable in 2013 though it may witness mild volatility at some point on the back of demand pressure. This will be curtailed as the CBN remains committed to supporting naira stability within the target band of ₦155+3%/US$ while significantly improved external buffers and robust oil prices provide a positive backdrop.

We are positive that the nation's capital market will leverage more on the recent reforms and record continuous growth and improved confidence in 2013. Solid fundamentals suggest possible low market volatility; market makers would help drive liquidity in the marketplace while anticipated declining yields on fixed income instruments will increase the capital market attraction.

Risk management disclosures

Liquidity risk

Overview

Liquidity risk is the risk that the Banking 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 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 FirstBank Group 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.

Philosophy

FirstBank Group maintains an optimal level of liquidity through the active management of both assets and liabilities while complying with regulatory requirements and optimising returns on capital.

The following principles guide liquidity risk management across the Bank:

- a robust liquidity risk management framework that ensures maintenance of sufficient liquidity to withstand a range of stress events;
- a clearly articulated liquidity risk tolerance appropriate for the Bank'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;
- a 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 an 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 the quality of the 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

The Board Audit & Risk Assessment Committee (BARAC) and the full Board are responsible for the following:

- the approval of the liquidity risk management framework, policies, strategies, guidelines and philosophy; and
- providing Board oversight for the implementation of liquidity risk management policies.

The Assets & Liabilities Management Committee, made up of executive directors and other relevant divisional heads, is responsible for the following:

- the review of policies relating to liquidity risk management;
- the recommendation of liquidity risk policies to the Board;
- the review of liquidity risk strategy and recommendation of the same for Board approval;
- the provision of management oversight on the implementation of policies relating to liquidity risk;
- the monitoring of liquidity risk inherent in the maturities mismatch of assets and liabilities;
- the 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;
- the approval of liquidity risk-related limits for the Bank and its subsidiaries; and
- approving stress scenarios and the contingency funding plan assumption.

Implementation of the Banking Group market and liquidity risk management policies, procedures and systems is delegated to the Head of the Group Market and Liquidity Risk Management department who reports to the Group Chief Risk Officer.

Each banking subsidiary in the FBN Group also has an Assets & Liabilities Management Committee (ALCO) with the above responsibilities specifically for the entity alone. Implementation of each bank's liquidity risk management policies, procedures and systems is delegated to the entity's Chief Risk Officer.

The Banking Group maintains a well-articulated liquidity risk policy, which drives the level of liquidity risk exposures and determines business size and maturities.

Policies and procedures

The principal mechanism for implementing the Banking Group's liquidity policy 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 the Banking Group's exposure to liquidity risk. The cash flow technique used is the maturity ladder, which assesses all the Bank's cash inflows against its outflows to identify potentials for net shortfalls or net funding requirements.

The liquidity and funding management process also includes the preparation of multicurrency balance sheets, assessing cash flows by major currencies, and projecting cash flows under stress scenarios.

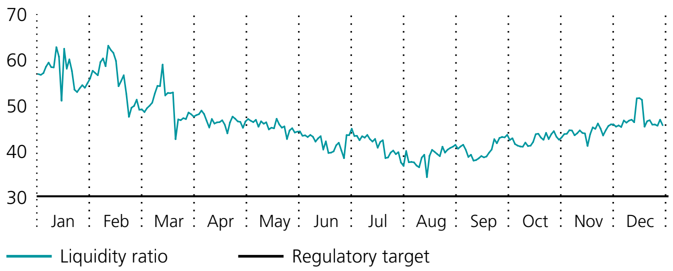
The Bank's use of concentration ratios prevents it from relying on a limited number of depositors or funding sources.

Liquidity ratio

This is the level of liquid assets to total deposits. The level of holdings of liquid assets in the balance sheet reflects the Bank's prudency in its liquidity policies and practice. The Banking Group maintained healthy liquidity ratios well above the regulatory target.

Risk management disclosures
Liquidity risk

Liquidity ratio trend



	December 2012 ₦'million	December 2011 ₦'million
Liquidity ratio	**49.53%**	55.38%

Sources of funding

The Bank is funded primarily by a well-diversified mix of retail, corporate and public sector deposits. This funding base ensures stability and low funding costs with minimal reliance on more expensive tenured deposits and interbank takings as significant sources of funding. The Bank places considerable importance on the demand and savings deposits, which account for 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 Bank's liabilities. The Bank also enjoys a relatively lower-cost time deposit base due to its strong franchise and reputation.

Customer deposits from demand and short/medium tenored products form the primary source of funding in the other banking subsidiaries.

FBN UK is funded primarily by a well-diversified mix of retail and wholesale deposits with emphasis on term deposits to support a sustainable business model. Retail deposit products include the Firstsave deposit brand which is a well established and recognised brand in the UK deposit market. In view of the sophistication of the UK deposit market, depositors are fairly rate sensitive and as such the Bank has always paid market rates for deposits to maintain a strong and stable funding base.

Loans to deposit ratio

The Banking Group emphasises the importance of core current and savings deposit accounts as a source of finance for lending to customers. This is achieved by restricting the ability of business units to increase loans and advances to customers without corresponding growth in current and savings deposits. The loans to deposit ratio limit is set at 80% and monitored by ALCO.

	December 2012 ₦'million	December 2011 ₦'million
Loans and advances to customers	1,563,005	1,252,462
Customer accounts	2,405,858	1,951,321
Loans and advances to deposit	64.97%	64.19%

Diversification of asset base and contingent liquidity risk management

The Bank maintains a large portfolio of tradable liquid assets in the form of Nigerian Treasury Bills and Federal Government of Nigeria bonds, which are low in risk and can be converted in a short period of time or used to enhance the Bank's borrowing. The Bank also maintains a large portfolio of credit risk-free assets that can be securitised and traded as off-balance sheet items. In addition, the Bank has put in place contingency funding arrangements with similar-sized Nigerian banks and maintains a standing credit facility with the Central Bank of Nigeria, which can be accessed at short notice.

The banking subsidiaries within the Group also maintain portfolios of highly tradable liquid assets, made up of Treasury Bills and Sovereign Bonds.

Capital management

The FBN 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 Banking 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 Banking 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 Banking 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.

FirstBank Group capital is divided into two tiers:

- Tier 1 capital comprises core equity, i.e., ordinary shares, statutory reserves, share premium and general reserves. The book values of goodwill, intangible assets, unpublished losses and under provisions are deducted in arriving at core equity tier 1 capital; and
- Tier 2 capital comprises qualifying subordinated loan capital, preference shares, general provisions, debenture stock, minority and other interests in tier 2 capital, and unrealised gains arising from the fair valuation of equity instruments held as available-for-sale. Tier 2 capital also includes reserves arising from the revaluation of properties and foreign reserves.

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 tier 2 capital less investments in unconsolidated subsidiaries and associates. The total risk-weighted assets reflects only credit and counterparty risk.

First Bank of Nigeria Ltd achieved a capital adequacy ratio of 19.52% at the end of the year, compared to 25.33% recorded for the period ended December 2011. This is attributable to the growth in risk-weighted assets and the emergence of a holding company structure which necessitated intra-group capital adjustments during the year. The Banking Group, as a policy, works to maintain adequate capital cover for its activities, with a minimum internal target of 16%. Achieved capital adequacy position is closely monitored and reported fortnightly to the Assets & Liabilities Management Committee.

Risk management disclosures
Liquidity risk

FBN Bank (UK) Ltd endeavours to maintain sufficient capital resources to support its lending business and general business growth. Capital adequacy is formally reviewed and approved annually as part of the capital planning and budgeting processes; the monitoring and reporting of changes to the capital forecasts normally take place quarterly. The Board will consider the need to change its capital forecasts and capital plans based on these reviews.

Assessment of minimum capital requirements is a combination of regulatory requirement and sound judgement exercised by the Board. In assessing the adequacy of its capital, the Bank considers its risk appetite, the material risks to which the Bank is exposed and the appropriate management strategies for each of the material risks, including whether or not capital provides an appropriate mitigant.

In addition to capital adequacy reporting to the FSA, an internal capital adequacy calculation is performed weekly for the Executive Management and quarterly for the Board, in order to assess the Bank's capital adequacy and to determine the levels of capital required going forward to support the current and future risks in the business.

At 31 December 2012, FBN UK recorded a capital adequacy ratio of 18.01% (2011: 16.96%) with core tier 1 capital ratio of 13.98% (2011: 11.84%), reflecting the contribution from additional equity injection of £50m by the parent and full retention of £19.62m profit after tax. The capital ratios were in excess of regulatory requirements as at the reporting date and demonstrated the strong capital position of the Bank.

Capital adequacy (Bank only)

	December 2012	December 2011
Capital adequacy ratio	21.53%	25.5%
	₦ million	**₦ million**
Capital composition:		
Tier 1		
Paid-up capital	16,316	16,316
Reserves	313,779	341,268
Tier 2		
Long-term debt stock	2,560	4,677
Reserves	40,779	18,926
Total qualifying capital	**373,434**	**381,187**
Qualifying risk-weighted assets	**1,734,439**	**1,494,667**

In June 2006, the Basel Committee on Banking Supervision published *International convergence of Capital Measurement and Capital Standards*, known as Basel II. Basel II is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Thereafter there have been several press releases by the committee aimed at increasing capital requirements and improving the measurement of capital. Though there has been no regulatory requirement for banks in Nigeria to comply, FirstBank Group has made substantial progress in its Basel II compliance project. The successful conclusion will allow the Banking Group capital measurement to reflect credit, market and operational risk exposures.

Basel III was also recently released as a step towards building a more resilient banking system. The accord prescribes the minimum stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately in private markets into cash to meet liquidity needs of financial institutions for a 30 calendar-day liquidity stress scenario and so improve the banking sector's ability to absorb shocks arising from financial and economic stress.

The Basel Committee is introducing phase-in arrangements to implement the liquidity coverage ratio requirements of Basel III to ensure that the banking sector can meet the standard through reasonable measures, while still supporting lending to the economy.

The Banking Group's initiative is in tandem with regulatory actions that embraced the framework and accordingly set up a committee called the CBN/NDIC Committee on the new accord to oversee the adoption of the capital accord. The road map for implementation has been issued in a memorandum to the Bankers' Committee on the implementation of the new capital accord in Nigeria.

Basel III requirements in Europe are being delivered via the introduction of Capital Requirement Directives (CRD IV) and Capital Requirement Regulations (CRR). Both the CRD IV and CRR were meant to have been approved by the EU Parliament in 2012 for the necessary Basel III elements to become effective on 1 January 2013, but we are still awaiting EU approval. We are expecting approval now in the first quarter of 2013 for implementation of all technical standards later in the year.

FBN Bank (UK) Ltd has made significant progress in its Basel III compliance implementation project based on the draft EU technical standards. We remain mindful of the changing regulatory environment and will continue to maintain a positive stance to new regulatory rules with full compliance.

Outlook

The Group is positioned to consolidate on its strong liquidity position in 2013, 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 waxes stronger and offers fortified brands to customers on the back of recent business combinations.

Deposit costs may trend higher than 2012 levels as competition intensifies.

Maintaining deposit stability will be key to stable liquidity positions across the commercial banking sector especially as the velocity of money 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 2013. 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.

Risk management disclosures

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 environmental risk.

The Bank 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.

Objectives

The FirstBank Group is committed to the management of operational risks. The Banking 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 empower process owners to be risk aware 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 should enable the appropriate allocation of risk and economic capital to individual lines of business, which would allow improved performance measurement and evaluation of activities;
- ensure better control of operations – the Banking 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 Banking Group's internal control system; and
- raise awareness of operational risk in the Group 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 Group:

- 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.
- Ownership, management and accountability for operational risk are decentralised with business and functional units.
- Operational risk management activities in the Banking Group are coordinated through a centralised and independent operational risk management function.
- 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 that are clearly communicated 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 to be reported openly and fully to the appropriate levels once they are identified.
- Adequate processes and systems for identifying, measuring, monitoring, reporting and controlling operational risks are being implemented by the Group.

Methodologies

In order to meet its operational risk management objectives, each business function within FirstBank Group is required to identify, assess, measure and control its operational risk in line with the policy set by the Board.

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.

Issue and action page of the SAS Oprisk Monitor (for risks and issues reporting)

This tool is used for operational risk reporting on a real-time basis. Issues to be reported using this template take the form of significant operational risk exposures, exceptions from key risk indicators (KRI) analysis and trending, exceptions 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/events that have to be escalated to relevant senior management stakeholders within 48 hours of the incidence without having to wait for the monthly risk reporting cycle. Examples of significant operational risk issues are armed robbery attack, fraud and losses.

Control Risk Self Assessment (CRSA)

CRSA is a key component of FirstBank's operational risk framework and involves, on a quarterly basis, each business unit within FirstBank proactively identifying and assessing its significant operational risks and the controls in place to manage those risks.

Internal loss event 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 it is needed and to forestalling re-occurrence through sharing lessons learnt.

Key risk indicators (KRIs)

KRIs are measures that track the risk profile of FirstBank. Each entity within the Group develops and monitors key risk indicators 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 the Banking Group'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.

Risk management disclosures
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 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 Group has invested in enhanced physical security measures and is collaborating with the security agencies to improve protection of the Group'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 account;
- imposition of stiff disciplinary measures including prosecution of fraudulent staff;
- installation of panic alarm systems, CCTV, deadman doors, etc.; 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 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 costs by managing the 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 Group recognises that some losses, such as operational errors, are inevitable and are a 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 Group;
- 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 this as far as possible;
- has put in place structures and processes for reporting control failures to designated individuals and escalating material issues to BRCC, MANCO and the Board Audit & Risk Assessment Committee;
- ensures that staff are provided with appropriate operational risk management training that is commensurate to 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 the management of risk factors and utilisation of insurance or other risk transfer and financing strategies; and
- ensures that staff responsibility with respect to operational risk management is communicated through ongoing risk awareness workshops and management action.

Governance

The overall responsibility for operational risk management in FirstBank 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 is owned by the Board and Board Committees (Board Audit & Risk Assessment Committee (BARAC) and Management Committee (MANCO);
- the approval of operational risk policies and standards for risk identification, measurement, assessment, monitoring and reporting is the responsibility of the Board and Board Committees (BRCC, MANCO and BARAC);
- the operational risk management framework is owned by Group Operational Risk Management; 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 the operational risk relationship managers and nominated coordinators reporting into the respective senior management officials or their designates.

The Board and Board Committees

The Board of Directors, BARAC and the MANCO have overall oversight function 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 of Directors:

- sets the Group'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)

The Committee:

- ensures that the operational risk management framework is comprehensive and in line with the Group's strategy;
- approves the operational risk management framework and oversees its implementation;
- 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)

The Group's MANCO:

- ensures that the framework is implemented consistently across the entities;
- ensures policies and procedures are developed for managing operational risk in the Group's products, activities, systems and processes;
- ensures that all levels of staff understand their responsibilities with respect to operational risk management;
- reviews the Group's risk profile and assesses the potential impact on the activities of the Bank or business unit;
- ensures the Group'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 Group; and
- ensures that the Group's operational policies and procedures promote the desired risk culture.

Business Risk and Compliance Committee (BRCC)

The BRCC ensures the effective and efficient management of the operational and business risks within the Group and reports to the Board Audit & Risk Assessment Committee (BARAC) which serves as a link between the Board of Directors and senior management with respect to business risk management and audit function.

The Group's 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 becomes 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 and business risk policies and procedures;
- ensures that 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 toolkits;
- continually promotes risk awareness throughout the Bank so that complacency does not set in;
- identifies, reports and manages the top 20 operational risks in the now and six months' timeframe;
- assists 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 heads of all risk areas (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 management's response thereto, and reports as necessary to the BARAC and/or to the Board of Directors (BOD);
- ensures that 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 its charter as requested by MANCO and the Board.

Chief Risk Officer

- Leads the development and implementation of operational risk management across the Group.
- Develops operational risk management strategy, principles, framework and policy.
- Implements appropriate operational risk management processes and methodologies.
- Advises and coaches management and business units on risk management.
- Coordinates the appropriate and timely delivery of risk management information.
- Exercises supervisory responsibilities over operational risk management in addition to responsibility over market risk, credit risk and other key risk types.
- Approves all reports, operational risk policy proposals, recommendations and other documents prepared by the Operational Risk Management Group before submission to the Management Committee, Operational Risk Committees and Board Audit & Risk Assessment Committees.

Operational Risk Management function

The Banking 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 Board.

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;
- developing and driving 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 the 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 the yearly operational risk limit and appetite for the Bank, business and support units respectively; and
- liaising with external parties, e.g., regulators, analysts, external auditors, etc. on the Bank's operational risk management practices.

The Strategic Business Units and support functions

The Strategic Business Units and support functions are the first line of defence in our operational risk management process. They own, manage and are accountable for the operational risks and controls in their respective areas. They have the following responsibilities:

- implement and comply with Group operational risk-related policies, procedures, processes and tools in their areas;
- assess risks and the effectiveness of controls in line with documented risk policies and toolkits;
- design, operate and monitor a suitable system of control;
- manage and review risk as part of day-to-day business activity;
- develop a divisional/control and support unit operational risk management plan that is consistent with the operational risk appetite and strategy of the Bank;
- keep the Group's Operational Risk Management fully informed of operational risk developments via timely ad hoc or regular reports and meetings;
- identify, review and assess the inherent operational risks in the context of the existing control environment and document decisions with regard to the required mitigating action or acceptance of the risk;
- update and maintain the operational risk framework for the division/control and support unit, ensuring that the data and analyses are timely, relevant and complete for reporting and, as required, validate and certify their quality;
- ensure potential operational risks in new businesses, products and services, and processes within their business units are identified and mitigated;
- prepare quarterly risk profiles for review by divisional/control and support senior management and the Bank's ORM function; and
- the divisional/control and support unit senior management or their designate appoints the Operational Risk Coordinator with the responsibility of executing the divisional/control and support unit ORM strategy, effective day-to-day managing of operational risk and maintaining the required data within the division/control and support unit in line with this policy.

Operational Risk Coordinators

The role is a part-time role being performed by an individual in addition to his/her business as usual role. Below are the key responsibilities of the role:

- Helps line management in coordinating and driving operational risk management at branch and departmental levels.
- Addresses and escalates significant operational risk issues/trends to branch/departmental management and to ORMD through the real-time incidence reporting mechanism and the issue and action plan page of the Oprisk monitor.
- Creates awareness of operational risk.
- Oversees all operational risk management activities at his location among which are:
  – capturing of all operational losses, events and exposures on the operational risk system;
  – proper monitoring and rendering of key risk indicators;
  – prompt response to Oprisk CRSA administered on the branch/department; and
  – reporting of cases of default/breaches.
- Serves as Department Business Continuity Coordinator.

Milestones

- The prestigious BS 25999 certification received last year by the Bank from the British Standards Institution (BSI) on its Business Continuity Management system (BCMS) is a call for an unending continuous improvement journey. This is predicated on the fact that continuous retention of the certification is a function of passing the annual surveillance audit of BCMS certified scope. We are pleased to report that the maiden surveillance audit of the BCMS was carried out in the last quarter of this year with a verdict that the Bank still earns retention of the certification. The Bank still remains the first and only organisation in Nigeria to have earned this certification. The implementation of business continuity management in the Bank is in line with global best practice, which ensures safety and protection of Bank's assets, staff and customers' investments in the event of any business disruption.
- In the same vein, the second-level implementation of the Oprisk monitor was completed during the year with rollout and hands-on-training for users in strategic support functions. The Operational Risk Management module has two basic components, namely Oprisk monitor and Opvar. The SAS Oprisk monitor is a browser-based application that collects, manages, tracks and reports on issues and action plans, risk and control assessment data, key risk indicators (KRIs) and operational loss data. The SAS Oprisk monitor will be used at every operational risk point (branches, departments and subsidiaries), while Opvar is specifically designed for operational risk capital calculation, allocation and risk modelling using data mainly from the Oprisk monitor.

Outlook

The Group is on a journey to embed robust operational risk management practices, culture and environment beyond complying with regulatory requirements, but as a value driver that enhances and contributes to stakeholders' value, and the long-term existence and 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 Group's operational risk exposures and incidences.

Some of these key initiatives and projects are as follows:

- deepening the use and adoption of the SAS Oprisk monitor by users across all the operational risk points of the Group;
- deepening the adoption of the culture of self-assessment and KRI programmes in all activities and across all levels in the Group;
- extending and embedding business continuity management culture in the Banking Group's branches and subsidiaries;
- continuing the review, refresh and update of existing operational risk management toolsets and processes and the introduction of new ones;
- capacity building/aggressive Group-wide operational risk awareness campaign to increase employees' risk-awareness level and competence in managing risks;
- aggressive engagement of SBUs and SRF heads to provide dedicated resources to drive the implementation of operational risk management frameworks and to facilitate monitoring and discussion of operational risk issues coming out of the businesses and support functions to increase the efficiency of effectiveness of the BRCC.

Risk management disclosures

Information security risk

Overview

The FirstBank Group in furtherance of its protection of its customers and staff data, has gone through its third British Standards Institute (BSI) surveillance audit since it set a record of being the first organisation in Nigeria to be awarded the prestigious ISO 27001 certification by the BSI in the year 2010. The Group also expanded its scope of ISO 27001 certification to include its network of branches and other key infrastructures.

The Group is presently engaged in extensive work in the implementation of the Payment Card Industry Data Security Standard (PCI DSS) as part of its effort to continuously implement far-reaching global standards and best practices that would in turn ensure strong risk governance.

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 risk versus the reward.

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 Banking Group is structured to forestall attacks on the Bank's reputation and all manner of technology attacks. Information security has been extended to create risk resilience and consciousness about incidents, which 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 the 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.

The Banking Group has adopted international best practices and standards, which include its business continuity programme as well as being a member organisation of the International Information Security Forum (ISF). An organisation founded in 1989, the ISF 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.

FirstBank 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 by the Information Security Forum.

Philosophy

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.

The Board

The Board and Management have the overall responsibility to ensure that all information assets within FirstBank 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 Bank to ensure all customer information receives adequate protection. In addition, it ensures that the Bank complies with all legal, regulatory, contractual and commercial requirements of information security.

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 the reduction of information-related risks to acceptable levels.

- The Board and Management of FirstBank Group are committed to information security management as they have demonstrated through resource and financial commitment to information security implementation.
- The Group has adopted the ISO 27001 standard, which is the de facto standard for information security management.
- The Group has also adopted the Payment Card Industry Data Security Standard (PCI DSS) to ensure the protection of its card data.
- The Group, through the establishment of its information security management office and adoption of the ISO 27001 standard, is poised to comply with not only local but international information security regulatory and legislative requirements.
- The Group is committed to ensuring that information is protected against unauthorised access or disclosure.
- The Group has put in place processes that will ensure that confidentiality of information will be maintained across its operations and processes.
- The Group is committed to preserving the integrity of information through protection from unauthorised modification, disclosure and theft.
- The Group is committed to the investigation and escalation of all suspected information security breaches.

Culture

FirstBank Group is committed to ensuring the confidentiality, integrity and availability of its customers' information through:

- maintenance of a comprehensive list of FirstBank Group information assets detailing ownership;
- identification of the value of information assets through appropriate risk assessments;
- understanding vulnerabilities and threats that the information assets may be exposed to; and
- appropriate management of information security risks for compliance with contractual and legal requirements as well as procedures and practices of ISO 27001 and other internal standards and best practices.

Appetite

The Bank's information security risk appetite is set by the Board of Directors as identified in the risk assessment methodology; this is set at a level that minimises risk to the integrity, confidentiality and availability of information assets.

Oversight

The Board Audit & Risk Assessment Committee performs an oversight function spanning the entire information security organisation in the Bank.

Its function also includes ensuring that detailed policies, procedures and standards are created, updated regularly and effectively communicated to stakeholders.

Relationships with other units

The information security office maintains key relationships with other units in the Bank through key 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.

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 on to the Board for final approval.
Management Committee	The Management Committee (MANCO) recommends for approval information security policies, strategies and budget. 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	To support the monitoring process without losing independence, the Internal Audit function and information security office.
Compliance	The Compliance function is to protect 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, student placements, etc.) are responsible for complying with the principles and policies in the information security policy manual where relevant to their jobs.

Risk management disclosures

Strategy and policy

Information security risk management framework

The FirstBank Group 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 very critical assets of the Bank and should therefore be adequately protected. The protection of FirstBank's information assets is critical to the Bank'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 Bank'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 shared by both Management and employees of FirstBank, irrespective of designation or function. Information security management in FirstBank is a continuous process. We continue to provide the structures that assist FirstBank to best protect its information assets and create assurance for investors. 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

In line with its plans in 2011 FirstBank commenced the implementation of the PCI DSS and has reached extensive stages in the PCI DSS requirement for card-processing organisations.

The implementation will cut across all infrastructure that processes, stores, transmits or manages card data and card information. This is to ensure that all card information, inclusive of customer card information, is adequately protected across the Bank.

Outlook

Predicting the future is an inexact science. However, achieving a degree of insight into the future world would help an organisation to take informed, cost-effective and proactive actions to mitigate risk. FirstBank Group has taken a proactive stance when it comes to accessing future risk and vulnerabilities; recent global threats have set a stance for FirstBank to prepare itself in assessing the impact of likely future threats that it may face. These emerging threat factors are deeply associated with macroeconomic factors, which include:

- **Infrastructural weaknesses** – linked to an overall under-investment in both national critical and organisational infrastructure, the underlying technical computing platform is no longer robust and is poorly placed to support new and evolving technical business solutions, including e-commerce, cloud computing and mobile technologies.
- **Changing cultures** – cultural behaviours have changed and, coupled with high levels of technology adoption driven by the domestic (rather than business) market, have resulted in irreversible changes in the attitude to protecting information and the establishment of a generation that has grown up with, and on, the Internet.
- **Increasing globalisation** – organisations that operate across the globe are often subject to global threats, reflecting the attractiveness of the organisation as a criminal attack target (espionage); the desire to be seen as a globally responsible organisation; the multiple legal jurisdictions in which they operate (regulatory obligations related to integrity and privacy); and the sheer complexity of the organisation itself (converged threats).

Though financial services firms are unwilling to collaborate with each other on strengthening security as a result of competition, FirstBank has adopted an open-door approach and pioneering stance towards sharing security data with reputable organisations in order to better secure itself and also have other organisations learn from its experience.

The Group is presently working to instill effective security behaviours in the Group culture as well as among its service providers. This would include having third-parties service providers in the incident management process as well as in the privacy policy implementation programme.

Risk management disclosures

Compliance risk

Overview

The establishment of an independent compliance function in the Group is in line with international best practice. The Compliance function operates from the Head Office and some selected hubs, each of which is supervised by dedicated Compliance officers whose primary responsibility in the Group is to ensure compliance with established rules and regulations. Highlights of the scope of coverage of the Compliance function include:

- regulatory compliance;
- Anti Money Laundering (AML)/Countering the Financing of Terrorism (CFT) compliance (including Know Your Customer (KYC), Know Your Customers' Business (KYB) principles); and
- corporate governance compliance monitoring.

The objectives of the Compliance function, as part of an effective risk management framework, include the following:

- to assist and support line management to ensure that business is conducted in accordance with applicable statutory, regulatory and supervisory requirements;
- to enable FirstBank Group to demonstrate to the regulators that it is fit and proper to undertake its business;
- to maintain fairness in all the Banking Group's dealings;
- to facilitate the management of compliance risks;
- to prevent disciplinary action by regulators; and
- to minimise the possibility of civil and criminal action against the Group.

Philosophy

The Board approves and periodically reviews the compliance framework and strategies in the Bank and assumes overall accountability for compliance performance. The ownership, management and accountability for compliance risk is decentralised across various Strategic Business Units and functions (SBUs and SRFs).

The Group's compliance risks are centrally managed by an independent Compliance function. The Compliance risk management practices in the Bank are subject to periodic independent reviews by internal audit as well as the external auditors.

Each and every one of the activities of the Compliance function is governed by articulated policies and processes duly approved by the Board. The Bank's AML/CFT regime is driven by a documented, functional AML/CFT Policies and Procedures Manual to which every member of staff has unfettered access through the Bank's i-porter. As a living document, the manual is reviewed and updated regularly to reflect the dynamism and changing regulatory or environmental imperatives.

A detailed Compliance Standard Operating Procedure Manual has been developed for all compliance risk management processes, including Compliance function roles, responsibilities and operating procedures.

Strategy and priority

The FirstBank Group remains committed to complying fully with both the spirit and the letter of applicable laws and regulations and to always act with care and due diligence. The risk of non-compliance with legal and regulatory requirements ranges from potential financial loss arising from regulatory sanctions, loss of business and/or franchise, as well as damage to the Group's reputation.

In ensuring compliance with laws and regulations, the Group has put in place a robust compliance framework. The Compliance function, under the leadership of the Chief Compliance Officer, ensures that statutory and regulatory requirements are adhered to and that breaches are promptly reported. The Group has in place a comprehensive Compliance Process Manual, which is accessible to all staff through the Bank's i-porter. The Manual defines the roles and responsibilities of all stakeholders in ensuring compliance with laws and regulations.

While the primary responsibility for complying with regulatory requirements lies with all members of staff conducting particular transactions or activities to which regulation applies, the Board of Directors is ultimately accountable for compliance performance.

The current regulatory regime places much pressure on financial institutions to identify, assess and understand the money laundering and terrorist financing risks they face in order to ensure that the measures they implement to prevent or mitigate money laundering and terrorist financing are commensurate with risks identified. The risk-based approach is intended to ensure that regulated entities apply their resources more efficiently.

The Group continually reviews and analyses relevant laws and regulations to ensure business is run in line with international best practices, and complies with regulations.

Governance structure

In line with international best practice, the Compliance function is responsible for ensuring that the Group continuously manages its regulatory risk.

Regulatory risk is the risk that occurs when financial institutions do not comply with the spirit and the letter of applicable laws and regulations or supervisory requirements.

The management of regulatory risk comprises ensuring compliance with all the statutory and regulatory requirements. The Compliance function is therefore responsible for ensuring compliance with all rules imposed on the business by regulators/supervisors.

Responsibility for managing compliance with internal rules created by FirstBank Group itself lies with the Internal Audit and Control functions. These are monitored as part of their normal duty of ensuring that an effective system of internal controls is maintained in FirstBank.

Certain internal rules are of such importance that the Management Committee (MANCO) may require the involvement of the Compliance function for effective implementation. The Compliance function is also, to that extent, responsible for monitoring compliance with internal rules, as determined by MANCO from time to time.

The Compliance function operates independently of the Internal Audit and Control functions. However, the Division leverages on the Internal Audit and Control infrastructure by administering compliance checklists on business units and branches through the independent control and normal audit procedures. These compliance reports are forwarded to the Compliance department for review and subsequent monitoring.

Roles and responsibility

Roles and responsibilities for compliance are assigned to various functions as follows:

Function	Role
Board of Directors	Assumes overall accountability for compliance performance.
Chief Executive Officer	Provides demonstrable support to the CCO with the development of a compliance culture.
Executive Directors, Executive Vice President and MANCO	Assume overall accountability for compliance within their Strategic Business Units (SBUs)/Strategic Resource Functions (SRFs).
Business Unit Heads and Business Development Managers	Responsible for day-to-day compliance with regulations applicable to their business.
SBU/SRF Compliance Officers	Facilitate the implementation of the compliance process within their SBU/SRF.
Branch Managers (Branch Compliance Officers)	Assume overall responsibility for compliance in their branches and are responsible for conducting periodic compliance reviews.
All employees	Responsible for familiarising themselves with the regulatory requirements applicable to their business and ensuring that all transactions and activities in which they are involved are carried out in accordance with those regulations.
Internal Control	Assists the Compliance function in the conduct of independent monitoring.
Internal Audit	Provides quality assurance for the Compliance function.
Chief Compliance Officer	Responsible for the development, communication, leadership and implementation of the compliance strategy, policy, structure and process.
External Audit	Responsible for reviewing the compliance risk management process as part of their statutory audit duties.

Responsibilities of the Chief Compliance Officer (CCO)

The CCO takes responsibility for compliance issues in the Group including its Strategic Business Unit. The CCO works closely with the Chief Risk Officer (CRO) in the performance of the following specific responsibilities:

- assigns a robust compliance structure, process and advisory service in order to ensure line management's compliance with current laws, regulations and supervisory requirements;
- reports non-compliance with laws, regulations and supervisory requirements to the Chief Executive Officer and the Board of Directors in a timely manner;
- provides the Board of Directors with regular information on the level of the Group's compliance with laws, regulations and supervisory requirements;
- ensures, as far as possible, that no conflict of interest exists between the Compliance function and other internal control functions;
- establishes a compliance culture in the Group that contributes to the overall objective of prudent risk management;
- establishes effective communication with line management in order to continuously monitor compliance with laws, regulations and supervisory requirements;
- mandates line management to monitor compliance with laws, regulations and supervisory requirements as part of their normal operational duties;
- ensures that regulatory requirements are incorporated into operational procedures and manuals where appropriate;
- makes recommendations whenever necessary to ensure that laws, regulations and supervisory requirements are being complied with;
- establishes effective mechanisms for reporting and resolving non-compliance with laws, regulations or supervisory requirements;
- documents his findings, including remedial action, as part of the compliance monitoring programme;
- in conjunction with training and development, ensures continuous training of compliance staff on technical knowledge of regulatory framework and associated risks; and
- compiles and maintains a comprehensive compliance manual for the Group, in conjunction with line management.

Outlook

The regulatory environment in 2012 brought about enormous challenges on banks and other financial institutions. The recent directive from the Central Bank of Nigeria (CBN) to designated non-financial businesses and professionals (DNFBPs) to register their operations with the Special Control unit on Money Laundering (SCUML), Federal Ministry of Trade and Investment on or before 31 January 2013, comes with enormous challenges on the part of the banks. The challenge is in creating the enabling environment in terms of awareness creation and customer sensitisation to avoid loss of business and regulatory infraction.

To further step up the fight against money laundering and terrorist financing, the Central Bank of Nigeria (CBN) commenced full implementation of its Anti Money Laundering and Combating Financing of Terrorism (AML/CFT) Risk Based Supervision (RBS) framework in August this year. By this policy, banks are expected to focus on new areas of AML/CFT and compliance risks in products/service offerings as well as provide guidelines to regulatory supervisors, for a risk-based approach for assessing financial institutions' AML/CFT and compliance risks. Our Group has commenced the process of institutionalising a risk-based audit approach by putting in place strategies to ensure that our internal audit plan for 2013 aligns with this policy.

The Foreign Account Tax Compliance Act (FATCA) enacted on 18 March 2010 by the US congress, requires foreign financial institutions to submit detailed information on their US customers to the US tax authorities, the Internal Revenue Service (IRS), commencing in January 2014. While management has considered the likely business implications, the Group awaits the recommendation of the regulators regarding a country-wide approach to adopt.

The challenges all these policy measures/initiatives have brought to the fore is in our process and procedures re-alignment to current regulatory and business realities, fine-tuning our technology infrastructure to understand and manage our risks more prudently and in responding to the huge regulatory pressures on us to know our customers and their businesses (KYC/KYB) as well as implement processes/control for combating money laundering/terrorist financing.

The Group is poised to look inwards with a view to revalidating our compliance risk management processes and procedures 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. We will continue to improve on current measures aimed at understanding regulations as they affect the industry and the implication for non-compliance.

Risk management disclosures

Legal risk

Overview

Legal risk management is an integral part of the Bank's Enterprise Risk Management framework. The Bank recognises that all aspects of its business activities are fraught with legal risks, the rise of which may not only outstrip its business growth, but may also threaten the entire franchise. To this end, there is a dedicated Legal Services department with responsibility for the effective management of this aspect of the Bank's overall risk profile. The department's responsibilities include the formulation of the strategy for the Bank's legal risk management, the provision of legal advisory services on all aspects of the Bank's businesses in the context of extant laws and regulations, asset security documentation, and litigation management, among others.

Approach

At FirstBank, our approach to legal risk management is to:

- identify where and how things can and/or might go wrong from the legal perspective;
- determine the extent of any negative impact in the event of its crystallisation;
- identify and grade the risks and impact of the current controls;
- define priorities according to the risk appetite of the Bank;
- establish controls to reduce or eliminate the risks as determined by the Bank's risk appetite; and
- monitor the controls to ensure effectiveness.

In doing this, we continue to ensure that our policies and operational guidelines do not only provide the structure for the effective management and control of identifiable legal risks, but also bring the Bank and its employees to a true appreciation of the legal constraints impacting on the Bank's business activity.

Governance

The Legal Services department oversees the Bank's global legal risk function and reports directly to the Chief Risk Officer. The department is sub-divided into four hubs, each of which is headed by a Unit Head, who reports to the Head, Legal Services. The respective hubs are as follows:

Corporate and contracts

The hub ensures the preparation and review of transaction documentation, especially for the Bank's Institutional/Corporate clients. It also provides documentation and structuring support to the Bank's General Services, Treasury, Strategy, E-Channel initiatives and all the Strategic Business Units.

Litigation

This hub handles the entire value chain of investigation activities up to the decision-making point for the prosecution of the Bank's claims against third parties and/or the Bank's defence of adverse claims against it. The unit monitors and manages the Bank's litigation portfolio, including the evaluation, recommendation and pursuit of alternative dispute resolution mechanisms with extensive external counsel interface.

Security documentation and management

This hub reviews security assets offered by customers as collateral for their facilities and advises the bank on the suitability, effectiveness and realisability of the same. It also has responsibility for the documentation and perfection of the various security collaterals used to support credit facilities extended to Bank customers.

Regional coordination/operational efficiency

This desk coordinates and supervises the activities of our area legal managers outside the Head Office. These area legal managers, whose offices are spread across the country, provide real-time support to the Bank's Business Development Offices (BDOs) within their respective areas of coverage. The structure of these area legal manager offices was streamlined from nine locations to six as part of our efficiency optimisation initiatives.

There is a sub-hub known as the Bonds and guarantees sub-hub, which is responsible for the preparation of all bonds and guarantees issued by the Bank and the review of such instruments issued in the Bank's favour.

This is the melting pot of the review and drafting skills of all legal officers in the Head Office as each of them is involved in this task under the supervision of the Bond and Guarantee Team Leads.

Strategy and priority

Our strategy is to consolidate the evolution of our legal services function from simply an advisory role to one of shaping strategy and policy using the following:

- detailed commercial knowledge of the Bank's business complemented by our rigorous outsourcing skills and alliances with external counsel of repute;
- application of this knowledge to influence our internal and external customers;
- communication of key principles of document-intensive deals, improving turn-around time;
- engendering of trust with our commercial colleagues and customers who value our judgement;
- deepening our role in the Bank's Enterprise Risk Management framework and showing more genuine and early presence in transaction and policy reviews;
- consistent review of our legal cost minimisation initiatives with a view to minimising the cost of legal services to the Bank and also its customers while not compromising quality; and
- pursuit of all-round professionalism.

Our priority is to attain the status of the impartial voice, the guiding hand and the sounding board for all our colleagues.

All the above are embedded in the following, which were products of our rigorous team experience, engagement and collective passion, namely:

Vision – to be the best in-house legal services provider in the Nigerian financial services sector;

Mission – to consistently provide professional legal services of the highest quality aimed at enabling the Bank to make informed business decisions and proactively mitigate losses;

Payoff line – your business partners and trusted advisors.

Outlook

We have always known that the steady growth in foreign and local respect for, and loyalty to, the FirstBank brand will continue to be replicated in the diversity and complexity of the Bank's transactions. The Legal Services team had also foreseen convincing promises of increased global recognition for the Bank and took steps to position for the same through training, transactional exposures, anticipatory and preventive documentation, and rare dexterity in our review and drafting skills. We were therefore not caught napping and FirstBank remained protected at all times.

We kept our promises during the previous year as we deepened the skills of our people in the areas of specialised transactional documentation; commenced the development of a database of experts with the rare competences required in these diverse areas; streamlined and strengthened our regional coordination desk, achieved greater efficiency and gave it the needed impetus for its growing roles. We also pursued, with verve, the optimisation of our operational efficiencies and institutionalisation of our ongoing quality assurance. We will continue to consolidate on all these fronts.

This year, there will certainly be new dimensions to our responsibilities – these provide the sparks and excitement that bring out the best in us. We will continue to take advantage of FirstBank's robust research platform to pursue targeted skill and competence development initiatives along the growth sectors of the national, regional and global economies. From FirstBank's increased transaction count to its involvement in deeper and less over-the-counter deals; from the Bank's foray into the African region to its increased transactional presence in the global markets; from the Bank's status as a stand-alone enterprise to its new position as a flag bearer under a holding company structure, the Legal Services department will continue to bring its malleability to bear. Using our hunger for, and interest in, transactions as vehicles, we will continue to lead the synergy drive within and around the entire legal services providers within the Group structure and demystify structural and geographic distances between them to ensure uninhibited knowledge exchange and support.

Having won the respect of our local and foreign partner law firms and following the free-flow of knowledge exchange that now pervades in our relationships, laced with the professional alliances we have formed, we do not anticipate that any deal will be too complex for us to support and indeed, lead.

Finally, we are committed to live our mission/vision by providing effective, efficient and dependable strategic legal services support to the Bank as it consolidates its leadership in the Nigerian financial services industry. We will continue to do this through the provision of legal services that resonate with the Bank's corporate objectives.

Audit Committee statement

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 2012 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 Central Bank of Nigeria (CBN).

Peter Asu
Chairman, Audit Committee

28 February 2013

Members of the Committee

Peter Asu
Ibiai Ani
Lawal Ibrahim
Ibukun Awosika
Adamu Kiyawa
Raphael Attu

Financial statements

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Income statement

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Statement of comprehensive income

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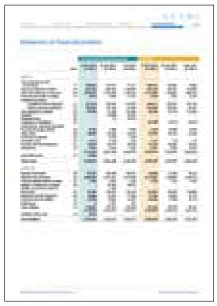
Statement of financial position



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Income statement

	Note	Commercial Banking business group 31 Dec 2012 ₦ million	Commercial Banking business group 31 Dec 2011 ₦ million	The Bank 31 Dec 2012 ₦ million	The Bank 31 Dec 2011 ₦ million
Continuing operations					
Interest income	6	**276,795**	207,019	**257,325**	197,829
Interest expense	7	**(58,511)**	(34,727)	**(51,778)**	(30,606)
Net interest income		**218,284**	172,292	**205,547**	167,223
Impairment charge for credit losses	8	**(12,912)**	(38,011)	**(9,847)**	(32,165)
Net interest income after impairment charge for credit losses		**205,372**	134,281	**195,700**	135,058
Fee and commission income	9	**54,862**	43,591	**47,571**	41,914
Foreign exchange income	10	**2,456**	7,497	**924**	7,502
Net gains/(losses) on investment securities	11	**(860)**	458	**(957)**	(738)
Net gains/(losses) from financial assets classified as held for trading	12	**1,752**	2,828	**168**	(996)
Gain from disposal of subsidiary	27	**-**	-	**3,490**	-
Loss on sale of assets to AMCON	13	**-**	(15,501)	**-**	(15,501)
Dividend income		**518**	4,175	**3,766**	5,801
Other operating income	14	**3,398**	12	**1,535**	-
Operating expenses	15	**(182,329)**	(136,668)	**(168,908)**	(133,368)
Operating profit		**85,169**	40,673	**83,289**	39,672
Share of profit/(loss) of associates	27	**1,008**	(1,507)	**-**	-
Profit before tax		**86,177**	39,166	**83,289**	39,672
Income tax expense	16	**(14,918)**	(18,864)	**(12,145)**	(16,620)
Profit for the year from continuing operations		**71,259**	20,302	**71,144**	23,052
Discontinued operations					
Profit for the year from discontinued operations		**3,838**	(1,666)	**-**	-
Profit for the year		**75,097**	18,637	**71,144**	23,052
Profit attributable to:					
owners of the parent		**75,040**	19,521	**71,144**	23,052
non-controlling interests		**57**	(884)	**-**	-
		75,097	18,637	**71,144**	23,052

Statement of comprehensive income

	Note	Commercial Banking business group 31 Dec 2012 ₦ million	Commercial Banking business group 31 Dec 2011 ₦ million	The Bank 31 Dec 2012 ₦ million	The Bank 31 Dec 2011 ₦ million
Profit for the year		**75,097**	18,637	**71,144**	23,052
Other comprehensive income:					
Exchange difference on translation of foreign operations		**1,827**	606	**-**	-
Net gains on available-for-sale financial assets					
unrealised net gains arising during the period, before tax		**15,846**	(38,509)	**13,588**	(39,476)
net reclassification adjustments for realised net gains or losses, before tax		**1,930**	-	**1,930**	-
Actuarial gains/(losses) on defined benefit pension scheme	39	**(485)**	(3,042)	**(485)**	(3,042)
Income tax relating to components of other comprehensive income		**146**	913	**146**	913
Other comprehensive income for the year, net of tax		**19,264**	(40,032)	**15,179**	(41,605)
Total comprehensive income for the year		**94,361**	(21,395)	**86,323**	(18,553)
Total comprehensive income attributable to:					
owners of the parent		**94,304**	(20,511)	**86,323**	(18,553)
non-controlling interests		**57**	(884)	**-**	-
		94,361	(21,395)	**86,323**	(18,553)
Total comprehensive income attributable to owners of the parent arises from:					
continuing operations		**90,466**	(18,846)	**86,323**	(18,553)
discontinuing operations	26	**3,838**	(1,666)	**-**	**-**
		94,304	(20,511)	**86,323**	(18,553)

Statement of financial position

	Note	Commercial Banking business group			The Bank		
		31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
ASSETS							
Cash and balances with Central Banks	17	**298,024**	199,228	75,517	**288,125**	199,091	74,894
Loans and advances to banks	19	**393,125**	462,856	575,467	**329,120**	222,347	383,880
Loans and advances to customers	20	**1,563,005**	1,252,462	1,160,293	**1,316,407**	1,144,461	1,046,925
Financial assets held for trading	21	**2,565**	5,964	16,636	**1,942**	2,552	11,485
Investment securities							
Available-for-sale investments	22	**351,374**	356,933	222,822	**300,351**	340,767	201,163
Held to maturity investments	22	**330,860**	337,336	31,886	**330,860**	329,857	44,331
Assets pledged as collateral	23	**50,109**	72,129	122,009	**50,109**	72,129	122,009
Inventory	29	**-**	25,609	23,081	**-**	-	-
Investment in subsidiaries	24	**-**	-	-	**40,348**	32,416	30,416
Investments in associates accounted for using the equity method	27	**5,609**	7,489	8,996	**2,224**	14,099	14,099
Other assets	33	**33,733**	62,272	39,282	**32,459**	43,734	33,344
Investment properties	28	**-**	4,055	2,440	**-**	-	-
Intangible assets	31	**3,417**	1,008	494	**1,302**	734	265
Property, plant and equipment	30	**74,454**	65,874	63,634	**70,724**	64,056	62,252
Deferred tax	32	**7,955**	6,954	12,274	**6,703**	5,195	12,146
		3,114,230	2,860,169	2,354,831	**2,770,674**	2,471,438	2,037,209
Assets held for sale	26	**12,978**	-	-	**-**	-	-
Total assets		**3,127,208**	2,860,169	2,354,831	**2,770,674**	2,471,438	2,037,209
LIABILITIES							
Deposits from banks	34	**87,551**	183,500	148,352	**18,463**	51,306	55,221
Deposits from customers	35	**2,405,858**	1,951,321	1,447,600	**2,171,807**	1,784,490	1,328,218
Financial liabilities held for trading	36	**1,796**	2,857	1,639	**1,278**	1,143	1,639
Liability on investment contracts	38	**-**	49,440	76,446	**-**	-	-
Liability on insurance contracts		**-**	824	-	**-**	-	-
Borrowings	37	**75,541**	104,473	126,350	**81,987**	104,287	126,096
Retirement benefit obligations	39	**18,648**	15,081	11,426	**18,156**	14,676	11,075
Current income tax liability	16	**22,374**	24,254	20,052	**19,768**	21,354	15,118
Deferred tax	32	**6**	1,067	901	**-**	-	-
Other liabilities	40	**118,065**	158,773	120,470	**87,039**	116,938	84,233
		2,729,839	2,491,590	1,953,236	**2,398,498**	2,094,194	1,621,600
Liabilities held for sale	26	**2,836**	-	-	**-**	-	-
Total liabilities		**2,732,675**	2,491,590	1,953,236	**2,398,498**	2,094,194	1,621,600

Statement of financial position

	Note	Commercial Banking business group			The Bank		
		31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
EQUITY							
Share capital	41	**16,316**	16,316	16,316	**16,316**	16,316	16,316
Share premium	42	**189,241**	254,524	254,524	**189,241**	254,524	254,524
Retained earnings	42	**94,991**	41,587	47,304	**77,342**	49,649	33,310
Other reserves							
Statutory reserve	42	**42,972**	32,144	28,508	**42,422**	31,753	28,294
SSI reserve	42	**6,076**	6,076	6,309	**6,076**	6,076	6,309
AFS fair value reserve	42	**25,815**	8,524	47,033	**24,678**	9,160	48,636
Contingency reserve	42	**-**	13	-	**-**	-	-
Statutory credit reserve	42	**16,101**	9,766	28,220	**16,101**	9,766	28,220
Treasury share reserve	42	**-**	(1,941)	(27,767)	**-**	-	-
Foreign currency translation reserve	42	**1,668**	606	-	**-**	-	-
		393,180	367,615	400,447	**372,176**	377,244	415,609
Non-controlling interest		**1,353**	964	1,148	**-**	-	-
Total equity		**394,533**	368,579	401,595	**372,176**	377,244	415,609
Total equity and liabilities		**3,127,208**	2,860,169	2,354,831	**2,770,674**	2,471,438	2,037,209

The financial statements on pages 189 to 304 were approved by the Board of Directors on 28 February 2013 and signed on its behalf by:

Prince Ajibola Afonja
Chairman

Bisi Onasanya
Group Managing Director /CEO

Adebayo Adelabu
Executive Director / Group CFO

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 2011	16,316	254,524	47,304	28,508	6,309	47,033	-	28,220	(27,767)	-	400,447	1,148	401,595
Profit for the year	-	-	19,521	-	-	-	-	-	-	-	19,521	(884)	18,637
Other comprehensive income													
Foreign currency translation differences, net of tax	-	-	-	-	-	-	-	-	-	606	606	-	606
Tax effects on revaluation of financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value movements on equity financial assets						(38,509)					(38,509)		(38,509)
Actuarial gains/(losses) on defined benefit pension scheme	-	-	(2,129)	-	-	-	-	-	-	-	(2,129)	-	(2,129)
Share of OCI of associates, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	17,392	-	-	(38,509)	-	-	-	606	(20,511)	(884)	(21,395)
Transactions with owners											-		-
Issue of new shares											-	700	700
Disposal of Treasury shares			(18,335)						25,826		7,491	-	7,491
Transfer to statutory credit reserve			18,454					(18,454)			-	-	-
SMEEIS reserves written off					(233)						(233)	-	(233)
Dividends	-	-	(19,580)	-	-	-	-	-	-	-	(19,580)	-	(19,580)
Transfer from retained earnings	-	-	(3,648)	3,636	-	-	13	-	-	-	-	-	-
Total transactions with owners	-	-	(23,109)	3,636	(233)	-	13	(18,454)	25,826	-	(12,322)	700	(11,622)

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
At 31 December 2011	16,316	254,524	41,587	32,144	6,076	8,524	13	9,766	(1,941)	606	367,614	964	368,578
Profit for the year	-	-	75,040	-	-	-	-	-	-	-	75,040	57	75,097
Other comprehensive income											-	-	-
Foreign currency translation differences, net of tax	-	-	-	-	-	-	-	-	-	1,062	1,062	-	1,062
Tax effects on revaluation of financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value movements on equity financial assets						17,776					17,776	-	17,776
Actuarial gains/(losses) on defined benefit pension scheme	-	-	(340)	-	-	-	-	-	-	-	(340)	-	(340)
Share of OCI of associates, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	74,701	-	-	17,776	-	-	-	1,062	93,539	57	93,596
Transactions with owners					-	-	-	-	-		-		-
Dividends	-	-	(26,105)		-	-	-	-	-		(26,105)		(26,105)
Exchange difference					-	-	-	-	-		-		-
Acquisition of subsidiary					-	-	-	-	-	-	-	1,286	1,286
Transfer from retained earnings	-	-	(27)	-	-	-	27	-	-	-	-	-	-
Transfer between reserves	-	-	(17,219)	10,884	-	-	-	6,335	-	-	-	-	-
Transfer resulting from business restructuring		(65,283)	22,054	(56)	-	(484)	(40)		1,941		(41,868)	(953)	(42,821)
Total transactions with owners	-	(65,283)	(21,297)	10,828	-	(484)	(13)	6,335	1,941	-	(67,973)	333	(67,640)
At 31 December 2012	**16,316**	**189,241**	**94,991**	**42,972**	**6,076**	**25,815**	**0**	**16,101**	**-**	**1,668**	**393,180**	**1,353**	**394,533**

Bank 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	Statutory credit reserve ₦ million	Total ₦ million
Balance at 1 January 2011	16,316	254,524	33,310	28,294	6,309	48,636	28,220	415,609
Profit for the year	-	-	23,052	-	-	-	-	23,052
Other comprehensive income								
Foreign currency translation differences, net of tax	-	-	-	-	-	-	-	-
Tax effects on revaluation of financial assets	-	-	-	-	-	-	-	-
Fair value movements on equity financial assets						(39,476)		(39,476)
Actuarial gains/(losses) on defined benefit pension scheme	-	-	(2,129)	-	-	-	-	(2,129)
Share of OCI of associates, net of tax	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	20,923	-	-	(39,476)	-	(18,553)
Transactions with owners								
(Increase)/decrease in Treasury shares	-	-	-	-	-	-	-	-
Dividends	-	-	(19,580)	-	-	-	-	(19,580)
SMEEIS investments written off					(233)			(233)
Transfer from retained earnings	-	-	18,454			-	(18,454)	-
Transfer between reserves			(3,458)	3,458				
Total transactions with owners	-	-	(4,584)	3,458	(233)	-	(18,454)	(19,813)
At 31 December 2011	16,316	254,524	49,649	31,752	6,076	9,160	9,766	377,243
Profit for the year	-	-	71,144	-	-	-	-	71,144
Other comprehensive income								
Foreign currency translation differences, net of tax	-	-	-	-	-	-	-	-
Fair value movements on equity financial assets						15,518		15,518
Actuarial gains/(losses) on defined benefit pension scheme	-	-	(340)	-	-	-	-	(340)
Share of OCI of associates, net of tax	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	70,804	-	-	15,518	-	86,322
Transactions with owners								
Dividends	-	-	(26,105)	-	-	-	-	(26,105)
SMEEIS investments written off	-	-	-	-		-	-	-
Transfer from retained earnings	-	-	-	-	-	-	-	-
Transfer between reserves	-	-	(17,007)	10,672	-	-	6,335	-
Transfer resulting from business restructuring	-	(65,283)	-	-	-	-	-	(65,283)
Total transactions with owners	-	(65,283)	(43,112)	10,672	-	-	6,335	(91,388)
At 31 December 2012	16,316	189,241	77,342	42,422	6,076	24,678	16,101	372,176

Statement of cash flows

	Note	Commercial Banking business group 31 Dec 2012 ₦ million	Commercial Banking business group 31 Dec 2011 ₦ million	The Bank 31 Dec 2012 ₦ million	The Bank 31 Dec 2011 ₦ million
OPERATING ACTIVITIES					
Cash flow (used in)/generated from operations	43	**(145,419)**	285,287	**(40,367)**	221,203
Income taxes paid		**(21,447)**	(6,614)	**(17,637)**	(2,517)
Interest received		**308,413**	221,439	**269,479**	215,568
Interest paid		**(65,673)**	(43,669)	**(51,073)**	(38,550)
Purchase of investment securities		**(51,473)**	(361,998)	**(24,774)**	(343,328)
Proceeds from the sale of investment securities		**17,612**	14,014	**17,012**	9,515
Gratuity payment to staff		**(15,136)**	(4,915)	**(15,135)**	(3,898)
Net cash flow generated from operating activities		**26,877**	103,544	**137,504**	57,993
INVESTING ACTIVITIES					
Cash and cash equivalent acquired from subsidiary		**11,463**	-	**-**	-
Net cash flow from disposal of subsidiaries		**(30,619)**	-	**-**	-
Net cash flow from business restructuring		**(24,885)**	-	**-**	-
Additional investment in subsidiaries		**-**	-	**(17,307)**	(1,000)
Dividends received		**518**	3,925	**539**	4,776
Purchase of investment property		**-**	(1,563)	**-**	-
Purchase of property, plant and equipment		**(18,635)**	(11,529)	**(16,881)**	(10,592)
Purchase of intangible assets		**(1,494)**	(1,712)	**(1,124)**	(1,551)
Proceeds on disposal of property, plant and equipment		**2,862**	209	**2,808**	151
Net cash used in investing activities		**(60,790)**	(10,670)	**(31,964)**	(8,216)
FINANCING ACTIVITIES					
Proceeds from sale of Treasury shares		**-**	7,497	**-**	-
Dividends paid		**(26,105)**	(19,579)	**(26,105)**	(19,579)
Proceeds from new borrowings		**57,832**	18,671	**57,832**	18,671
Repayment of borrowings		**(85,805)**	(40,529)	**(79,356)**	(40,462)
Net cash (used in)/generated from financing activities		**(54,078)**	(33,940)	**(47,629)**	(41,370)
Increase in cash and cash equivalents		**(87,991)**	58,934	**57,911**	8,407
Cash and cash equivalents at start of year	18	**708,991**	650,714	**467,546**	459,551
Effect of exchange rate fluctuations on cash held		**(137)**	(658)	**(124)**	(412)
Cash and cash equivalents at end of year	18	**620,863**	708,990	**525,333**	467,546

Notes to the annual financial statements

At 31 December 2012

1 General information

These financial statements are the consolidated financial statements of First Bank Nigeria Limited (the Bank), and its subsidiaries (hereafter referred to as 'the Group').

The Registered office address of the Bank is at 35 Marina, Samuel Asabia House.

The principal activities of the Bank are mainly retail banking and corporate banking. Retail banking provides banking activities relating to individuals, such as savings accounts, investment savings products, loans and money transfers. Corporate banking includes activities relating to multinational and local corporations, as well as financial and governmental institutions, such as funds management, credit facilities and project finance.

During the year, there was a business restructuring within the First Bank Group, which resulted in the adoption of the holding company model. Thus, FBN Holdings Plc was set up as a non-operating legal entity domiciled in Nigeria, and regulated by the Central Bank of Nigeria as an 'other financial institution'. See Note (29) for detailed disclosure on the impact of the business restructuring.

As at year end, the Bank has five subsidiary companies namely FBN Bank (UK) Limited, FBN Pension Custodian Nigeria Limited, FBN Mortgages Limited, FBN Bureau de Change Limited and Banque Internationale de Crédit, DRC.

The consolidated financial statements for the year ended 31 December 2012 were approved for issue by the Board of Directors on 28 February 2013.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group and Bank is provided in Note 53.

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 Bank.

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

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

i Amendment to IAS 19, 'Employee benefits' (effective for periods beginning on or after 1 January 2013).

These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

ii Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting (effective for periods beginning on or after 1 January 2014).

This amendment clarifies some of the requirements for offsetting financial assets and liabilities on the reporting date.

The Group is yet to assess the full effect of IAS 32 and intends to adopt IAS 32 no later than the accounting period beginning on or after 1 January 2014.

iii IFRS 10, 'Consolidated financial statements' (effective for periods beginning on or after 1 January 2013).

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.

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

iv IFRS 11, 'Joint arrangements' (effective for periods beginning on or after 1 January 2013).

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures.

Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venturer has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

The Group is yet to assess the full effect of IFRS 11 and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.

v IFRS 12, 'Disclosures of interests in other entities' (effective for periods beginning on or after 1 January 2013).

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

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

vi IFRS 13, 'Fair value measurement' (effective for periods beginning on or after 1 January 2013).

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

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

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

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

viii IAS 28 (revised 2011), 'Associates and joint ventures' (effective for periods beginning on or after 1 January 2013).

IAS 28 (revised 2011) includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 11.

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

ix IFRS 9, 'Financial Instruments' (effective for periods beginnning on or after 1 January 2015).

This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

The Group is yet to assess the full effect of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

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

2.3 Consolidation

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

(a) Business combinations

i Acquisitions on or after 1 January 2011

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

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

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

Notes to the annual financial statements
At 31 December 2012

ii Acquisitions prior to 1 January 2011

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

(b) Acquisitions of non-controlling interests

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

(c) Subsidiaries

The consolidated financial statements incorporates the financial statements of the Bank and all its subsidiaries where it is determined that there is a capacity to control.

Control means the power to govern, directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities. All the facts of a particular situation are considered when determining whether control exists.

Control is usually present when an entity has:

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

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

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

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

(d) Associates

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

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

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

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

(e) Special purpose entities (SPEs)

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

2.4 Common control transactions

A business combination involving entities or businesses under common control is excluded from the scope of IFRS 3: Business Combinations. The exemption is applicable where the combining entities or businesses are controlled by the same party both before and after the combination. Where such transactions occur, the Bank, 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 Bank applies the guidance as set out in IFRS 3R on common control transactions. The assets and liabilities of the business transferred are measured at their existing book value in the consolidated financial statements of the parent, as measured under IFRS.

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

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The financial statements are presented in naira millions.

(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 remeasured.

Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the end of the reporting period. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the profit or loss.

Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial instruments held at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments measured at available for sale are included in other comprehensive income and cumulated in the fair value reserve. Non-monetary items that are measured under the historical cost basis are not retranslated.

(c) Foreign operations

The results and financial position of all the Group entities which have functional currency different from the Group's presentation currency, are translated into the Group's presentation currency as follows:

- assets and liabilities of each foreign operation are translated at the rates of exchange ruling at the reporting date;
- income and expenses of each foreign operation are translated at the average exchange rate for the period, unless this average is not a reasonable approximation of the rate prevailing on transaction date, in which case income and expenses are translated at the exchange rate ruling at transaction date; and
- all resulting exchange differences are recognised in other comprehensive income and are classified as equity and recognised in the foreign currency translation reserve.

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

2.6 Income taxation

(a) Current income tax

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

(b) Deferred income tax

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

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

2.7 Inventories

The Group recognises property as inventory under the following circumstances:

i property purchased for the specific purpose of resale;

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

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.

2.8 Financial assets and liabilities

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

2.8.1 Financial assets

The Group allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Directors determine the classification of its financial instruments at initial recognition.

(a) Financial assets at fair value through profit or loss

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

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

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'.

Receivables arising out of Insurance arrangements are also classified in this category and reviewed for impairment in line with IAS 39.

(c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's 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 the profit or loss, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement in 'Other operating income' when the Group's right to receive payment is established.

(e) Recognition

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

2.8.2 Financial liabilities

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

(a) Financial liabilities at fair value through profit or loss

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

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

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

Gains and losses arising from changes in fair value of financial liabilities classified as 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.

2.8.3 Derivative financial instruments

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

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2.8.4 Embedded derivatives

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

2.8.5 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 3.6.

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.

2.8.6 De-recognition of financial instruments

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

2.9 Reclassification of financial assets

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

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

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2.10 Classes of financial instrument

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

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

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2.11 Offsetting financial instruments

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

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

2.12 Revenue recognition

(a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in 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

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

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

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

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

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

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

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

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

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

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

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

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

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

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

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

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

2.14 Impairment of non-financial assets

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

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 leases

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

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

(b) The Group is the lessor

i Operating lease

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

ii Finance lease

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

2.18 Property, plant and equipment

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

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

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

Asset class	Depreciation rate
Motor vehicles	25%
Office equipment	20%
Furniture and fittings	20%
Computer hardware and equipment	33.3%
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

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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.

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

2.19 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiary and 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.

(c) Impairment of tangible and intangible assets excluding goodwill

At each reporting date, or more frequently where events or changes in circumstances dictate, tangible and intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's or the cash-generating unit's net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

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

2.20 Employee benefits

The Group has both defined contribution and defined benefit 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 an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Defined benefit plan

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

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

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

2.21 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.

2.22 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.

2.23 Investment properties

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

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

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

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

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

2.24 Cash and cash equivalents

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

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

2.25 Share capital

(a) Share issue costs

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

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the 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 Bank or other members of the Group purchase the Bank'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 attendant provision as per the table below based on objective criteria.

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

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

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

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 the Statement of Comprehensive Income.

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.

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 Bank. 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 Insurance contracts and investment contracts

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

2.28 Life insurance contracts

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

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 Bank's risk management directorate (the Directorate) under policies approved by the Board of Directors. The Bank's Risk Management Directorate provides central oversight of risk management across the Bank and its subsidiaries to ensure that the full spectrum of risks facing the Bank and the Group are properly identified, measured, monitored and controlled to minimise adverse outcomes. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and the 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 Bank considers sound risk management to be the foundation of a long-lasting financial institution.
- The Bank 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 Bank.
- Risk management is a shared responsibility. Therefore, the Bank aims to build a shared perspective on risks that is grounded in consensus.
- The Bank'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 Bank 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 Bank 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.
- All subsidiaries are guided by the principles enshrined in the risk management policies of the Bank.

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 arises mainly from commercial and consumer loans and advances and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Bank's Chief Risk Officer (CRO) regularly.

3.2.1 Credit risk measurement

In measuring the credit risk of loan 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 ten risk buckets to provide a pre-set, objective basis for making credit decisions, with one additional bucket specifically included to categorise an obligor in default. Each risk bucket may be denoted alphabetically and by a 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 Bank does not lend to non-investment grade obligors on an unsecured basis, except as specified under a product programme. The Facility Risk Rating (FRR) is different from the Obligor Risk Rating (ORR) to the extent of the perceived value of collateral/enhancement provided.
- The Collateral Risk Rating grid indicates the acceptable collateral types rated 1–8 from best to worst in order of liquidity.

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

3.2.2 Risk limit control and mitigation policies

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

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

Portfolio limits

The process of setting the limits is as follows:

- The Group engages in a detailed portfolio plan annually. In drawing up the plan, the Group reviews the macro-economic factors, identifies the growth sectors of the economy and conducts a risk rating of the sectors to determine its acceptable target market industries and exception. The target loan portfolio is then distributed across acceptable target market industries, strategic business units and approved product programmes.
- There is an aggregate large exposure limit of not more than 400% of Bank's shareholders' funds.
- There is a public sector exposure limit of not more than 10% (including contingent liability) of the Bank's loan portfolio.
- Industry/economic sector limits are imposed on the Bank'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, etc.).
  – The Group would strive to limit its exposure to any single industry to not more than 20% of its loan portfolio and such industry must be rated 'BBB' or better.
  – No more than 15% of the Group's portfolio would be in any industry rated 'BB' or worse.
  – No more than 10% of the Group's portfolio would be in any single industry rated 'B' or worse.

Geographical limits

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

Single obligor limits

- Limits are imposed on loans to individual borrowers. The Group as a matter of policy does not lend above its regulatory lending limit, which is 20% of its shareholders' funds (SHF) unimpaired by losses. The internal guidance limit is, however, set at 18% of SHF to create a prudent buffer.
- Also, the Group will not ordinarily advance beyond 50% of customers' shareholders' funds/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 the total retail portfolio.
  – No single retail loan should amount to more than 0.5% of the related retail product portfolio.

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

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

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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	RISK_SCO2 + BUSINESS_SCO1	5,000,000	1,000,000
7	RISK_SCO3 + BUSINESS_SCO2	500,000	250,000
8	RISK_SCO4 + BDM/GH	100,000	100,000

The Group also controls and mitigates risk through collateral.

Collateral

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

- mortgages over residential properties;
- charges over business assets such as premises, inventory and accounts receivable; 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.

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.

3.2.3 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.

The impairment allowance shown in the consolidated statement of financial position at year end is derived from the Group's rating system (the Obligor Risk Rating).

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

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

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Balances with Central Banks	**244,941**	153,935	42,362	**240,887**	153,904	42,361
Loans and advances to banks	**393,125**	462,856	575,467	**329,120**	222,347	383,880
Loans and advances to customers	**1,563,005**	1,252,462	1,160,293	**1,316,407**	1,144,461	1,046,925
Financial assets held for trading	**2,565**	2,682	11,485	**1,942**	2,552	11,485
Investment securities – debt						
Available-for-sale investments	**303,876**	304,840	139,946	**252,911**	298,623	128,111
Held to maturity investments	**330,860**	337,336	31,886	**330,860**	329,857	44,331
Assets pledged as collateral	**50,109**	72,129	122,009	**50,109**	72,129	122,009
Assets classified as held for sale	**7,341**	-	-	**-**	-	-
Other assets	**25,274**	52,996	30,699	**25,108**	36,152	27,406
	2,921,096	2,639,236	2,114,147	**2,547,344**	2,260,025	1,806,508

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

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Loan commitments	**27,111**	13,481	3,752			
Letter of credit and other credit related obligations	**220,388**	231,834	155,888	**196,267**	153,695	151,337
	247,499	245,315	159,640	**196,267**	153,695	151,337

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

3.2.5 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Group's credit exposure at the carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as of 31 December 2012, 31 December 2011 and 1 January 2011. 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.

	Commercial Banking business group						
	Lagos ₦ million	Southern Nigeria ₦ million	Western Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe & America ₦ million	Total ₦ million
Balances with Central Bank	235,046	-	-	-	9,857	38	**244,941**
Loans and advances to banks	61,949	-	-	-	11,059	320,117	**393,125**
Loans and advances to customers	883,300	204,101	124,324	106,893	18,738	225,649	**1,563,005**
Financial assets held for trading	1,888	-	-	-	-	677	**2,565**
Investment securities	564,527	13,611	3,943	1,632	-	51,023	**634,736**
Assets pledged as collateral	50,109	-	-	-	-	-	**50,109**
Assets classfied as held for sale	5,139	1,101	-	1,101	-	-	**7,341**
Other assets	15,014	4,017	3,013	1,506	1,490	233	**25,274**
31 December 2012	**1,816,972**	**222,830**	**131,280**	**111,132**	**41,144**	**597,738**	**2,921,096**

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

	Commercial Banking business group						
	Lagos ₦ million	Southern Nigeria ₦ million	Western Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe & America ₦ million	Total ₦ million
Loan commitments	-	-	-	-	-	27,111	**27,111**
Letters of credit and other credit related obligations	186,037	5,960	50	4,220	-	24,121	**220,388**
31 December 2012	**186,037**	**5,960**	**50**	**4,220**	**-**	**51,232**	**247,499**

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	Commercial Banking business group						
	Lagos ₦ million	Southern Nigeria ₦ million	Western Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe & America ₦ million	Total ₦ million
Balances with Central Bank	153,935	-	-	-	-	-	**153,935**
Loans and advances to banks	33,627	-	-	-	3,434	425,795	**462,856**
Loans and advances to customers	781,515	168,783	78,974	82,901	-	140,289	**1,252,462**
Financial assets held for trading	1,672	-	-	-	-	1,010	**2,682**
Investment securities	596,384	12,889	1,009	2,366	-	29,528	**642,176**
Assets pledged as collateral	72,129	-	-	-	-	-	**72,129**
Other assets	40,942	5,607	4,159	2,288	-	-	**52,996**
31 December 2011	**1,680,204**	**187,279**	**84,142**	**87,555**	**3,434**	**596,622**	**2,639,236**

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

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

	Commercial Banking business group						
	Lagos ₦ million	Southern Nigeria ₦ million	Western Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe & America ₦ million	Total ₦ million
Balances with Central Bank	42,362	-	-	-	-	-	**42,362**
Loans and advances to banks	285,828	-	-	-	646	288,993	**575,467**
Loans and advances to customers	762,164	160,747	32,525	71,617	-	133,240	**1,160,293**
Financial assets held for trading	9,554	-	-	-	-	1,931	**11,485**
Investment securities	146,484	11,428	-	261	-	13,659	**171,832**
Assets pledged as collateral	122,009	-	-	-	-	-	**122,009**
Other assets	21,344	4,275	3,171	1,745	-	164	**30,699**
1 January 2011	**1,389,745**	**176,450**	**35,696**	**73,623**	**646**	**437,987**	**2,114,147**

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

	Commercial Banking business group						
	Lagos ₦ million	Southern Nigeria ₦ million	Western Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe & America ₦ million	Total ₦ million
Loan commitments	-	-	-	-	-	3,752	**3,752**
Letters of credit and other credit related obligations	139,143	8,295	14	3,885	-	4,551	**155,888**
1 January 2011	**139,143**	**8,295**	**14**	**3,885**	**-**	**8,303**	**159,640**

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	The Bank						
	Lagos ₦ million	Southern Nigeria ₦ million	Western Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe & America ₦ million	Total ₦ million
Balances with Central Bank	240,887	-	-	-	-	-	**240,887**
Loans and advances to banks	42,858	-	-	-	563	285,699	**329,120**
Loans and advances to customers	881,089	204,101	124,324	106,893	-	-	**1,316,407**
Financial assets held for trading	1,887	-	-	-	-	55	**1,942**
Investment securities	564,585	13,611	3,943	1,632	-	-	**583,771**
Assets pledged as collateral	50,109	-	-	-	-	-	**50,109**
Other assets	16,571	4,017	3,013	1,506	-	-	**25,108**
31 December 2012	**1,797,986**	**221,729**	**131,280**	**110,031**	**563**	**285,754**	**2,547,344**

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

	The Bank						
	Lagos ₦ million	Southern Nigeria ₦ million	Western Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe & America ₦ million	Total ₦ million
Letters of credit and other credit related obligations	186,037	5,960	50	4,220	-	-	**196,267**
31 December 2012							

	The Bank						
	Lagos ₦ million	Southern Nigeria ₦ million	Western Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe & America ₦ million	Total ₦ million
Balances with Central Bank	153,904	-	-	-	-	-	**153,904**
Loans and advances to banks	21,951	-	-	-	3,434	196,962	**222,347**
Loans and advances to customers	797,216	185,370	78,974	82,901	-	-	**1,144,461**
Financial assets held for trading	1,672	-	-	-	-	880	**2,552**
Investment securities	610,872	14,944	1,009	1,655	-	-	**628,480**
Assets pledged as collateral	72,128	-	-	-	-	-	**72,128**
Other assets	24,098	5,607	4,159	2,288	-	-	**36,152**
31 December 2011	**1,681,841**	**205,921**	**84,142**	**86,844**	**3,434**	**197,842**	**2,260,024**

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

	The Bank						
	Lagos ₦ million	Southern Nigeria ₦ million	Western Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe & America ₦ million	Total ₦ million
Letters of credit and other credit related obligations	138,694	4,422	312	10,267	-	-	**153,695**
31 December 2011	**138,694**	**4,422**	**312**	**10,267**	**-**	**-**	**153,695**

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	The Bank						
	Lagos ₦ million	Southern Nigeria ₦ million	Western Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe & America ₦ million	Total ₦ million
Balances with Central Bank	42,361	-	-	-	-	-	**42,361**
Loans and advances to banks	275,210	-	-	-	646	108,024	**383,880**
Loans and advances to customers	782,035	160,747	32,525	71,618	-	-	**1,046,925**
Financial assets held for trading	9,558	-	-	-	-	1,927	**11,485**
Investment securities	158,303	13,878	-	261	-	-	**172,442**
Assets pledged as collateral	122,009	-	-	-	-	-	**122,009**
Other assets	18,215	4,275	3,171	1,745	-	-	**27,406**
1 January 2011	**1,407,691**	**178,900**	**35,696**	**73,624**	**646**	**109,951**	**1,806,508**

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

	The Bank						
	Lagos ₦ million	Southern Nigeria ₦ million	Western Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe & America ₦ million	Total ₦ million
Letters of credit and other credit related obligations	139,143	8,295	14	3,885	-	-	**151,337**
1 January 2011	**139,143**	**8,295**	**14**	**3,885**	**-**	**-**	**151,337**

(b) Industry sectors

The following table breaks down the Group's credit exposure at the 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 equty instruments.

	Commercial Banking business group						
	Loans and advances to banks ₦ million	Loans and advances to customers ₦ million	Financial assets held for trading ₦ million	Investment securities ₦ million	Assets pledged as collateral ₦ million	Other assets ₦ million	Total ₦ million
Agriculture	-	54,006	-	-	-	-	**54,006**
Oil and gas	-	555,583	1,205	-	-	-	**556,788**
Consumer credit	-	148,808	-	2,000	-	-	**150,808**
Manufacturing	-	233,445	-	-	-	-	**233,445**
Real estate	-	129,498	-	-	-	-	**129,498**
Construction	-	35,131	-	500	-	-	**35,631**
Finance and insurance	393,125	18,169	678	8,555	-	25,274	**445,801**
Transportation	-	11,506	-	-	-	-	**11,506**
Communication	-	80,609	-	-	-	-	**80,609**
General commerce	-	80,691	2	-	-	-	**80,693**
Utilities	-	6,369	-	-	-	-	**6,370**
Retail services	-	90,683	-	-	-	-	**90,683**
Public sector	-	118,507	680	623,681	50,109	-	**792,977**
Total at 31 December 2012	**393,125**	**1,563,005**	**2,565**	**634,736**	**50,109**	**25,274**	**2,668,815**

The industrial sector for the credit exposure in the assets held for sale balance is general commerce.

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	Commercial Banking business group						
	Loans and advances to banks ₦ million	Loans and advances to customers ₦ million	Financial assets held for trading ₦ million	Investment securities ₦ million	Assets pledged as collateral ₦ million	Other assets ₦ million	Total ₦ million
Agriculture	-	21,057	-	-	-	-	**21,057**
Oil and gas	-	356,516	79	-	-	-	**356,595**
Consumer credit	-	224,245	-	-	-	-	**224,245**
Manufacturing	-	135,453	-	2,015	-	-	**137,468**
Real estate	-	49,622	-	-	-	-	**49,622**
Construction	-	8,566	-	513	-	-	**9,079**
Finance and insurance	462,856	51,018	1,010	11,260	-	52,996	**579,140**
Transportation	-	5,288	-	-	-	-	**5,288**
Communication	-	67,711	-	-	-	-	**67,711**
General commerce	-	92,204	35	-	-	-	**92,239**
Utilities	-	-	-	-	-	-	**-**
Retail services	-	129,074	-	-	-	-	**129,074**
Public sector	-	111,708	1,558	628,388	72,129	-	**813,783**
Total at 31 December 2011	**462,856**	**1,252,462**	**2,682**	**642,176**	**72,129**	**52,996**	**2,485,301**

	Commercial Banking business group						
	Loans and advances to banks ₦ million	Loans and advances to customers ₦ million	Financial assets held for trading ₦ million	Investment securities ₦ million	Assets pledged as collateral ₦ million	Other assets ₦ million	Total ₦ million
Agriculture	-	12,546	-	-	-	-	**12,546**
Oil and gas	-	214,820	-	-	-	-	**214,820**
Consumer credit	-	70,970	-	-	-	-	**70,970**
Manufacturing	-	88,832	-	-	-	-	**88,832**
Real estate	-	111,443	-	-	-	-	**111,443**
Construction	-	8,674	-	-	-	-	**8,674**
Finance and insurance	575,467	211,181	1,931	3,687	-	30,699	**822,965**
Transportation	-	1,804	-	-	-	-	**1,804**
Communication	-	71,783	-	-	-	-	**71,783**
General commerce	-	188,023	31	-	-	-	**188,054**
Utilities	-	1,274	-	-	-	-	**1,274**
Retail services	-	114,176	-	-	-	-	**114,176**
Public sector	-	64,767	9,523	168,145	122,009	-	**364,444**
Total at 1 January 2011	**575,467**	**1,160,293**	**11,485**	**171,832**	**122,009**	**30,699**	**2,071,785**

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	The Bank						
	Loans and advances to banks ₦ million	Loans and advances to customers ₦ million	Financial assets held for trading ₦ million	Investment securities ₦ million	Assets pledged as collateral ₦ million	Other assets ₦ million	Total ₦ million
Agriculture	-	27,196	-	-	-	-	**27,196**
Oil and gas	-	492,019	1,205	-	-	-	**493,224**
Consumer credit	-	141,637	-	2,000	-	-	**143,637**
Manufacturing	-	158,175	-	-	-	-	**158,175**
Real estate	-	83,689	-	-	-	-	**83,689**
Construction	-	34,512	-	500	-	-	**35,012**
Finance and insurance	329,120	18,091	55	8,555	-	25,108	**380,929**
Transportation	-	4,924	-	-	-	-	**4,924**
Communication	-	78,970	-	-	-	-	**78,970**
General commerce	-	62,603	2	-	-	-	**62,605**
Utilities	-	5,308	-	-	-	-	**5,308**
Retail services	-	89,842	-	-	-	-	**89,842**
Public sector	-	119,440	680	572,716	50,109	-	**742,945**
Total at 31 December 2012	**329,120**	**1,316,407**	**1,942**	**583,771**	**50,109**	**25,108**	**2,306,457**

	The Bank						
	Loans and advances to banks ₦ million	Loans and advances to customers ₦ million	Financial assets held for trading ₦ million	Investment securities ₦ million	Assets pledged as collateral ₦ million	Other assets ₦ million	Total ₦ million
Agriculture	-	21,057	-	-	-	-	**21,057**
Oil and gas	-	349,673	79	-	-	-	**349,752**
Consumer credit	-	89,961	-	-	-	-	**89,961**
Manufacturing	-	132,014	-	2,015	-	-	**134,029**
Real estate	-	83,035	-	-	-	-	**83,035**
Construction	-	8,162	-	2,963	-	-	**11,125**
Finance and insurance	222,347	68,036	880	28,378	-	36,152	**355,793**
Transportation	-	5,288	-	-	-	-	**5,288**
Communication	-	67,711	-	-	-	-	**67,711**
General commerce	-	92,869	35	-	-	-	**92,904**
Utilities	-	4,123	-	-	-	-	**4,123**
Retail services	-	120,329	-	-	-	-	**120,329**
Public sector	-	102,203	1,558	595,124	72,129	-	**771,014**
Total at 31 December 2011	**222,347**	**1,144,461**	**2,552**	**628,480**	**72,129**	**36,152**	**2,106,121**

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	The Bank						
	Loans and advances to banks ₦ million	**Loans and advances to customers ₦ million**	**Financial assets held for trading ₦ million**	**Investment securities ₦ million**	**Assets pledged as collateral ₦ million**	**Other assets ₦ million**	**Total ₦ million**
Agriculture	-	12,546	-	-	-	-	**12,546**
Oil and gas	-	216,307	-	-	-	-	**216,307**
Consumer credit	-	67,812	-	-	-	-	**67,812**
Manufacturing	-	88,832	-	-	-	-	**88,832**
Real estate	-	109,792	-	-	-	-	**109,792**
Construction	-	7,996	-	2,450	-	-	**10,446**
Finance and insurance	383,880	229,840	1,931	18,604	-	27,406	**661,661**
Transportation	-	6,178	-	-	-	-	**6,178**
Communication	-	72,348	-	-	-	-	**72,348**
General commerce	-	86,437	31	-	-	-	**86,468**
Utilities	-	1,274	-	-	-	-	**1,274**
Retail services	-	83,133	-	-	-	-	**83,133**
Public sector	-	64,431	9,523	151,388	122,009	-	**347,351**
Total at 1 January 2011	**383,880**	**1,046,925**	**11,485**	**172,442**	**122,009**	**27,406**	**1,764,147**

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

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**	**31 Dec 2012 ₦ million**	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
Agriculture	**2,630**	32,751	6,953	**2,630**	32,751	6,953
Oil and gas	**111,947**	53,342	66,892	**111,947**	53,342	66,892
Consumer credit	**-**	-	-	**-**	-	-
Manufacturing	**29,862**	56,369	38,447	**29,862**	56,369	38,447
Real estate	**-**	-	-	**-**	-	-
Construction	**1,853**	1,490	-	**1,853**	1,490	-
Finance and insurance	**73,796**	13,481	3,752	**22,564**	-	-
Transportation	**138**	-	-	**138**	-	-
Communication	**249**	6,116	9,562	**249**	6,116	9,562
General commerce	**25,730**	78,082	33,230	**25,730**	2,897	28,679
Utilities	**33**	505	-	**33**	505	-
Retail services	**1,261**	225	804	**1,261**	225	804
Public sector	**-**	-	-	**-**	-	-
Total	**247,499**	242,361	159,640	**196,267**	153,695	151,337

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3.2.6 Loans and advances

Credit quality of loans and advances is summarised as follows:

	Commercial Banking business group					
	31 December 2012		31 December 2011		1 January 2011	
	Loans to customers ₦ million	Loans to banks ₦ million	Loans to customers ₦ million	Loans to banks ₦ million	Loans to customers ₦ million	Loans to banks ₦ million
Neither past due nor impaired	**1,386,391**	**393,125**	1,057,878	462,856	918,961	575,467
Past due but not impaired	**174,497**	**-**	193,881	-	201,678	-
Individually impaired	**21,811**	**-**	14,669	-	65,338	-
Collectively impaired	**19,632**	**-**	18,976	-	26,118	-
Gross	**1,602,331**	**393,125**	1,285,404	462,856	1,212,095	575,467
Less: allowance for impairment	**(39,326)**	**-**	(32,942)	-	(51,802)	-
Net	**1,563,005**	**393,125**	1,252,462	462,856	1,160,293	575,467
Individually impaired	**17,133**	**-**	12,934	-	26,031	-
Portfolio allowance	**22,193**	**-**	20,008	-	25,772	-
Total	**39,326**	**-**	32,942	-	51,803	-

	The Bank					
	31 December 2012		31 December 2011		1 January 2011	
	Loans to customers ₦ million	Loans to banks ₦ million	Loans to customers ₦ million	Loans to banks ₦ million	Loans to customers ₦ million	Loans to banks ₦ million
Neither past due nor impaired	**1,142,365**	**329,120**	950,380	222,347	804,457	383,880
Past due but not impaired	**173,723**	**-**	193,848	-	201,667	-
Individually impaired	**21,637**	**-**	12,137	-	64,837	-
Collectively impaired	**15,660**	**-**	15,978	-	26,524	-
Gross	**1,353,385**	**329,120**	1,172,343	222,347	1,097,485	383,880
Less: allowance for impairment	**36,978**	**-**	27,882	-	50,560	-
Net	**1,316,407**	**329,120**	1,144,461	222,347	1,046,925	383,880
Individually impaired	**14,807**	**-**	7,804	-	26,031	-
Portfolio allowance	**22,171**	**-**	20,078	-	24,530	-
Total	**36,978**	**-**	27,882	-	50,560	-

(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 page 162 for the description of the internal rating scale).

	Commercial Banking business group			The Bank		
Grades:	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
AAA	**-**	24,377	-	**-**	-	-
AA	**46,703**	101,823	62,000	**46,703**	90,000	62,000
A	**16,135**	16,000	17,000	**16,135**	16,000	17,000
BBB	**158,044**	179,518	353,000	**158,044**	171,000	353,000
BB	**650,175**	379,343	119,000	**418,171**	373,343	119,000
B	**504,570**	327,413	367,961	**492,548**	271,037	253,457
CCC	**10,587**	12,000	-	**10,587**	12,000	-
CC	**-**	3,000	-	**-**	3,000	-
C	**177**	14,404	-	**177**	14,000	-
	1,386,391	1,057,878	918,961	**1,142,365**	950,380	804,457

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(b) Loans and advances past due but not impaired

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Past due up to 30 days	**96,890**	151,348	79,257	**96,249**	151,326	79,257
Past due by 30–60 days	**12,930**	28,641	13,479	**12,813**	28,637	13,476
Past due 60–90 days	**64,677**	13,892	108,942	**64,661**	13,885	108,934
Gross amount	**174,497**	193,881	201,678	**173,723**	193,848	201,667

(c) Collectively impaired loans

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

(d) Loans and advances individually impaired

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Gross amount	**21,811**	14,669	65,338	**21,637**	12,137	64,837
Specific impairment	**17,133**	12,934	26,031	**14,807**	7,804	26,031
Net amount	**4,678**	1,735	39,307	**6,830**	4,333	38,806

(e) Credit quality of investment in debt securities and other assets is summarised as follows:

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

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

	Commercial Banking business group			The Bank		
	Investments in debt securities			Investments in debt securities		
	Treasury Bills ₦ million	Bonds ₦ million	Other assets ₦ million	Treasury Bills ₦ million	Bonds ₦ million	Other assets ₦ million
31 December 2012						
A+ to A-	139,458	356,967	-	126,338	319,016	-
Unrated	-	189,206	31,512	-	189,206	31,332
	139,458	546,173	31,512	126,338	508,222	31,332
31 December 2011						
A+ to A-	173,000	356,871	-	172,169	354,686	-
Unrated	-	185,992	60,031	-	175,312	42,376
	173,000	542,863	60,031	172,169	529,998	42,376
1 January 2011						
A+ to A-	23,770	258,991	-	23,600	255,980	-
Unrated	-	20,603	34,680	-	24,394	30,853
	23,770	279,594	34,680	23,600	280,374	30,853

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3.2.7 Statement of Prudential adjustment

In compliance with the CBN circular dated 19 March 2013 reference BSD/DIR/CEN/LAB/06/014, the impairment provision under IFRS and the provisions under the Nigerian Prudential Guidelines as determined by the Central Bank of Nigeria (CBN) were compared and shown below:

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Total IFRS impairment losses	**43,202**	34,129	54,062
Prudential provisions	**59,303**	43,895	82,282
Transfer to statutory credit reserve	**(16,101)**	(9,766)	(28,220)
Analysis of the IFRS impairment losses			
Loans: specific impairment (Note 20)	**14,807**	7,804	26,031
Loans: collective impairment (Note 20)	**22,171**	20,078	24,561
Other assets (Note 33)	**6,224**	6,224	3,447
Investments in subsidiaries (Note 24)	**-**	23	23
Total IFRS impairment losses	**43,202**	34,129	54,062

3.3 Liquidity risk

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 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.

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.

Funding approach

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

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

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Group manages the liquidity risk based on on a different basis not resulting in a significantly different analysis.

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Commercial Banking business 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 2012							
Financial liabilities							
Deposits from banks	-	90,134	-	-	-	-	90,134
Deposits from customers	2,205,868	187,604	35,682	40,592	4	-	2,469,750
Financial liabilities held for trading	-	579	616	40	561	-	1,796
Borrowings	-	45,442	2,210	3,478	25,187	-	76,317
Other liabilities	21,052	16,991	71,713	8,310	-	-	118,066
Total financial liabilities	**2,226,920**	**340,750**	**110,221**	**52,420**	**25,752**	**-**	**2,756,063**
Assets held for managing liquidity risk	**764,666**	**76,914**	**31,604**	**60,678**	**126,781**	**317,918**	**1,378,561**
Loan commitments	27,111	-	-	-	-	-	27,111
Letters of credit and other credit related obligations	2,838	23,200	48,952	141,678	3,719	-	220,388
31 December 2011							
Financial liabilities							
Deposits from banks	-	188,913	-	-	-	-	188,913
Deposits from customers	179,629	296,410	252,678	288,109	943,489	-	1,960,315
Financial liabilities held for trading	14	1,995	84	50	714	-	2,857
Borrowings	-	10,047	6,002	5,494	84,394	-	105,937
Other liabilities	19,228	72,691	46,146	4,795	12,219	3,683	158,762
Total financial liabilities	**198,871**	**570,056**	**304,910**	**298,448**	**1,040,816**	**3,683**	**2,416,784**
Assets held for managing liquidity risk	**435,498**	**270,111**	**96,778**	**119,315**	**165,798**	**291,571**	**1,379,071**
Loan commitments	13,481	-	-	-	-	-	13,481
Letters of credit and other credit related obligations	11,755	72,283	35,023	108,981	838	-	228,880
1 January 2011							
Financial liabilities							
Deposits from banks	-	152,728	-	-	-	-	152,728
Deposits from customers	511,663	360,991	212,051	224,495	146,844	-	1,456,044
Financial liabilities held for trading	13	-	-	-	1,187	439	1,639
Borrowings	-	-	1,478	20,362	80,078	26,359	128,277
Other liabilities	58,763	4,792	41,728	900	14,287	-	120,470
Total financial liabilities	**570,439**	**518,511**	**255,257**	**245,757**	**242,396**	**26,798**	**1,859,158**
Assets held for managing liquidity risk	**636,439**	**32,425**	**24,974**	**31,221**	**161,053**	**70,198**	**956,310**
Loan commitments	3,752	-	-	-	-	-	3,752
Letters of credit and other credit related obligations	18,043	22,518	12,303	102,473	551	-	155,888

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At 31 December 2012

The Bank

	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 2012							
Financial liabilities							
Deposits from banks	-	19,008	-	-	-	-	19,008
Deposits from customers	2,018,962	133,875	29,068	27,362	4	-	2,209,270
Financial liabilities held for trading	-	61	616	40	561	-	1,278
Borrowings	-	51,607	2,210	3,478	25,187	-	82,481
Other liabilities	2,990	6,868	62,648	-	14,533	-	87,039
Total financial liabilities	**2,021,952**	**211,419**	**94,541**	**30,880**	**40,285**	**-**	**2,399,077**
Assets held for managing liquidity risk	**657,109**	**96,902**	**31,604**	**60,678**	**94,432**	**312,452**	**1,253,177**
Letters of credit and other credit related obligations	2,838	8,862	43,891	140,676	-	-	**196,267**
31 December 2011							
Financial liabilities							
Deposits from banks	-	52,820	-	-	-	-	52,820
Deposits from customers	147,832	243,761	213,830	271,223	913,201	-	1,789,847
Financial liabilities held for trading	14	281	84	50	714	-	1,143
Borrowings	-	10,047	5,999	5,312	84,394	-	105,752
Other liabilities	14,653	72,691	19,309	4,795	1,806	3,683	116,938
Total financial liabilities	**162,499**	**379,600**	**239,222**	**281,380**	**1,000,115**	**3,683**	**2,066,500**
Assets held for managing liquidity risk	**432,985**	**45,456**	**82,817**	**118,664**	**165,798**	**257,529**	**1,103,249**
Letters of credit and other credit related obligations	11,755	15,356	17,975	108,609	-	-	153,695
1 January 2011							
Financial liabilities							
Deposits from banks	-	56,860	-	-	-	-	56,860
Deposits from customers	478,559	306,171	198,467	223,228	127,702	-	1,334,127
Financial liabilities held for trading	13	-	-	-	1,187	439	1,639
Borrowings	-	-	1,478	20,362	80,078	26,359	128,277
Other liabilities	21,806	4,792	43,350	900	13,385	-	84,233
Total financial liabilities	**500,378**	**367,823**	**243,295**	**244,490**	**222,352**	**26,798**	**1,605,136**
Assets held for managing liquidity risk	**444,229**	**32,255**	**20,139**	**25,061**	**161,053**	**64,523**	**747,260**
Letters of credit and other credit related obligations	18,043	21,018	10,803	101,473	-	-	151,337

Assets held for managing liquidity risk

The Group holds a diversified portfolio of cash and high-quality securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk comprise:

- cash and balances with Central Banks;
- government bonds and other securities that are readily acceptable in repurchase agreements with Central Banks; and
- secondary sources of liquidity in the form of highly liquid instruments in the Group's trading portfolios.

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Derivative liabilities

Derivatives settled on a net basis

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

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

	Commercial Banking business 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
At 31 December 2012							
Derivative liabilities							
Interest rate swap	-	(61)	-	-	-	-	(61)
Accumulator-Forward FX contract	-	-	-	-	(260)	-	(260)
	-	(61)	-	-	(260)	-	(321)
Derivative assets							
Interest rate swap	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	(61)	-	-	(260)	-	(321)
At 31 December 2011							
Derivative liabilities							
Interest rate swap	-	(282)	-	-	(158)	-	(439)
Accumulator-Forward FX contract	-	-	-	-	(556)	-	(556)
	-	(282)	-	-	(714)	-	(995)
Derivative assets							
Interest rate swap	-	665	-	-	-	-	665
Accumulator-Forward FX contract	138	-	-	-	-	-	138
	138	665	-	-	-	-	802
	138	383	-	-	(714)	-	(193)
At 1 January 2011							
Derivative liabilities							
Interest rate swap	-	-	-	-	(834)	-	(834)
Accumulator-Forward FX contract	-	-	-	(354)	(439)	-	(792)
	-	-	-	(354)	(1,273)	-	(1,626)
Derivative assets							
Interest rate swap	-	-	-	-	1,927	-	1,927
Accumulator-Forward FX contract	-	-	-	-	-	-	-
	-	-	-	-	1,927	-	1,927
	-	-	-	(354)	654	-	300

Notes to the annual financial statements
At 31 December 2012

The Bank	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
At 31 December 2012							
Derivative liabilities							
Interest rate swap	-	(61)	-	-	-	-	(61)
Accumulator-Forward FX contract	-	-	-	-	(260)	-	(260)
	-	(61)	-	-	(260)	-	(321)
	-	(61)	-	-	(260)	-	(321)
At 31 December 2011							
Derivative liabilities							
Interest rate swap	-	(282)	-	-	(158)	-	(440)
Accumulator-Forward FX contract	-	-	-	-	(556)	-	(556)
	-	(282)	-	-	(714)	-	(996)
Derivative assets							
Interest rate swap	-	665	-	-	-	-	665
Accumulator-Forward FX contract	138	-	-	-	-	-	138
	138	665	-	-	-	-	803
	138	383	-	-	(714)	-	(193)
At 1 January 2011							
Derivative liabilities							
Interest rate swap	-	-	-	-	(834)	-	(834)
Accumulator-Forward FX contract	-	-	-	(354)	(439)	-	(793)
	-	-	-	(354)	(1,273)	-	(1,627)
Derivative assets							
Interest rate swap	-	-	-	-	1,927	-	1,927
	-	-	-	-	1,927	-	1,927
	-	-	-	(354)	654	-	300

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.

Commercial Banking business 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
At 31 December 2012							
Derivatives held for trading							
Foreign exchange derivatives:	4	105	(41)	13	-	-	81
Put options	-	-	-	-	329	-	329
	4	105	(41)	13	329	-	410

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At 31 December 2012

	Commercial Banking business 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
At 31 December 2011							
Derivatives held for trading							
Foreign exchange derivatives:	11	(1,574)	(84)	(50)	-	-	(1,697)
Put options	-	-	-	-	-	157	157
	11	(1,574)	(84)	(50)	-	157	(1,540)
At 1 January 2011							
Derivatives held for trading							
Foreign exchange derivatives:	31	(9)	-	-	-	-	22
	31	(9)	-	-	-	-	22

	The Bank						
	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
At 31 December 2012							
Derivatives held for trading							
Foreign exchange derivatives:	4	-	(41)	13	-	-	(24)
Put options	-	-	-	-	329	-	329
	4	-	(41)	13	329	-	305
At 31 December 2011							
Derivatives held for trading							
Foreign exchange derivatives:	11	10	(84)	(50)	-	-	(113)
Put options	-	-	-	-	157	-	157
	11	10	(84)	(50)	157	-	44
At 1 January 2011							
Derivatives held for trading							
Foreign exchange derivatives:	31	(9)	-	-	-	-	22
	31	(9)	-	-	-	-	22

3.4 Market risk

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

Market risk arises from positions in currencies, 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 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 Group and the subsidiaries;
- continual evaluation of risk appetite, communicated through risk limits and overall effectiveness of the market risk management process;
- the Group does not undertake any risk that cannot be managed, or risks that are not fully understood especially in new products; and
- where the Group takes on any risk, full consideration is given to product maturity, financial market sophistication and regulatory pronouncement, guidelines or policies. The risk taken must be adequately compensated by the anticipated reward.

3.4.2 Market risk measurement techniques

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

(a) Value at risk (VaR)

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

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

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

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

The major contributors to the trading VaR are Bonds and Foreign Exchange due to high volatility in those instruments impacting positions held by the Bank during the period. The yield on various maturities for Bonds rose by over 500 basis points on average, while the naira depreciated by about 5% in the interbank market. (Please refer to page 168 for the table and graph of VaR of the Bank.)

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At 31 December 2012

	The Bank		
	Average	High	Low
VaR summary			
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**
12 months to 31 December 2011			
Foreign exchange risk	76	276	1
Interest rate risk	57	214	0
Total VaR	**133**	**490**	**1**
1 January 2011			
Foreign exchange risk	53	492	2
Interest rate risk	295	1,196	22
Total VaR	**348**	**1,688**	**24**

(b) Stress tests

Based on the reality of an 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 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 Bank's books have some key market risk exposures, which have been identified and are being managed using swaps and options.

3.4.3 Foreign exchange risk

The Group is exposed to foreign exchange risks due to fluctuations in foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2012, 31 December 2011 and 1 January 2011. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

Notes to the annual financial statements
At 31 December 2012

	Commercial Banking business group					
	Naira ₦ million	USD ₦ million	GBP ₦ million	Euro ₦ million	Others ₦ million	Total ₦ million
31 December 2012						
Financial assets						
Cash and balances with Central Banks	277,976	8,291	1,110	786	9,861	298,024
Loans and advances to banks	36,213	265,384	71,602	9,325	10,601	393,125
Loans and advances	945,656	364,671	225,694	8,245	18,739	1,563,005
Investment securities	632,271	-	50,389	-	574	683,234
Assets pledged as collateral	50,109	-	-	-	-	50,109
Financial assets held for trading	680	1,262	623	-	-	2,565
Other assets	13,894	17,714	198	37	1,890	33,733
	1,956,799	657,322	349,616	18,393	41,665	3,023,795
Financial liabilities						
Customer deposits	1,721,106	531,591	113,633	3,436	36,092	2,405,858
Deposits from banks	17,799	654	69,088	10	-	87,551
Financial liabilities held for trading	-	1,278	518	-	-	1,796
Borrowings	19,401	52,772	12	3,352	4	75,541
Other liabilities	17,681	63,661	26,818	5,500	4,405	118,065
	1,775,987	649,956	210,069	12,298	40,501	2,688,811
31 December 2011						
Financial assets						
Cash and balances with Central Banks	182,417	14,289	1,593	925	4	199,228
Loans and advances to banks	250,255	180,409	13,538	16,413	2,241	462,856
Loans and advances	891,118	250,685	110,659	-	-	1,252,462
Investment securities	670,624	-	23,645	-	-	694,269
Assets pledged as collateral	72,129	-	-	-	-	72,129
Financial assets held for trading	3,903	1,931	130	-	-	5,964
Other assets	19,686	42,201	204	171	10	62,272
	2,090,132	489,515	149,769	17,509	2,255	2,749,180
Financial liabilities						
Customer deposits	1,368,657	397,838	172,278	12,456	2	1,951,231
Deposits from banks	50,124	1,161	132,194	18	3	183,500
Financial liabilities held for trading	-	1,143	1,714	-	-	2,857
Borrowings	35,381	65,033	186	3,873	-	104,473
Other liabilities	32,122	78,673	41,597	3,245	3,135	158,772
	1,486,284	543,848	347,969	19,592	3,140	2,400,833

Notes to the annual financial statements
At 31 December 2012

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

	The Bank					
	Naira ₦ million	USD ₦ million	GBP ₦ million	Euro ₦ million	Others ₦ million	Total ₦ million
31 December 2012						
Financial assets						
Cash and balances with Central Banks	277,942	8,291	1,102	786	4	288,125
Loans and advances to banks	31,040	264,608	23,267	9,325	880	329,120
Loans and advances	943,446	364,671	45	8,245	-	1,316,407
Investment securities	631,211	-	-	-	-	631,211
Assets pledged as collateral	50,109	-	-	-	-	50,109
Financial assets held for trading	680	1,262	-	-	-	1,942
Other assets	10,960	19,592	198	37	12	30,799
	1,945,388	658,424	24,612	18,393	896	2,647,713
Financial liabilities						
Customer deposits	1,629,748	531,591	7,030	3,436	2	2,171,807
Deposits from banks	17,799	654	-	10	-	18,463
Financial liabilities held for trading	-	1,278	-	-	-	1,278
Borrowings	25,847	52,772	12	3,352	4	81,987
Other liabilities	17,098	63,661	369	5,500	411	87,039

Notes to the annual financial statements
At 31 December 2012

	The Bank					
	Naira ₦ million	USD ₦ million	GBP ₦ million	Euro ₦ million	Others ₦ million	Total ₦ million
	1,690,492	649,956	7,411	12,298	417	2,360,574
31 December 2011						
Financial assets						
Cash and balances with Central Banks	182,416	14,289	1,457	925	4	199,091
Loans and advances to banks	9,746	180,409	13,538	16,413	2,241	222,347
Loans and advances	893,650	250,685	126	-	-	1,144,461
Investment securities	670,624	-	-	-	-	670,624
Assets pledged as collateral	72,129	-	-	-	-	72,129
Financial assets held for trading	621	1,931	-	-	-	2,552
Other assets	1,148	42,201	204	171	10	43,734
	1,830,334	489,515	15,325	17,509	2,255	2,354,938
Financial liabilities						
Customer deposits	1,368,657	397,838	5,537	12,456	2	1,784,490
Deposits from banks	50,124	1,161	-	18	3	51,306
Financial liabilities held for trading	-	1,143	-	-	-	1,143
Borrowings	35,381	65,033	-	3,873	-	104,287
Other liabilities	31,211	78,673	674	3,245	3,135	116,938
	1,485,373	543,848	6,211	19,592	3,140	2,058,164
1 January 2011						
Financial assets						
Cash and balances with Central Banks	65,223	7,164	1,435	1,068	4	74,894
Loans and advances to banks	257,560	96,495	11,478	17,949	398	383,880
Loans and advances	824,288	222,523	101	11	2	1,046,925
Investment securities	245,494	-	-	-	-	245,494
Assets pledged as collateral	122,009	-	-	-	-	122,009
Financial assets held for trading	9,523	1,962	-	-	-	11,485
Other assets	2,102	30,902	249	82	9	33,344
	1,526,199	359,046	13,263	19,110	413	1,918,031
Financial liabilities						
Customer deposits	1,151,322	169,191	4,126	3,577	2	1,328,218
Deposits from banks	55,205	-	-	13	3	55,221
Financial liabilities held for trading	-	1,639	-	-	-	1,639
Borrowings	41,111	79,511	-	5,474	-	126,096
Other liabilities	11,221	58,336	1,578	12,636	462	84,233
	1,258,859	308,677	5,704	21,700	467	1,595,407

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

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At 31 December 2012

	Commercial Banking business group			
	US dollar ₦ million	GBP ₦ million	EUR ₦ million	Other currencies ₦ million
As at 31 December 2012				
Net foreign currency exposures	7,366	139,547	6,095	1,164
Impact of 5% increase in the naira	(368)	(6,977)	(305)	(58)
Impact of 5% strengthening in the foreign currency	368	6,977	305	58

The Group is exposed to the US dollar and euro currencies.

The following table details the Group's sensitivity to a 5% increase and decrease in the 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 the naira strengthens by 10% against the US dollar and euro. For a 5% weakening of the naira against the US dollar and euro, there would be an equal and opposite impact on profit.

	The Bank		
	31 Dec 2012	31 Dec 2011	1 Jan 2011
Naira strengthens by 5% against the US dollar Profit/(loss)	(368)	2,717	3,451
Naira weakens by 5% against the US dollar Profit/(loss)	368	(2,717)	(3,451)
Naira strengthens by 5% against the euro Profit/(loss)	(305)	104	130
Naira weakens by 5% against the euro Profit/(loss)	305	(104)	(130)

3.4.4 Interest rate risk

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

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

	Commercial Banking business 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	298,024	-	-	298,024
Loans and advances to banks	393,125	-	53,967	338,452
Loans and advances	1,563,005	1,563,005	-	-
Investment securities	682,234	-	634,736	47,498
Assets pledged as collateral	50,109	-	50,109	-
Financial assets held for trading	2,565	-	680	1,885
Other assets	25,274	-	-	25,274
	3,014,336	**1,563,005**	**739,492**	**711,133**

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	Commercial Banking business group			
	Carrying amount ₦ million	Variable interest ₦ million	Fixed interest ₦ million	Non-interest bearing ₦ million
Financial liabilities				
Customer deposits	2,405,858	1,894,823	501,371	9,664
Deposits from banks	87,551	-	87,551	-
Financial liabilities held for trading	1,796	-	61	1,735
Borrowings	75,541	2,560	72,981	-
Other liabilities	118,066	-	-	118,066
	2,688,812	**1,897,383**	**661,964**	**129,465**
Interest rate mismatch		**(334,377)**	**77,528**	**581,669**
31 December 2011				
Financial assets				
Cash and balances with Central Banks	199,228	-	-	199,228
Loans and advances to banks	462,856	-	237,947	224,909
Loans and advances	1,252,462	1,252,462	-	-
Investment securities	694,269	-	642,176	52,093
Assets pledged as collateral	72,129	-	72,129	-
Financial assets held for trading	5,964	-	1,558	4,406
Other assets	52,996	-	-	52,996
	2,739,904	**1,252,462**	**953,810**	**533,632**
Financial liabilities				
Customer deposits	1,951,321	1,659,610	289,064	2,647
Deposits from banks	183,500	-	183,500	-
Financial liabilities held for trading	2,857	-	439	2,418
Liability on investment contracts	49,440	-	49,440	-
Borrowings	104,473	36,855	67,618	-
Other liabilities	158,773	-	-	158,773
	2,450,364	**1,696,465**	**590,061**	**163,838**
Interest rate mismatch		**(444,003)**	**363,749**	**369,794**
1 January 2011				
Financial assets				
Cash and balances with Central Banks	75,517	-	-	75,517
Loans and advances to banks	575,467	-	379,609	195,858
Loans and advances	1,160,293	1,160,293	-	-
Investment securities	254,708	-	171,832	82,876
Assets pledged as collateral	122,009	-	122,009	-
Financial assets held for trading	16,636	1,927	9,523	5,186
Other assets	30,699	-	-	30,699
	2,235,329	**1,162,220**	**682,973**	**390,136**
Financial liabilities				
Customer deposits	1,447,600	1,172,557	273,755	1,288
Deposits from banks	148,352	-	148,352	-
Financial liabilities held for trading	1,639	1,187	-	452
Liability on investment contracts	76,446	-	76,446	-
Borrowings	126,350	60,482	65,868	-
Other liabilities	120,470	-	-	120,470
	1,920,857	1,234,226	564,421	122,210
Interest rate mismatch		**(72,006)**	**118,552**	**267,926**

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The table below summarises the Bank's interest rate gap position.

The Bank	Carrying amount ₦ million	Variable interest ₦ million	Fixed interest ₦ million	Non-interest bearing ₦ million
31 December 2012				
Financial assets				
Cash and balances with Central Banks	288,125	-	-	288,125
Loans and advances to banks	329,120	-	41,425	287,695
Loans and advances	1,316,407	1,316,407	-	-
Investment securities	631,211	-	408,547	1,131
Assets pledged as collateral	50,109	-	50,109	-
Financial assets held for trading	1,942	-	680	1,262
Other assets	25,108	-	-	25,108
	2,642,022	**1,316,407**	**500,761**	**603,321**
Financial liabilities				
Customer deposits	2,171,807	1,841,245	320,898	9,664
Deposits from banks	18,463	-	18,463	-
Financial liabilities held for trading	1,278	61	-	1,218
Borrowings	81,987	2,560	79,427	-
Other liabilities	87,039	-	-	87,039
	2,360,574	**1,843,866**	**418,788**	**97,921**
Interest rate mismatch		**(527,459)**	**81,973**	**505,400**
31 December 2011				
Financial assets				
Cash and balances with Central Banks	199,091	-	-	199,091
Loans and advances to banks	222,347	-	13,544	208,803
Loans and advances	1,144,461	1,144,461	-	-
Investment securities	670,624	-	606,530	42,144
Assets pledged as collateral	72,129	-	72,129	-
Financial assets held for trading	2,552	-	2,223	329
Other assets	36,152	-	-	36,152
	2,347,356	**1,144,461**	**694,426**	**486,519**
Financial liabilities				
Customer deposits	1,784,490	1,615,637	166,206	2,647
Deposits from banks	51,306	-	51,306	-
Financial liabilities held for trading	1,143	-	439	704
Borrowings	104,287	36,855	67,432	-
Other liabilities	116,938	-	-	116,938
	2,058,164	**1,652,492**	**285,383**	**120,289**
Interest rate mismatch		**(508,031)**	**409,043**	**366,230**

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	The Bank			
	Carrying amount ₦ million	**Variable interest ₦ million**	**Fixed interest ₦ million**	**Non-interest bearing ₦ million**
1 January 2011				
Financial assets				
Cash and balances with Central Banks	74,894	-	-	74,894
Loans and advances to banks	383,880	-	256,337	127,543
Loans and advances	1,046,925	1,046,925	-	-
Investment securities	245,494	-	172,442	73,052
Assets pledged as collateral	122,009	-	122,009	-
Financial assets held for trading	11,485	1,927	9,523	35
Other assets	27,406	-	-	27,406
	1,912,093	**1,048,852**	**560,311**	**302,930**
Financial liabilities				
Customer deposits	1,328,218	1,138,825	188,105	1,288
Deposits from banks	55,221	-	55,221	-
Financial liabilities held for trading	1,639	1,187	-	452
Borrowings	126,096	60,482	65,614	-
Other liabilities	84,233	-	-	84,233
	1,595,407	**1,200,494**	**308,940**	**85,973**
Interest rate mismatch		**(151,642)**	**251,371**	**216,957**

3.4.5 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 2012, the market value of quoted securities held by the Group is ₦1.13 billion (2011: ₦4.4 billion). If the all share index of the NSE moves by 100 basis points from the 28,078.81 position at 31 December 2012, the effect on the fair value of these quoted securities and other comprehensive income would have been ₦11.25 million.

The Group holds a number of investments in unquoted securities with a market value of ₦46.3 billion (2011: ₦47.7 billion) of which investments in Airtel Nigeria Ltd (49%), African Finance Corporation (AFC) (31%) and Interswitch Ltd (3%) are the significant holdings. These investments were valued at ₦25.97 billion (cost ₦2.9 billion); ₦16.55 billion (cost ₦12.7 billion) and ₦1.56 billion (cost ₦31 million) respectively as at 31 December 2012. AFC is a private sector led investment bank and development finance institution which has the Central Bank as a single major shareholder (42.5%) with other African financial institutions and investors holding the remaining shares. Airtel Nigeria is a private limited liability company whose principal activity is the provision of mobile telecommunications service using the Global System for Mobile Communications (GSM) platform. The AFC operates a US dollar denominated balance sheet and provides finance in this currency. As at 31 December 2011 the Corporation had a balance sheet size of US$1.26 billion. Interswitch is an integrated payment and transaction processing company that provides technology integration, advisory services, transaction processing and payment infrastructure to banks, government and corporate organisations.

	At 31 December 2012	
	Favourable changes ₦ million	**Unfavourable changes ₦ million**
Unquoted investment security – African Finance Corporation[1]	18,209	14,898
Unquoted investment security – Airtel[1]	28,567	23,374
Unquoted investment security – Interswitch[1]	1,711	1,400

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

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

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3.5 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

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

Commercial Banking business group

	31 December 2012 Carrying value ₦ million	31 December 2012 Fair value ₦ million	31 December 2011 Carrying value ₦ million	31 December 2011 Fair value ₦ million	1 January 2011 Carrying value ₦ million	1 January 2011 Fair value ₦ million
Financial assets						
Cash and balances with Central Banks	298,024	298,024	199,228	199,228	75,517	75,517
Loans and advances to banks	393,125	393,125	462,856	462,856	575,467	575,467
Loans and advances to customers						
overdrafts	266,555	266,555	173,591	173,591	151,178	151,178
term loans	1,102,513	1,199,086	871,863	984,915	779,534	885,012
staff loans	5,346	5,848	6,343	7,226	6,307	7,223
commercial papers	125,883	143,045	183,973	220,605	112,328	135,445
project finance	59,014	64,109	12,081	13,877	103,623	131,153
advances under finance lease	3,694	3,393	4,611	4,216	7,323	7,925
Investment securities (held to maturity)	330,860	338,377	337,336	304,606	31,886	32,250
Assets pledged as collateral	31,063	26,275	39,743	30,084	12,909	12,839
Other assets	33,733	33,733	62,272	62,272	39,282	39,282
Total	**2,649,810**	**2,771,570**	**2,353,897**	**2,463,476**	**1,895,354**	**2,053,291**
Financial liabilities						
Deposits from banks	87,551	87,551	183,500	183,500	148,352	148,352
Deposits from customers	2,405,858	2,405,858	1,951,321	1,951,321	1,447,600	1,447,600
Other liabilities	118,065	118,065	158,773	158,773	120,470	120,470
Borrowings	75,541	75,541	104,473	104,473	126,350	126,350
Total	**2,687,015**	**2,687,015**	**2,398,067**	**2,398,067**	**1,842,772**	**1,842,772**

The Bank

	31 December 2012 Carrying value ₦ million	31 December 2012 Fair value ₦ million	31 December 2011 Carrying value ₦ million	31 December 2011 Fair value ₦ million	1 January 2011 Carrying value ₦ million	1 January 2011 Fair value ₦ million
Financial assets						
Cash and balances with Central Banks	288,125	288,125	199,091	199,091	74,894	74,894
Loans and advances to banks	329,120	329,120	222,347	222,347	383,880	383,880
Loans and advances to customers						
overdrafts	259,065	259,065	199,050	199,050	125,192	125,192
term loans	863,926	939,601	738,869	834,676	692,145	785,798
staff loans	5,144	5,627	5,751	6,551	6,307	7,223
commercial papers	125,883	143,044	183,973	220,053	112,328	135,445
project finance	58,695	63,763	12,207	14,022	103,624	131,154
advances under finance lease	3,694	3,393	4,611	5,253	7,323	7,925
Investment securities (held to maturity)	330,860	338,377	307,397	276,366	31,886	25,309
Assets pledged as collateral	31,063	26,275	39,743	30,084	12,909	12,839
Other assets	33,733	33,733	43,734	43,734	33,344	33,344
Total	**2,329,308**	**2,430,123**	**1,956,773**	**2,051,227**	**1,583,832**	**1,723,003**

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	The Bank					
	31 December 2012		31 December 2011		1 January 2011	
	Carrying value ₦ million	Fair value ₦ million	Carrying value ₦ million	Fair value ₦ million	Carrying value ₦ million	Fair value ₦ million
Financial liabilities						
Deposits from banks	18,463	18,463	51,306	51,306	55,221	55,221
Deposits from customers	2,171,807	2,171,807	1,783,274	1,783,274	1,328,218	1,328,218
Other liabilities	87,039	87,039	116,938	116,938	84,233	84,233
Borrowings	81,987	81,987	104,287	104,287	126,096	126,096
Total	**2,359,296**	**2,359,296**	**2,055,805**	**2,055,805**	**1,593,768**	**1,593,768**

(b) Fair valuation methods and assumptions

i Cash and balances with Central Banks

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

ii Loans and advances to banks

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

iii Loans and advances to customers

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

iv Investment securities (including pledged assets)

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

v Deposits from banks and due to customers

The estimated fair value of deposits from banks and customers is the amount repayable on demand.

vi Other assets, liabilities and borrowings

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

(c) Financial instruments measured at fair value

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

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

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

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

	Commercial Banking business group			
	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Total ₦ million
31 December 2012				
Financial assets				
Financial assets held for trading				
Debt securities	679	-	-	679
Derivatives	623	1,262	-	1,885
Available-for-sale financial assets				
Investment securities – debt	208,531	95,342	-	303,873
Investment securities – unlisted equity	-	46,311	59	46,370
Investment securities – listed equity	1,131	-	-	1,131
Assets pledged as collateral	19,046	-	-	19,046
Financial liabilities held for trading				
Derivatives	518	1,278	-	1,796
31 December 2011				
Financial assets				
Financial assets held for trading				
Debt securities	1,558	-	-	1,558
Listed equity securities	3,284	-	-	3,284
Derivatives	-	1,123	-	1,123
Available-for-sale financial assets				
Investment securities – debt	223,138	81,702	-	304,840
Investment securities – unlisted equity	-	16,966	31,122	48,088
Investment securities – listed equity	4,007	-	-	4,007
Assets pledged as collateral	32,386	-	-	32,386
Financial liabilities held for trading				
Derivatives	-	2,857	-	2,857
1 January 2011				
Financial assets				
Financial assets held for trading				
Listed debt securities	9,523	-	-	9,523
Listed equity securities	5,151	-	-	5,151
Derivatives	-	1,962	-	1,962
Available-for-sale financial assets				
Investment securities – debt	120,262	19,954	-	140,216
Investment securities – unlisted equity	-	52,447	23,963	76,410
Investment securities – listed equity	6,196	-	-	6,196
Assets pledged as collateral	109,100	-	-	109,100
Financial liabilities held for trading				
Derivatives	-	1,639	-	1,639

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Reconciliation of Level 3 items

	Commercial Banking business group			
	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Total ₦ million
At 1 January 2011				23,963
Total gains/(losses) recognised through other comprehensive income (OCI)				7,159
At 31 December 2011				31,122
Purchases				-
Sales				-
Total gains/(losses) recognised through OCI				-
Impairment allowance				
Transfer out of Level 3 due to change in observability of market data				(31,063)
At 31 December 2012				59

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

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

	The Bank			
	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Total ₦ million
31 December 2012				
Financial assets				
Financial assets held for trading				
Listed debt securities	680	-	-	680
Derivatives	-	1,262	-	1,262
Available-for-sale financial assets				
Investment securities – debt	157,568	95,342	-	252,910
Investment securities – unlisted equity	-	46,311	-	46,311
Investment securities – listed equity	1,131	-	-	1,131
Assets pledged as collateral	19,046	-	-	19,046
Financial liabilities held for trading				
Derivatives	-	1,278	-	1,278
31 December 2011				
Financial assets				
Financial assets held for trading				
Listed debt securities	1,558	-	-	1,558
Derivatives	-	994	-	994
Available-for-sale financial assets				
Investment securities – debt	221,862	76,761	-	298,623
Investment securities – unlisted equity	-	16,961	22,698	39,659
Investment securities – listed equity	2,486	-	-	2,486
Assets pledged as collateral	32,385	-	-	32,385
Financial liabilities held for trading				
Derivatives	-	1,143	-	1,143

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	The Bank			
	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Total ₦ million
1 January 2011				
Financial assets				
Financial assets held for trading				
Listed debt securities	9,523	-	-	9,523
Derivatives	-	1,962	-	1,962
Available-for-sale financial assets				
Investment securities – debt	106,603	21,504	-	128,107
Investment securities – unlisted equity	-	47,674	21,251	68,925
Investment securities – listed equity	4,132	-	-	4,132
Assets pledged as collateral	109,100	-	-	109,100
Financial liabilities held for trading				
Derivatives	-	1,639	-	1,639

Reconciliation of Level 3 items

	The Bank			
	Level 1	Level 2	Level 3	Total
At 1 January 2011				21,251
Total gains/(losses) recognised through OCI				1,447
Impairment allowance				-
At 31 December 2011				22,698
Purchases				-
Sales				-
Total gains/(losses) recognised through OCI				-
Impairment allowance				-
Transfer out of Level 3 due to change in observability of market data				(22,698)
At 31 December 2012				-

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

Sensitivity analysis of Level 3 items

The following table shows the sensitivity of Level 3 items to reasonably possible alternative assumptions:

	At 31 December 2012		At 31 December 2011		At 1 January 2011	
	Favourable changes ₦ million	Unfavourable changes ₦ million	Favourable changes ₦ million	Unfavourable changes ₦ million	Favourable changes ₦ million	Unfavourable changes ₦ million
Financial assets						
Unquoted investment security – African Finance Corporation[1]	-	-	23,739	19,423	22,595	18,487
Unquoted investment security – Capital Alliance Property Investment Company[1]	-	-	1,229	1,005	781	639

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

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3.6 Measurement basis of financial assets and liabilities

	Commercial Banking business group			
	Fair value through P/L held for trading ₦ million	Fair value through OCI available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
31 December 2012				
Financial assets				
Cash and balances with Central Banks	-	-	298,024	298,024
Loans and advances to banks	-	-	393,125	393,125
Loans and advances to customers	-	-	1,563,005	1,563,005
Investment securities	-	351,374	330,860	682,234
Assets pledged as collateral	-	19,046	31,063	50,109
Financial assets held for trading	2,565	-	-	2,565
Other assets	-	-	33,733	33,733
Total financial assets	**2,565**	**370,420**	**2,649,810**	**3,022,795**
Financial liabilities				
Customer deposits	-	-	2,405,858	2,405,858
Deposits from banks	-	-	87,551	87,551
Financial liabilities held for trading	1,796	-	-	1,796
Borrowings	-	-	75,541	75,541
Other liabilities	-	-	101,018	101,018
Total financial liabilities	**1,796**	**-**	**2,669,968**	**2,671,764**
31 December 2011				
Financial assets				
Cash and balances with Central Banks	-	-	199,228	199,228
Loans and advances to banks	-	-	462,856	462,856
Loans and advances to customers	-	-	1,252,462	1,252,462
Investment securities	-	356,933	337,336	694,269
Assets pledged as collateral	-	32,386	39,743	72,129
Financial assets held for trading	5,964	-	-	5,964
Other assets	-	-	62,272	62,272
Total financial assets	**5,964**	**389,319**	**2,353,897**	**2,749,180**
Financial liabilities				
Customer deposits	-	-	1,951,321	1,951,321
Deposits from banks	-	-	183,500	183,500
Financial liabilities held for trading	2,857	-	-	2,857
Borrowings	-	-	104,473	104,473
Other liabilities	-	-	147,284	147,284
Total financial liabilities	**2,857**	**-**	**2,386,578**	**2,389,435**

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	Commercial Banking business group			
	Fair value through P/L held for trading ₦ million	Fair value through OCI available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
1 January 2011				
Financial assets				
Cash and balances with Central Banks	-	-	75,517	75,517
Loans and advances to banks	-	-	575,467	575,467
Loans and advances to customers	-	-	1,160,293	1,160,293
Investment securities	-	222,822	31,886	254,708
Assets pledged as collateral	-	109,100	12,909	122,009
Financial assets held for trading	16,636	-	-	16,636
Other assets	-	-	39,282	39,282
Total financial assets	**16,636**	**331,922**	**1,895,354**	**2,243,912**
Financial liabilities				
Customer deposits	-	-	1,447,600	1,447,600
Deposits from banks	-	-	148,352	148,352
Financial liabilities held for trading	1,639	-	-	1,639
Borrowings	-	-	126,350	126,350
Other liabilities	-	-	114,457	114,457
Total financial liabilities	1,639	-	1,836,759	1,838,398

	The Bank			
	Fair value through P/L held for trading ₦ million	Fair value through OCI available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
31 December 2012				
Financial assets				
Cash and balances with Central Banks	-	-	288,125	288,125
Loans and advances to banks	-	-	329,120	329,120
Loans and advances to customers	-	-	1,316,408	1,316,408
Investment securities	-	300,351	330,860	631,211
Assets pledged as collateral	-	19,046	31,063	50,109
Financial assets held for trading	1,942	-	-	1,942
Other assets	-	-	30,799	30,799
Total financial assets	**1,942**	**319,397**	**2,326,375**	**2,647,714**
Financial liabilities				
Customer deposits	-	-	2,171,807	2,171,807
Deposits from banks	-	-	18,463	18,463
Financial liabilities held for trading	1,278	-	-	1,278
Borrowings	-	-	81,987	81,987
Other liabilities	-	-	70,521	70,521
Total financial liabilities	**1,278**	**-**	**2,342,778**	**2,344,056**

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	The Bank			
	Fair value through P/L held for trading ₦ million	**Fair value through OCI available for sale ₦ million**	**Amortised cost ₦ million**	**Total ₦ million**
31 December 2011				
Financial assets				
Cash and balances with Central Banks	-	-	199,091	199,091
Loans and advances to banks	-	-	222,347	222,347
Loans and advances to customers	-	-	1,144,461	1,144,461
Investment securities	-	340,767	329,857	670,624
Assets pledged as collateral	-	32,386	39,743	72,129
Financial assets held for trading	2,552	-	-	2,552
Other assets	-	-	43,734	43,734
Total financial assets	**2,552**	**373,153**	**1,979,233**	**2,354,938**
Financial liabilities				
Customer deposits	-	-	1,784,490	1,784,490
Deposits from banks	-	-	51,306	51,306
Financial liabilities held for trading	1,143	-	-	1,143
Borrowings	-	-	104,287	104,287
Other liabilities	-	-	107,125	107,125
Total financial liabilities	**1,143**	**-**	**2,047,208**	**2,048,351**
1 January 2011				
Financial assets				
Cash and balances with Central Banks	-	-	74,894	74,894
Loans and advances to banks	-	-	383,880	383,880
Loans and advances to customers	-	-	1,046,925	1,046,925
Investment securities	-	201,163	44,331	245,494
Assets pledged as collateral	-	109,100	12,909	122,009
Financial assets held for trading	11,485	-	-	11,485
Other assets	-	-	33,344	33,344
Total financial assets	**11,485**	**310,263**	**1,596,283**	**1,918,031**
Financial liabilities				
Customer deposits	-	-	1,328,218	1,328,218
Deposits from banks	-	-	55,221	55,221
Financial liabilities held for trading	-	-	1,639	1,639
Borrowings	-	-	126,096	126,096
Other liabilities	-	-	80,219	80,219
Total financial liabilities	-	-	1,591,393	1,591,393

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At 31 December 2012

4 Capital management

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

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

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

The Group's capital is divided into two tiers:

- tier 1 capital: core equity tier one capital including ordinary shares, statutory reserve, share premium and general reserve, non-controlling interests arising on consolidation from interests in permanent shareholders' equity. The book value of goodwill, intangible assets, unpublished losses and under provisions are deducted in arriving at tier 1 capital; and
- tier 2 capital: qualifying subordinated loan capital, preference shares, collective impairment allowances, debenture stock, non-controlling interest and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

The Central Bank of Nigeria prescribed a minimum limit of 10% 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 reflect only credit and counterparty risk.

The Bank achieved a capital adequacy ratio of 20.33% at the end of the year, compared to 26.26% and 26.37% recorded for the period ended December 2011 and December 2010 respectively. This is attributable to the intra-group capital movement on accounts of the emergence of FBN Holdings Plc, a significant growth in risk-weighted assets during the year and a reduction of tier 2 capital as tranche A of the EIB loan moved closer to maturity. The Bank, as a policy, works to maintain adequate capital cover for its trading activities, with a minimum internal target of 16%. The current position is closely monitored and reported fortnightly to the Assets & Liabilities Management Committee.

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

	The Bank		
	31 Dec 2012 ₦ million	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
Tier 1 capital			
Share capital	16,316	16,316	16,316
Share premium	189,241	254,524	254,524
Statutory reserve	42,422	31,753	28,294
SMEEIS reserves	6,076	6,076	6,309
Retained earnings	77,342	49,649	33,310
Less: Intangible assets	(1,302)	(734)	(265)
Total qualifying for tier 1 capital	330,095	357,584	338,488
Tier 2 capital			
Fair value reserve	24,678	9,160	48,636
Statutory credit reserve	16,101	9,766	28,220
Other borrowings	2,560	4,677	7,036
Total qualifying for tier 2 capital	43,339	23,603	83,892
Total regulatory capital	373,434	381,187	422,380
Risk-weighted assets			
On balance sheet	1,534,858	1,349,749	1,276,360
Off balance sheet	199,581	144,918	122,363
Total risk-weighted assets	1,734,439	1,494,667	1,398,723
Risk-weighted capital adequacy ratio (CAR)	21.53%	25.50%	30.20%

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 3.5 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 39, '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.

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6 Interest income

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Investment securities	**74,866**	35,455	**73,126**	39,846
Placements and short-term funds	**2,795**	20,183	**2,148**	10,822
Loans and advances	**199,134**	151,381	**182,051**	147,161
	276,795	207,019	**257,325**	197,829

Interest income on loans and advances to customers includes interest income on impaired financial assets, recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. This is analysed as follows: Group ₦5.3 billion (2011: ₦2.6 billion) and Bank ₦5.3 billion (2011: ₦2.5 billion).

7 Interest expense

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Current accounts	**16,606**	7,665	**16,237**	10,604
Savings account	**4,350**	3,866	**4,188**	3,838
Time deposits	**24,492**	11,534	**18,860**	5,374
Domiciliary deposits	**4,591**	3,840	**4,591**	3,840
Interbank takings	**6,451**	5,514	**6,445**	3,996
Borrowed funds	**2,021**	2,308	**1,457**	2,954
	58,511	34,727	**51,778**	30,606

8 Impairment charge for credit losses

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Loans and advances to customers (refer Note 20)				
Increase/(decrease) in collective impairment	**3,199**	(2,712)	**2,093**	(4,446)
Increase in specific impairment	**13,530**	41,037	**11,571**	37,010
Income received on loans previously written off	**(3,817)**	(3,812)	**(3,817)**	(3,125)
Discontinued operations	**-**	(198)	**-**	-
Other assets (refer Note 33)				
Increase in impairment	**-**	3,696	**-**	2,726
	12,912	38,011	**9,847**	32,165

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9 Fee and commission income

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Credit related fees	**2,532**	4,406	**1,588**	1,253
Commission on turnover	**28,935**	18,477	**20,937**	18,477
Letters of credit commissions and fees	**4,748**	5,719	**4,736**	4,547
Other fees and commissions	**18,647**	14,989	**20,310**	17,637
	54,862	43,591	**47,571**	41,914

10 Foreign exchange income

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Foreign exchange trading income	**2,456**	7,497	**924**	7,502

11 Net gains/(losses) on investment securities

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Net results on disposal of financial assets	**(2,150)**	1,046	**(1,826)**	439
Impairment of available-for-sale financial assets	**981**	(944)	**560**	(1,533)
Others	**309**	356	**309**	356
	(860)	458	**(957)**	(738)

12 Net gains/(losses) from financial assets classified as held for trading

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Equity securities	**-**	4,586	**-**	762
Derivatives	**1,717**	(470)	**133**	(470)
Debt securities	**35**	(1,288)	**35**	(1,288)
	1,752	2,828	**168**	(996)

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13 Loss on sale of loan to AMCON

During 2011, the Asset Management Company of Nigeria purchased eligible bank assets (EBA) from First Bank of Nigeria and issued bonds at a discount in exchange for value. Of the EBA sold, ₦99 billion was in respect of performing loans of Seawolf Oilfield services with a discounted value of ₦88 billion, resulting in a loss of ₦11 billion.

	Commercial Banking business group	The Bank
	31 Dec 2011 ₦ million	31 Dec 2011 ₦ million
Face value of AMCON bonds	189,469	189,469
Unearned income	(56,145)	(56,145)
Discounted value	133,324	133,324
Net value of loans sold	(148,825)	(148,825)
Total loss on loan sold	(15,501)	(15,501)

14 Other operating income

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Other income	**3,398**	12	**1,535**	-
	3,398	12	**1,535**	-

15 Operating expenses

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Personnel expenses	**65,808**	53,072	**60,447**	48,374
Depreciation	**9,895**	8,975	**9,169**	8,517
Amortisation	**645**	1,199	**556**	1,082
Auditors' remuneration	**251**	193	**210**	135
Directors' emoluments	**2,910**	3,294	**2,910**	3,294
(Profit)/loss on sale of property, plant and equipment	**(1,760)**	107	**(1,760)**	120
Deposit insurance premium	**9,159**	6,504	**9,159**	6,504
Banking sector resolution cost	**7,391**	5,872	**7,391**	5,872
Maintenance, rent and insurance	**25,338**	21,853	**24,951**	21,560
Advertising and corporate promotions	**8,577**	5,329	**8,577**	5,329
Legal and professional fees	**3,703**	3,311	**2,482**	2,352
Other operating expenses	**50,412**	26,959	**44,816**	30,229
	182,329	136,668	**168,908**	133,368

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(a) Personnel expenses

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Wages and salaries	**45,572**	44,919	**40,541**	40,602
Pension costs:				
Defined contribution plans	**2,404**	3,737	**2,404**	3,356
Defined benefit plans (Note 40)	**17,832**	4,416	**17,502**	4,416
	65,808	53,072	**60,447**	48,374

(b) Operating lease rentals

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

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Within one year	**224**	216	**-**	-
Between two and five years	**552**	729	**-**	-
	776	945	**-**	-

16 Taxation

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Corporate tax	**5,323**	4,161	**2,165**	2,188
Contingent tax	**9,577**	5,644	**9,577**	5,644
Education tax	**493**	264	**433**	183
Technology tax	**833**	537	**808**	520
Capital gains tax	**524**	-	**525**	-
Under provision in prior years	**(5)**	221	**-**	221
Current income tax – current period	**16,745**	10,827	**13,508**	8,756
Origination and reversal of temporary deferred tax differences	**(1,656)**	1,637	**(1,363)**	-
Prior period adjustment on deferred tax	**(171)**	6,400	**-**	7,864
Income tax expense	**14,918**	18,864	**12,145**	16,620
Profit before income tax	**86,177**	39,166	**83,289**	39,672
Tax calculated using the domestic corporation tax rate of 30% (2011: 30%, 2010: 30%)	**25,853**	11,750	**24,987**	11,902

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	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Effect of tax rates in foreign jurisdictions	**-**	-	**-**	-
Non-deductible expenses	**7,357**	10,328	**5,358**	7,323
Effect of education tax levy	**493**	236	**433**	183
Effect of information technology tax	**833**	537	**808**	520
Effect of capital gains tax	**524**	-	**524**	-
Effect of minimum tax	**-**	2,188	**-**	2,188
Effect of contingent tax	**9,577**	5,644	**9,577**	5,644
Tax exempt income	**(27,890)**	(20,899)	**(27,214)**	(18,759)
Effect of disposal of items of PPE	**(544)**	-	**(544)**	-
Effect of disposal of subsidiary	**(1,047)**	-	**(1,047)**	-
Effect of change in PBT due to IFRS adjustment	**-**	5,318	**(498)**	3,857
Tax incentives	**(238)**	(159)	**(238)**	(159)
Tax loss effect	**1**	3,921	**-**	3,921
Total income tax expense in income statement	**14,918**	18,864	**12,145**	16,620
The movement in the current income tax liability is as follows:				
At start of the period	**23,844**	20,052	**21,354**	15,118
Tax paid	**(21,448)**	(6,614)	**(17,637)**	(2,517)
Witholding tax credit utilised	**-**	(10)	**-**	-
Prior period under provision	**2,543**	-	**2,544**	-
AFS securities revaluation tax charge/(credit)	**690**	-	**-**	-
Income tax charge	**16,745**	10,826	**13,507**	8,753
At 31 December	**22,374**	24,254	**19,768**	21,354
Current	**22,374**	24,254	**19,768**	21,354

17 Cash and balances with Central Banks

	Commercial Banking business group		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Cash	**53,083**	45,293	33,155
Balances with Central Banks excluding mandatory reserve deposits	**53,432**	50,038	31,231
	106,515	95,331	64,386
Mandatory reserve deposits with the Central Bank of Nigeria	**191,509**	103,897	11,131
	298,024	199,228	75,517

	The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Cash	**47,238**	45,187	32,533
Balances with Central Banks other than mandatory reserve deposits	**53,432**	50,038	31,231
	100,670	95,225	63,764
Mandatory reserve deposits with the Central Bank of Nigeria	**187,455**	103,866	11,130
	288,125	199,091	74,894

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18 Cash and cash equivalents

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.

	Commercial Banking business group		
	31 Dec 2012 ₦ million	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
Cash (Note 17)	**53,083**	45,293	33,155
Balances with central banks other than mandatory reserve deposits (Note 17)	**53,432**	50,038	31,231
Loans and advances to banks excluding long-term placements (Note 19)	**392,419**	462,856	575,467
Treasury Bills included in financial assets held for trading (Note 21)	**680**	1,316	496
Treasury Bills and eligible bills excluding pledged Treasury Bills (Note 22.1 and 22.2)	**121,247**	149,488	10,365
	620,861	708,991	650,714

	The Bank		
	31 Dec 2012 ₦ million	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
Cash (Note 17)	**47,238**	45,187	32,533
Balances with central banks other than mandatory reserve deposits (Note 17)	**53,432**	50,038	31,231
Loans and advances to banks excluding long-term placements (Note 19)	**315,856**	222,347	385,096
Treasury Bills included in financial assets held for trading (Note 21)	**680**	1,316	496
Treasury Bills and eligible bills excluding pledged Treasury Bills (Note 22.3 and 22.4)	**108,127**	148,658	10,195
	525,333	467,546	459,551

19 Loans and advances to banks

	Commercial Banking business group		
	31 Dec 2012 ₦ million	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
Current balances with banks within Nigeria	**15,749**	11,291	86,841
Currrent balances with banks outside Nigeria	**322,703**	213,618	109,017
Placements with banks and discount houses	**53,967**	237,947	379,609
	392,419	462,856	575,467
Long-term placement	**706**	-	-
Carrying amount	**393,125**	462,856	575,467

	The Bank		
	31 Dec 2012 ₦ million	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
Current balances with banks within Nigeria	**1,433**	9,746	17,629
Placements and current balances with banks outside Nigeria	**272,998**	199,057	109,914
Current balances and placements with banks and discount houses within Nigeria	**41,425**	13,544	256,337
	315,856	222,347	383,880
Long-term placement	**13,264**	-	-
Carrying amount	**329,120**	222,347	383,880

Balances with banks outside Nigeria include Group ₦48.9 billion (Group December 2011: ₦61 billion, 1 January 2011: ₦41.9 billion) which represents the naira value of the foreign currency bank balance held on behalf of customers in respect of letters of credit transactions. The corresponding liability is included in other liabilities (see Note 43). The amount is not available for the day-to-day operations of the Group.

Included in loans to banks is a non-current placement of ₦706 million (2011 – Nil, 2010 – Nil) which does not qualify as cash and cash equivalent. All other loans to banks are due within three months.

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20 Loans and advances to customers

	Commercial Banking business group				
	Gross amount ₦ million	Specific impairment ₦ million	Collective impairment ₦ million	Total impairment ₦ million	Carrying amount ₦ million
31 December 2012					
Overdrafts	276,839	6,882	3,402	10,284	266,555
Term loans	1,129,103	10,251	16,339	26,590	1,102,513
Staff loans	5,947	-	600	600	5,346
Commercial papers (CP)	126,916	-	1,033	1,033	125,883
Project finance	59,746	-	732	732	59,014
	1,598,551	17,133	22,106	39,239	1,559,311
Advances under finance lease	3,781	-	87	87	3,694
	1,602,332	17,133	22,193	39,326	1,563,005
31 December 2011					
Overdrafts	178,410	1,671	3,148	4,819	173,591
Term loans	896,997	11,263	13,871	25,134	871,863
Staff loans	6,575	-	232	232	6,343
Commercial papers (CP)	186,170	-	2,197	2,197	183,973
Project finance	12,555	-	474	474	12,081
	1,280,707	12,934	19,922	32,856	1,247,851
Advances under finance lease	4,697	-	86	86	4,611
	1,285,404	12,934	20,008	32,942	1,252,462
1 January 2011					
Overdrafts	169,370	12,294	5,898	18,192	151,178
Term loans	807,990	12,680	15,776	28,456	779,534
Staff loans	6,887	-	580	580	6,307
Commercial papers (CP)	114,522	-	2,194	2,194	112,328
Project finance	105,045	423	999	1,422	103,623
	1,203,814	25,397	25,447	50,844	1,152,970
Advances under finance lease	8,282	634	325	959	7,323
	1,212,096	26,031	25,772	51,803	1,160,293

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	The Bank				
	Gross amount ₦ million	Specific impairment ₦ million	Collective impairment ₦ million	Total impairment ₦ million	Carrying amount ₦ million
31 December 2012					
Overdrafts	269,252	6,585	3,602	10,187	259,065
Term loans	888,265	8,222	16,117	24,339	863,926
Staff loans	5,744		600	600	5,144
Commercial papers (CP)	126,916	-	1,033	1,033	125,883
Project finance	59,427	-	732	732	58,695
	1,349,604	14,807	22,084	36,891	1,312,713
Advances under finance lease	3,781	-	87	87	3,694
	1,353,385	14,807	22,171	36,978	1,316,407
31 December 2011					
Overdrafts	203,869	1,671	3,148	4,819	199,050
Term loans	758,943	6,133	13,941	20,074	738,869
Staff loans	5,983	-	232	232	5,751
Commercial papers (CP)	186,170	-	2,197	2,197	183,973
Project finance	12,681	-	474	474	12,207
	1,167,646	7,804	19,992	27,796	1,139,850
Advances under finance lease	4,697	-	86	86	4,611
	1,172,343	7,804	20,078	27,882	1,144,461
1 January 2011					
Overdrafts	143,384	12,294	5,898	18,192	125,192
Term loans	719,365	12,680	14,534	27,214	692,151
Staff loans	6,887	-	580	580	6,307
Commercial papers (CP)	114,522	-	2,194	2,194	112,328
Project finance	105,046	423	999	1,422	103,624
	1,089,204	25,397	24,205	49,602	1,039,602
Advances under finance lease	8,282	634	325	959	7,323
	1,097,486	26,031	24,530	50,561	1,046,925

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Current	**592,842**	357,564	263,506	**585,422**	378,809	237,520
Non-current	**970,163**	897,430	896,787	**730,985**	765,652	809,405
	1,563,005	1,254,994	1,160,293	**1,316,407**	1,144,461	1,046,925

Reconciliation of impairment allowance on loans and advances to customers

Commercial Banking business group

	Overdrafts ₦ million	Term loans ₦ million	CP ₦ million	Finance lease ₦ million	Other ₦ million	Total ₦ million
At 1 January 2011						
Specific impairment	12,294	12,680	-	634	423	26,031
Collective impairment	5,898	15,776	2,194	325	1,579	25,772
	18,192	28,456	2,194	959	2,002	51,803
Additional provision						
Specific impairment	10,315	34,941	-	(496)	(423)	44,337
Collective impairment	(2,750)	(2,153)	3	(239)	(875)	(6,014)
Loans written off	(20,938)	(36,108)	-	(138)	-	(57,184)
Specific impairment	1,671	11,265	-	-	-	12,936
Collective impairment	3,148	13,871	2,197	86	704	20,006
At 31 December 2011	4,819	25,136	2,197	86	704	32,942
Additional provision						
Specific impairment	5,624	7,667	-	-	239	13,530
Collective impairment	454	3,282	(1,164)	1	626	3,199
Discontinued operations	-	(5,193)	-	-	-	(5,193)
Loans written off	(612)	(4,301)	-	-	(239)	(5,152)
						-
Specific impairment	6,882	10,251	-	-	-	17,133
Collective impairment	3,402	16,339	1,033	87	1,332	22,193
At 31 December 2012	10,284	26,590	1,033	87	1,332	39,326

The Bank

	Overdrafts ₦ million	Term loans ₦ million	CP ₦ million	Finance lease ₦ million	Other ₦ million	Total ₦ million
At 1 January 2011						
Specific impairment	12,294	12,680	-	634	423	26,031
Collective impairment	5,898	14,534	2,194	325	1,579	24,530
	18,192	27,214	2,194	959	2,002	50,561
Additional provision						
Specific impairment	7,825	29,608	-	-	423	37,010
Collective impairment	(260)	(2,582)	3	(735)	(873)	(4,446)
Loans written off	(20,938)	(34,166)	-	(138)	-	(55,242)
Specific impairment	1,671	6,133	-	-	-	7,804
Collective impairment	3,148	13,941	2,197	86	706	20,078
At 31 December 2011	4,819	20,074	2,197	86	706	27,882
Additional provision						
Specific impairment	5,197	6,374	-	-	-	11,571
Collective impairment	454	2,176	(1,164)	1	626	2,093
Loans written off	(283)	(4,285)	-	-	-	(4,568)
Specific impairment	6,585	8,222	-	-	-	14,807
Collective impairment	3,602	16,117	1,033	87	1,332	22,171
At 31 December 2012	10,187	24,339	1,033	87	1,332	36,978

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

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Gross investment in finance lease, receivable						
no later than one year	**729**	1,156	3,583	**729**	1,156	3,583
later than one year and no later than five years	**3,282**	4,390	6,679	**3,282**	4,390	6,679
later than five years	**84**	-	-	**84**	-	-
	4,095	5,546	10,262	**4,095**	5,546	10,262
Unearned future finance income on finance leases	**(314)**	(849)	(1,980)	**(314)**	(849)	(1,980)
Impairment allowance on leases	**(87)**	(86)	(959)	**(87)**	(86)	(959)
Net investment in finance lease, receivable	**3,694**	4,611	7,323	**3,694**	4,611	7,323
Net investment in finance lease, receivable is analysed as follows						
no later than one year	**416**	979	2,892	**416**	979	2,892
later than one year and no later than five years	**3,194**	3,632	4,431	**3,194**	3,632	4,431
later than five years	**84**	-	-	**84**	-	-
	3,694	4,611	7,323	**3,694**	4,611	7,323

20.1 Nature of security in respect of loans and advances

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Secured against real estate	**457,582**	252,347	130,101	**416,302**	252,347	130,101
Secured by shares of quoted companies	**14,713**	28,496	27,938	**14,653**	28,496	27,938
Otherwise secured	**1,019,792**	745,322	774,968	**825,370**	632,261	660,352
Unsecured	**110,245**	259,239	279,089	**97,243**	259,239	279,089
	1,602,332	1,285,404	1,212,096	**1,353,568**	1,172,343	1,097,480

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

21 Financial assets held for trading

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Treasury Bills included in cash equivalents	**680**	1,316	496	**680**	1,316	496
Government bonds	**-**	242	9,027	**-**	242	9,027
Total debt securities	**680**	1,558	9,523	**680**	1,558	9,523
Listed equity securities	**-**	3,282	5,151			
Total equity securities	**-**	3,282	5,151			
Derivative assets	**1,885**	1,124	1,962	**1,262**	994	1,962
Total assets held for trading	**2,565**	5,964	16,636	**1,942**	2,552	11,485

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 use of derivative instruments is very nascent and has been limited to hedging of risk exposures resulting from adverse movement in market risk factors. The Group's derivative transactions are principally in:

i Interest Rate Swaps to hedge against Interest Rate Risks in its banking book; and

ii Forward FX Contracts entered into to hedge against Foreign Exchange Risks arising from cross-currency exposures.

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

Exchange rate risk in euro borrowing disbursed in 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 offsetting trade activities with credible counterparties, calculation of pre-settlement risk exposure and daily reporting of positions and risk measures to senior management.

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

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	Commercial Banking business group			The Bank		
	31 Dec 2012			31 Dec 2012		
	Notional contract amount ₦ million	Fair values Asset ₦ million	Fair values Liability ₦ million	Notional contract amount ₦ million	Fair values Asset ₦ million	Fair values Liability ₦ million
Interest rate derivatives						
Interest rate swaps	13,198	-	(61)	13,198	-	(61)
Foreign exchange derivatives						
Forward FX contract	5,302	626	(860)	4,733	3	(342)
Currency swap	10,750	54	-	10,750	54	-
Put options	41,581	1,205	(875)	41,581	1,205	(875)
	70,831	1,885	(1,796)	70,262	1,262	(1,278)
Current	5,302	680	(660)	4,733	57	(142)
Non-current	65,529	1,205	(1,136)	65,529	1,205	(1,136)

	Commercial Banking business group			The Bank		
	31 Dec 2011			31 Dec 2011		
	Notional contract amount ₦ million	Fair values Asset ₦ million	Fair values Liability ₦ million	Notional contract amount ₦ million	Fair values Asset ₦ million	Fair values Liability ₦ million
Interest rate derivatives						
Interest rate swaps	68,728	665	439	68,728	665	439
Foreign exchange derivatives						
Forward FX contract	10,636	165	1,728	10,059	35	14
Currency swap	7,915	137	690	7,915	137	690
Put options	14,839	157	-	14,839	157	-
	102,118	1,124	2,857	101,541	994	1,143
Current	10,636	165	1,728	10,059	35	14
Non-current	91,482	959	1,129	91,482	959	1,129
	102,118	1,124	2,857	101,541	994	1,143

	Commercial Banking business group			The Bank		
	1 Jan 2011			1 Jan 2011		
	Notional contract amount ₦ million	Fair values Asset ₦ million	Fair values Liability ₦ million	Notional contract amount ₦ million	Fair values Asset ₦ million	Fair values Liability ₦ million
Interest rate derivatives						
Interest rate swaps	69,875	1,927	(1,187)	69,875	1,927	(1,187)
Foreign exchange derivatives						
Forward FX contract	1,516	35	(13)	1,516	35	(13)
Currency swap	5,992	-	(439)	5,992	-	(439)
	77,383	1,962	(1,639)	77,383	1,962	(1,639)
Current	1,516	35	(13)	1,516	35	(13)
Non-current	75,867	1,927	(1,626)	75,867	1,927	(1,626)
	77,383	1,962	(1,639)	77,383	1,962	(1,639)

22 Investment securities

	Commercial Banking business group		
	31 Dec 2012 ₦ million	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
Securities available for sale			
Debt securities – at fair value:			
Treasury Bills	**121,247**	149,489	3,368
Government bonds	**182,629**	155,351	136,578
Equity securities – at fair value: listed	**1,131**	4,417	6,196
Equity securities – at fair value: unlisted	**46,367**	47,676	76,680
	351,374	356,933	222,822
Assets pledged as collateral			
Debt securities – at fair value			
Treasury Bills	**17,531**	22,195	-
Government bonds	**1,515**	10,191	109,100
	19,046	32,386	109,100
Total securities classified as available for sale	**370,420**	389,319	331,922
Securities held to maturity			
Debt securities – at amortised cost:			
Treasury Bills	**-**	-	6,997
Listed debt	**155,636**	337,336	-
Unlisted debt	**175,224**	-	24,889
	330,860	337,336	31,886
Assets pledged as collateral			
Debt securities – at amortised cost			
Treasury Bills	**-**	-	12,909
Government bonds	**31,063**	39,743	-
	31,063	39,743	12,909
Total securities classified as held-to-maturity	**361,923**	377,079	44,795
Total investment securities	**732,343**	766,398	376,717

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	The Bank		
	31 Dec 2012 ₦ million	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
Securities available for sale			
Debt securities – at fair value:			
Treasury Bills	**108,127**	148,658	3,368
Government bonds	**144,784**	149,965	124,743
Equity securities – at fair value:			
listed	**1,131**	2,486	4,132
Equity securities – at fair value:			
unlisted	**46,309**	39,658	68,920
	300,351	340,767	201,163
Assets pledged as collateral			
Debt securities – at fair value			
Treasury Bills	**17,531**	22,195	-
Government bonds	**1,515**	10,191	109,100
	19,046	32,386	109,100
Total securities classified as available for sale	**319,397**	373,153	310,263
Securities held to maturity			
Debt securities – at amortised cost:			
Treasury Bills	**-**	-	6,827
Listed	**155,636**	307,907	-
Unlisted	**175,224**	21,950	37,504
	330,860	329,857	44,331
Assets pledged as collateral			
Debt securities – at amortised cost			
Treasury Bills	**-**	-	12,909
Government bonds	**31,063**	39,743	-
	31,063	39,743	12,909
Total securities classified as held-to-maturity	**361,923**	369,600	57,240
Total investment securities	**681,320**	742,753	367,503

23 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:

	Commercial Banking business group		
	31 Dec 2012 ₦ million	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
Available for sale debt securities (Note 22.1)	**19,046**	32,386	109,100
Held to maturity debt securities (Note 22.2)	**31,063**	39,743	12,909
	50,109	72,129	122,009
Current	**19,046**	32,386	109,100
Non-current	**31,063**	39,743	12,909
	50,109	72,129	122,009

	The Bank		
	31 Dec 2012 ₦ million	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
Available for sale debt securities (Note 22.3)	**19,046**	32,386	109,100
Held to maturity debt securities (Note 22.4)	**31,063**	39,743	12,909
	50,109	72,129	122,009
Current	**19,046**	32,386	109,100
Non-current	**31,063**	39,743	12,909
	50,109	72,129	122,009

24 Investment in subsidiaries

24.1 Principal subsidiary undertakings

Following the restructuring which occurred during the year ended 31 December 2012, the Group transferred its entire interest in some subsidiaries to FBN Holdings Plc – see Note 29 for listing of the affected entities.

	31 Dec 2012 ₦ million	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
FBN Bank (UK) Limited (Note 25 (i))	**30,695**	18,441	18,441
FBN Capital Limited (Note 27)	**-**	4,300	4,300
First Pension Custodian Limited (Note 25 (ii))	**2,000**	2,000	2,000
First Trustees Nigeria Limited (Note 27)	**-**	23	23
FBN Mortgages Limited (Note 25 (iii))	**2,100**	2,100	2,100
FBN Insurance Brokers Limited (Note 27)	**-**	15	15
First Registrars Nigeria Limited (Note 27)	**-**	10	10
FBN Bureau de Change Limited (Note 25 (iv))	**50**	500	500
FBN Microfinance Bank Limited (Note 27)	**-**	1,000	1,000
First Funds Limited (Note 27)	**-**	2,050	2,050
FBN Life Assurance (Note 27)	**-**	2,000	-
Banque Internationale de Crédit DRC (Note 25 (v))	**5,503**	-	-
	40,348	32,439	30,439
Impairment of investments in subsidiaries	**-**	(23)	(23)
	40,348	32,416	30,416

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

Subsidiary	Principal activity	Country of incorporation	Statutory year end
FBN Bank (UK) Limited (Note 25 (i))	Banking	United Kingdom	31 December
FBN Capital Limited (Note 27)	Investment banking	Nigeria	31 December
First Pension Custodian Limited (Note 25 (ii))	Pension fund assets custodian	Nigeria	31 December
First Trustees Nigeria Limited (Note 27)	Trusteeship	Nigeria	31 December
FBN Mortgages Limited (Note 25 (iii))	Mortgage banking	Nigeria	31 December
FBN Insurance Brokers Limited (Note 27)	Insurance brokerage	Nigeria	31 December
First Registrars Nigeria Limited (Note 27)	Share register administration	Nigeria	31 December
FBN Bureau de Change Limited (Note 25 (iv))	Bureau de change	Nigeria	31 December
FBN Microfinance Bank Limited (Note 27)	Microfinance banking	Nigeria	31 December
First Funds Limited (Note 27)	Venture capital	Nigeria	31 December
FBN Life Assurance (Note 27)	Life insurance	Nigeria	31 December
Banque Internationale de Crédit (DRC) (Note 25 (v))	Banking	Democratic Republic of Congo	31 December

i FBN Bank (UK) Limited

FBN Bank (UK) Ltd (FBN UK) is a company incorporated in the United Kingdom under the Companies Act 1985 as a UK registered bank authorised by the Financial Services Authority to accept deposits and undertake banking business.

FBN UK was incorporated in November 2002. It is a wholly owned subsidiary of First Bank of Nigeria Ltd. The bank has a branch in Paris.

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

ii First Pension Custodian Limited

First Pension Custodian Limited was incorporated on 12 August 2005 and granted an approval in principle by the National Pension Commission on 1 August 2005 while the operating licence was obtained on 7 December 2005. The principal activity of the company is to act as a Custodian of Pension Fund Assets in accordance with the Pension Reform Act, 2004.

iii FBN Mortgages Limited

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

iv FBN Bureau de Change Limited

This represents the Bank's 100% holding in FBN Bureau de Change Limited. The Bank obtained approval from the Central Bank of Nigeria to operate a bureau de change on 8 August 2006. In 2010, the Central Bank of Nigeria (CBN) withdrew the licence of all class 'A' bureau de change and advised them to apply for class 'B' in order to continue in business. The class B licence was issued in the current year and the Bank obtained a refund of ₦450 million for the excess capital requirement.

v Banque Internationale de Crédit (DRC)

Banque Internationale de Crédit (BIC), is a company incorporated in the Democratic Republic of Congo (DRC) on 6 April 1994, following the approval granted by the Central Bank of Congo on 24 September 1993.

First Bank Nigeria Limited has a holding of 75% in the equity of BIC.

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24.1 Condensed results of consolidated entries from continuing operations

	Bank ₦ million	FBN UK ₦ million	BIC ₦ million	Mortgages ₦ million	Pension ₦ million	BDC ₦ million	Total ₦ million	Adjustments ₦ million	Banking Group ₦ million
Condensed Income Statement									
Operating income	260,384	11,752	7,866	1,789	2,559	202	284,552	(4,142)	280,410
Operating expenses	(168,908)	(5,089)	(5,866)	(678)	(1,243)	(137)	(181,921)	(408)	(182,329)
Provision expense	(9,847)	(109)	(1,106)	(37)			(11,099)	(1,813)	(12,912)
Operating profit	81,629	6,554	894	1,074	1,316	65	91,532	(6,363)	85,169
Associate	-	-	-	-	-	-	-	1,008	1,008
Profit before tax	-	-	-	-	-	-	-	-	86,177
Tax	(12,145)	(1,624)	(591)	-	(532)	(25)	(14,918)	-	(14,918)
(Loss)/Profit for the year	69,484	4,930	303	1,074	784	40	76,614	(5,355)	71,259
Condensed Financial Position									
Assets	288,125	38	9,857	1	-	4	298,024	-	298,024
Cash and balances with Central Bank	329,120	229,426	10,496	720	4,208	246	574,216	(181,091)	393,125
Due from other banks	1,316,407	232,104	18,738	2,182	30	4	1,569,465	(6,460)	1,563,005
Loans and advances	1,942	623	-	-	-	-	2,565	-	2,565
Financial assets held for trading (HFT)	723,892	50,390	574	59	-		774,915	(36,963)	737,952
Investment securities	32,459	784	1,878	13,170	446	31	48,768	(15,035)	33,733
Other assets	6,703	10	1,242	-	-	-	7,955	-	7,955
Deferred tax	1,302	449	-	-	20	-	1,771	1,646	3,417
Intangible assets	70,724	204	3,299	67	137	22	74,453	-	74,453
Property and equipment	-	-	-	-	-	-	-	12,978	12,978
Assets held for sale	2,770,674	514,027	46,085	16,199	4,841	307	3,352,133	(224,925)	3,127,207
Financed by									
Customer deposits	2,171,807	274,367	36,090	9,527	-	-	2,491,791	(85,934)	2,405,857
Due to other banks	18,463	151,697	-	-	-	-	170,160	(82,609)	87,551
Financial liabilities held for trading	1,278	518	-	-	-	-	1,796		1,796
Borrowed funds	81,987	12,559	-	-	-	-	94,546	(19,004)	75,542
Tax payable	19,768	1,192	605	72	708	29	22,374		22,374
Other liabilities	87,039	26,449	3,994	3,093	296	83	120,954	(2,889)	118,065
Retirement benefit obligations	18,156	-	-	-	366	-	18,522	127	18,649
Deferred income tax liabilities	-	-	-	4	-	2	6	-	6
Liabilities held for sale	-	-	-	-	-	-	-	2,836	2,836
	2,398,498	466,782	40,689	12,696	1,370	114	2,920,149	(187,473)	2,732,676
Equity and reserves	372,176	47,245	5,396	3,503	3,471	193	431,985	(35,794)	394,531
Condensed cash flows									
Net cash from operating activities	190,556	2,297	2,703	(5,278)	1,240	527	192,045	(176,123)	15,922
Net cash from financing activities	(87,584)	12,555	(341)	-	-	(487)	(75,857)	(11,727)	(87,584)
Net cash from investing activities	(32,504)	(422)	(454)	(12)	(42)	(16)	(33,451)	27,647	(5,804)
At year start	467,546	4,407	7,949	5,451	3,010	226	488,589	210,065	698,655
Movement in cash and cash equivalent	70,345	14,430	1,908	(5,290)	1,198	24	82,615	(160,408)	(77,793)
At year end	537,891	18,837	9,857	160	4,208	250	571,204	49,657	620,861

25 Acquisition of subsidiary

In October 2011, First Bank of Nigeria Ltd paid for the acquisition of a 75% interest in Thorens Limited, which owns a 99.9% interest in the 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 acquired company contributed interest income of ₦2,123 million and fee commission of ₦2,251 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 ₦277,705 million, Group fee and commission would be ₦54,123 and Group profit before tax would have been ₦86,400.

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

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

	31 March 2012 ₦ million
Consideration	
Cash	5,503
Contingent consideration	-
	5,503

	Provisional fair value ₦ million
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and balances with Central Banks	10,081
Loans and advances to banks	44
Loans and advances to customers	6,841
Investment securities	16,046
Inventory	145
Deferred tax asset	1,045
Other assets	1,975
Property, plant and equipment	2,669
Deposits	(27,521)
Other liabilities	(6,182)
Total identifiable net assets	5,143
Non-controlling interest	1,286
Goodwill	1,646

The goodwill of ₦1.6 billion 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.

There was no contingent consideration, 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 7 days and 28 days. The amount represents its fair value.

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

The contractual amount for loans and advances to customers is ₦6.6 billion which is net of a loan loss provision of ₦2.2 billion.

The value of the other assets is ₦1.975 billion; this includes an account receivable of ₦0.987 billion. This full amount is deemed recoverable. No provision has been made on the other asset.

The value of the acquired property plant and equipment of ₦2.7 billion is provisional pending receipt of the final valuations for the assets.

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

26 Discontinued operations

i Transfer of subsidiaries resulting from business restructuring

Following the directive of the Central Bank of Nigeria on the new banking model in Nigeria issued on 4 October 2010, the Group opted for the Holding company structure. The Holding company structure led to the reorganisation of the Group reporting and business structure. On 1 December 2012, FBN Holdings Plc became the Parent company of the FBN group. As a result of the reorganisation, FBN Nigeria Limited is the parent company of the commercial banking subsidiaries and transferred its interest in the underlisted subsidiaries to its ultimate parent company – FBN Holdings Plc or FBN Capital Limited as detailed below. In line with the accounting policy on common control transactions, predecessor accounting was applied and the assets and liabilities of these entities were transferred at the existing book value. Thus, no gain or loss was recorded on the transfer of these subsidiaries to the Holding company.

FBN Holdings Plc	FBN Capital Limited
FBN Capital Limited	First Trustees Nigeria Limited
FBN Insurance Brokers Limited	First Funds Limited
FBN Microfinance Bank Limited	
FBN Life Assurance	

ii Disposal of First Registrars Limited

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 Januay 2012 to 28 December 2012 (₦986 million for prior year in First Registrars Nigeria Limited).

(a) Discontinued operations contributed profit of ₦3.5 billion to the Group (2011: (₦1.7 billion)

The results of the discontinued operations until point of disposal is included within 'Discontinued operations' in the current year and their full year result for prior year is also shown. The results of discontinued operations as shown below, includes the following:

- results of the subsidiaries transferred to FBN Holdings Plc for the 11 months to November 2012;
- results of First Registrars Nigeria Limited up to date of sale – 28 December 2012;
- results of the property development portfolio of FBN Mortgages which was classified as Held for Sale during the year;
- gain recognised from the sale of First Registrars Nigeria Limited:

	Commercial Banking business group	
	12 months to Dec 2012 ₦ million	**12 months to Dec 2011 ₦ million**
Interest income	**9,987**	5,956
Interest expense	**(3,742)**	(2,057)
Net interest income	**6,245**	3,899
Impairment charge/write back on credit losses	**(253)**	(198)
Net interest income after impairment charge for credit losses	**5,992**	3,701
Insurance premium revenue	**1,524**	1,295
Insurance premium revenue ceded to reinsurers	**(110)**	(31)
Net insurance premium revenue	**1,414**	1,264
Net fee and commission income	**4,706**	3,993
Net gains/(losses) on investment securities	**-**	212
Net gains/(losses) from financial assets classified as held for trading	**-**	(3,824)
Dividends	**-**	225
Other operating income	**2,072**	406
Net insurance benefits and claims	**(456)**	(81)
Operating expenses	**(8,257)**	(9,199)

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	Commercial Banking business group	
	12 months to Dec 2012 ₦ million	12 months to Dec 2011 ₦ million
Operating profit	**5,471**	(3,303)
Profit before tax	**5,471**	(3,303)
Income tax expense	**(1,921)**	1,637
Profit/(loss) from discontinued operations	**3,550**	(1,666)
Pre-tax gain from disposal of operations	**288**	-
Tax	**-**	-
After tax gain from disposal of operations	**288**	-
Total profit on discontinued operations	**3,838**	(1,666)
Profit attributable to:		
Owners of the parent	**3,849**	(1,490)
Non-controlling interests	**(11)**	(176)

(b) Asset, liabilities and reserves of the discontinued operations at the point of transfer/disposal are shown below:

	Commercial Banking business group	
	Entities transferred to HoldCo 30 November ₦ million	FBN Registrars Limited 28 December ₦ million
Assets		
Cash and balances with Central Banks	1,261	-
Loans and advances to banks	28,611	30,619
Loans and advances to customers	1,706	148
Financial assets held for trading	18,396	-
Insurance receivables	517	-
Investment securities		
available-for-sale investments	5,213	-
held to maturity investments	27,610	3,001
Assets pledged as collateral	3,135	-
Other assets	5,825	233
Inventory	25,366	-
Investment properties	4,055	-
Intangible assets	63	-
Property, plant and equipment	967	565
Deferred tax	149	81
Total assets	**122,873**	**34,647**
Liabilities		
Deposits from banks	3,146	-
Deposits from customers	1,340	-
Liability on investment contracts	44,388	-
Liability on insurance contracts	2,250	-
Borrowings	57,731	-
Retirement benefit obligations	329	-
Current income tax liability	180	-
Deferred tax	260	-
Other liabilities	10,808	31,435
Total liabilities	**120,432**	**31,435**

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	Commercial Banking business group	
	Entities transferred to HoldCo 30 November ₦ million	FBN Registrars Limited 28 December ₦ million
Equity and reserves		
Share capital	6,162	500
Share premium	18,436	-
Retained earnings	(22,252)	2,712
Other reserves		
Statutory reserve	56	-
AFS fair value reserve	-	-
Contingency reserve	40	-
Total equity and reserves	**2,441**	**3,212**

(c) Assets classified as held for sale

The assets and liabilities held for sale relate to the property development portfolio of First Mortages Limited which is being presented as held for sale following the commitment to its sale by the Group's management in compliance with the Central Bank of Nigeria's (CBN) Regulation on the scope of Banking Activities and Ancillary Matters No 3, 2010, which requires 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. The sale is expected to be completed by May 2013.

The carrying amount of the assets and liabilities of the disposed group classified as held for sale are as listed below.

	Commercial Banking business group
	31 Dec 2012 ₦ million
Assets classified as held for sale	
Inventory	5,637
Accounts receivable	7,341
	12,978
Liabilities classified as held for sale	
Accounts payable – deposit for property	2,836
Net asset	**10,142**

(d) Cash flows attributable to discontinued operations

i Transferred subsidiaries

	Commercial Banking business group	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Net cash flow from operating activities	**(9,998)**	(9,393)
Net cash flow from investing activities	**(28)**	(27,187)
Net cash flow from financing activities	**3,149**	(13,336)
Net cash outflow/inflow	**(6,877)**	(49,916)

27 Investment in associates (equity method)

First Bank of Nigeria Ltd has a 40% 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 is not publicly traded and there is no published price information.

As part of the business restructuring which occurred during the period, the Bank transferred its 42% shareholding interest in Seawolf to FBN Holdings Plc. The transfer was made at book value. During the period, FBN Registrars' interest in Kakawa Discount House was also transferred to FBN Capital Limited at book value.

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

First Bank of Nigeria Ltd has 34.17% in FBN Heritage Funds. The principal activity of the Fund is the subscription of funds from the members of the public and the investment of such funds in quoted equities, government securities, and other financial instruments as determined by the Fund Manager in accordance with the Trust Deed. The Fund is listed on the Nigerian Stock Exchange. The Bank transferred its holdings in the Fund to FBN Holdings Plc as part of the business restructuring during the period.

	Commercial Banking business group		The Bank	
	2012 ₦ million	**2011 ₦ million**	**2012 ₦ million**	**2011 ₦ million**
Balance at beginning of period	**7,489**	8,996	**14,099**	14,099
Transferred to FBN Holdings Plc	**(1,652)**	-	**(11,875)**	-
Transferred to FBN Capital	**(660)**	-	**-**	-
Dividend received	**(576)**	(504)	**-**	-
Share of profit/(loss)	**1,008**	(1,003)	**-**	-
At end of period	**5,609**	7,489	**2,224**	14,099

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

	Total assets ₦ million	Total liabilities ₦ million	Net assets/ liabilities ₦ million	Gross earnings ₦ million	Profit or loss before tax ₦ million
At 31 December 2012					
KDH	119,437	106,028	13,409	17,112	2,424
Heritage Funds	4,292	154	4,138	227	172
31 December 2011					
KDH	121,995	108,338	13,657	10,976	2,618
Seawolf	185,847	207,464	(21,617)	11,454	(4,639)
Heritage Funds	4,131	107	4,024	93	14
1 January 2011					
KDH	161,347	148,293	13,054	10,244	3,147
Seawolf	221,060	237,219	(16,519)	10,323	(1,227)
Heritage Funds	4,681	146	4,535	155	78

KDH and FBN Heritage Fund do not have any commitment or contingent liabilities as at 31 December 2012 (2011: Nil, 2010: Nil).

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28 Investment properties

	Commercial Banking business group	
	2012 ₦ million	2011 ₦ million
Cost		
At 1 January	**4,055**	2,440
Additions resulting from acquisitions	**-**	52
Additions resulting from subsequent expenditure	**30**	1,563
Discontinued operations	**(4,085)**	-
At 31 December	**-**	4,055

This represents the Group's investment in land held for the purpose of capital appreciation. It is the Company's policy not to depreciate land. The Bank has no investment property.

Investment properties did not generate any income or direct operating expenses during the period. Following the Group restructure, the investment properties have been transferred to the new Holding Company.

The fair value of investment properties is ₦4,339 million in 2011 and was determined based on valuations performed by inhouse consultants. The fair value of the properties have been determined using transactions observable in the market.

29 Inventory

	Commercial Banking business group		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Work in progress	**8,366**	11,807	14,881
Interest capitalised	**7,711**	5,459	5,165
Stock of properties	**9,646**	8,343	3,035
Discontinued operations	**(25,723)**	-	-
At 31 December	**-**	25,609	23,081
Current	**-**	8,343	3,035
Non-current	**-**	17,266	20,046
	-	25,609	23,081

Inventory relates to properties under development by FBN Mortgages Limited as well the real estate development of Rainbow Town Development Limited. This FBN Mortgages property development portfolio was classified as Asset Held for Sale during the period. See Note 29 for a detailed note. The Bank has no inventory balance.

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30 Property, plant and equipment

Commercial Banking business 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 2011	28,742	10,702	9,189	27,600	12,222	5,333	22	5,552	99,362
Additions	1,270	2,908	1,937	2,249	1,987	719	2	457	11,529
Reclassifications	(35)	-	-	(2)	3	37	-	(3)	-
Disposals	-	-	(1,100)	(974)	(93)	(459)	-	-	(2,626)
At 31 December 2011	29,977	13,610	10,026	28,873	14,119	5,630	24	6,006	108,265
Accumulated depreciation									
At 1 January 2011	2,745	-	6,024	13,884	9,716	3,342	17	-	35,728
Charge for the year	596	-	1,521	4,547	1,618	689	2	-	8,973
Reclassifications	(27)	-	-	-	-	27	-	-	-
Disposals	-	-	(789)	(971)	(92)	(458)	-	-	(2,310)
At 31 December 2011	3,314	-	6,756	17,460	11,242	3,600	19	-	42,391
Net book amount at 31 December 2011	**26,663**	**13,610**	**3,270**	**11,413**	**2,877**	**2,030**	**5**	**6,006**	**65,874**
Cost									
At 1 January 2012	29,977	13,610	10,026	28,873	14,119	5,630	24	6,006	108,265
Additions	2,421	2,658	3,181	6,296	2,025	1,459	-	595	18,635
Acquisition of subsidiary	1,546	-	297	576	983	616	-	420	4,438
Write offs	(101)	-	-	-	(85)	(49)	-	-	(235)
Disposals	(292)	-	(1,916)	(1,386)	(369)	(181)	-	(8)	(4,152)
Discontinued operations	(199)	(368)	(879)	(266)	(668)	(339)	(24)	-	(2,743)
At 31 December 2012	33,352	15,900	10,709	34,093	16,005	7,136	-	7,013	124,208
Accumulated depreciation									
At 1 January 2012	3,314	-	6,756	17,460	11,242	3,600	19	-	42,391
Acquisition of subsidiary	79	-	242	445	640	363	-	-	1,769
Discontinued operations	(14)	-	(355)	(171)	(483)	(245)	(21)	-	(1,289)
Charge for the year	674	-	1,760	4,860	2,017	855	2	-	10,168
Write offs	(101)	-	-	-	(85)	(49)	-	-	(235)
Disposals	(96)	-	(1,509)	(943)	(354)	(148)	-	-	(3,050)
At 31 December 2012	3,856	-	6,894	21,651	12,977	4,376	-	-	49,754
Net book amount at 31 December 2012	**29,496**	**15,900**	**3,815**	**12,442**	**3,028**	**2,760**	**-**	**7,013**	**74,454**
Net book amount at 31 December 2011	**26,663**	**13,610**	**3,270**	**11,413**	**2,877**	**2,030**	**5**	**6,006**	**65,874**
Net book amount at 1 January 2011	**25,997**	**10,702**	**3,165**	**13,716**	**2,506**	**1,991**	**5**	**5,552**	**63,634**

Capital work in progress represents construction cost and improvements in respect of offices.

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The Bank

	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 2011	28,012	10,702	8,378	27,364	11,495	4,861	5,541	96,353
Additions	5,784	2,946	1,529	3,444	1,755	675	(5,541)	10,592
Reclassifications	-	(35)	-	-	-	35	-	-
Disposals	-	(3)	(875)	(969)	(80)	(455)	-	(2,382)
At 31 December 2011	33,796	13,610	9,032	29,839	13,170	5,116	-	104,563
Accumulated depreciation								
At 1 January 2011	2,586	-	5,595	13,742	9,135	3,043	-	34,101
Charge for the year	561	-	1,325	4,497	1,506	628	-	8,517
Reclassifications	(27)	-	-	-	-	27	-	-
Disposals	-	-	(609)	(967)	(80)	(455)	-	(2,111)
At 31 December 2011	3,120	-	6,311	17,272	10,561	3,243	-	40,507
Net book amount at 31 December 2011	**30,676**	**13,610**	**2,721**	**12,567**	**2,609**	**1,873**	**-**	**64,056**
Cost								
At 1 January 2012	33,796	13,610	9,032	29,839	13,170	5,116	-	104,563
Additions	2,273	2,658	2,704	6,188	1,761	1,297	-	16,881
Disposals	(292)	-	(1,746)	(1,385)	(353)	(176)	-	(3,952)
At 31 December 2012	35,777	16,268	9,990	34,642	14,578	6,237	-	117,492
Accumulated depreciation								
At 1 January 2012	3,120	-	6,311	17,272	10,561	3,243	-	40,507
Charge for the year	607	-	1,442	4,741	1,664	711	-	9,165
Disposals	(96)	-	(1,356)	(942)	(353)	(157)	-	(2,904)
At 31 December 2012	3,631	-	6,397	21,071	11,872	3,797	-	46,768
Net book amount at 31 December 2012	**32,146**	**16,268**	**3,593**	**13,571**	**2,706**	**2,440**	**-**	**70,724**
Net book amount at 31 December 2011	**30,676**	**13,610**	**2,721**	**12,567**	**2,609**	**1,873**	**-**	**64,056**
Net book amount at 1 January 2011	**25,426**	**10,702**	**2,783**	**13,622**	**2,360**	**1,818**	**5,541**	**62,252**

Capital work in progress represents construction cost and improvements in respect of offices.

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31 Intangible assets

	Commercial Banking business group		
	Goodwill ₦ million	Computer software ₦ million	Total ₦ million
Cost			
At 1 January 2011	-	1,925	1,925
Additions	-	1,711	1,711
At 31 December 2011	-	3,636	3,636
Additions	-	1,494	1,494
Disposals	-	(191)	(191)
Write off	-	(237)	(237)
Acquisition of subsidiary	1,646	-	1,646
Exchange difference	-	20	20
At 31 December 2012	1,646	4,722	6,368
Amortisation and impairment			
At 1 January 2011	-	1,431	1,431
Amortisation	-	1,197	1,197
At 31 December 2011	-	2,628	2,628
Amortisation charge	-	645	645
Write off	-	(237)	(237)
Disposals	-	(99)	(99)
Exchange difference	-	14	14
At 31 December 2012	-	2,951	2,951
Net book value			
At 31 December 2012	1,646	1,771	3,417
At 31 December 2011	-	1,008	1,008
At 1 January 2011	-	494	494

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	The Bank	
	Computer software ₦ million	Total ₦ million
Cost		
At 1 January 2011	1,229	1,229
Additions	1,551	1,551
At 31 December 2011	2,780	2,780
Additions	1,124	1,124
At 31 December 2012	3,904	3,904
Amortisation and impairment		
At 1 January 2011	964	964
Amortisation	1,082	1,082
At 31 December 2011	2,046	2,046
Amortisation	556	556
At 31 December 2012	2,602	2,602
Net book value		
At 31 December 2012	1,302	1,302
At 31 December 2011	734	734
At 1 January 2011	265	265

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

Impairment tests for goodwill

Goodwill is allocated to cash-generating units at a level which represents the smallest identifiable group of assets that generate largely independent cash flows.

Goodwill of ₦200 million (31 December 2011: Nil) relates to the acquisition of BIC.

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

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

Cash flow forecasts

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

Growth rates

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

Discount rate

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

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

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32 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%).

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Deferred income tax assets and liabilities are attributable to the following items:						
Deferred tax assets						
Property and equipment	9,253	9,178	5,187	9,254	9,178	5,187
Allowance for loan losses	3,159	1,741	128	1,762	-	-
Tax losses carried forward	-	927	3,687	-	927	3,687
Other assets	527	1,126	-	526	1,108	-
Equity securities at fair value	(10,286)	(10,420)	-	(10,286)	(10,420)	
Defined benefit obligation	5,301	4,402	3,272	5,447	4,402	3,272
	7,955	6,954	12,274	6,703	5,195	12,146
Deferred tax liabilities						
Other liabilities	6	1,067	901	-	-	-
	6	1,067	901	-	-	-
Deferred tax assets						
deferred tax asset to be recovered after more than 12 months	7,428	5,828	12,274	6,177	4,087	12,146
deferred tax asset to be recovered within 12 months	527	1,126	-	526	1,108	-
	7,955	6,954	12,274	6,703	5,195	12,146
Deferred tax liabilities						
deferred tax liability to be recovered after more than 12 months	-	-	-	-	-	-
deferred tax liability to be recovered within 12 months	6	1,067	-	-	-	-
	6	1,067	-	-	-	-

	Commercial Banking business group			
	1 Jan 2012 ₦ million	Recognised in P&L ₦ million	Recognised OCI ₦ million	31 Dec 2012 ₦ million
Movements in deferred tax assets during the year:				
Property and equipment	9,178	75	-	9,253
Allowance for loan losses	1,741	1,418	-	3,159
Tax losses carried forward	927	(927)	-	-
Other assets	1,126	(599)	-	527
Other liabilities	(10,420)	134	-	(10,286)
Defined benefit obligation	4,402	753	146	5,301
	6,954	855	146	7,955

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At 31 December 2012

Commercial Banking business group	1 Jan 2011 ₦ million	Recognised in P&L ₦ million	Recognised OCI ₦ million	31 Dec 2011 ₦ million
Movements in deferred tax assets during the year:				
Property and equipment	5,187	3,991	-	9,178
Allowances for loan losses	128	1,613	-	1,741
Tax losses carried forward	3,688	(2,761)	-	927
Other assets	-	1,126	-	1,126
Other liabilities	-	(10,420)	-	(10,420)
Defined benefit obligation	3,272	218	913	4,402
	12,274	(6,233)	913	6,954

Commercial Banking business group	1 Jan 2012 ₦ million	Discontinued operations ₦ million	Recognised in P&L ₦ million	31 Dec 2012 ₦ million
Movements in deferred tax liabilities during the year:				
Other liabilities	1,067	(260)	(801)	6

Commercial Banking business group	1 Jan 2011 ₦ million	Recognised in P&L ₦ million	Recognised OCI ₦ million	31 Dec 2011 ₦ million
Movements in deferred tax liabilities during the year:				
Other liabilities	901	166	-	1,067

The Bank	1 Jan 2012 ₦ million	Recognised in P&L ₦ million	Recognised OCI ₦ million	31 Dec 2012 ₦ million
Movements in temporary differences during the year:				
Property and equipment	9,178	76	-	9,254
Allowance for loan losses	-	1,762	-	1,762
Tax losses carried forward	927	(927)	-	-
Other assets	1,108	(581)	-	527
Other liabilities	(10,420)	134	-	(10,287)
Defined benefit obligation	4,402	899	146	5,447
	5,195	1,363	146	6,703

	The Bank			
	1 Jan 2011 ₦ million	Recognised in P&L ₦ million	Recognised OCI ₦ million	31 Dec 2011 ₦ million
Movements in temporary differences during the year:				
Property and equipment	5,187	3,992	-	9,178
Tax losses carried forward	3,688	(2,761)	-	927
Other assets	-	1,108	-	1,108
Other liabilities	-	(10,420)	-	(10,420)
Defined benefit obligation	3,271	218	913	4,402
	12,146	(7,864)	913	5,195

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

33 Other assets

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Prepayments	8,459	9,276	8,583	7,351	7,582	5,938
Accounts receivable	17,330	32,802	22,790	18,721	21,705	18,540
Insurance receivables	-	111	-	-	-	-
Other receivables	14,182	27,118	11,890	12,611	20,671	12,313
	39,971	69,307	43,263	38,683	49,958	36,791
Less specific allowances for impairment	(6,238)	(7,035)	(3,981)	(6,224)	(6,224)	(3,447)
	33,733	62,272	39,282	32,459	43,734	33,344

Reconciliation of impairment account

	Commercial Banking business group		The Bank	
	2012 ₦ million	2011 ₦ million	2012 ₦ million	2011 ₦ million
At start of period	7,035	3,981	6,224	3,447
Increase in impairment	-	3,696	-	2,726
Amounts written off	-	(693)	-	-
Reclassification	-	51	-	51
Discontinued operations	(797)	-	-	-
At end of period	6,238	7,035	6,224	6,224

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.

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34 Deposits from banks

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Interbank takings	66,344	97,661	148,115	6,074	50,588	54,984
Due to Bank	21,207	85,839	237	12,389	718	237
	87,551	183,500	148,352	18,463	51,306	55,221

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

35 Deposits from customers

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Current	805,222	746,118	607,252	755,738	702,847	574,415
Savings	548,391	495,777	387,808	544,807	495,075	386,913
Term	501,371	289,064	273,755	320,898	166,206	188,105
Domiciliary	541,210	417,715	177,497	540,700	417,715	177,497
Electronic purse	9,664	2,647	1,288	9,664	2,647	1,288
	2,405,858	1,951,321	1,447,600	2,171,807	1,784,490	1,328,218
Current	2,405,854	1,950,991	1,379,978	2,171,803	1,784,313	1,206,425
Non-current	4	330	67,622	4	177	121,793
	2,405,858	1,951,321	1,447,600	2,171,807	1,784,490	1,328,218

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

36 Financial liabilities held for trading

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Fair value of derivatives held for trading	1,796	2,857	1,639	1,278	1,143	1,639

Financial liabilities held for trading amounting to ₦1,136 million (2011: ₦1,129 million) are due after more than 12 months for both the Group and Bank.

37 Borrowings

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Long-term borrowing comprises:						
Due to FBN Capital Finance Company, Cayman Islands (i)	-	28,009	27,043	-	28,009	27,043
Due to European Investment Bank (ii)	2,560	4,677	7,036	2,560	4,677	7,036
Due to Standard Chartered Bank (iii)	-	32,178	53,445	-	32,178	53,446
On-lending facilities from financial institutions (iv)	25,846	29,497	18,807	25,846	29,496	18,807
Borrowing from correspondent banks (v)	47,135	10,112	20,019	53,581	9,927	19,764
	75,541	104,473	126,350	81,987	104,287	126,096
Current	54,004	55,329	21,491	54,004	55,143	21,491
Non-current	21,537	49,144	104,859	27,983	49,144	104,605
	75,541	104,473	126,350	81,987	104,287	126,096

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

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

ii Facility represents a medium-term loan (callable notes) secured from European Investment Bank. The loan is divided into tranche A of euro 35 million for a tenure of five years and tranche B of euro 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 the LIBOR rate for tranche A and tranche B respectively.

iii Facility represents a medium-term loan (dollar notes) secured from Standard Chartered Bank in February 2010 for a period of three years with a moratorium of 18 months. The interest on the loan is payable half yearly at 4.25% above the LIBOR rate. The loan was repaid on August 2012.

iv 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.

(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 Bank of Industry (BOI) disbursed an additional ₦1.8 billion (2011: ₦1.13 billion) to the First Bank of Nigeria Limited.

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

(b) CBN/CACS Intervention funds

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

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

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38 Liability on investment contracts

	Commercial Banking business group		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Long-term clients	-	38,304	20,804
Short-term clients	-	11,132	23,693
Guaranteed fixed income	-	4	31,949
	-	49,440	76,446
Current	-	11,132	23,693
Non-current	-	38,308	52,753
	-	49,440	76,446

39 Retirement benefit obligations

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Post-employment benefit	132	-	-	-	-	-
Defined contribution scheme	-	391	225	-	1	171
Defined Benefits Plan						
Gratuity Scheme (i)	14,158	7,685	6,298	13,792	7,669	6,001
Defined benefits – Pension (ii)	4,358	7,005	4,903	4,364	7,006	4,903
	18,648	15,081	11,426	18,156	14,676	11,075

Defined contribution scheme

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

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

Gratuity scheme (i)

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

	Commercial Banking business group	The Bank
	₦ million	₦ million
Defined benefit obligations at 1 January 2011	6,298	6,001
Service cost	3,882	3,146
Interest cost	789	789
Actuarial losses/gains (net)	221	221
Benefits paid (in the year)	(3,505)	(2,488)
Defined benefit obligations at 31 December 2011	7,685	7,669
Service cost	1,345	1,033
Interest cost	1,055	1,037
Actuarial losses/gains (net)	2,956	2,936
Benefits paid (in the year)	(13,496)	(13,495)
Curtailment (gains)/losses	9,031	9,031
Plan amendments	5,582	5,582
Defined benefit obligations at 31 December 2012	**14,158**	**13,793**

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	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Amounts recognised in the income statement are as follows:				
Current service cost	(1,345)	(3,146)	(1,033)	(3,146)
Interest on obligation	(1,055)	(789)	(1,037)	(789)
Curtailment (gains)/losses	(9,031)	-	(9,031)	-
Plan amendments	(5,582)	-	(5,582)	-
Total employee benefits expense	(17,013)	(3,935)	(16,683)	(3,935)
Amounts recognised in other comprehensive income are as follows:				
Actuarial losses/(gains)	(2,936)	(221)	(2,936)	(221)

Three-year record from first application of IAS 19

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2010 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2010 ₦ million
Present value of defined benefit obligation	14,158	7,685	6,298	13,792	7,669	6,001
Fair value of plan assets	-	-	-	-	-	-
Deficit/(surplus) in the plan	14,158	7,685	6,298	13,792	7,669	6,001
Experience adjustments on plan liabilities	(3,007)	(649)	(213)	(3,007)	(649)	(213)
Experience adjustments on plan assets	-	-	-	-	-	-

Defined benefit – pension (ii)

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.

	Commercial Banking business group	The Bank
	₦ million	₦ million
The movement in the defined benefit obligation over the year is as follows:		
Defined benefit pension obligations at 1 January 2011	13,550	13,550
Interest cost	1,285	1,285
Actuarial losses/gains (net)	868	868
Benefits paid (in the year)	(1,410)	(1,410)
Defined benefit pension obligations at 31 December 2011	14,293	14,293
Interest cost	1,479	1,479
Actuarial losses/gains (net)	(536)	(536)
Benefits paid (in the year)	(1,640)	(1,640)
Defined benefit pension obligations at 31 December 2012	13,596	13,596
The movement in the fair value of plan assets of the year is as follows:		
Plan assets		
Fair value of plan assets at 1 January 2011	8,647	8,647
Expected return on plan assets	804	804
Actuarial gains/losses	(1,953)	(1,953)
Employer contributions	1,200	1,200
Benefits paid	(1,410)	(1,410)

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	Commercial Banking business group	The Bank
	₦ million	₦ million
Closing fair value of plan assets at 31 December 2011	7,288	7,288
Expected return on plan assets	660	660
Actuarial gains/losses	1,915	1,915
Employer contributions	1,010	1,010
Benefits paid	(1,640)	(1,640)
Closing fair value of plan assets at 31 December 2012	**9,233**	**9,233**
Net obligations at 1 January 2011	4,903	4,903
Net obligations at 31 December 2011	7,005	7,005
Net obligations at 31 December 2012	**4,363**	**4,363**

Amounts recognised in the income statement are as follows:

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Interest on obligation	(1,479)	(1,285)	(1,479)	(1,285)
Expected return on plan assets	660	804	660	804
Total, included in staff costs (Note 15a)	(819)	(481)	(819)	(481)

The actual return on plan assets was ₦2,575 million (2011: ₦789 million).

Amounts recognised in other comprehensive income are as follows:

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Actuarial gains/losses (obligations)	536	(868)	536	(868)
Actuarial gains/losses (plan assets)	1,915	(1,953)	1,915	(1,953)
Total actuarial gains/losses	2,451	(2,821)	2,451	(2,821)

Composition of plan assets

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Quoted stock	3,625	3,020	5,610	3,625	3,020	5,610
Money market investments	2,093	234	566	2,093	234	566
Government securities	3,103	1,857	862	3,103	1,857	862
Money on call	303	749	373	303	749	373
Guaranteed commercial papers	-	1,061	1,230	-	1,061	1,230
Others	108	367	7	108	367	7
Total	9,232	7,288	8,648	9,232	7,288	8,648

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	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Three-year record from first application of IAS 19						
Present value of defined benefit obligation	13,596	14,293	13,550	13,596	14,293	13,550
Fair value of plan assets	(9,233)	(7,288)	(8,647)	(9,233)	(7,288)	(8,647)
Deficit/(surplus) in the plan	4,363	7,005	4,903	4,363	7,005	4,903
Experience adjustments on plan liabilities	536	1,835	538	536	1,835	538
Experience adjustments on plan assets	-	-	-	-	-	-

The principal actuarial assumptions were as follows:

	Commercial Banking business group			The Bank		
	31 Dec 2012 %	31 Dec 2011 %	1 Jan 2011 %	31 Dec 2012 %	31 Dec 2011 %	1 Jan 2011 %
Discount rate on gratuity scheme	14	14	14	14	14	14
Discount rate on pension plan	13	11	11	13	11	11
Inflation rate	10	10	10	10	10	10
Expected return on plan assets	9.28	9.28	9.28	9.28	9.28	9.28
Future salary increases	12	13	13	12	13	13
Future pension increases	0	0	0	0	0	0

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

	Assumption	Defined benefit obligation ₦ million	Impact on liability
Discount rate	13%	13,793	0%
	12.5%	14,333	3.9%
	13.5%	13,285	(3.7%)
Inflation rate	10%	13,793	0%
	9.5%	13,793	0%
	10.5%	13,793	0%
Salary growth rate	12%	13,793	0%
	11.5%	13,249	(3.9%)
	12.5%	14,378	4.2%
Life expectancy	Base	13,793	0%
	Improved by 1 year	13,932	1%
	Decreased by 1 year	13,643	(1.1%)

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40 Other liabilities

	Commercial Banking business group			The Bank		
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Customer deposits for letters of credit	47,401	61,102	41,885	25,028	44,552	41,885
Accounts payable	11,116	26,481	18,920	11,563	15,323	13,552
Provisions and accruals	17,048	11,489	6,013	16,518	9,813	4,014
Bank cheques	14,004	13,112	14,268	14,004	13,112	14,267
Collection on behalf of third parties	7,131	4,375	4,193	5,704	4,375	4,193
Other payables	21,366	42,214	35,191	14,222	29,763	6,322
	118,066	158,773	120,470	87,039	116,938	84,233

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

41 Share capital

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Authorised			
50 billion ordinary shares of 50k each (2009: 30 billion)	25,000	25,000	25,000
Issued and fully paid			

	Number of shares ₦ million	Ordinary shares ₦ million
Movements during the period:		
At 1 January 2011	32,632	16,316
At 31 December 2011	32,632	16,316
At 31 December 2012	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 during the period. 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. Following the business restructuring in December 2012, this reserve has been transferred to the new Holding company.

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 the Nigerian Prudential guideline (as prescribed by the Central Bank of Nigeria) is recorded in this reserve. This reserve is non-distributable.

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

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

43 Reconciliation of profit before tax to cash generated from operations

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	**31 Dec 2011 ₦ million**	**31 Dec 2012 ₦ million**	**31 Dec 2011 ₦ million**
Profit before tax from continuing operations	86,177	39,166	83,289	39,672
Profit before tax from discontinued operations	5,471	(3,303)	-	-
Profit before tax	91,648	35,863	83,289	39,672
Adjustments for:				
Depreciation and amortisation	10,808	9,728	9,721	9,601
Profit/(loss) from disposal of property and equipment	(1,760)	107	(1,760)	120
Foreign exchange losses/(gains) on operating activities	(2,456)	(7,497)	(924)	(7,502)
Profit/(loss) from disposal of subsidiaries	(288)	-	(3,490)	-
Profit/(loss) on sale of assets to AMCON	-	15,501	-	15,501
Profit/(loss) from disposal of investment securities	1,226	(1,046)	1,826	(439)
Net gains/(losses) from financial assets classified as held for trading	(1,752)	996	(168)	(996)
Impairment on loans and advances	16,729	38,127	13,664	32,564
Change in provision in other assets	-	3,696	-	2,726
Change in provision for diminution of investments	981	944	(560)	1,533
Change in employee benefits provisions	19,107	8,570	18,615	7,499
Share of loss/(profit) from associates	(432)	1,507	-	-
Dividend income	(518)	(4,400)	(3,766)	(5,801)
Net interest income	(224,529)	(176,191)	(205,548)	(167,223)
Provision for banking sector resolution cost	-	5,872	-	5,872
Increase/(decrease) in operating assets:				
Cash and balances with the Central Bank (restricted cash)	(87,612)	(92,766)	(83,589)	(92,736)
Inventories	1,826	(2,528)	-	-
Loans and advances to banks	(706)	-	(13,264)	-
Loans and advances to customers	(310,696)	(144,207)	(212,132)	(144,806)
Financial assets held for trading	1,086	10,496	142	8,757
Other assets	21,718	(26,686)	14,775	(13,116)
Pledged assets	22,020	49,879	22,020	49,881
Increase/(decrease) in operating liabilities:				
Deposits from banks	(89,873)	35,216	(32,694)	(3,915)
Deposits from customers	430,146	510,323	385,688	449,670
Financial liabilities	(1,061)	1,218	135	(496)
Liability on investment contracts	-	(27,006)	-	-
Liability on insurance contracts	-	824	-	-
Other liabilities	(39,069)	38,301	(32,347)	32,705
Cash (used in)/generated from operations	(145,419)	285,287	(40,367)	221,203

44 Contingent liabilities and commitments

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
44.1 Capital commitments			
Authorised and contracted			
Group	1,300	2,600	3,300
Bank	1,300	2,600	3,300

The expenditure will be funded from the Group's internal resources.

44.2 Litigation

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.

44.3 Other contingent commitments

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

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Performance bonds and guarantees	344,079	230,200	320,655	228,357
Letters of credit	220,388	228,880	196,267	153,695
	564,467	459,080	516,922	382,052

44.4 Loan commitments

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Undrawn irrevocable loan commitments	27,111	13,481	-	-

45 Related-party transactions

The Group is controlled by FBN Holdings Plc incorporated in Nigeria, which owns 99.9% of the ordinary shares.

FBN Holdings Plc is the parent company of FBN Nigeria Limited as well as the ultimate controlling party.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans and deposits.

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

Notes to the annual financial statements
At 31 December 2012

45.1 Loans and advances to related parties

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

	Parent	Entities controlled by parent and associates of the parent ₦	Directors and other key management personnel (and close family members) ₦	Associates ₦	Subsidiaries ₦
31 December 2012					
Loans and advances to customers					
Loans outstanding at 1 January	-	16,556	74,381	8,267	22,417
Loans issued during the year	-	6,407	32,018	-	-
Loan repayments during the year	-	-	(23,851)	(8,267)	(22,417)
Loans outstanding at 31 December	-	22,963	82,548	-	-
31 December 2011					
Loans and advances to customers					
Loans outstanding at 1 January	-	-	44,174	95,280	37,192
Loans issued during the year	-	-	36,670	-	1,781
Loan repayments during the year	-	-	(6,463)	(95,280)	-
Loans outstanding at 31 December	-	-	74,381	0	38,973

The loans to Directors and other key management personnel are repayable from various cycles ranging from monthly to annually over the tenure and have average interest rates of 18%.

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

45.2 Deposits from related parties

	Parent	Entities controlled by parent ₦	Directors and other key management personnel (and close family members) ₦	Associates ₦	Subsidiaries ₦
31 December 2012					
Due to customers					
Deposits at 1 January	-	5,828	189	780	5,828
Deposits received during the year	-	669,443	1,841	73,805	1,009,064
Deposits repaid during the year	-	(666,331)	(1,846)	(74,283)	(934,372)
Deposits at 31 December	-	8,940	184	302	80,520
31 December 2011					
Due to customers					
Deposits at 1 January	-	-	189	780	5,828
Deposits received during the year	-	-	-	51,844	669,443
Deposits repaid during the year	-	-	-	(51,532)	(666,331)
Deposits at 31 December	-	-	69	1,092	8,940
	-	-	258	2,184	17,880

Notes to the annual financial statements
At 31 December 2012

45.3 Other transactions with related parties

	Parent	Entities controlled by parent	Directors and other key management personnel (and close family members)	Associates	Subsidiaries
31 December 2012					
Interest income	-	3	-	-	1,057
Interest expense	-	-	-	-	(424)
Fee and commission income	-	2	-	-	-
Other operating income	-	-	-	-	-
Operating expenses	-	(190)	-	-	(667)
31 December 2011					
Interest income	-	-	-	-	2,480
Interest expense	-	-	-	-	(455)
Fee and commission income	-	-	-	-	25
Other operating income	-	-	-	-	-
Operating expenses	-	-	-	-	(705)

45.4 Key management compensation

	Commercial Banking business group		The Bank	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Salaries and other short-term employee benefits	399	383	399	383
Post-employment benefits	-	-	-	-
Other long-term benefits	1,716	161	1,716	161
Termination benefits	796	1,472	796	1,472
	2,911	2,016	2,911	2,016

46 Employees

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

	Commercial Banking business group		The Bank	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Executive directors	7	5	7	5
Management	161	219	66	58
Non-management	8,451	8,202	7,849	7,738
	8,619	8,426	7,922	7,801

See Note 15 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 contribtions and certain benefits) were:

	Commercial Banking business group		The Bank	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
₦300,000–₦2,000,000	158	393	31	47
₦2,000,001–₦2,800,000	197	664	19	568
₦2,800,001–₦3,500,000	566	202	482	146
₦3,500,001–₦4,000,000	62	39	2	1
₦4,000,001–₦5,500,000	2,917	2,629	2,855	2,610
₦5,500,001–₦6,500,000	1,531	1,327	1,491	1,307
₦6,500,000–₦7,800,000	927	209	892	192
₦7,800,001–₦9,000,000	215	871	189	857
₦9,000,001 and above	2,039	2,087	1,954	2,068
	8,612	8,421	7,915	7,796

47 Directors' emoluments

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

	Commercial Banking business group	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Fees and sitting allowances	79	162
Executive compensation	319	520
Compensation for loss of office	-	316
Retirement benefit costs	796	1,326
Other director expenses	1,716	970
	2,910	3,294

Fees and other emoluments disclosed above include amounts paid to:

	Commercial Banking business group	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Chairman	24	19
Highest-paid director	100	71

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

	Commercial Banking business group	
	31 Dec 2012 Number	31 Dec 2011 Number
Below ₦1,000,000	-	3
₦1,000,000–₦2,000,000	-	-
₦2,000,001–₦3,000,000		16
₦5,500,001 and above	18	36
	18	55

48 Compliance with banking regulation

(a) A penalty of ₦20 million was paid by the Bank for contravening Section 20 (1) of BOFIA 1991 as amended for providing unsecured loans to related parties.

(b) A penalty of ₦2 million was imposed on the Bank for investing in long-term subordinated debt capital of FBN Bank UK without prior consent from CBN.

(c) The Bank contravened Section 10 of the Money Laundering Prohibition Act 2011 and paid a penalty of ₦7.5 million.

(d) The Bank contravened Section 701(1) of the Federal Government Financial Regulation and paid a penalty of ₦2 million.

(e) The Bank paid a penalty of ₦30 million for not exercising sufficient due diligence in the opening and operations of the accounts of the beneficiaries of the funds from the pension accounts of the Bank which is in contravention of Section 6(1)-(8) of the Money Laundering Prohibition Act 2011 and Section 1.15.1 of CBNs AML/CFT regulations.

49 Events after statement of financial position date

The Bank has no events after the financial position date.

50 Dividends per share

The dividends paid by the Bank in 2012 and 2011 were ₦26,105 million (80k per share) and ₦19,580 million (60k per share) respectively.

51 Transition to IFRS

Explanation of transition to IFRS

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

In preparing its opening statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with Statements of Accounting Standards issued by the Nigerian Accounting Standards Board ('previous GAAP' or 'NGAAP'). An explanation of how the transition from previous GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

In preparing this financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions from full retrospective application of IFRS. The optional exemptions from full retrospective application selected by the Group are summarised below.

Exceptions from full retrospective application – followed by the Group

The Group applied the following mandatory exceptions from retrospective application:

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

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

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

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

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

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

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

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

The Group applied the following optional exemptions from retrospective application.

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

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

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

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

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

50. Transition to IFRS

Reconciliation of profit for the year

		Commercial Banking business group		
		31 Dec 2011		
	Note	NGAAP ₦ million	Adjustments ₦ million	IFRS ₦ million
Continuing operations				
Interest income	(b),(c),(k)	220,397	(13,378)	207,019
Interest expense	(n)	(36,950)	2,223	(34,727)
Net interest income		**183,447**	**(11,155)**	**172,292**
Impairment charge for credit losses	(c)	(44,814)	6,803	(38,011)
Net interest income after impairment charge for credit losses		**138,633**	**(4,352)**	**134,281**
Net fee and commission income	(b),(o)	61,721	(18,130)	43,591
Net loss from investment securities	(g)	-	458	458
Net gains from financial instruments held for trading	(g)	-	2,828	2,828
Foreign exchange income		7,549	(52)	7,497
Dividend income	(o)	4,950	(775)	4,175
Loss/profit on sale of investments	(g)	(2,245)	2,245	-
Other income		3,812	(3,800)	12
Loss on sale of assets to AMCON	(d)	-	(15,501)	(15,501)
Other operating expenses	(k),(m),(o)	(147,358)	10,690	(136,668)
Operating profit		**67,062**	**(26,389)**	**40,673**
Exceptional items	(d)	(15,489)	15,489	-
Share of (loss)/profit of associates	(q)	(1,507)	-	(1,507)
Profit before tax		**50,066**	**(10,900)**	**39,166**
Income tax expense		(5,281)	(13,583)	(18,864)
Profit for the year from continuing operations		**44,785**	**(24,483)**	**20,302**
Discontinued operations				
Profit for the year from discontinued operations	(o)	-	(1,666)	(1,666)
Profit for the year		**44,785**	**(26,149)**	**18,636**
Other comprehensive income				
Foreign currency translation differences		-	606	606
Unrealised net gains on AFS financial assets	(g)	-	(38,509)	(38,509)
Actuarial gains/(losses) on retired benefit obligation	(m)	-	(3,042)	(3,042)
Share of other comprehensive income of associates		-	-	
Tax effect of other comprehensive income		-	913	913
Other comprehensive income for the period net of income tax		-	(40,032)	(40,032)
Total comprehensive income for the year		**44,785**	**(66,181)**	**(21,396)**

50. Transition to IFRS

		The Bank		
		31 Dec 2011		
	Note	NGAAP ₦ million	Adjustments ₦ million	IFRS ₦ million
Continuing operations				
Interest income	(b),(c)	208,843	(11,014)	197,829
Interest expense		(30,772)	166	(30,606)
Net interest income		**178,071**	**(10,848)**	**167,223**
Impairment charge for credit losses	(c)	(41,902)	9,737	(32,165)
Net interest income after impairment charge for credit losses		**136,169**	**(1,111)**	**135,058**
Net fee and commission income	(b)	49,785	(7,871)	41,914
Net gains/(losses) from investment securities	(g)	-	(738)	(738)
Net gains/(losses) from financial instruments held for trading	(g)	-	(996)	(996)
Foreign exchange income		7,502	-	7,502
Dividend income		-	5,801	5,801
(Loss)/profit on sale of investments	(g)	6,234	(6,234)	-
Other operating income		3,125	(3,125)	-
Loss on sale of assets to AMCON	(d)	-	(15,501)	(15,501)
Other operating expenses	(m)	(134,786)	1,418	(133,368)
Operating profit		**68,029**	**(28,357)**	**39,672**
Exceptional item	(d)	(15,501)	15,501	-
Share of profit/(loss) of associates		-	-	-
Profit before tax		**52,528**	**(12,856)**	**39,672**
Income tax expense		(5,066)	(11,554)	(16,620)
Profit for the year/period		**47,462**	**(24,410)**	**23,052**
Other comprehensive income				
Unrealised net gains on AFS financial assets	(g)	-	(39,476)	(39,476)
Actuarial gains/(losses) on retired benefit obligation	(m)	-	(3,042)	(3,042)
Tax effect of other comprehensive income		-	913	913
Other comprehensive income for the period net of income tax		-	(41,605)	(41,605)
Total comprehensive income for the year/period		**47,462**	**(66,015)**	**(18,553)**

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(a) Effective interest rate – interest payable and receivable
(b) Effective interest rate – fee and commission income
(c) Impairment – loan loss provisioning
(d) Financial statement presentation
(e) Loans and advances to customers
(f) Treasury Bills
(g) Financial instrument classification and measurement
(h) Property plant and equipment
(i) IFRS 1 – foreign exchange translation reserve
(j) Inventory
(k) Employee benefits
(l) Treasury shares
(m) Retirement benefit obligation
(n) Other correctional adjustments
(o) Profit from discontinued operations
(p) Deferred tax
(q) Investment in associates

50. Transition to IFRS

Notes to the reconciliation of equity and profit

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

	Commercial Banking business group		The Bank	
	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Investment securities	8,023	113	7,853	138
Loans and advances to customers	1,370	-	1,370	-
Loans and advances to banks	45,818	482	229	1,203
	55,211	595	9,452	1,341
In addition interest relating to accrued interest payable was transferred from other liabilities to:				
Deposits from customers	3,517	2,495	713	2,495
Deposits from banks	55	66	55	56
Borrowings	11,190	1,478	1,277	-
	14,762	4,039	2,045	2,551

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

	Commercial Banking business group		The Bank	
	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Investment securities	12,563	(2,270)	12,563	(2,270)

(b) The effective interest rate calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate. Under NGAAP, interest income and expense are recognised in accordance with terms of the related instrument on an accrual basis and the related fees are earned in one period. The effect of applying the effective interest method resulted in a reclassification of ₦7.8 billion for the Bank and ₦12.4 billion for the Group (which represents a reasonable estimate of earned portion) from fees and commission income for the year ended 31 December 2011 (1 January 2011: ₦0.544 billion) to interest income for the income that has been earned. The unearned portion of the fee and commission income of ₦4.6 billion is deferred and released as and when due. ₦5.4 billion of the fees and commissions has also been reclassified and reported as part of the profit from discontinued operations.

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

	Commercial Banking business group		The Bank	
	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Interest in suspense	4,487	24,982	2,531	23,606

Under the previous GAAP, loans and advances are measured at cost net of impairment losses. A specific provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. This provision is made for each account that is not performing in accordance with the terms of the Prudential Guideline. Also, a general reserve of at least 1% is made for all performing accounts to recognise losses in respect of risks inherent in any credit portfolio. Under IFRS incurred loss model, an impairment loss can only be recognised if there is objective evidence that a loss has occurred after the initial recognition but before the reporting date.

50. Transition to IFRS

The difference in the measurement basis of impairment loss between IFRS incurred loss model and the previous GAAP Prudential Guideline (provisions and interest in suspense) resulted in a net transfer of ₦1.06 billion for 31 December 2011 (1 January 2011: ₦23.54 billion). In line with the regulatory requirement, this reduction in impairment loss was transferred from retained earnings to a non-distributable reserve called the Statutory Credit Reserve (Central Bank of Nigeria Prudential Guideline 2011). These amounts relate to the Bank and the Group.

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

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

	Commercial Banking business group		The Bank	
	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Exceptional items	15,489	226	15,501	383

(e) Advances under finance lease are reported separately in the statement of financial position under Nigerian GAAP. Given the nature of this portfolio, management has reclassified the total balance of ₦4.697 billion at 31 December 2011 (1 January 2011: ₦8.282 billion) from advances under finance lease to loans and advances to customers.

Under the previous GAAP, foreign currency loans (clean lines) were reported as off balance sheet loans. For the year ended 31 December 2011, a total balance of ₦11.22 billion (1 January 2011: Nil) was reclassified to loans and advances to customers.

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

Additionally, an amount of ₦72.13 billion as at 31 Dec 2011 (1 January 2011: ₦122.01 billion) has been reclassified as assets pledged as collateral from investment securities and Treasury Bills. Under the previous GAAP, this amount was not separately disclosed as a line item on the face of the statement of financial position.

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

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

(h) Under the previous GAAP, revaluation was carried out for some items of property plants and equipment (PPE) which resulted in a revalution surplus in reserves. On transitioning to IFRS, the Group elected the cost model to account for its items of PPE and the revaluation reserve was reclassified to retained earnings. This resulted in an amount of ₦2.37 billion being transferred from revaluation reserve to retained earnings as at 1 January 2011. No amount existed for subsequent periods.

Under the previous GAAP, some items of PPE that are available for use in their present location and condition were recognised as deferred acquisitiion cost in other assets. Under IFRS, items of PPE must be recognised once the item is available for management use. The amount of ₦8.07 billion for 31 December 2011 (1 January 2011: ₦9.64 billion) was reclassifed from other assets to form part of PPE. These amounts relate to the Group and Bank.

(i) IFRS 1 adjustments – The foreign currency translation reserve in respect of its subsidiary (FBN UK Limited) was set to zero. As a result of this exemption the opening balance of the foreign currency translation reserve of ₦2.3 billion was reclassified to retained earnings as shown in the table below.

The revaluation reserve in respect of the valuation of property, plant and equipment was also set to zero. As a result of this exemption, the opening balance of the revaluation reserve of ₦2.3 billion was reclassified to retained earnings as shown in the table below.

50. Transition to IFRS

	Commercial Banking business group		The Bank	
	31 Dec 2011 ₦ million	**1 Jan 2011 ₦ million**	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
Foreign currency translation reserves	4,203	3,597	2,836	2,836
Revaluation reserve	2,379	2,379	2,379	2,379

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

	Commercial Banking business group		The Bank	
	31 Dec 2011 ₦ million	**1 Jan 2011 ₦ million**	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
	25,609	23,081	-	-

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

	Commercial Banking business group		The Bank	
	31 Dec 2011 ₦ million	**1 Jan 2011 ₦ million**	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
Net decrease in loans and advances to customers	(2,687)	(1,578)	(2,687)	(1,578)
Net increase in other assets (prepayment)	3,159	1,863	3,159	1,863
Net increase in interest income	886	285	886	285
Net movement in employee benefits expense	(1,550)	(7,179)	(1,550)	(7,488)

(l) Under the previous GAAP, some of the entities within the FirstBank Group had shares of First Bank Plc as part of their investment portfolio. These are Treasury shares under IFRS. Under IFRS, when an entity purchases its own share (either directly or indirectly), the amount paid for the Treasury shares is deducted from equity as Treasury shares. The amount of ₦1.94 billion for 31 December 2011 (1 January 2011: ₦27.77 billion) was debited to equity as Treasury shares.

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

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

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

(o) Income statement balances relating to subsidiaries whose operations were discontinued or were sold have been reclassifed to the profit on discontinued operations as detailed in Note 26 to the financial statements.

(p) The effect of deferred tax on financial instruments per IFRS.

(q) The effect of equity accounting for associates per IFRS.

50. Transition to IFRS

Explanation of material adjustments to the consolidated cash flow statements

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

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

	Commercial Banking business group		The Bank	
	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Net effect of IFRS on cash and cash equivalents	33,966	-	(11,624)	-
Net effect of IFRS on cash generated from/used in operations	(99,862)	-	33,611	-

		Commercial Banking business group					
		31 Dec 2011			1 Jan 2011		
	Note	NGAAP ₦ million	Adjustments ₦ million	IFRS ₦ million	NGAAP ₦ million	Adjustments ₦ million	IFRS ₦ million
ASSETS							
Cash and balances with Central Banks		199,228	-	199,228	75,517	-	75,517
Treasury Bills	(f)	187,457	(187,457)	-	23,769	(23,769)	-
Loans and advances to banks	(a), (n)	404,959	57,897	462,856	550,414	25,053	575,467
Loans and advances to customers	(a), (c) (e), (k)	1,235,615	16,847	1,252,462	1,127,900	32,393	1,160,293
Advances under finance leases	(e)	4,642	(4,642)	-	7,581	(7,581)	-
Financial assets held for trading		-	5,964	5,964	-	16,636	16,636
Insurance assets	(e)	111	(111)	-	-	-	-
Investments	(a), (g), (n)	572,853	(572,853)	-	337,181	(337,181)	-
Investment securities – available-for-sale	(f)	-	356,933	356,933	-	222,822	222,822
Investment securities – held to maturity	(f)	-	337,336	337,336	-	31,886	31,886
Pledged assets	(f)	-	72,129	72,129	-	122,009	122,009
Investment in subsidiaries		5,503	(5,503)	-	1,000	(1,000)	-
Managed funds	(n)	21	(21)	-	37,917	(37,917)	-
Investment in associates	(g)	8,209	(720)	7,489	9,716	(720)	8,996
Deferred tax assets	(l)	10,617	(3,663)	6,954	5,315	6,959	12,274
Other assets	(a), (h)	141,274	(79,002)	62,272	63,558	(24,276)	39,282
Investment property		10,708	(6,653)	4,055	10,326	(7,886)	2,440
Inventory	(j)	-	25,609	25,609	-	23,081	23,081
Property, plant and equipment	(h)	57,171	8,703	65,874	53,998	9,636	63,634
Intangible assets		1,006	2	1,008	494	-	494
Total assets		**2,839,374**	**20,795**	**2,860,169**	**2,304,686**	**50,145**	**2,354,831**

50. Transition to IFRS

		Commercial Banking business group					
		31 Dec 2011			1 Jan 2011		
	Note	NGAAP ₦ million	Adjustments ₦ million	IFRS ₦ million	NGAAP ₦ million	Adjustments ₦ million	IFRS ₦ million
LIABILITIES							
Deposits from banks	(a)	181,892	1,608	183,500	148,286	66	148,352
Deposits from customers	(a)	1,947,804	3,517	1,951,321	1,450,095	(2,495)	1,447,600
Borrowings	(a)	93,284	11,189	104,473	124,872	1,478	126,350
Financial liabilities held for trading		-	2,857	2,857	-	1,639	1,639
Current income tax liabilities		23,844	410	24,254	20,051	1	20,052
Other liabilities	(a),(n)	178,443	(19,670)	158,773	121,026	(556)	120,470
Provision for insurance contracts		824	-	824	-	-	-
Liability on investment contracts	(n)	39,104	10,336	49,440	95,352	(18,906)	76,446
Deferred income tax liability	(l)	1,067	-	1,067	901	-	901
Retirement benefit obligations		7,628	7,453	15,081	4,898	6,528	11,426
Total liabilities		**2,473,889**	**17,699**	**2,491,590**	**1,965,481**	**(12,245)**	**1,953,236**
EQUITY							
Share capital		16,316	-	16,316	16,316	-	16,316
Share premium		254,524	-	254,524	254,524	-	254,524
Retained earnings	(h)	42,322	(735)	41,587	23,540	23,764	47,304
Other reserves		-	-	-	-	-	-
Statutory reserve		35,804	(3,660)	32,144	28,508	-	28,508
SMEEIS reserve		8,960	(2,884)	6,076	9,193	(2,884)	6,309
Contingency reserve	(h)	13	-	13	-	-	-
Revaluation reserve	(i)	2,379	(2,379)	-	2,379	(2,379)	-
Treasury reserve		-	(1,941)	(1,941)	-	(27,767)	(27,767)
Statutory credit reserve	©	-	9,766	9,766	-	28,220	28,220
Foreign currency translation reserve	(i)	4,203	(3,597)	606	3,597	(3,597)	-
AFS reserve		-	8,524	8,524	-	47,033	47,033
Non-controlling interest		964	-	964	1,148	-	1,148
Total equity		**365,485**	**3,094**	**368,579**	**339,205**	**62,390**	**401,595**
Total equity and liabilities		**2,839,374**	**20,793**	**2,860,169**	**2,304,686**	**50,145**	**2,354,831**

50. Transition to IFRS

		The Bank					
		31 Dec 2011			1 Jan 2011		
	Note	NGAAP ₦ million	Adjustments ₦ million	IFRS ₦ million	NGAAP ₦ million	Adjustments ₦ million	IFRS ₦ million
ASSETS							
Cash and balances with Central Banks		199,091	-	199,091	74,894	-	74,894
Treasury Bills	(f)	186,626	(186,626)	-	23,599	(23,599)	-
Loans and advances to banks	(a)	222,118	229	222,347	383,893	(13)	383,880
Loans and advances to customers	(a),(c),(e),(k)	1,128,851	15,610	1,144,461	1,017,411	29,514	1,046,925
Advances under finance leases	(e)	4,642	(4,642)	-	7,581	(7,581)	-
Financial assets held for trading		-	2,552	2,552	-	11,485	11,485
Investments	(a),(g)	550,368	(550,368)	-	309,292	(309,292)	-
Investment securities – available-for-sale	(f)	-	340,767	340,767	-	201,163	201,163
Investment securities – held to maturity	(f)	-	329,857	329,857	-	44,331	44,331
Pledged assets	(f)	-	72,129	72,129	13,140	108,869	122,009
Managed funds		-	-	-	-	-	-
Investment in subsidiaries		37,919	(5,503)	32,416	31,416	(1,000)	30,416
Investment in associates	(g)	12,599	1,500	14,099	12,599	1,500	14,099
Deferred tax assets	(l)	8,877	(3,682)	5,195	5,187	6,959	12,146
Other assets	(a),(h)	56,366	(12,633)	43,734	43,691	(10,347)	33,344
Investment property		-	-	-	-	-	-
Property, plant and equipment	(h)	55,352	8,704	64,056	52,616	9,636	62,252
Intangible assets		734	-	734	265	-	265
Total assets		**2,463,543**	**7,894**	**2,471,438**	**1,962,444**	**75,239**	**2,037,209**
LIABILITIES							
Deposits from banks	(a)	51,251	55	51,306	55,165	56	55,221
Deposits from customers	(a)	1,783,777	713	1,784,490	1,330,771	(2,553)	1,328,218
Borrowings	(a)	93,102	11,185	104,287	124,617	1,479	126,096
Financial liabilities held for trading		-	1,143	1,143	-	1,639	1,639
Current income tax liabilities		21,354	-	21,354	15,115	3	15,118
Other liabilities	(a)	133,265	(16,327)	116,938	86,309	(2,076)	84,233
Deferred income tax liability	(l)	-	-	-	-	-	-
Retirement benefit obligations		7,222	7,454	14,676	4,545	6,530	11,075
Total liabilities		**2,089,971**	**4,223**	**2,094,194**	**1,616,522**	**5,078**	**1,621,600**
EQUITY							
Share capital		16,316	-	16,316	16,316	-	16,316
Share premium		254,524	-	254,524	254,524	-	254,524
Retained earnings	(h)	53,144	5,209	58,353	32,380	930	33,310
Statutory reserve		35,413	(3,660)	31,753	28,294	-	28,294
SMEEIS reserve		8,960	(2,884)	6,076	9,193	(2,884)	6,309
Revaluation reserve	(i)	2,379	(2,379)	-	2,379	(2,379)	-
Treasury reserve		-	-	-	-	-	-
Statutory credit reserve		-	1,062	1,062	-	28,220	28,220
Foreign currency translation reserve	(i)	2,836	(2,836)	-	2,836	(2,836)	-
AFS reserve		-	9,160	9,160	-	48,636	48,636
Total equity		**373,572**	**3,672**	**377,244**	**345,922**	**69,687**	**415,609**
Total equity and liabilities		**2,463,543**	**7,895**	**2,471,438**	**1,962,444**	**74,765**	**2,037,209**

Statement of Value Added

	Commercial Banking business group			
	31 Dec 2012 ₦ million	**%**	**31 Dec 2011 ₦ million**	**%**
Gross income	**358,397**		256,804	
Interest expense	**(62,253)**		(36,784)	
	296,144		220,020	
Administrative overheads:				
Local	**(108,783)**		(80,909)	
Foreign	**(5,911)**		(1,793)	
Value added	**181,450**	**100**	137,318	100
Distribution				
Employees				
Salaries and benefits	**68,808**	**36**	53,072	39
Government				
Taxation	**16,839**	**9**	17,227	13
The future				
Asset replacement (depreciation)				
– Local	**9,434**	**5**	8,923	6
– Foreign	**461**	**0**	52	0
Asset replacement (amortisation)				
– Local	**518**	**0**	1,130	1
– Foreign	**127**	**0**	69	0
Asset replacement (provision for losses)	**13,165**	**7**	38,209	28
Expansion (transfers to reserves)	**75,097**	**41**	18,637	14
	181,450	**100**	137,318	100

	The Bank			
	31 Dec 2012 ₦ million	**%**	**31 Dec 2011 ₦ million**	**%**
Gross income	**313,821**		235,811	
Interest expense	**(51,778)**		(30,606)	
	262,043		205,205	
Administrative overheads:	**(98,735)**		(75,395)	
Value added	**163,308**	**100**	129,810	100
Distribution				
Employees				
Salaries and benefits	**60,447**	**37**	48,374	37
Government				
Company income tax	**12,145**	**7**	16,620	13
The future				
Asset replacement (depreciation)	**9,169**	**6**	8,517	7
Asset replacement (amortisation)	**556**	**0**	1,082	1
Asset replacement (provision for losses)	**9,847**	**6**	32,165	25
Expansion (transfers to reserves)	**71,144**	**44**	23,052	18
	163,308	**100**	129,810	100

Five-year financial summary – Group

Statement of financial position

	Commercial Banking business group				
	As reported under IFRS			As reported under NGAAP	
	31 December 2012 ₦ million	31 December 2011 ₦ million	31 December 2010 ₦ million	31 December 2009 ₦ million	31 March 2009 ₦ million
Assets:					
Cash and balances with Central Bank	**298,024**	199,228	75,517	70,332	140,403
Loans and advances to banks	**393,125**	462,856	575,467	514,193	764,048
Loans and advances to customers	**1,563,005**	1,252,462	1,160,293	1,072,640	752,166
Financial assets held for trading	**2,565**	5,964	16,636	-	-
Investment securities	**682,234**	694,269	254,708	292,843	214,332
Assets pledged as collateral	**50,109**	72,129	122,009	-	-
Inventory	**-**	25,609	23,081	-	-
Managed funds	**-**	-	-	84,630	36,894
Investment in associates	**5,609**	7,489	8,996	13,373	2,884
Investment in subsidiaries	**-**	-	-		1,510
Other assets	**33,733**	62,272	39,282	69,286	51,884
Investment property	**-**	4,055	2,440	8,466	6,098
Intangible assets	**3,417**	1,008	494	-	-
Property, plant and equipment	**74,454**	65,874	63,634	47,987	39,695
Deferred tax	**7,955**	6,954	12,274	-	-
Assets held for sale	**12,978**	-	-	-	-
	3,127,208	2,860,169	2,354,831	2,173,750	2,009,914
Financed by:					
Share capital	**16,316**	16,316	16,316	14,504	12,432
Share premium	**189,241**	254,524	254,524	254,524	254,524
Reserves	**187,623**	96,775	129,607	41,973	70,449
Non-controlling interest	**1,353**	964	1,148	3,081	-
Deposits from banks	**87,551**	183,500	148,352	173,280	170,410
Deposits from customers	**2,405,858**	1,951,321	1,447,600	1,342,704	1,194,455
Financial liabilities held for trading	**1,796**	2,857	1,639	-	-
Liabilities on investment contracts	**-**	49,440	76,446	148,224	93,296
Liabilities on insurance contracts	**-**	824	-	-	-
Borrowings	**75,541**	104,473	126,350	35,729	35,042
Retirement benefit obligations	**18,648**	15,081	11,426	724	332
Current income tax	**22,374**	24,254	20,052	19,635	11,283
Other liabilities	**118,065**	158,773	120,470	128,760	154,057
Deferred income tax liabilities	**6**	1,067	901	10,612	13,634
Liabilities held for sale	**2,836**	-	-	-	-
	3,127,208	2,860,169	2,354,831	2,173,750	2,009,914

Five-year financial summary – Group

Income statement

	Commercial Banking business group				
	As reported under IFRS			As reported under NGAAP	
	12 months ended 31 December 2012 ₦ million	12 months ended 31 December 2011 ₦ million	12 months ended 31 December 2010 ₦ million	9 months ended 31 December 2009 ₦ million	12 months ended 31 March 2009 ₦ million
Gross earnings	**338,921**	265,580	232,079	193,932	218,287
Net operating income	**280,410**	230,853	178,062	127,662	160,730
Operating expenses	**(182,329)**	(136,668)	(119,274)	(77,574)	(90,141)
Group's share of associate's results	**1,008**	(1,507)	(3,657)	114	-
Impairment charge for credit losses	**(12,912)**	(38,011)	(21,590)	(38,174)	(16,790)
(Loss) on sale of assets to AMCON	**-**	(15,501)	-	-	-
Exceptional item	**-**	-	226	-	(26,113)
Profit before taxation	**86,177**	39,166	33,767	12,028	27,686
Taxation	**(14,918)**	(18,864)	(4,590)	(8,406)	(15,117)
Profit from continuing operations	**71,259**	20,302	29,177	3,622	12,569
Profit from discontinuing operations	**3,838**	(1,666)	-	-	-
Profit for the year	**75,097**	18,636	29,177	3,622	12,569
Profit attributable to:					
Owners of the parent	**75,040**	19,520	27,244	2,612	12,569
Non-controlling interest	**57**	(884)	1,933	1,010	-
	75,097	18,636	29,177	3,622	12,569
Earnings per share in kobo (basic/diluted)	**230**	57	89	12	51

Five-year financial summary – Bank

Statement of financial position

	The Bank				
	As reported under IFRS			As reported under NGAAP	
	31 December 2012 ₦ million	31 December 2011 ₦ million	31 December 2010 ₦ million	31 December 2009 ₦ million	31 March 2009 ₦ million
Assets:					
Cash and balances with Central Bank	**288,125**	199,091	74,894	67,576	140,353
Loans and advances to banks	**329,120**	222,347	383,880	255,903	510,722
Loans and advances to customers	**1,316,407**	1,144,461	1,046,925	1,033,321	695,876
Financial assets held for trading	**1,942**	2,552	11,485	-	-
Investment securities	**631,211**	670,624	245,494	285,469	203,471
Assets pledged as collateral	**50,109**	72,129	122,009	-	-
Investment in associates	**2,224**	14,099	14,099	2,224	2,224
Investment in subsidiaries	**40,348**	32,416	30,416	30,416	28,449
Other assets	**32,459**	43,734	33,344	51,245	48,007
Intangible assets	**1,302**	734	265	-	-
Property, plant and equipment	**70,724**	64,056	62,252	46,302	38,320
Deferred tax	**6,703**	5,195	12,146	-	-
	2,770,674	2,471,438	2,037,209	1,772,456	1,667,422
Financed by:					
Share capital	**16,316**	16,316	16,316	14,504	12,432
Share premium	**189,241**	254,524	254,524	254,524	254,524
Reserves	**166,619**	106,404	144,769	48,460	84,098
Deposits from banks	**18,463**	51,306	55,221	65,087	78,980
Deposits from customers	**2,171,807**	1,784,490	1,328,218	1,244,030	1,071,836
Financial liabilities held for trading	**1,278**	1,143	1,639	-	-
Borrowings	**81,987**	104,287	126,096	35,473	35,042
Retirement benefit obligations	**18,156**	14,676	11,075	544	718
Current income tax	**19,768**	21,354	15,118	14,948	7,238
Other liabilities	**87,039**	116,938	84,233	84,742	109,796
Deferred income tax liabilities	**-**	-	-	10,144	12,758
	2,770,674	2,471,438	2,037,209	1,772,456	1,667,422

Five-year financial summary – Bank

Income statement

	The Bank				
	As reported under IFRS			As reported under NGAAP	
	12 months ended 31 December 2012 ₦ million	12 months ended 31 December 2011 ₦ million	12 months ended 31 December 2010 ₦ million	9 months ended 31 December 2009 ₦ million	12 months ended 31 March 2009 ₦ million
Gross earnings	**313,822**	251,312	209,187	175,390	184,536
Net operating income	**258,554**	220,706	163,142	119,167	140,949
Gain from disposal of subsidiary	**3,490**	-	-	-	-
Operating expenses	**(168,908)**	(133,368)	(107,392)	(70,016)	(80,880)
Impairment charge for credit losses	**(9,847)**	(32,165)	(22,596)	(41,462)	(13,959)
(Loss) on sale of assets to AMCON	**-**	(15,501)	-	-	-
Exceptional item	**-**	-	383	-	-
Profit before taxation	**83,289**	39,672	33,537	7,689	46,110
Taxation	**(12,145)**	(16,620)	(1,414)	(6,414)	(11,036)
Profit after taxation	**71,144**	23,052	32,123	1,275	35,074
Earnings per share (basic)	**218**	71	98	4	141

Glossary of ratios

Ratio		Basis of computation
Average cost of deposits	=	Interest expense / 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 other borrowings (opening + closing)/2
Cost of interbank takings	=	Interest expense on interbank takings/average interbank takings (opening + closing)/2
Cost of funds	=	Interest expense / Average interest-bearing liabilities (opening + closing balances)/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 earning
Cost to income ratio (2)	=	Total overhead cost (operating cost excluding 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 ratio	=	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)
NPL coverage	=	Loan loss provision / Gross NPLs
NPL ratio	=	Non-performing loans / Gross loans

Glossary of ratios

Ratio		Basis of computation
Operating profit	=	Profit before taxation (PBT) before share of profit/(loss) of associates
Operating profit margin	=	$\frac{\text{Operating profit}}{\text{Gross earnings}}$
Provisioning level (coverage ratio)	=	$\frac{\text{Total provision}}{\text{Total NPL}}$
Return on average assets	=	$\frac{\text{PAT}}{\text{Average total assets}}$
Return on equity	=	$\frac{\text{PAT}}{\text{Shareholders' fund}} \times 100$
Risk asset ratio	=	$\frac{\text{Total loans}}{\text{Total assets}}$
Risk-weighted assets*	=	Assets x weight of risks x 100
Tier 1 ratio	=	$\frac{\text{Total tier 1 capital}}{\text{Risk-weighted assets}}$
Tier 2 ratio	=	$\frac{\text{Total tier 2 capital}}{\text{Risk-weighted assets}} \times 100$
Total capital adequacy ratio	=	$\frac{\text{Total qualifying capital}}{\text{Risk-weighted assets}} \times 100$
Yield on interest-earning assets	=	$\frac{\text{Interest income}}{\text{Average interest-earning assets}}$

*Risk asset is computed using risk weights supplied by CBN/Basel.

Abbreviations

AC	Audit Committee
AGM	Annual General Meeting
ALCO	Assets & Liabilities Management Committee
AMCON	Asset Management Corporation of Nigeria
AML	Anti Money Laundering
ATM	Automated teller machine
AUM	Assets under management
BARAC	Board Audit & Risk Assessment Committee
BCC	Board Credit Committee
BCMS	Business Continuity Management System
BDM	Business Development Manager
BDO	Business Development Office
BFGP	Board Finance & General Purpose Committee
BGC	Board Governance Committee
BIC	Banque Internationale de Crédit SARL
BOFIA	Banks and Other Financial Institutions Act
CAAP	Control Administrative and Accounting Procedure
CACS	Commercial Agriculture Credit Scheme
CAGR	Cumulative Annual Growth Rate
CAM	Classified Assets Management
CAP	Credit Analysis & Processing
CAR	Capital adequacy ratio
CASA	Current and savings accounts
CBSBU	Corporate Banking Strategic Business Unit
CBN	Central Bank of Nigeria
CCO	Chief Compliance Officer
CCTV	Closed-Circuit Television
CEO	Chief Executive Officer
CFT	Countering the Financing of Terrorism
COSO	Committee of Sponsoring Organisation
COT	Commission on turnover
CPC	Centralised Processing Centre
CPI	Consumer Price Index
CPFA	Closed pension fund administrator
CRM	Credit Risk Management
CRO	Chief Risk Officer
CRR	Collateral Risk Rating
CRR	Capital Requirement Regulations
CRSA	Control Risk Self Assessment
CSR	Corporate social responsibility
DPS	Dividend per share
DRCe	Disaster Recovery Centre
DRC	Democratic Republic of Congo
EaR	Earnings at risk
ED	Executive Director
EMTS	Emerging Markets Telecommunication Services (Etisalat)
EPS	Earnings per share
EVP	Executive Vice President
EVS	Employee Volunteering Scheme
EXCO	Executive Committee
FBN BDC	FBN Bureau de Change Limited
FBN MB	FBN Microfinance Bank Limited
FBN UK	FBN Bank (UK) Ltd
FCT	Federal Capital Territory
FGN	Federal Government of Nigeria
FIRS	Federal Inland Revenue Service
FMCG	Fast-moving consumer goods
FPCNL	First Pension Custodian Nigeria Limited
FRR	Facility Risk Rating
FSA	Financial Services Authority
FX	Foreign exchange
GDP	Gross Domestic Product
GDR	Global depositary receipt
GES	Growth Enhancement Support
GMD	Group Managing Director
HCMD	Human Capital Management and Development
HNIs	High net worth individuals
IBAM	Investment Banking and Asset Management
IBSBU	Institutional Banking Strategic Business Unit
ICAFAS	Internal Control & Anti-Fraud Automated Solution
ICAN	Institute of Chartered Accountants of Nigeria
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IGRC	Integrated Governance, Risks and Compliance
IMF	International Monetary Fund
ISF	Information Security Forum
ISMD	Information Security Management Department
ISMS	Information Security Management System
ISO	International Organization for Standardization
IT	Information Technology
KPI	Key Performance Indicator
KRI	Key risk indicator
KYB	Know Your Customers' Business
KYC	Know Your Customer
LAD	Loans and advances
MANCO	Management Committee
mbpd	Million barrels per day
MCC	Management Credit Committee
MCG	Management General Committee
MDAs	Ministries, departments and agencies
MENA	Middle East and North Africa
MPR	Monetary Policy Rate
MRPC	Market Risk Policy Committee
₦	Naira
NBS	National Bureau of Statistics
NDDC	Niger Delta Development Commission
NIBSS	Nigeria Interbank Settlement System
NPL	Non-performing loan
NSE	Nigerian Stock Exchange
OCI	Other comprehensive income

Abbreviations

OFR	Officer of the Federal Republic
OPEX	Operating expenditure
ORR	Obligor Risk Rating
P&L	Profit and loss account
PBSBU	Private Banking Strategic Business Unit
PBT	Profit before tax
PFA	Pension fund administrator
PFP	Pay for Performance
PMS	Performance management system
POS	Point of sale
PPP	Public-private partnership
PSSBU	Public Sector Strategic Business Unit
QSP	Quick service points
RBSBU	Retail Banking Strategic Business Unit
RICO	Resident Internal Control Officer
RMD	Risk Management Directorate
ROE	Return on equity
RSA	Retirement savings account
SBU	Strategic Business Unit
SEC	Securities and Exchange Commission
SLA	Service Level Agreement
SLD	Specialised Lending Department
SME	Small and Medium Enterprises
SMEEIS	Small and Medium Enterprises Equity Investment Scheme
SRF	Strategic Resource Function
SSA	Sub-Saharan Africa
UAE	United Arab Emirates
VaR	Value at risk
VAT	Value added tax
WARR	Weighted Average Risk Rating
WDAS	Wholesale Dutch Auction System

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