Connected.

FirstBank
Since 1894

First Bank of Nigeria Limited | Annual Report and Accounts 2013

Connected.

Growth through connected solutions

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

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

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

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

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

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

This report encompasses First Bank of Nigeria Limited. It is the second 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 2013 to the corresponding 12 months of 2012, and the balance sheet comparison relates to the corresponding position at 31 December 2012. Unless otherwise stated, all disclosed figures relate to continuing operations. Relevant terms that are used in this document but are not defined under applicable regulatory guidance or International Financial Reporting Standards (IFRS) are explained in the glossary or abbreviation section of this report. This report is also available online at www.fbnholdings.com.

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

IN THIS REPORT

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INTRODUCTION

The FirstBank strategy report covers the 2013 operating year. It includes an analysis of our business model, corporate strategy, business performance during the year and our outlook for the future.

"As promised at the 2012 financial year-end, the Bank has again raised the bar for the industry by delivering strong top- and bottom-line results."

Prince Ajibola Afonja

Chairman

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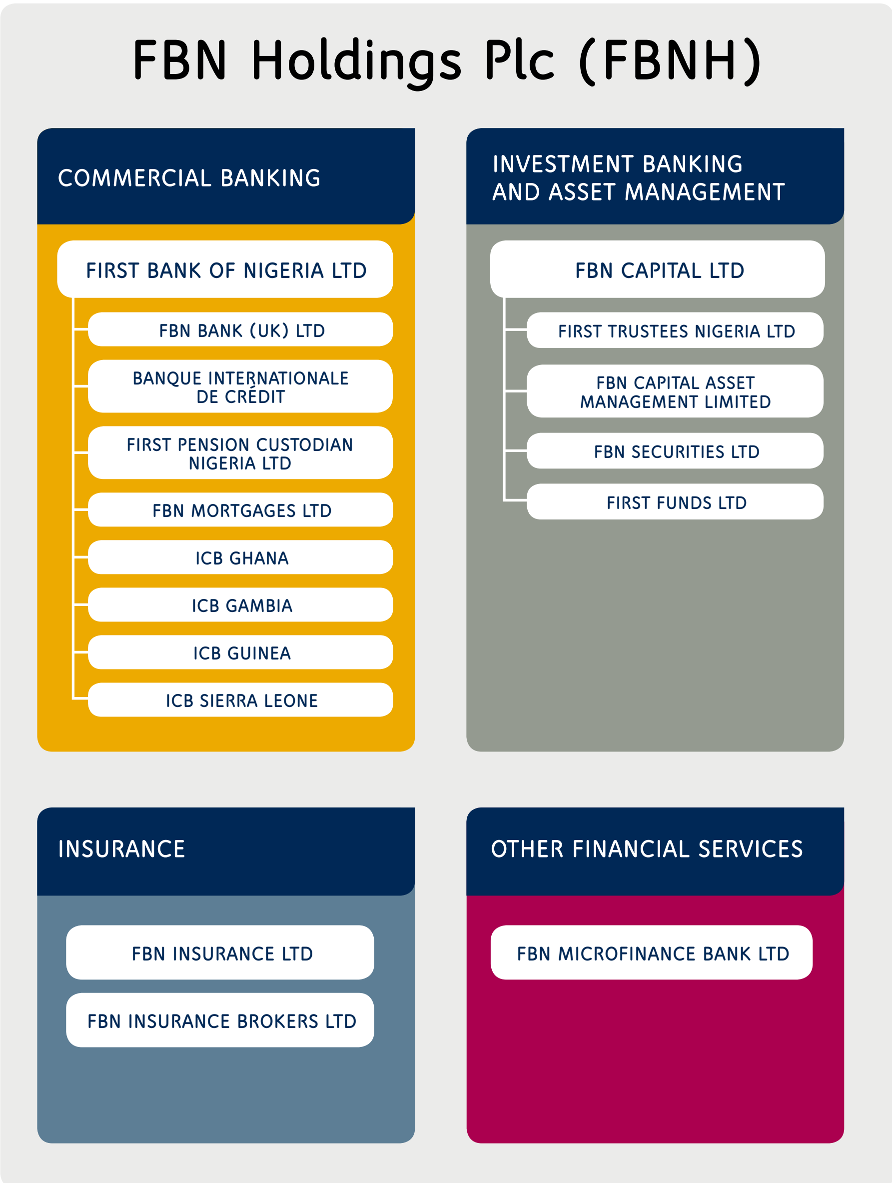
Performance highlights

OVERVIEW

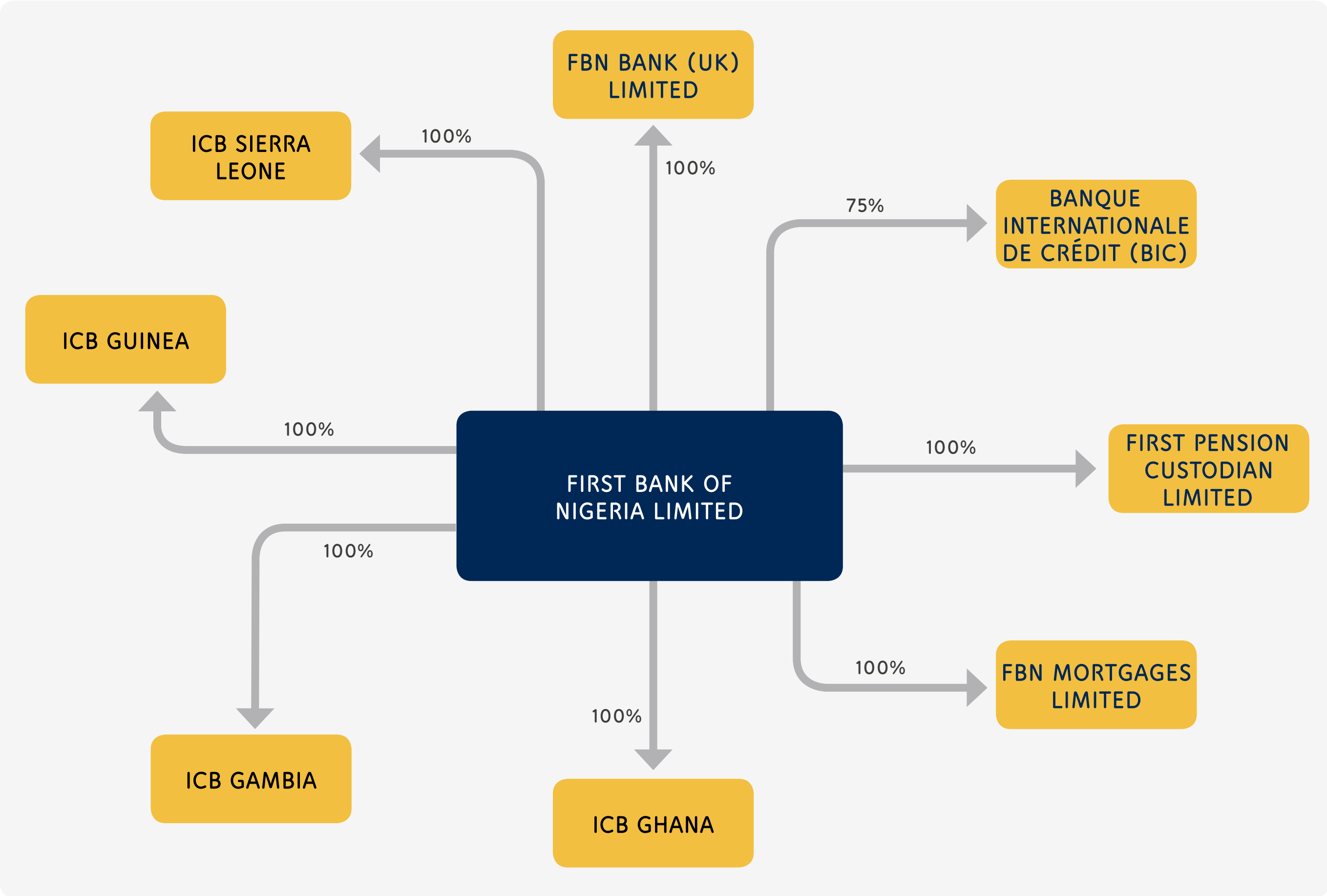
First Bank of Nigeria is the principal bank subsidiary of FBN Holdings. FBN Holdings is the recently established Nigeria-based (non-operating) financial holding company for the banking and non-banking operations of FirstBank. The subsidiaries of FBN Holdings offer a broad range of products and services, predominantly from Nigeria, including commercial banking, investment banking, insurance and microfinance.

OUR GROUP STRUCTURE



WHO WE ARE

First Bank of Nigeria Limited (FirstBank) is the largest banking group by assets in Sub-Saharan Africa (excluding South Africa, i.e., 'middle Africa') offering banking services to a rich network of both individual customers and businesses. First Bank of Nigeria Limited represents the main legal entity and previously played an operating holding company function before the implementation of FBN Holdings Plc. Other entities under FirstBank include FBN Bank (UK) Limited – a fully licensed Prudential Regulation Authority bank with representative offices in Paris; Banque Internationale de Crédit (BIC) – a leading tier 2 bank headquartered in the Democratic Republic of Congo (DRC); International Commercial Bank (ICB) – a portfolio of four West African banks (Ghana, Gambia, Guinea and Sierra Leone) acquired in 2013; and First Pension Custodian Limited (FPCNL), providing pension fund custody services. Other subsidiaries include FBN Mortgages Limited, a primary mortgage institution (PMI).



WHAT WE DO

The Nigerian banking business operates nationally and boasts an active customer account base of over 8.5 million accounts served through a large distribution network consisting of 760 branches, 2,437 ATMs and 13,283 point-of-sale terminals (POS). Under FBN Holdings, FirstBank represents 8% of pre-tax profit at ₦89 billion for FirstBank only and Banking Group ₦87.5 billion. In the Commercial Banking Group, returns on equity (ROE) of 16.9% rank it first among all business groups. The Bank offers a full suite of banking products and services to individual, retail and wholesale customers (i.e., corporations of all sizes and the public sector). Our retail business covers the spectrum of individual customers, i.e., mass market, affluent, and high net worth individuals (HNI). We also serve the small and medium enterprises (SME) segment (defined as businesses with up to ₦500 million in annual turnover) within our retail group. Key consumer banking products include credit cards, retail mortgages, investment products and transaction banking solutions offered on a strong alternative channel network.

The Nigerian retail banking industry will experience strong growth over the medium term, which we expect to benefit from given our industry-leading position. Rapid growth in the segment will be driven by overall economic growth, population growth, increased banking penetration and the resulting uptake of banking products. Our wholesale banking business serves business and public sector customers, with products such as corporate lending/ financial advisory services and transaction banking services including cash collections, liquidity management, payments, trade finance and foreign exchange (FX). In addition, increased demand for cross-border services is expected as Nigerian corporates (e.g., Dangote, Oando) expand into other African countries.

HOW WE ARE STRUCTURED

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 six customer segments allowing for greater specialisation and an increased customer value proposition. The customer segments served by each Strategic Business Unit are:

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

More information on each Strategic Business Unit (SBU) and its performance during the year is presented on pages 40 to 53.

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.

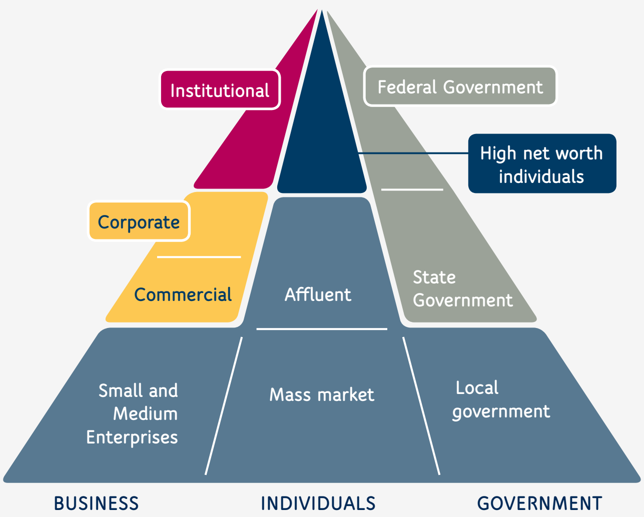
BIC is the third largest commercial bank in the DRC with revenues of ₦8.4 billion.

ICB is a recent addition to the banking portfolio with our acquisition of a 100% equity stake in a portfolio of four West African banks (i.e., in Ghana, Guinea, Sierra Leone and Gambia) during the fourth quarter of 2013.

First Pension Custodian Limited (FPCNL) provides warehousing and asset management services to licensed pension fund managers.

Finally, FBN Mortgages Limited is a PMI. It provides integrated mortgage solutions to individuals, estate developers and property investors. FBN Mortgages is in the process of selling down its real estate assets in line with regulations.

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. 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.



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 current and savings accounts (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/assets under management (AUM) and interest income via credit cards and mortgages (onshore/offshore).

C COMMERCIAL BANKING

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

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 (MDAs).
- Drive value-added services (e.g., collections, payment services).
- Optimise lending within regulatory limits and extend via public-private partnership (PPP) participation and other Group offerings (e.g., IBAM state bond issues).

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. Over the years, FirstBank has built a formidable deposit-gathering machine by leveraging a number of key structural advantages. These include a massive network of branches, a large retail client base, and strong relationships with the public sector and top institutional corporates.

BANKING

The business model for our banking services is designed around our capacity to serve retail, corporate and public sector customers across Nigeria 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. With over 8.5 million active customer accounts, leadership driven by efficiency, customer service and relationship focus is the key priority. We believe a customer-centric model will enable us to deliver sustainable value to our shareholders.

NON-BANKING

On the non-banking side, First Pension Custodian (FPCNL) 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 transfer between pension fund administrators (PFAs). Notwithstanding, FPCNL 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.

STRATEGIC APPROACH

At the onset of the current strategy planning cycle (i.e., 2011-2013), the FirstBank Group prioritised large-scale structural changes designed to accelerate growth and deliver industry leadership. The Bank set a strategic intent '*to lead in each business unit and as a bank overall across a range of performance and health indicators*'.

To achieve this, FirstBank laid out specific strategies. The strategies supporting the financial priorities were designed to maximise and leverage the Bank's competitive advantage by increasing fees and commissions, enhancing pricing to match the market, ensuring cost optimisation and keeping the current low-cost fund advantage by mobilising low-cost deposits. With respect to non-financial priorities, FirstBank focused on revamping the customer experience within the Bank, and getting the best out of staff through targeted talent management actions as well as a robust performance management system.

2011-2013: Financial and non-financial priorities

CORPORATE STRATEGY

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

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

2014-2016 ASPIRATIONS

Nigeria is the 13th fastest growing economy globally. With the largest population in Africa and one of the fastest population growth rates in the world, banks will be faced with a continuous flow of new bank customers. Banking penetration is still low, and there is significant opportunity to increase wallet share. In the corporate segment, economic reforms are expected to generate new demand for project financing and transaction banking. Increased demand for cross-border services is also expected as Nigerian corporates expand into other African countries.

Furthermore, the current economic recovery is improving customers' ability to service debt, and banks have an opportunity to increase the efficiency of their distribution via alternative channels. These developments are expected to lead to:

- a revenue growth rate of 17% cumulative annual growth rate (CAGR) for the banking sector;
- a growth of 18% CAGR in the retail market, resulting in an estimated 2016 revenue pool of more than ₦1.7 trillion;
- significant growth opportunity in the SME sector, particularly the affluent and mass segments; and
- a forecast to growth of 16% CAGR over the 2013-2016 period in the wholesale market, creating an overall revenue pool of ₦2 trillion by 2016.

However, new regulation is eroding profitability in the banking sector. The Central Bank of Nigeria's (CBN's) 'Revised Guide to Bank Charges' is expected to wipe out ~25% of fees and commission income or ~5% of total bank revenue. On the funding side, the CBN has stipulated a minimum interest rate on savings accounts and the cash reserve ratio (CRR) of 30% of monetary policy rate and 50% on local currency public sector deposits as at 31 December 2013; however this has been reviewed to 75% as at January 2014. The CBN also plans to introduce a surcharge on the capital adequacy requirements for systemically important financial institutions (SIFIs). In addition, SIFIs will need to raise their ratio of tier 1 capital versus total qualifying capital from 15% to 16%. To mitigate these challenges, banks will need to seek new areas in which to charge fees, and to increase cross-selling with their non-bank business units.

FirstBank is the market leader in Nigeria, with gross earnings of ₦372.6 billion and revenue market share of 14%. The Bank's revenues have been growing faster than those of its peers over the last three years. This leadership position is particularly driven by strong performance in the mass segment. The SME and affluent segments (source of most future growth) account for a much smaller share of revenue compared to market average. Retail banking drives 58% of overall Bank net revenue.

To continue building on its strengths and successfully address challenges, FirstBank has outlined an ambitious set of aspirations and targets to surpass analyst expectations over the next three years. In support of these efforts, the Bank has also outlined a set of strategic goals and key enablers. The agreed three strategic themes are to:

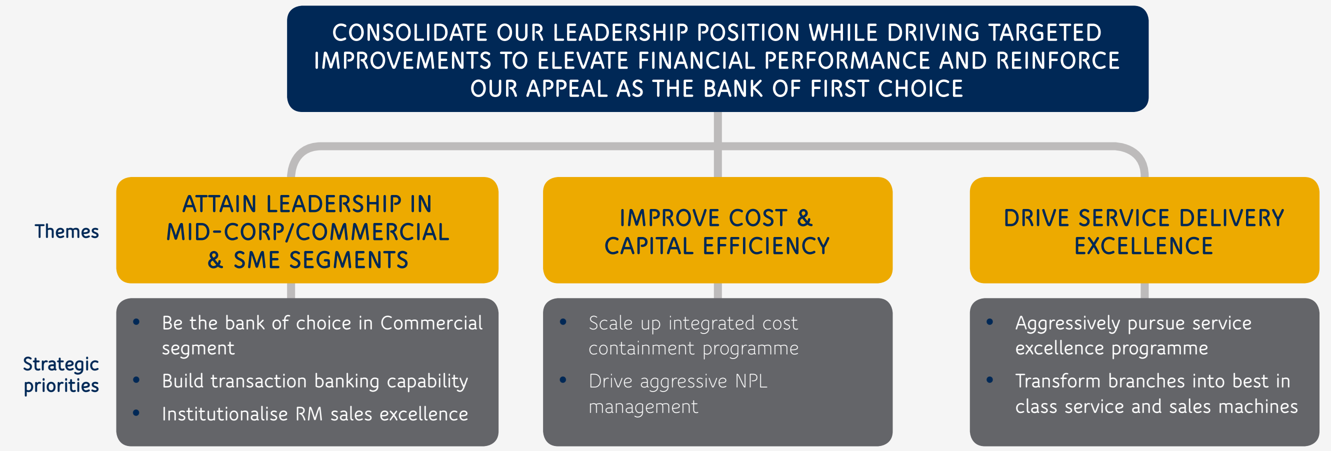
- attain leadership in mid-market and corporate;
- drive efficiency and sweat the assets; and
- bring service delivery excellence to the Bank's customers.

The Bank is adopting a strategy centred on client segments, and has set segment-specific market share aspirations for 2013-2016. In the retail market, the aspiration is to grow market share of the SME segment from 11% to 15%, and of the affluent segment from 5% to 6%. In the wholesale market, the Bank aspires to defend its market share in public sector and institutional, while accelerating growth in the other segments. The Bank's aspiration is to grow market share of the corporate segment from 9% to 10%, and the emerging corporate segment from 3% to 5%.

To reach its strategic goals, the Bank has identified seven priority initiatives.

1. Transform each branch into a best-in-class service and sales machine.
2. Develop an RM sales excellence programme.
3. Launch an integrated cost containment programme.
4. Build a distinctive transaction banking capability.
5. Be the commercial bank of choice.
6. Drive aggressive non-performing loan (NPL) management.
7. Aggressively pursue a service excellence programme.

The Bank's Strategic themes and priorities for 2014-16



PERFORMANCE HIGHLIGHTS

Commercial Banking business group – performance highlights

FIRST BANK OF NIGERIA LIMITED

KEY HIGHLIGHTS

- Highest deposit base in Nigeria of ₦2.6 trillion (+17%) reflecting extensive distribution platform.
- Net loans and advances to customers at ₦1.5 trillion (+12%), maintaining the lead as the biggest lender in the Nigerian banking space.
- Profit before tax at ₦76 billion (-7.7%) driven by growth in interest expenses and higher impairment charges.
- Upgrade of core banking IT software to Finacle 10 and launch of new retail internet banking platform.
- Harsh regulatory policies implemented in the year under review.
- Expansion of retail footprint to four West African countries (Ghana, Guinea, Sierra Leone and the Gambia).

NET REVENUE
₦261.3 billion (2012: ₦259.7 billion)

NPL
3.1% (2012: 2.8%)

COST-TO-INCOME RATIO
62.2% (2012: 65.3%)

ROAE
16.4% (2012: 19.0%)

CAPITAL ADEQUACY RATIO
16.8% (2012: 18.7%)

NUMBER EMPLOYED
7,906 (2012: 7,920)

CONTRIBUTION

FBN BANK (UK) LTD

KEY HIGHLIGHTS

- Increased deposits to ₦296 billion (+5.4%).
- Net loans to customer stood at ₦291 billion (+22.6%).
- Decent returns as profitability increased to ₦8.0 billion (+19.5%) resulting from increased business volume including trade finance transactions and correspondent banking services.

NET REVENUE
₦15.3 billion (2012: ₦11.8 billion)

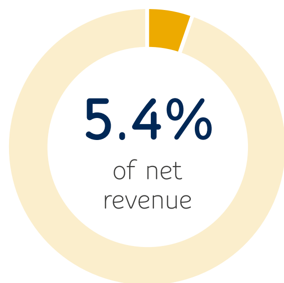
NPL
0% (2012: 0.2%)

COST-TO-INCOME RATIO
37.7% (2012: 43%)

ROAE
12.1% (2012: 12.8%)

NUMBER EMPLOYED
125 (2012: 114)

CONTRIBUTION



BANQUE INTERNATIONALE DE CRÉDIT

KEY HIGHLIGHTS

- Increased deposit at ₦43.2 billion (2012: ₦36.1 billion).
- Net loans to customers at ₦24 billion driven by increased exposure to new customers and deepening existing relationships.
- Profit before tax at ₦1.4 billion driven by increased interest revenue, moderate interest expense and operating expenses.
- Region remains under-banked, creating avenues for expansion and banking penetration.

NET REVENUE
₦8.0 billion (2012: ₦7.9 billion)

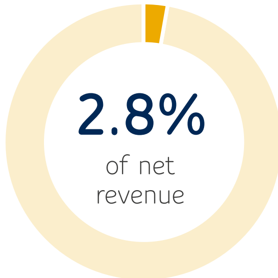
NPL
6.4% (2012: 7.3%)

COST TO INCOME
72% (2012: 74%)

ROAE
14.8% (2012: 7.3%)

NUMBER EMPLOYED
498 (2012: 471)

CONTRIBUTION



ICB WEST AFRICA

KEY HIGHLIGHTS

- Acquisition of West African operations of International Commercial Bank (ICB) in four countries (Ghana, Guinea, Sierra Leone and the Gambia) in November 2013.
- Commencement of restructuring and integration process to align with other banking subsidiaries.

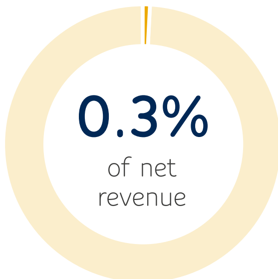
NET REVENUE
₦837 million

COST TO INCOME
48.5%

ROAE
0.8%

NUMBER EMPLOYED
426

CONTRIBUTION



FIRST PENSION CUSTODIAN LTD

KEY HIGHLIGHTS

- Increased total revenue to ₦3.3 billion (2012: ₦2.6 billion) largely driven by increase in assets under custody.
- Maintained 34% of market share in pension fund custodian activities.
- Acquired a new custody solution to meet current needs from the growth and sophistication of our business.

NET REVENUE
₦3.3 billion (2012: ₦2.6 billion)

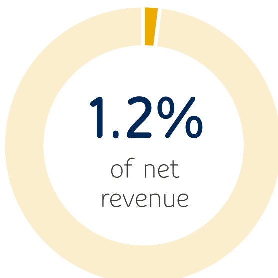
ASSETS UNDER CUSTODY
₦1.4 trillion (2012: ₦1.0 trillion)

COST TO INCOME
38.4% (2012: 48.6%)

ROAE
32.2% (2012: 23.5%)

NUMBER EMPLOYED
60 (2012: 60)

CONTRIBUTION



FBN MORTGAGES

KEY HIGHLIGHTS

- Customer deposits at ₦11.1 billion.
- Divestment from real estate investment for primary mortgage institutions.

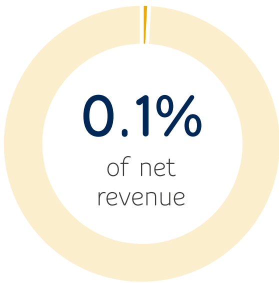
NET REVENUE
₦356 million (2012: ₦1.8 billion)

PROFIT AFTER TAX
₦1.2 billion (2012: ₦1.1 billion)

ROAE
2.96% (2012: 36.3%)

NUMBER EMPLOYED
35 (2012: 34)

CONTRIBUTION



2011-2013: PERFORMANCE HIGHLIGHTS

An appraisal of the Bank's financial performance highlights significant growth and improvement in profit before tax (PBT), cost-to-income ratio and loan growth, even in the face of regulatory headwinds. A disproportionate focus on increasing leverage facilitated by the drive to secure low-cost deposits through the Retail SBU – among other initiatives – have resulted in increased net revenue growth, with a resultant impact on the PBT.

However, the significant regulatory headwinds of revised bank tariffs and charges, as well as an increased cash reserve ratio (CRR) for public sector funds in 2013, have hindered the Bank from attaining its target of ₦102 billion for 2013 (2012: ₦83 billion).

Overall, the financial performance of the Bank has grown significantly from 2011, despite operating in a challenging environment with regulatory policy shifts that have negatively impacted business. FirstBank has, however, remained focused on the right elements in its business and thus seeks to consolidate and enhance current achievements.

CHAIRMAN'S STATEMENT

Prince Ajibola Afonja
Chairman

I am happy to inform you that despite a challenging regulatory environment, the 2013 financial year has been another success for the Bank. As promised at the 2012 financial year-end, the Bank has again raised the bar for the industry by delivering strong top- and bottom-line results. It is my privilege to present to you the annual report of this iconic institution for 2013.

THE GLOBAL ECONOMY

Global output softened in 2013, with Gross Domestic Product (GDP) growth down from 3.1% to 3.0% in 2012 as emerging markets lost pace while developed nations regained momentum. Budget disputes notwithstanding, the United States recorded a GDP growth rate of 1.9% in 2013 against 2.8% in the preceding year. Meanwhile, in the eurozone, GDP stabilised at -0.4% from a previous -0.7%. However, the figures were not as encouraging across the Mediterranean, with Italy, Spain, Portugal and Greece enduring a year of weak demand and rising unemployment. As a result, Germany, the biggest economy in Europe, recorded a growth rate of 0.5%, while France, Italy and Spain recorded GDP growth rates of 0.2%, -1.8% and -1.2% respectively.

The growth rate of the world's third largest economy, Japan, dropped 0.3% to 1.7% while China, the second largest economy in the world, recorded 7.7% growth – its slowest rate in 20 years. India recorded a growth rate of 4.4%, up from 3.2% in 2012, while Sub-Saharan Africa continued its upward trajectory with growth of 5.1% from 4.8% in 2012.

DOMESTIC ECONOMY

On the domestic front, the political environment was disturbed by a series of industrial actions, primarily in the education and health sectors. Security concerns, particularly in the northern region, led to the declaration of a state of emergency in three north-eastern states.

Despite these issues, the economy grew by 0.3% from 6.5% to 6.8% in 2012. Inflation was recorded at a five-year low of 7.5% in December 2013, while market capitalisation increased by 47% to ₦13.23 trillion – the highest growth recorded in Sub-Saharan Africa.

However, external reserves fell to a 13-month low of ₦43 billion in December 2013. Foreign direct investment also dropped from $5.6 billion to $5.3 billion in the review period. Despite the CBN's interventions, the naira traded at its lowest level, closing the year at ₦155.7/dollar in the official market. Meanwhile, in the parallel market, it weakened to a year-to-date low of ₦173.5/dollar as of 31 December 2013.

In addition, the newly privatised energy sector saw a drop in the generation and distribution of power, causing unanticipated delays to the development of industry infrastructure.

MONETARY POLICY

Liquidity exhibited mixed trends, but was generally high during the review period, necessitating the CBN to continue with its current monetary stance. In response, the cash reserve ratio (public sector) was increased to 50% in the third quarter of 2013 and subsequently moved to 75% in the first quarter of 2014, thereby creating a gap of over ₦1.7 trillion. This policy negatively affected the Bank's loanable funds, particularly to the private sector with attendant negative impact on economic development.

During our review period, the Wholesale Dutch Auction System was replaced with the Retail Dutch Auction System (RDAS) in order to strengthen the value of the naira, while the licences of 20 Bureau de Change operators were revoked. In pursuit of its objective to reduce the cost of cash handling as well as the physical cash in circulation, the CBN extended its cash policy to six more states, thereby increasing the ratio of card-based to cash transactions from 17:83 to 40:60. In a related development, the Asset Management Corporation of Nigeria (AMCON) redeemed ₦1.7 trillion, recapitalised three banks and purchased toxic assets in excess of ₦3 trillion. The Securities and Exchange Commission also introduced new capital requirements for operators, raised the capital base of finance houses from ₦50 million to ₦100 million and clamped down on the activities of 'wonder banks'.

OUR STRATEGY

As you are aware, the Bank is now 120 years old. With this in mind, we have carefully outlined new initiatives to further enhance growth, chief among which is the approval of a three-year plan for the period January 2014 to December 2016. I have no doubt the new strategy will increase the Bank's market share, while spurring our workforce to higher levels of productivity and overall efficiency.

Brand development often affords a competitive edge in today's banking environment. Consequently, to create a dynamic, responsive and value-creating brand, the Bank unveiled a new brand identity on 27 January 2014. This initiative aligns with our 2012 commitment to rejuvenate the Bank as well as devolving more time to our younger customers. Recognising the uniqueness of our brand, the Bank was awarded its third consecutive Best Bank Brand award in Nigeria by the reputable *Banker* magazine of the Financial Times Group, London.

PAYMENT OF GRATUITY

In line with global practice, and consistent with our cost rationalisation drive, the Bank discontinued payment of staff gratuity as a long-term incentive. Before now, gratuity was paid to staff that had spent a minimum of five years in service at the point of exit. This year, however, staff who have worked with the Bank for a minimum of five years were paid their gratuity on 31 December 2013, with no staff worse off. It is worth mentioning the decision was a win-win as it was taken with the concurrence of the labour union.

INTERNATIONAL EXPANSION

Consistent with our progressive international expansion strategy, the Bank extended its overseas presence with the successful acquisition of International Commercial Bank (ICB) Ghana, ICB Guinea, ICB the Gambia and ICB Sierra Leone. With the new acquisition, the Bank currently operates in London, Paris, Abu Dhabi, China and South Africa. While we continue to integrate the newly acquired ICBs, we shall also continue to further our reach out to other profitable regions.

INFORMATION TECHNOLOGY (IT)

In my 2012 message, I mentioned that the Bank has made significant investment in its information technology platform. I am happy to inform you that the Bank successfully migrated to Finacle 10 in the review period and this has significantly improved service delivery; particularly in the area of loan origination and processing.

RELATIONSHIP AND RESPONSIBILITY/ CITIZENSHIP APPROACH

The Bank views corporate social responsibility as a commitment to operate ethically and sustainably, by giving back to the community within which it operates. Under the corporate social responsibility and citizenship platforms, the Bank embarked on key programmes, constantly supporting various community investment activities on a yearly basis. Over the past 10 years, we have spent an average of ₦500 million annually to support community investment projects. These projects are executed under the following aegis:

- FutureFirst – aimed at ensuring young people are financially independent;
- Endowment Programme – currently worth over ₦440 million, it was formed in 1994 and has professorial chairs in 10 universities;
- Infrastructure Development Programme – in place at over 10 universities; and
- Youth Leadership Programme – designed to equip the youth with the knowledge, skills and relevant tools for becoming effective leaders.

A detailed report of the Bank's relationship and responsibility/citizenship approach can be found on page 67 of this report.

SYNERGY BY THE NEW GROUP STRUCTURE

Following the establishment of the parent company (FBN Holdings) in 2012, we have taken advantage of key strengths and synergies across the Group. For instance, we leveraged the Group's offerings to secure some big ticket transactions, partnering with the investment banking arm of the Group – FBN Capital. In addition, the Bank has evolved into a one-stop financial institution through harnessing and focusing on our key capabilities, allowing for a richer and more holistic customer experience. In the review period, the Bank's bottom line was positively impacted as the African subsidiaries collaborated with FBN Bank UK, taking advantage of its key competencies in structured trade commodity finance, project finance/infrastructure finance, etc.

HOW THE SHARED SERVICES STRUCTURE IS ENHANCING EFFICIENCIES

The entrenchment of a shared services framework led to increase in productivity in the review period. Leveraging the Human Capital Management and Development competencies and capabilities, human resources practices and policies across the Group were harmonised. Similarly, the competency of the Marketing and Corporate Communications department was significantly leveraged in ensuring brand standardisation across the Group, while similar efforts are being channelled towards the marketing of products and services across the subsidiaries. In addition, efforts are ongoing to take advantage of the Bank's investment in information technology to support the subsidiaries.

BUSINESS GUIDING PRINCIPLES AND ETHICS

The primary purpose of the Bank is to grow our customers' businesses, thereby ensuring economic development at large. This goal was vigorously pursued in the 2013 financial year and the result of the customer external survey conducted by a reputable professional firm (KPMG) attested to this fact. For instance, our ATM uptime received a boost from 70-75% to 95% in 2013. Professionalism has always been our guiding principle and we shall continue to strengthen our governance structure at all levels.

PRIORITIES OF THE BOARD IN 2013 AND 2014

The main priorities of the Board in the 2013 financial year included: the acquisition of ICB Financial Group Holdings in Ghana, the Gambia, Guinea, Sierra Leone and Senegal; the deployment of Finacle 10; the termination of the staff gratuity scheme; and the crafting of a new three-year strategic plan for the period 2014 to 2016.

In 2014, the Board will concentrate on the post-acquisition integration of ICBs, deployment of key staff to ensure seamless integration and the consolidation of achievements in IT platforms including deployment of technologically advanced products in line with customer needs. In 2014, we shall further align the IT strategy with the business goals of the Bank. We shall also embark on aggressive cost rationalisation policies to achieve a significant reduction in our cost-to-income ratio.

Having divested from First Registrars Nigeria Limited in 2013, considerable time will be spent on the restructuring of FBN Mortgages, divesting our real estate business in compliance with CBN directives. Focus will equally be channelled towards making our new corporate identity a living brand, creating in-your-face branding both locally and internationally. In addition, we shall be strengthening corporate governance and in accordance, a high-level officer has been appointed to head the Bank's Compliance department. More importantly, the Board paid specific attention to succession in 2013, and I am happy to announce that after a careful selection process, Tokunbo Abiru and Abiodun Odubola joined the Board in the review period.

Tokunbo Abiru was the Group Head, Corporate Banking. In 2006, he won the prestigious FirstBank MD/CEO Merit Award as the Best Branch Manager of the Year. Tokunbo has over 22 years of banking experience and, before joining the Board, served as the Commissioner of Finance for Lagos State between 2011 and 2013. He is a Fellow of the Institute of Chartered Accountants of Nigeria (FCA) and Honorary Senior Member of The Chartered Institute of Bankers of Nigeria (FCIB).

Abiodun Odubola, the Chief Risk Officer, was the Head, Credit Analysis and Processing. Abiodun started his banking career with Citibank over 18 years ago and garnered diverse hands-on experience covering relationship management, credit underwriting, credit risk management, country risk management and credit audit within and outside Nigeria. Abiodun is an Honorary Member of the Chartered Institute of Bankers of Nigeria (HCIB) and a Director of CRC Credit Bureau Limited.

I am happy that the two newly appointed directors are homegrown and very familiar with our culture, having distinguished themselves in prior positions within the Bank. As such, I have no doubt in their capabilities to immensely add value to our businesses and further enrich our diverse and collectively talented Board.

In line with our tradition of meritocracy, the Bank shall continue to expand the knowledge base of its directors through local and international courses while appointments to the Board shall continue to be merit-driven whenever the need arises.

FINANCIAL RESULTS

Despite the increasing burden of regulation on our operations, notably among which is the increase in the Asset Management Corporation's (AMCON) levy, the increase in the cash reserve ratio (CRR) on public sector funds from 12% to 50% and subsequently 75%, a gradual cut in commission on turnover (COT), and elimination of the ATM charges, the performance of the Bank in 2013 has once again demonstrated the resilience of our business model.

Profit before tax (PBT) of the Bank came in at ₦76.9 billion (against the ₦83.3 billion achieved in 2012) representing a decrease of 7.7%. The Group's PBT remained flat from ₦87.1 billion in 2012 to ₦87.5 billion in 2013. I am delighted to inform you that the Bank contributed a significant 89% to the Group's bottom line. The Managing Director/CEO will be presenting a detailed breakdown of these numbers in his statement.

OUTLOOK

Looking ahead, we are optimistic about the future and we believe the Bank is well positioned to suitably adapt to challenges and capitalise on emerging opportunities in the current economy.

RESIGNATION

Remi Odunlami, former Executive Director/Chief Risk Officer, resigned voluntarily on 31 May 2013.

RETIREMENT

Kehinde Lawanson, the former Executive Director, Corporate Banking, retired on 31 May 2013.

APPOINTMENTS

The Board of the Bank was strengthened in the year under review with the appointment of Tokunbo Abiru and Abiodun Odubola to the Board on 18 June 2013 and 16 January 2014 respectively.

RETIREMENT BY ROTATION

In accordance with the Bank's articles of association, Ibukun Awosika, Ebenezer Jolaoso, Ambrose Feese, UK Eke and Lawal Ibrahim would retire by rotation and being eligible offer themselves for re-election.

ACKNOWLEDGEMENT

On behalf of the Board, I wish to express a profound appreciation to the regulatory bodies, our ever-loyal customers, business partners (local and foreign) and shareholders without whom today's successes would not have been possible.

Also, may I specially acknowledge the invaluable contributions of Remi Odunlami and Kehinde Lawanson, who voluntarily resigned and retired from the Board in the review period. My appreciation also goes to the ever-dedicated staff of the Bank for their overall performance in the 2013 financial year. I look forward to a year of implementation and harmonisation as we continue to cement our brand and position within the industry. May God Almighty guide us through the financial year to the next AGM and beyond.

Thank you.

Yours sincerely

Prince Ajibola Afonja
Chairman

LEADERSHIP AND GOVERNANCE

BOARD OF DIRECTORS

Prince Ajibola Afonja
Chairman

Bisi Onasanya
Group Managing Director/
Chief Executive Officer
BFGPC BARAC BCC MGC MCC

Tokunbo Abiru
Executive Director,
Corporate Banking
BCC MGC MCC

UK Eke
Executive Director,
Public Sector South
BCC MGC MCC BARAC

Gbenga Shobo
Executive Director,
Retail Banking South
BCC MGC MCC

Dauda Lawal
Executive Director,
Public Sector North
BCC MGC MCC

Adebayo Adelabu
Executive Director/Chief
Financial Officer
Resigned w.e.f. 30/06/2014
MGC MCC BFGPC BCC

Abiodun Odubola
Executive Director/Chief Risk
Officer
MGC MCC

Mahey Rasheed
Non-Executive Director
BGC BCC

Ibiai Ani
Non-Executive Director
BFGPC

Lawal Ibrahim
Non-Executive Director
BFGPC

Ambrose Feese
Non-Executive Director
BARAC BGC

Committee membership key:

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

BOARD OF DIRECTORS – CONTINUED

Ibrahim Waziri
Non-Executive Director
BFGPC BCC BARAC

Ebenezer Jolaoso
Non-Executive Director
BFGPC BGC BCC

Khadijah Alao Straub
Non-Executive Director
BFGPC BCC

Obafemi Otudeko
Non-Executive Director
BFGPC BCC

Tunde Hassan-Odukale
Non-Executive Director
BARAC BCC

Bello Maccido
Non-Executive Director

Olayiwola Yahaya
Company Secretary

Ibukun Awosika
Non-Executive Director
BFGPC

GROUP EXECUTIVES

Bernadine Okeke
Head, Private Banking
MCC MGC

Bashirat Odunewu
Head, Institutional Banking
MCC MGC

Akinwumi Fanimokun
Head, Technology & Processes
MCC MGC

Cecilia Majekodunmi
Head, Commercial Banking
MCC MGC

Abdullahi Ibrahim
Head, Retail Banking North
MCC MGC

Committee membership key:

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

OUR SUBSIDIARIES

Peter Hinson
Managing Director,
FBN Bank (UK) Limited

Cheikh Tidiane
Managing Director,
Bank Internationale
de Crédit, Congo

Kunle Jinadu
Managing Director,
First Pension Custodian
Limited

Adenrele Oni
Managing Director,
FBN Mortgages Limited
Appointed 3 January 2014

REPRESENTATIVE OFFICES

Adebayo Olarewaju
Business Development
Manager, 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
Resigned w.e.f.
12 December 2013

AWARDS

THE 2013 SECTORAL LEADERSHIP AWARD IN THE FINANCIAL SERVICES

PEARL AWARDS

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

BEST BANK IN WEST AFRICA

THE *AFRICAN BANKER* MAGAZINE

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

THE BEST BANK BRAND IN NIGERIA

***THE BANKER* MAGAZINE**

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

Euromoney Best Bank in Nigeria Award

BEST BANK IN NIGERIA

EUROMONEY AWARDS FOR EXCELLENCE

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

BEST BANK IN NIGERIA

GLOBAL FINANCE AWARDS

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

BEST FOREIGN EXCHANGE SERVICES IN AFRICA

EMEA FINANCE TREASURY SERVICES AWARDS

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

BEST BANK IN NIGERIA

EMEA FINANCE AFRICAN BANKING AWARDS

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

BEST COMPANY IN INFRASTRUCTURE

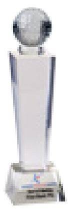
SOCIAL ENTERPRISE RESPONSIBILITY AWARDS

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

THE BEST RETAIL BANK IN NIGERIA

THE ASIAN BANKER INTERNATIONAL EXCELLENCE IN RETAIL FINANCIAL SERVICES AWARDS

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



THE BEST IN E-BANKING AWARD

NIGERIA TELECOM AWARDS

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

TELECOM FINANCING BANK OF THE YEAR AWARD

NIGERIA TELECOM AWARDS

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

MOST COMPLIANT ADVERTISER IN THE FINANCIAL INSTITUTION CATEGORY

APCON ADVERTISING BEST PRACTICE AWARDS

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

MOST RELIABLE BANK OF THE YEAR

HALL OF GRACE AWARDS

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

FINANCIAL BRAND OF THE YEAR

MARKETING WORLD AWARDS

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

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

GREAT PLACE TO WORK AWARDS

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

BEST BANK OF THE DECADE

LEAD AFRICA AWARDS

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

MOST INNOVATIVE AFRICA INVESTOR SRI 50 COMPANY

AI INDEX SERIES AWARDS

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

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

RECORDS AND INFORMATION MANAGEMENT AWARD

The award was given to the Bank in recognition of its strides and achievements in the information security sector.

BANK OF THE YEAR

ELITE BUSINESS AFRICA NETWORKS

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

MOST TRUSTED BRAND IN NIGERIA FOR 2013

BRANDHEALTH

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

WINNER OF THE 2013 HR BEST PRACTICE AWARDS

CHARTERED INSTITUTE OF PERSONNEL MANAGEMENT

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

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

CHARTERED INSTITUTE OF PERSONNEL MANAGEMENT

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

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

LUXURY LIVING AFRICA

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

BEST LOCAL TRADE FINANCE BANK IN WEST AFRICA 2013

GLOBAL TRADE REVIEW

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

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

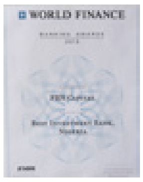
AFRICAN EXPORT-IMPORT BANK

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

BEST INVESTMENT BANK 2013

***GLOBAL FINANCE* MAGAZINE**

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



BEST INVESTMENT BANK 2013

WORLD FINANCE BANKING AWARDS

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

BEST LOCAL INVESTMENT BANK

EMEA FINANCE AFRICAN BANKING AWARDS

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

THE RISING STAR AWARD

SANLAM EMERGING MARKETS

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

BUSINESS REVIEW

We have redefined our strategic goal to consolidate our leadership position while driving targeted improvements to elevate financial performance and reinforce our appeal as the Bank of first choice.

"...our ability to execute and the speed of our delivery will be critical in this coming year and we will place a huge premium on these as we consolidate on our banking experience of the past 120 years."

Bisi Onasanya

Group Managing Director/ Chief Executive Officer First Bank of Nigeria

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Operating environment

GROUP MANAGING DIRECTOR'S REVIEW

Bisi Onasanya
Group Managing Director/
Chief Executive Officer
First Bank of Nigeria Ltd

INTRODUCTION

The year 2013 marked the end of FirstBank's 2011-2013 strategic cycle that was designed to ensure the Bank positioned itself to be more responsive to accelerated changes in the Nigerian financial landscape, especially considering the impact of global trends in an increasingly integrated world. The three-year timeframe allocated to the strategy cycle also allowed the Bank the opportunity to address regulatory interventions, which appear to have become more frequent as the Central Bank of Nigeria (CBN) intensifies its efforts in sanitising and transforming the Nigerian financial sector.

During this period, the Bank delivered a robust performance despite significant regulatory headwinds that characterised the final year of our strategic cycle. Although the Bank fell just short of its financial targets for the period, we focused on transforming our customer experience by providing industry-leading services across channels; increasing branch networking albeit at a slower pace; and upgrading IT infrastructure, operations and product offerings. We improved the interface between market-facing and non-market-facing aspects of our business, revised our products and portfolio pricing and refreshed our marketing and branding approach. As a bank that has invested significantly in its people, processes, technology and touch points, it was imperative to refresh our external brand to ensure it is current, depicting the bold changes that had taken place within the organisation and representing the culmination of various investments that have been made over the years to serve our customers better. Consequently, we refreshed our brand icon, eliminating the rear of the elephant which represents the bulk weighing it down. This was done specifically to address the perception of being slow and is in line with the ambition and aspiration of the Bank to be seen as dynamic and forward looking.

Following the 2011-2013 cycle, the Bank conducted a new strategic planning process for 2014-2016. We aimed to have our enterprise and subsidiary level strategies attuned with the expected projections for the future performance of both the economies of the countries in which we operate and their corresponding financial services industries. Consequently, we have redefined our strategic goal to 'consolidate our leadership position while driving targeted improvements to elevate financial performance and reinforce our appeal as the Bank of first choice'. In light of current identified opportunities, the strategic themes that will aid the Bank in delivering on its objective include attaining leadership in mid-corporate/commercial and SME segments; improving cost and capital efficiency; and driving service delivery excellence. These themes have been further distilled into specific goals/metrics and priorities.

OPERATING ENVIRONMENT

Gross Domestic Product (GDP) growth in Nigeria averaged c.6.25% in 2013. However, with continued high levels of urban unemployment (30%), there are concerns that this growth rate may not be sufficient to address the requirements for economic development. Inflation expectations were contained by the tight money policy pursued by the CBN all through the year (consumer price index closed the year at 8.0%). Concerns about the elevated levels of liquidity in the economy led the CBN to tighten monetary conditions by raising the cash reserve requirement for public sector deposits from 12% to 50% as at September 2013 and a further increase to 75% as at January 2014, although the monetary policy rate (MPR) remained unchanged at 12%. However, as the apex bank resorted to these administrative measures to keep banking sector liquidity in check (and reduce the pressure on its balance sheet from the open market interventions), parallel market rates for the naira began to drift from the rates at the official market.

In addition to this, the CBN took measures aimed at reducing the transaction cost of banking to customers, which included a reduction in commission on turnover (COT), and the outright removal of ATM-related charges among others. The combination of these measures to a large extent resulted in the compression of the Bank's margins.

BUSINESS DEVELOPMENT

During the year, the Bank further extended its African footprint with the acquisition of the ICB West Africa franchise in Ghana, the Gambia, Guinea and Sierra Leone. In extending its franchise across the African continent, FirstBank is better able to serve its international customers, especially with respect to trade transactions. The countries represented in this transaction also provide growth markets for the Bank and represent a viable source of diversified income. With large unbanked populations across Ghana, the Gambia, Guinea and Sierra Leone, the potential of the banking sectors in these countries remains huge and untapped. Increasingly favourable economic indicators across the countries also make them attractive investment destinations for the Bank at this time. The acquisition of these banks increased FirstBank's total assets by c.USD258 million. It is our expectation that the West African acquisition will contribute positively to FirstBank's commercial banking franchise with significant upside potential based on the favourable market dynamics of the underlying countries.

Domestically, our e-business initiatives were given significant priority in 2013, with the primary objective of deepening our alternative channels to complement our traditional channels and reduce overall cost per transaction. In line with this vision, our new retail internet banking platform, FirstOnline was launched in November 2013 with additional functionalities and customised solutions for our customers. Confirming our focus on the development of our alternative channels, the Bank in 2013 recorded a positive position between its not-on-us (NOU) and remote-on-us (ROU) transactions indicating that FirstBank ATMs enjoyed a preferred status as there were more transactions recorded of other banks' cards on FirstBank ATMs than FirstBank cards on other banks' ATMs.

As at the end of December 2013, the Bank had a total of 2,437 ATMs, representing a growth of 31% from the 1,865 ATMs deployed in December 2012. Following the deployment of our new mobile banking module on the Firstmonie® platform, the Bank closed the year with c.499,000 subscribers, up from c.28,000 in December 2012. With respect to agent banking, the Bank as at December 2013 had registered c.10,000 agents, representing a viable and reliable network. In line with our belief that agent banking provides the Bank with a strong opportunity to deepen its retail footprint in a cost-effective way, grow its customer base and access low-cost deposits without the burden of huge capital investments, we have concluded the development of a business plan to guide the deployment of the agent banking channel, which will be a hybrid of the Brazil, Kenya and India models.

In order to improve overall customer experience in the Bank, we concluded the effort to reinforce the importance of a proper complaints handling process. Following this process, we identified the top five service issues and addressed them through the incorporation of service quality indicators (SQIs) across all functions. Our target for the next year is to aggressively pursue our service delivery excellence programme to attain a top three position in customer satisfaction across all customer segments. To achieve this, we will clearly restate our defined service proposition for each customer segment and prioritise and optimise these. Management of customer expectations will also be a critical component of our service delivery programme in the coming year while ensuring each employee takes clear ownership of customer experience in their segment. To this end, we are confident that we are in the process of establishing a customer-centric culture across the Bank.

During the year, we upgraded our Emerging Corporates sub-unit, created to serve the small corporates and harness opportunities in that segment to a fully fledged Strategic Business Unit (SBU), thus bringing the SBUs to six, across the Bank, namely: Institutional, Corporate, Commercial, Retail, Public Sector and Private Banking.

In harnessing synergies across the Group and driving collaboration, we worked closely with the non-bank subsidiaries within the FBN Holdings Group with a view to establishing the culture of cross-selling across the Group. Particularly, our Private Banking SBU collaborated on various transactions with the asset management business of FBN Capital, with our Retail Banking SBU working closely with the Insurance subsidiary to entrench the gains of the bancassurance model. The challenges experienced with the implementation of the Centralised Processing Centre (CPC), launched in 2009 as a result of our increased scale and expansion of our operations into new countries, is being reviewed holistically. Subsequently, a CPC optimisation project, which focuses on fine tuning the CPC model in order to enhance its capacity, was initiated during the year. The CPC optimisation project is expected to lay a foundation to operationalise a shared service structure to support the entire Commercial Banking Group's subsidiaries by determining the scope of services and processes to be offered and defining the required scope of technology enablers.

PERFORMANCE

All our SBUs performed creditably during the year with our flagship wholesale business, the Institutional Banking Unit, recording considerable growth across key metrics such as net revenue, which increased by 8.6% to ₦48.8 billion, while deposits closed at ₦321 billion and loans and advances at year-end was ₦677 billion. Deposits grew by 3% from industry 2013 figures due to the nature of our institutional clientele, growing competition, pricing pressure from more sophisticated customers and the effect of government policy impacting public funds that affected some key clients. On the retail side, the Retail Banking SBU grew revenue by 6.0% to ₦151.3 billion while deposits increased by 22.4% to close at ₦1,241 billion. In preparation for the complete removal of commission on turnover (COT) by 2017 and other new reductions in bank charges being contemplated by the apex bank, our Retail Banking SBU has put in place plans to increase its non-interest income business while intensifying training programmes for the relationship managers to ensure the customer base is retained, adequately served and grown. The unit is also positioning itself to benefit from the recent growth in e-commerce by providing payment platforms and advisory services to SME clients in that space.

Overall, despite the significant regulatory headwinds that characterised 2013, including revised bank tariffs and charges as well as increased cash reserve ratio (CRR) for public sector funds, the Bank capitalised on performance management to maintain our industry leadership position across key metrics. During the year, we focused considerably on transforming our interface with customers and providing industry-leading services across channels, deepening alternative channel options and upgrading IT infrastructure, operations and product offerings in realising our goals. In addition, we improved our marketing and branding approach, ensuring we delivered on our non-financial aspirations. Although it was a challenging year for the Bank, we recorded a growth of 19.8% in total assets at ₦3.7 billion, with customers deposits closing at ₦2.9 billion, a 15.52% decline from the previous year.

As a result of an increase in interest income by 9.53% as well as other fees and commission 53.9% recorded during the year, aggregate earnings rose to ₦372.6 billion in December 2013, representing an 8.9% increase over December 2012. In spite of the intense competition and the challenging operating environment, the operating expense of the Bank declined 5.2% to close at ₦172.7 billion (2012: ₦182.2 billion) bringing the cost-to-income ratio to 61.7% from 64.8%. This performance culminated in the Banking Group profit before tax of ₦87.5 billion, flat from ₦87.1 billion in December 2012.

Overall, the Bank's financial performance remained strong, despite the challenging operating environment.

OUTLOOK AND CONCLUSION

Based on the trends of 2013, the developing nature of our national challenges, increased desire of the apex bank to reduce profit margins in the banking industry and increasing competition from players within a sound banking system, 2014 may prove to be a tougher year for FirstBank. Given the uncertainties, we have put in place structures that will enable us to seek new strategic growth opportunities in our increasingly volatile operating environment in the coming years. We are very optimistic that with the immediate implementation of the initiatives in our 2014-2016 strategic cycle, the new financial year will usher in an economic environment and brighten our income expectations and deliver on the new target set for the period.

The Bank's various SBUs will implement their individual strategies within the period as we continue to leverage our refreshed corporate identity and strength as the most profitable and largest Nigerian bank, in terms of branch network and shareholders' funds, to provide our customers with excellent financial services.

We are looking to exploit several other business opportunities in 2014, many of which will arise through government reforms. For instance, financial sector reforms are expected to further enhance economic growth and job creation through better access to financial products and services. Power sector reform will reduce the cost of doing business and attract local and foreign investors to the industrial and manufacturing sectors of the economy, in turn opening up more job opportunities. Efforts are also being made to reform the transport network and strengthen economic links between sectors, cities and other regions. In addition, opportunities will arise from the modernisation of Nigerian agriculture and the possible resulting increase in agricultural output. The expected passage of the Petroleum Industry Bill (PIB) can also be exploited to our benefit.

To properly take advantage of these opportunities, our ability to execute and the speed of our delivery will be critical in this coming year and we will place a huge premium on these as we consolidate on our banking experience of the past 120 years. With our new, well-articulated strategic plan for 2014-2016, I am confident that we will deliver on our promises, with the support of our stakeholders.

Thank you and God bless.

Bisi Onasanya
Group Managing Director/Chief Executive Officer
First Bank of Nigeria

OPERATING ENVIRONMENT

GLOBAL ECONOMY

Fears at the beginning of the review period that the deadlock over budget talks in the United States could lead to a drastic softening of consumer spending (with adverse consequences for global output growth) were averted after last minute horse-trading resulting in bi-partisan agreement. Despite the positive response of global stock markets, output performance was volatile and uneven throughout 2013, with Europe's peripheral economies the main drag to growth.

By year-end 2013, signs of a global recovery were increasingly evident. Stock market figures around the world reflected this improved performance, with the Dax up 22%, FTSE 10% and the Nikkei much higher, by 58%. Even peripheral eurozone economies, such as Greece (27%), Ireland (30%), Spain (17%) and Portugal (13%), saw increases in their stock market performance. The Dow Jones Industrial Average, the S & P 500 and the NASDAQ were all up (by 22%, 25% and 33% respectively).

Last year, improved developed market prospects were a major worry after capital flows into emerging markets reversed mid year following the speech by the then Chairman of the United States Federal Reserve Bank, Ben Bernanke, in which he presaged the beginning of the tapering of the Federal Reserve Bank's programme of quantitative easing. Threats to the naira exchange rate from repatriating capital may have helped the CBN in its decision in July last year to raise the cash reserve requirement for public sector funds. Tight monetary conditions affected the financial industry's net interest margins with clear implications for profitability.

These tight monetary policy conditions are expected to hold into the near-term, as markets around the world adjust to the changed circumstances that may be triggered by a more solid recovery in the US.

6.52%

Average growth GDP last year

UNITED STATES OF AMERICA

Responding to healthier economic signals, the US Federal Reserve Bank announced plans to reduce its interventions in the country's economy. It will reduce its bond buying by a monthly US$10 billion, effective from January 2014, from US$85 billion monthly, as of year-end 2013. Although concerns remain over how this tapering will affect global markets, the Fed's decision reflects its belief that the US economy is no longer in need of so much quasi-fiscal stimuli.

Even as the economy continues to grow, the US Federal Reserve Bank forecasts a fall in unemployment rates from its current level of 7% to 6.3% in 2014. This aligns with Labour Department reports that US jobless claims fell by 42,000 to 338,000 in late December.

JAPAN

In Japan, the world's third largest economy, economic signals remained muted. Prime Minister Shinzo Abe's reflationary policies (the most ambitious quantitative easing programme in the world to date) shows signs of bolstered confidence in driving down the yen. Bloomberg reports the Topix index of stocks as rising by more than 50% in the year to end-November, and the yen as trading at 105.40/US$.

However, most commentators worry that without an increase in wages in 2014, the planned sales tax increase in April (the first such increase since 1997) will further drive domestic prices up and dampen consumer spending. In November, labour cash earnings rose 0.5% from a year earlier, and with consumer prices rising by 1.5% (the highest since 2008), Japan is closer to meeting the central bank's target of a 2% inflation rate by 2015.

UNITED KINGDOM

By the fourth quarter of last year, the United Kingdom had become the fastest growing economy in Western Europe. The UK Office for National Statistics (ONS) estimated output growth as having risen by 0.8% in the three months to end-September in comparison with the previous quarter, leading to a revised estimated annual growth of 1.9% from 1.5% for 2013. Rising current account deficit, public sector net borrowing, and underlying public sector net debt, however, means this recovery is far from secure.

CHINA

By year-end, growth in China was back to around 7%, although the intervention late last year by the Peoples' Bank – as it pumped US$5 billion into the banking system to address worries over credit squeeze – underlined the volatility faced by the Chinese economy.

DOMESTIC INDUSTRY

GDP growth last year averaged at 6.52%. The noticeable soft output growth from the second quarter reversed by mid-year, with strong growth in the last six months. However, with urban unemployment still stuck in the lower 30% range (youth unemployment is much higher), worries remain that this growth rate may not be sufficient to address the requirements for economic development.

Further structural reforms will be needed to drive higher growth rates, including in the oil and gas sector, where despite sideways movement in oil prices last year, declining production levels adversely impacted the rate of increase in the external reserve balance. Lower oil revenues also showed up on the fiscal side, with a drop off in government receipts (₦6.89 trillion last year, from ₦8.02 trillion in 2012) exacerbated by a sticky expenditure profile. Whereas most analysts expect this to drive a worsening of the budget balance, government spending did not drive domestic prices.

Inflation expectations (the consumer price index closed the year at 8.0%) were contained by the tight money policy pursued by the CBN all through last year. Nonetheless, as the apex bank resorted to administrative measures to keep banking sector liquidity in check (and reduce the pressure on its balance sheet from the open market interventions), parallel market rates for the naira began to drift from the rates at the official market.

Uncertainties associated with the soft recovery ongoing in major developed markets, and the already adverse consequences these have had on domestic fundamentals, compelled the CBN to tighten monetary policy last year. Tighter monetary policy meant that financial services operators saw a rise in their costs that was not matched by new (or higher) revenues. Consequently, profitability was impeded in the review period; and is expected to remain constrained over the near to medium term.

TRENDS, CHALLENGES, OPPORTUNITIES, COMPETITION, REGULATORY INFLUENCES

The new pressure on emerging market assets should temper capital flows into the economy, meaning less space for previously anticipated foreign competition in the industry.

The nature and intensity of domestic competition in the financial services space should also change, with focus drawn away from the public sector and towards increased private sector activity. More competition in this sector may see increased prices, as low-cost depositors earn more for their funds. How much of the drive for new deposits will lead activity in the non-traditional parts of this sector – microfinance and mobile money, for instance – remains to be seen.

FirstBank would see its cost of funds increase on the back of these developments. Tighter monetary policy might further constrain its ability to grow assets, as higher interest rates discourage domestic borrowing. The resulting pressure on the Bank's net interest margin will be alleviated through a re-structuring that re-allocates key marketing resources away from the public sector towards driving up the contribution of retail private sector businesses to the Bank's bottom line.

Improvements to the structure of the economy, especially such reforms as lower business costs, will be critical to the latter process. Much of the macroeconomic traction over the last 12 months has been from the monetary side of the economy, and banks have had to bear a larger regulatory burden as a result.

Increased compliance costs have been a major consequence of the higher regulatory burden, but to the extent that some of the new regulations have impacted the traditional revenue sources, including commission on turnover, and charges on ATM transactions, they have also had direct effects on reducing the Bank's earnings.

OUTLOOK

The oil outlook will be key to forecasting the economy over the next 12 months. The main variables to consider are:

- the rapprochement between the West and the Iranian government, which, when the embargo on Iran is finally lifted, should add an additional 800,000 barrels per day (bpd) to the OPEC's capacity;
- the proliferation of unconventional oil sources around the world (production in the US is expected to rise to 11.13mbpd in 2014); and
- global oil demand for OPEC crude is expected to drop by 300,000 bpd or 10% of OPEC's production this year, affecting the global supply and demand balance.

Ahead of this sea-change, the domestic fiscal balance deteriorated last year. This was especially evident in the rapid rundown of the external reserves, and the 25% drop in the Federal Government's collectable revenue, resulting in a budget deficit last year of around US$9 billion (well beyond the 3% deficit ceiling).

While domestic and external borrowing may rise to meet this shortfall over the next 12 months, we cannot help but worry that rising bond yields – as economies across the developed world get better – may drive up the cost of external borrowing and/or loan servicing. On the other hand increased recourse to local borrowing may narrow the space for private sector credit creation.

Significantly, the '2014-2016 medium-term expenditure framework and Fiscal Strategy Paper' makes a veiled reference to the possibility of government finances worsening over the next plan horizon. Despite factoring in an almost ₦10 trillion growth in GDP between last year and 2016, the medium-term expenditure framework expects total revenue and expenditure to fall over the same period.

With government spending likely to moderate over next year, inflation should remain well within the single digit band, although the composition of government spending will be a major determinant in the extent of pressure put on consumer prices. In this sense, we expect to see a spike in money supply and consumer prices as spending ahead of next year's elections.

The fiscal environment over next year will therefore be one in which monetary authorities strive to hold back pressures (largely on the naira), especially through administrative measures. This will, doubtless, impose new strictures on the banking industry. Much of these new constraints will show up in tighter net interest margins, compelling the industry to seek a least-cost response to the search for profitable sales volumes.

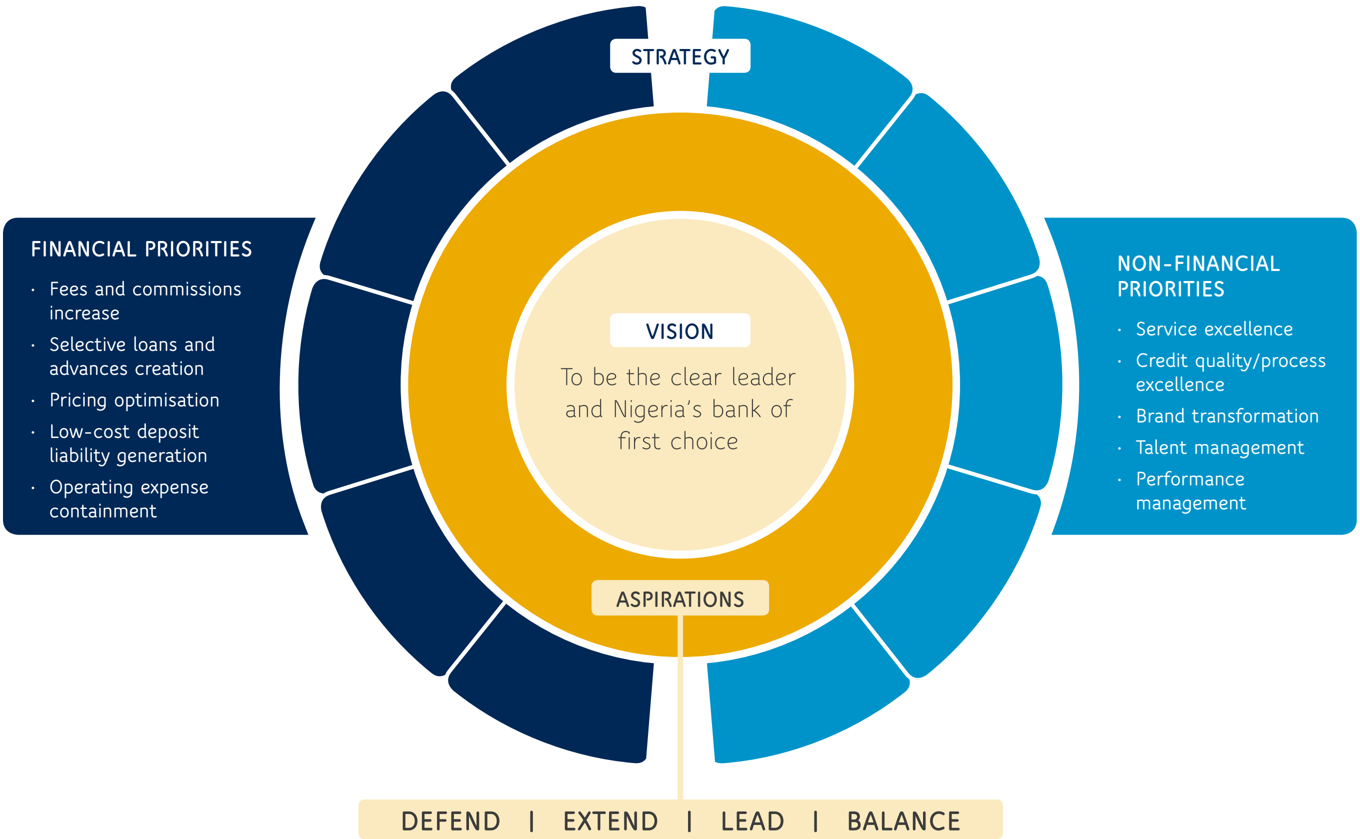
Nonetheless, further structural reforms will be needed to grow the economy in a way that permits banks to drive new asset creation initiatives.

OVERVIEW

At FirstBank, our vision is to be the 'clear leader and Nigeria's bank of first choice'. In order to deliver on this long-term vision, the Bank embarked on a focused transformation programme over the period of our 2011–2013 strategy, to DEFEND our leading balance sheet position, EXTEND the scope of our leadership further into capital, cost, and operational efficiency, LEAD in every business we chose to participate in, and BALANCE short-term performance objectives with long-term growth objectives.

The previous three-year cycle was set with expectations of increasing competitive pressure fuelled by regulatory shifts and technological advances as well as increasingly sophisticated customers and the availability of alternative sources of funding. The 2011-2013 strategy set a target of NG₦3.4 trillion in total assets for 2013 to ensure the Bank retains its leadership in the Nigeria banking industry. The Bank ended 2013 with a balance sheet size in excess of NG₦4.5 trillion (total assets and contingents) driven primarily by leverage and loan book.

FirstBank vision and strategy



WHAT DIFFERENTIATES US?

FirstBank remains the undisputed market leader in Nigeria; with Group revenues of NG₦372.6 billion and an impressive market share of about 15% in loans. Our capacity to create long-term value derives from our commitment to sustainably delivering stakeholder returns. Over the past 120 years, FirstBank has consistently improved its performance by continuously focusing on these competitive differentiators:

ROBUST RETAIL BANKING PLATFORM

The wide reach of our bank branches – over 760 across Nigeria and our significant retail deposit base have led to a true competitive advantage on cost of funds. This cost of funds advantage has permitted us, over the years, to selectively create high-quality assets and to provide a sustainable liquidity base to underpin our continuous growth ambitions. We continue to drive low-cost deposit mobilisation, even as we re-energise our business to enhance our value proposition to and more adequately capture market share within the affluent segment.

OUR BRAND – STABILITY, SECURITY AND CONSISTENCY

The FirstBank brand continues to represent consistency, stability and security within the Nigerian banking industry. As we celebrate 120 years of our dynamic existence as a bank in 2014, we renew our commitment to maintaining an identity that appeals to a need for stability, security and consistency across generations. To this end, we stay in close tune with customers' needs as well as their perceptions of our brand, to ensure that we remain the first port of call for solid, dependable, safe delivery of financial services that continue to evolve with the times.

FINANCIAL SUPERMARKET

As members of a leading financial services holding company, FirstBank provides a suite of financial services to our customers, ensuring that customers' business and personal needs are met. The synergies that we gain from relationships within the Group are translated into customer insights and better service delivery, thus standing us apart from competition.

EXCELLENT UNDERSTANDING OF CUSTOMERS' BUSINESSES AND INDUSTRIES

Over the 120 years of our existence, FirstBank has remained committed to and shown keen understanding of customers' businesses and the various linkages between their industries, thus translating this understanding into increasing share of our customers' businesses. In addition, this has honed our ability to originate, midwife and deliver on huge, complex transactions, keeping us in the forefront of financial service delivery.

FOOTPRINTS CONSISTENT WITH TRADE DESTINATIONS OF THE LOCAL ECONOMY

In response to our customers' business needs and the growing global economy, we have aligned our international expansion strategy to focus on high-growth markets as well as follow the patterns of trade of the Nigerian economy, thus entrenching the value of supporting local trade. Our strength in trade finance has historically lain within our FBN UK Limited subsidiary; however, we continue to build out these competencies as we have expanded our service delivery to Abu Dhabi, Johannesburg, the Republic of Congo, Ghana, Guinea, the Gambia and Sierra Leone.

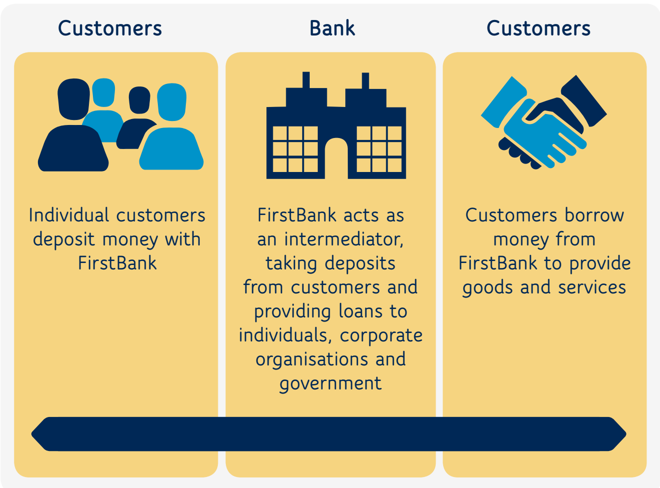
LEGACY OF SUSTAINABILITY

Our strong business delivery ethics evidenced by our existence in Nigeria over the past 120 years has provided a compass to guide our commitment to a legacy of sustainable banking. However, in light of significant shifts in global financial services on the back of the financial crisis and more stringent regulations to ensure that such shocks do not lead to the demise of institutions, FirstBank has gone further and signed up to the Sustainable Banking Principles set out by the Central Bank. This is with a view to driving value by reducing costs, increasing revenues, enhancing brand reputation and minimising risks. To this end, we have begun training on these principles at Board level and we continue to evolve our business model to ensure sustainability in our business delivery, even while taking advantage of growth opportunities within our markets.

BUSINESS MODEL

The Bank generates value by exploiting the immense retail banking franchise to trap and grow sustainable low-cost deposits as a platform for the various wholesale banking groups to create quality risk assets.

Our business model is guided by the philosophy of continuously restructuring for growth, controlling and measuring this growth and delivering business responsibly. As part of the Bank's restructuring process, we have successfully migrated to a holding company structure over 2012-2013 and completed acquisitions in West Africa in addition to growing our domestic franchise organically. These acquisitions are in addition to our presence through subsidiaries in the UK and Republic of Congo as well as representative offices in China, South Africa and Abu Dhabi. We also recognise the need for sustainable growth which has led our embedding robust controls on risk and costs as evidenced by the ISO 27001: 2005 certification we achieved in November 2013.



To ensure the Bank's business model is continuously optimised, we have clearly delineated customer market segments within the retail and various wholesale banking groups to ensure proper match of value proposition to customers' profile. As a result, we further defined a small and medium enterprises (SME) sub-segment within the Retail Banking Group, as well as a newly carved Commercial Banking niche group focusing on middle-market opportunities in trade. This will enable the Bank to further deepen our foray within existing markets and create new space within the high-growth customer markets.

To enable effective uptake and use of deposits generated by Retail Banking, Institutional/Corporate Banking Groups have put in place mechanisms to drive the value chain approach to provide a one stop shop for customers' needs. This business model optimisation 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 as well as the exploitation of synergies within the FBN Holding Company. To this end, delivering a superior value proposition and ensuring customer satisfaction remain our key model drivers.

STRATEGY AND PERFORMANCE

OUR STRATEGY

Our strategic approach has always been built around mobilising deposits (leveraging our robust/extensive branch/ATM architecture) from our large retail client base and creating risk assets by channeling such funds to the customers in various sectors of the economy – this has translated into a competitive cost of funds for the Bank vis-à-vis competition in the past.

THE 2011–2013 STRATEGIC CYCLE IN REVIEW

FirstBank's strategic planning cycle spans a three-year timeframe and the 2013 financial year represents the completion of the current strategy cycle of the Bank (2011–2013). The Bank set a strategic intent "to lead in each business unit and as a Bank overall across a range of performance and health indicators", taking a cue from the priority of the FirstBank Group for the completed strategic cycle, which was focused on making large-scale structural changes designed to accelerate growth and deliver industry leadership. 2013 therefore provides an avenue for the Bank to review its strategic objectives with regards to set targets and the performance of competition within the banking industry.

2011–2013 ASPIRATIONS

Our 2011–2013 strategy challenged the notion of defining 'first' as being the 'oldest and biggest', and set to be the best in terms of growth, profitability, capital efficiency, service levels, value to our customers and ultimately, shareholder returns. By 2013 we aspired to lead in each business unit and as a bank overall across a range of performance and health indicators.

In order to achieve the aforementioned aspirations, we laid out specific strategies aimed at providing a spring-board for accomplishing our goals. These strategies were further distilled into financial and non-financial priorities driven to ensure attainment of aspirations and set targets by the Bank.

It was our firm belief that focusing on these priorities was essential to us achieving our strategic intent to lead in each of our business units as well as overall as a bank. Subsequently, we set bold targets to measure our success in delivering on these priorities.

FirstBank 2011–2013: performance against targets

Index	2013 Target	FY 2012	FY 2013
Profit before tax (₦ billion)	102	83.3	76.9
Net revenue (₦ billion)	303	258.6	255.8
Total deposits (₦ trillion)	2.5	2.2	2.6
Total loans (₦ trillion)	1.9	1.3	1.5
Return on assets (pre-tax) (%)	3.0	3.2	2.6
Return on equity (pre-tax) (%)	25	22.2	21.3
Total assets (₦ trillion)	3.4	2.8	3.2
Cost-to-income ratio (%)	55	62.2	65.3
Non-performing loans (%)	5.0	2.6	2.9

■ Target met ■ 80% of target (or higher) met ■ <80% of target met

* Dec 2013/Note that for this cycle ROE and ROA targets were on a pre-tax basis.

FINANCIAL PERFORMANCE

FirstBank maintained industry leadership in major financial indices except profitability. The significant regulatory headwinds of revised bank tariffs and charges as well as increased cash reserve ratio (CRR) for public sector funds in 2013 prevented the Bank from surpassing its PBT target of ₦102 billion for 2013 (2013: ₦76.9 billion). The current strategy set a target of ₦3.4 trillion in total assets for 2013 to ensure the Bank retains its leadership in the Nigeria banking industry. However, the Bank ended 2013 with a balance sheet size in excess of ₦4.5 trillion (total assets plus contingents). This has been driven primarily by deposits and loan book. Overall, the financial performance of the Bank has grown significantly from 2011, despite operating in a challenging environment with regulatory policy shifts that have negatively impacted business. We have, however, remained focused as a Bank on the right elements in our business and thus seek to enhance/consolidate on current achievements.

NON-FINANCIAL PERFORMANCE

In addition to the push to meet our financial targets, the Bank also embarked on a number of non-financial initiatives during the 2011–2013 planning cycle, focusing significantly on transformation of our interface with customers, providing industry-leading services across channels, increasing branch network, upgrading IT infrastructure, operations and product offerings. We improved the interface between market-facing and non-market-facing aspects of our business, revised our products and portfolio pricing, as well as our marketing and branding approach. These initiatives were implemented to ensure we delivered on our non-financial aspirations. We achieved a number of these non-financial targets, with an addition of more than 100 branches, upgrade of our IT system to the latest Finnacle 10 in 2013, as well as a complete overhaul of our talent management system in the launch of our corporate university, First Academy.

STRATEGY AND PERFORMANCE

2011–2013 growth priorities: progress against long-term vision

In consolidating our leadership position as the bank of first choice in Nigeria, we have made improvements in transforming the Bank, from the customer interface at the branches to our alternative channels (internet banking, mobile banking, etc.), and continue to leverage synergies as we've built scale in our institutional/corporate business. To build scale internationally, we have aligned our expansion in Sub-Saharan Africa to recognised trade links with Nigeria. This supports our lessons from the mileage we continue to receive from our representative offices in South Africa, United Arab Emirates and China as we harness the trade links among these locations to grow our business.

We have commenced a review of our operational processes, with a view to broaden shared services initiatives that will establish FirstBank as a truly regional bank in Africa. Cross-selling as well as referrals across the Group have been significantly enhanced and will yield even greater returns as we take advantage of the economies of scale that result from our geographic footprint across the continent.

CONSOLIDATE LEADERSHIP POSITION IN NIGERIA

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

SHORT TERM

DIVERSIFY AND TRANSFORM BANK

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

MEDIUM TERM

BUILD SCALE INTERNATIONALLY

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

LONG TERM

PROGRESS

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

The strategies developed to support our financial and non-financial priorities were designed to maximise and leverage our competitive advantage by enhancing pricing to match market, ensuring cost optimisation and keeping our low-cost fund advantage by mobilising low-cost deposits, service excellence, credit quality/process excellence, brand transformation and talent management.

STRATEGY AND PERFORMANCE

2011–2013: Financial and non-financial priorities

CORPORATE STRATEGY

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

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

The financial and non-financial priorities were further distilled into strategies that enabled us to achieve the set targets across the various themes chosen by the Bank.

FINANCIAL PRIORITIES' STRATEGIES

		DESCRIPTION	STRATEGIES
BANK FINANCIAL PRIORITIES	Fees and commission increase	Significantly increase revenue from non-interest income sources	Boost cross-selling with customer analytics, establish the leading mobile money franchise, grow key product volumes (e.g., payments, LCs, FX)
	Selective loans and advances (LAD) creation	Selectively and prudently grow loan portfolio in key sectors and shift mix towards assets with higher-risk adjusted total yield	CBG: more small ticket transactions priced right IBG: structured finance capabilities/exposures, SME/consumer programme lending and cards
	Pricing optimisation	Implement strong risk-based pricing regime and manage revenue leakages	Revise pricing tool and policies, manage concessions/leakages, implement short-term re-pricing to align with market
	Low-cost deposit mobilisation	Drive strong low-cost current and savings account (CASA) deposit liability generation	General and targeted savings promotions, product innovations for priority segments, branch expansion via small format branches (i.e., quick service points (QSPs))
	Operating expenses (OPEX) containment	Contain OPEX growth rate at level sufficiently below revenue growth rate	Urgently migrate retail mass market clients to ATMs/alt. channels, rationalise unprofitable branches, enhance controllable cost discipline

With respect to fees and commission, a number of tactical initiatives to grow have been implemented to ensure that we manage customers' transaction accounts, focusing on fee-generating transactions. We have also aligned our performance management metrics to drive non-interest revenue-enhancing (NIR) behaviour among relationship managers. Having employed a risk-based pricing framework across business units, we continue to match value to pricing, with targeted redistribution from assets with low yields (e.g., institutional customers) to more attractive commercial assets. Given our clearly delineated business engagement model, there remains much we can do to sweat our assets; as such, we have employed a lean growth philosophy and are implementing various initiatives to ensure cost optimisation.

STRATEGY AND PERFORMANCE

NON-FINANCIAL PRIORITIES' STRATEGIES

		DESCRIPTION	STRATEGIES
BANK NON-FINANCIAL PRIORITIES	Service excellence	Make FirstBank renowned for fast and friendly service, without sacrificing processing quality or increasing transaction costs	Branch/customer experience transformation, channel optimisation/migration, centralised processing centre rollout/expansion
	Credit quality/process excellence	Improve speed/quality of credit decisions and effectiveness of end-to-end credit processes from origination to recovery	Deepen Bank-wide credit capabilities, run holistic process redesign, strengthen scoring models/algorithms, enhance monitoring and workout
	Brand transformation	Significantly enhance FirstBank brand perceptions and drive business results via targeted campaigns	Targeted customer acquisition and loyalty campaigns, product usage/revenue-driving campaigns, channel shift campaigns, brand health campaigns
	Talent management	Build superior workforce at FirstBank by attracting, developing and retaining the best industry talent	Workforce planning/alignment and role grading, capability building in critical areas, HR systems/processes alignment with different business unit needs
	Performance management	Align individual incentives with enterprise/shareholder priorities and ensure accountability for commitments	Refinement of scorecard metrics/weightings, Strategic Resource Function (SRF) performance management, cross-sell/cooperation incentives, rigorous Project Management Office (PMO) tracking

With respect to our non-financial priorities, we diligently focused on revamping the customer experience within the Bank end-to-end including branch experience, speed of processing and branding. In addition to this, as an important stakeholder of the Bank, our strategy also focused on getting the best out of our staff through targeted talent management actions as well as the development of a robust performance management system.

NETWORK STRATEGY

During the period we focused on transforming the ambience of our branches to improve their look and feel, increasing our footprint in Nigeria and Sub-Saharan Africa through a combination of organic and inorganic growth. Our branch expansion strategy resulted in the establishment of over 100 new branches; quick service points (designed to improve customers' access to the existing service channels with the objective of making service turnaround time short and pleasant as well as providing other basic services without hassles of a big branch); and expansion into four West African countries.

E-BUSINESS

There was a paradigm shift from e-banking to e-business which is more encompassing with focus on enhancing customer retention capability, growing our customer base (number and quality of accounts), improving on our service availability and delivery (channels and processes, solutions, etc.), leveraging our e-capabilities to push for increased Retail, Corporate and Public Sector businesses and positioning the Bank as a technology bank thereby getting high corporate visibility and recognition.

We will continue to focus on deployment of alternative channels to complement the use of branches for network expansion in a typical hub and spoke model especially in high density and large cities with the additional benefit of reducing the Bank's cost of network expansion while improving the standard of service to our customers.

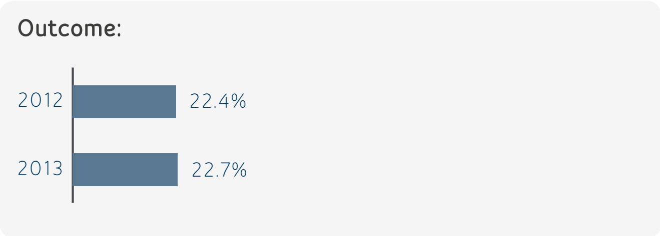
STRATEGY AND PERFORMANCE

KEY PERFORMANCE INDICATORS FOR THE COMMERCIAL BANKING GROUP

RETURN ON EQUITY

This is a relative measure expressed as a percentage, calculated by dividing profit before tax by the average capital (opening plus closing capital position divided by 2) in the business, where capital is defined as shareholders' equity.

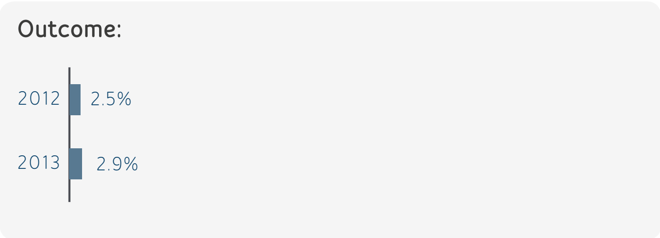
Target: 25%



RETURN ON ASSETS

This is a relative measure expressed as a percentage, calculated by dividing profit before tax by the average assets (opening plus closing asset position divided by 2) in the business. It is a measure of the efficiency of Management in generating earnings.

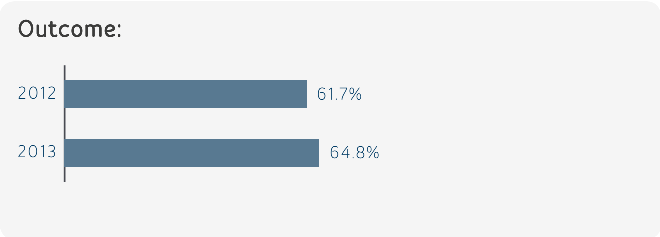
Target: 3%



COST-TO-INCOME RATIO

This is a relative measure expressed as a percentage, calculated by dividing operating expenses incurred by the operating income earned. It is a measure of how costs change relative to income given the high rising cost of doing business highlighting the efficiency of the Bank.

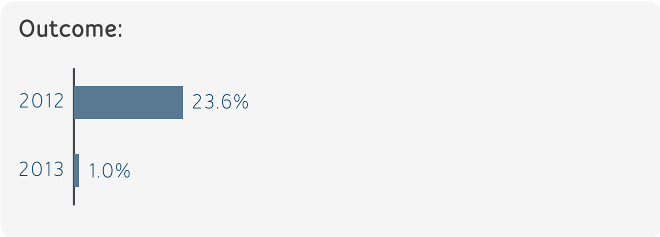
Target: 55%



NET REVENUE GROWTH

This is calculated as total revenue less interest expense. The target is for the Banking Group to aggressively grow revenue to meet/exceed market growth rate.

Target: 18%

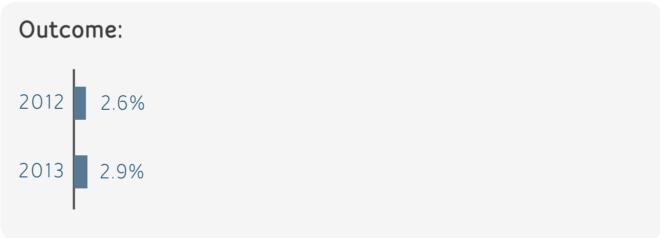


Net revenue significantly impacted by the different regulatory pronouncements made during the year.

NON-PERFORMING LOANS

This is a measure of non-performing loans to total loan portfolio of the Bank.

Target: 55% in the medium term



STRATEGY AND PERFORMANCE

RISKS THAT CAN IMPACT ON STRATEGIC PROGRESS

FirstBank continues to refine its risk management framework in line with the dynamic environment it operates in. Some of the specific risks with respect to the execution of the corporate strategy of the Bank include:

- regulatory risk: the impact of changes in the policies issued by the apex body of the industry such as the revised guide to bank charges which affected the ability of the Bank to meet the projected revenue;
- reputational risk: the risk of the Banking Group being exposed to negative publicity which would impact the successful implementation of the Bank's strategy such as medium/long-term expansion into Sub-Saharan Africa;
- people risk: the risk that the strategy will not be completely understood, delaying successful implementation.

The Bank will continue to mitigate the various risks and ensure that this does not affect the effective execution of the strategy of the Bank. For further information on our principal risks go to page 35.

Transformation highlights from 2011-2013 strategy

Talent
- Strategic recruitment
- Compensation realignment
- Business-aligned support
- Launch of First Academy

Operations
- Centralised processing centres
- Process automation/redesign
- Service management unit launch

Offerings
- New private banking proposition
- Mobile money business
- Emerging corporate unit launched
- Product innovations (e.g., hedging)

Network
- Branch transformation
- New branches (>100) and QSPs
- Expansion into four W/African countries; Beijing and UAE rep offices

Organisation
- Segment-based SBUs
- Central operations reporting
- New functions (MCC, CT, PI, IR)

Brand
- MCC organisation built
- Brand repositioning (e.g., DYK)
- Enhanced SOV (TV, print, etc.)

Performance management
- Consequence management applied
- Continued scorecard evolution
- Oracle-based MIS portal

IT
- WAN optimisation
- MS exchange implementation
- Data centre and DRM upgrade
- Banking platform upgrade

Channels
- Contract centre launched
- Significant ATM uptime boost and instant card issuance
- 90% migration rate to alternative channel

Group
- IBAM consolidation
- Insurance JV launch
- Holding Company structure implementation

2014-2016 CORPORATE STRATEGY

OUTLOOK

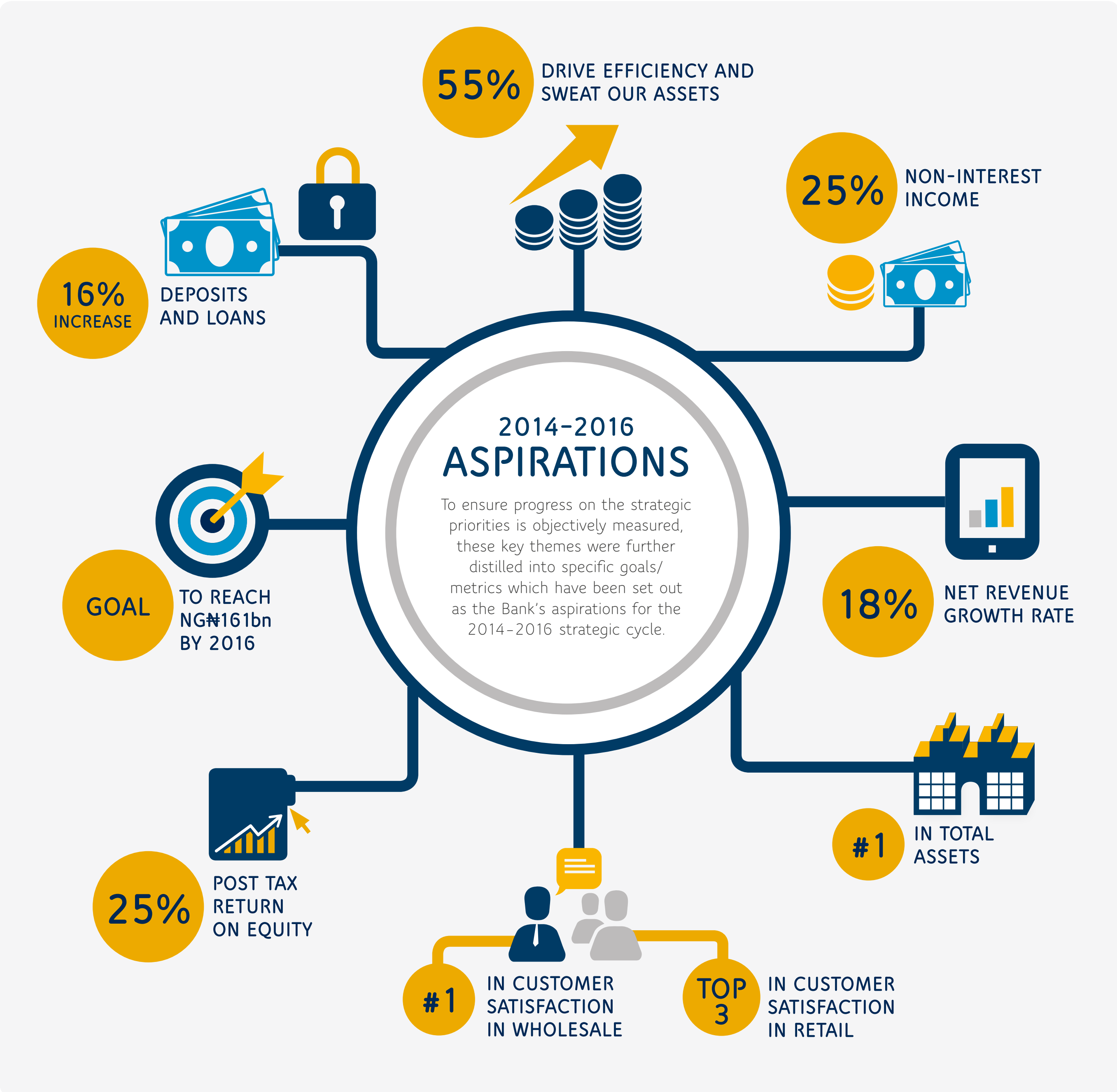
Following the completion of the 2011-2013 strategy cycle, the Bank embarked on a strategy refresh for the 2014-2016 planning cycle. The Bank's strategic goal for the new cycle (2014-2016) remains to consolidate on its leadership position and has subsequently defined its goal as "consolidate our leadership position while driving targeted improvements to elevate financial performance and reinforce our appeal as the bank of first choice". To deliver on this objective, we will focus on attaining leadership in mid-corporate/ commercial and SME segments, improving cost and capital efficiency as well as continuing to drive service delivery excellence.

The focus for this cycle was on identifying the key levers for the Bank's business following the appraisal of our performance in the recently concluded cycle which highlighted the impact of regulatory headwinds on the ability of the Bank to generate fees and commission on certain transactions thereby compounding the margin compression. Therefore, non-interest revenue was a major focus of our 2014-2016 strategy refresh and one of the seven initiatives of the Bank is building distinctive transaction banking capability i.e., capturing non-interest income via transaction banking as a way of improving the revenue stream for the Bank.

Also, in spite of the challenging environment, there are strong tailwinds the Bank can leverage upon for revenue growth based on its traditional strengths. These include the rising middle class, growth of the mid-corporates and SMEs, multichannel expansion, growing credit requirements and infrastructural financing opportunities. Seven initiatives were selected based on business impact and time to realise value.

Strategic themes and priorities for FirstBank 2014-2016

2014-2016 CORPORATE STRATEGY



DIVISIONAL REVIEW – CORPORATE BANKING

Tokunbo Abiru
Executive Director,
Corporate Banking

Corporate Banking Strategic Business Unit manages mid-sized businesses with a turnover in excess of ₦5 billion, but less than ₦10 billion. These businesses cover every sector of the economy and are largely unstructured, but with a large appetite for risk and profit. These companies are major drivers of key sectors of the economy and they account for a large portion of the GDP outside the public sector.

Corporate Banking SBU has progressively refocused with a view to concentrating effort on the high-end segment of the middle market. We have also intensified our effort at diversifying our customer base with more emphasis on non-oil trading and manufacturing concerns.

The SBU has 13 groups spread over different key business locations in Nigeria and is largely focused on mid-size and large corporate clients in:

- oil and gas services;
- indigenous oil and gas companies and businesses (upstream and downstream);
- power;
- trading and general commerce;
- manufacturing;
- construction and infrastructure;
- distribution, transportation and telecommunication; and
- companies and businesses.

Our target customers are unquoted/unstructured organisations or companies with an annual turnover of not less than ₦5 billion and not more than ₦10 billion. They are largely private companies, sometimes with a dominant interest.

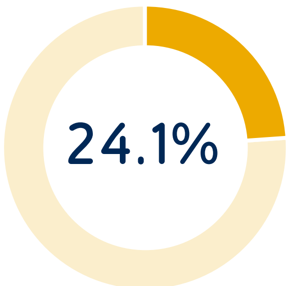
PERCENTAGE OF NET REVENUE

12.9%

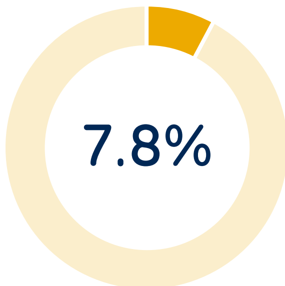
ACCOUNTS AT THE END OF 2013

10,630

PERCENTAGE OF LOANS AND ADVANCES



PERCENTAGE OF DEPOSIT



The Corporate Banking SBU was rolled out in October 2010. The initial focus of the SBU was on mid-size companies with a turnover between ₦500 million and ₦5 billion. In order to ensure that the high-end customers in the SBU are effectively serviced, Commercial Banking as an SBU was recently carved out of Corporate Banking. This realignment has made it possible to deepen our relationship with our core corporate accounts and customers. This helps to identify aspiring commercial banking customers and provide services that will support and expedite their organic growth into a corporate customer, at the same time allowing the Corporate Banking SBU to focus and develop enduring relationships with the appropriate segment.

BUSINESS MODEL

Corporate customers are present in all the key sectors of the economy. In an economy like ours, a lot of activities are centred on distributive services and mid-tier construction and manufacturing business. Our focus is to consolidate our hold and further widen our share of the market.

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

Our products are developed with our customer in mind to give them that competitive advantage.

Some of the attributes of our products include the following:

- low finance cost: we present our customers with the opportunity to choose from various forms of finance options, both locally and internationally, and this has helped to increase their profit or transfer the low cost to their customers to gain advantage over their competitors;
- simplified products and conditions: a lot of research goes into the development of our product offering, with a mandate to eliminate ambiguities and present customers with an offer that can be easily understood and met. An average customer can pick any of our products and understand the conditions they need to meet to enjoy a facility without engaging a financial expert for interpretation; and

DIVISIONAL REVIEW – CORPORATE BANKING

- solution driven: our products are developed to meet specific needs of the targeted markets. For instance, we have products like the oil and gas contract finance facility (OGCF), which is a bouquet of products targeted to meet all the finance needs of contractors to the oil industry, key distributor finance, etc.

Corporate Banking staff have a diverse knowledge of the economic environment that helps them to manage customer relationships in a profitable manner, providing solutions to gain competitive advantage.

OUR MARKETS AND SERVICES

OIL AND GAS SERVICES:

These are primarily indigenous oil servicing companies in the downstream sector and marginal field operators in the upstream sector of the oil and gas industry.

Product offerings include:

- oil and gas contract finance (OGCF);
- stock replacement facility (SRP);
- petroleum products lifting facility (PPLF);
- bank guarantees;
- equipment leasing; and
- project finance.

POWER:

These are the newly licensed Power Distribution Company (DISCO) and Power Generation Company (GENCO).

Product offerings include:

- bank guarantees; and
- project finance.

MANUFACTURING AND TRADING:

This segment is made up of importers of various products for sales, key distributors of manufacturing companies and exporters of raw materials.

Product offerings include:

- key distributor finance (KDF);
- warehouse financing;
- trade finance; and
- invoice discount facility (IDF).

CONTRIBUTION AND INFRASTRUCTURE:

These are companies in the fields of architecture, civil engineering, roads and provision of IT infrastructure.

Product offerings are:

- advanced payment guarantees (APG);
- project finance; and
- contract finance facility.

DISTRIBUTION, TRANSPORTATION AND TELECOMMUNICATION:

These are companies that provide logistics support, marine, land and middle-tier players in the telecommunication industry.

Product offerings include:

- LPO finance; and
- telecom distributorship/receivable financing.

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. To ensure we deliver on achieving our objectives, the following strategies are being adopted.

RELATIONSHIP BASED STRATEGY:

- partner with existing customers on their strategic growth projection for year 2014;
- emphasis on products with cross-sell; and
- ensure the Bank serves as a one-stop financial solution provider.

SPREAD STRATEGY:

- building new relationships across the various sectors of the economy;
- increase the number of Corporate Banking customers per team to a defined minimum; and
- each team to have as many players of the industry predominant in their location.

SKILL STRATEGY:

- develop skill and competence in achieving set targets, including relationship manager exposure to emerging trends in the industry.

In addition, we are committed to:

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

BUSINESS OVERVIEW:

In year 2013, Corporate Banking grew customer deposit by 3.5% from the previous year's figure of ₦193.5 billion to ₦200.1 billion and increased its loans and advances by 11.3% from ₦328.1 billion to ₦365.2 billion.

The oil and gas sector took the largest share of loans and advances accounting for 61%, followed by logistics and general commerce with 12%, the real estate sector with 10%, manufacturing sector 6%, agriculture sector 3% and others took 8%.

From the liabilities generated channelled to profitable risk assets among other earning assets, net revenue generated in the period was ₦33.6 billion. Non-interest income, contributing 27.7% to net revenue, was ₦9.5 billion.

In order to increase our non-interest income, we embarked on a series of strategies in 2013 and this resulted in the tremendous growth of our trade finance businesses.

Despite the hostile regulatory environment with various government policies, the SBU delivered a decent net revenue. The goal is to surpass the current feat in 2014 by harnessing our energy towards fee income, especially from trade finance activities. In addition, efficiency of our loans and advances portfolio will be emphasised, focusing on booking short-tenured facilities with the attendance roll-over fees, commission on turnover and ancillary fees.

DIVISIONAL REVIEW – CORPORATE BANKING

KEY RISKS

KEY-MAN RISK:

For most of the companies operating in this segment of the market, decision making and ultimately, the survival of the company is centred on an individual or a family such that whatever affects that individual or family might be likely to affect the profitability or survival of the company. This risk could be transferred by taking a key man risk insurance policy. In addition, exposures could be structured to be short-tenured in nature, especially where the risk and profitability are both high.

INTEGRITY OF THE FINANCIAL STATEMENTS:

The integrity of the financial statement could be in doubt. A dominant player in the company can always influence the financial reporting system to achieve a predefined objective, which could be contrary to the actual performance of the company. To mitigate against this risk, a third-party confirmation is always employed to determine the reasonableness of the document submitted for review. This confirmation could be in the form of statements of accounts from the customers' major bankers, credit bureau checks, industry check and peer review.

PRICE SENSITIVITY:

The owner/manager takes the business personally and is always shopping for information that will enhance their profitability, even if it is at the detriment of the other stakeholders, such as credit providers. To earn the customers' patronage well-researched innovative solutions are being offered.

HIGH DEFAULT RATE:

As a result of the unstructured nature of the business and the appetite for risk, the default rate could be high, relative to the upper end of the market. The mitigant against loans going bad is to thoroughly understand the customer's business and its operating environment. This will help in promptly identifying the deteriorating signals that could affect the quality of the account.

OPPORTUNITIES

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

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

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

The SBU is also realigning its focus to deepen involvement in the trading, commerce and general business sector in a more structured manner. This will help us to achieve the twin objective of growing our deposit and simultaneously earning additional fees on trade finance. In addition, the loans and advances generated in the process are short tenured; they are more effective in terms of earning yield.

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

OUTLOOK AND 2014 FINANCIAL YEAR FOCUS

We expect the coming year to be a year of growth and consolidation with emphasis on profitability. Some of the initiatives to be adopted in 2014 include:

- focusing on trade finance transactions. Given the significant impact of trade finance strategies implemented in 2013, there is renewed confidence to implement these strategies throughout 2014 in order to increase our overall profitability, especially through non-interest income. To this end, we intend to grow the trade finance count as well as to increase the value of businesses on this front.
- diversifying our loan portfolio to reduce dependence on the oil and gas sector, with expansion into the following sectors:
  - distributive trade;
  - medium- to large-scale manufacturing; and
  - general commerce.
- driving profitability by pricing our products appropriately and recoup rate concessions from other sources related to the customer enjoying the concession;
- growing our contingent liabilities to increase our profitability without increasing our direct exposures; and
- making our tolerance level for non-performing loans zero. Credit reviews within each team will be strengthened and adequate remedial measures will be put in place to identify delinquent accounts and remedy them before the situation gets out of hand.

DIVISIONAL REVIEW – COMMERCIAL BANKING GROUP

Cecilia Majekodunmi
Head, Commercial Banking

INTRODUCTION

The Commercial Banking Group offers banking services to the middle market segment of the economy.

Specifically, we render services to customers in the following sectors:

- oil and gas;
- pharmaceutical;
- agriculture;
- mining;
- transportation;
- telecommunications distributors;
- general commerce;
- manufacturing;
- hospitality;
- government contractors;
- exporters of commodities and solid minerals; and
- distributors and suppliers of fast-moving consumer goods (FMCG) and services.

FEATURES OF BUSINESSES UNDER COMMERCIAL BANKING

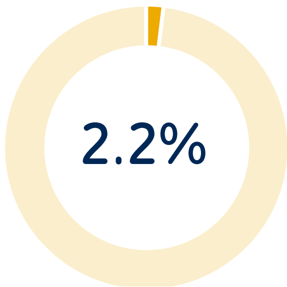
- Annual turnover of ₦500 million-₦5 billion, comprising the private sector enterprises, government contractors, hospitality and educational institutions.
- The management of the companies is not well structured.
- Decision-making is largely solely made by CEO/owner.
- Weak functional management.

DRIVE AGGRESSIVE CUSTOMER ACQUISITION AND PENETRATION TO DRIVE DEMAND DEPOSIT GROWTH → GROW OUR COMMISSION/ FEE-BASED TRANSACTIONS → DEVELOP INNOVATIVE PRODUCTS AND DEEPEN PENETRATION OF EXISTING PRODUCTS TO DRIVE REVENUE GROWTH

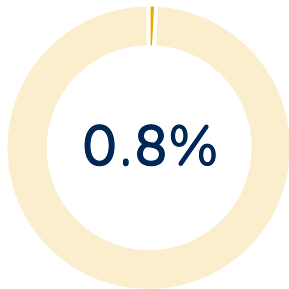
PERCENTAGE OF NET REVENUE
1.5%

ACCOUNTS AT THE END OF 2013
3,104

PERCENTAGE OF LOANS AND ADVANCES



PERCENTAGE OF DEPOSIT



WHAT DIFFERENTIATES US

Our initiative of strict adherence to quality and innovative products and services has set us apart from the rest, thereby making us the choice for one-stop financial intermediation. The key focus of the Group is to create an environment where trade business thrives and this will in turn enable us to achieve our goal of being the established leader in the commercial banking business.

BUSINESS MODEL

Our business model below shows our strategic initiatives implemented to generate revenue and sustain a profitable business operation. Commercial Banking SBU is made up of 12 groups, which are located in key hubs in the country and within each group there are four teams. The structure enables us to penetrate our target market and proffer solutions to their needs in a timely way. The initiative for meeting the set objectives for 2014 is shown below.

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

PRODUCT AND SERVICES

We have developed specialised products to cater for the different needs of Commercial Banking customers. These products are import finance and export finance product programmes, oil and gas contractors finance product programme, key distributorship finance product programme, agriculture financing scheme, etc. The impact of these products in addition to the Bank's existing products and services offering will ensure that the middle market space is optimally served. Additionally, the robust technology employed by the Bank will provide an enabling platform to drive the effective utilisation of these products.

DIVISIONAL REVIEW – COMMERCIAL BANKING GROUP

STRATEGIC OBJECTIVES

- Robust trade platform/customer service centre.
- Deepen market segmentation.
- Periodic seminars for trade businesses.
- Trade customer reward scheme.
- Competitive pricing for our credit lines.

RISK AND MITIGANTS

Continuing a strong tradition of quality risk assets development, risk management will remain one of the central pillars of the Commercial Banking Group. Essentially, we will employ a holistic approach to managing and mitigating the risk inherent in our business. The key risks evident in this segment are key man and diversion risk, however we have devised an aggressive collection strategy that will mitigate against loss of funds accordingly. In addition, our tailor-made products have embedded in their dynamics mitigants that will ensure that funds are utilised for the intended purpose and repayment comes as and when due.

OUR PERFORMANCE

The Commercial Banking Group grew its risk asset portfolio to ₦33.3 billion during the period under review; this had a positive impact on the revenue base, with net revenue closing at ₦4.0 billion at year end. Deposit also grew to ₦19.7 billion during the year, contributing 0.8% to the deposit base of the Bank.

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

OUTLOOK 2014 PRIORITIES

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

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

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

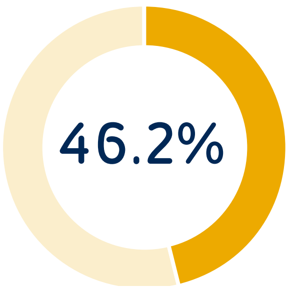
DIVISIONAL REVIEW – INSTITUTIONAL BANKING GROUP

Bashirat Odunewu
Head, Institutional Banking

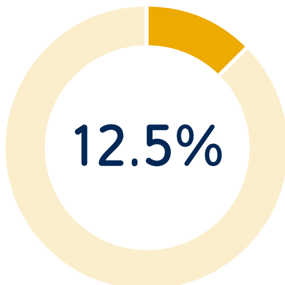
PERCENTAGE OF NET REVENUE
18.4%

ACCOUNTS AT THE END OF 2013
4,586

PERCENTAGE OF LOANS AND ADVANCES



PERCENTAGE OF DEPOSIT



INTRODUCTION

The Institutional Banking Group (IBG) banks several key organisations across six industry groups – Energy (Oil and Gas), Telecoms and Infrastructure, Conglomerates and Services, Manufacturing, and Financial Institutions and Multilaterals.

As a flagship Strategic Business Unit of the Bank, our target market and clients include multinationals, large corporates and corporate players, specialised businesses like exploration and production companies, international oil traders, and financial institutions, both local and international.

The Group provides a collection of banking and financial services ranging from project finance, trade and corporate finance, reserve-based lending and term loans to foreign exchange, treasury services, cash management and guarantees, etc. Another unique and distinguishing strength is our ability to provide custom-made solutions 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 by adding value to customer business or projects through the provision of advisory services.

OPERATING ENVIRONMENT

ENERGY

2013 was very impressive for the Bank in the energy sector where we continued our value-driven proposition to key clients for structured upstream, midstream and downstream transactions. Upstream commitments continued through strategic asset divestment on Oil Mining Leases (OMLs) by international oil companies and reserve-based lending for field development financing on crude and gas monetisation. Key landslide transactions included the ACUGAS pipeline project finance. This project won the Euromoney - Africa Oil and Gas deal of the year 2013. FirstBank committed USD100 million of the total USD225 million raised for the project as a mandated lead arranger.

We also deepened our share of wallet in the midstream and downstream sectors, focusing on trade volume and cross-sell ancillaries. Crude export and petroleum products have seen improved volumes in the current year. Our value proposition as bank of choice in crude and petroleum products financing revolved round key offshore confirmation lines for clients in aiding their trade negotiation with suppliers; support for processing regulatory approvals which has become the key success of oil and gas imports in view of strict government restrictions on subsidy; and prompt turn around time on such trade financing. Our focus in 2014 is to continue to expand our portfolio for selective and strategic partnerships that will continue to aid headline revenue while pushing FirstBank visibility on the international scene in oil and gas financing.

TELECOMS AND INFRASTRUCTURE

The Telecoms and Infrastructure group continues to focus on growing market share with the market's various major players by ensuring active participation in the capital expenditure and expansion projects of its customers.

In the telecoms space, the group was involved in refinancing of the existing USD1.2 billion syndicated term loan and participated in financing an additional USD900 million medium-term syndication facility for a leading mobile telecommunications company in Nigeria. FirstBank's overall portion is ₦40 billion with the disbursement of ₦32.9 billion in 2013. There was also the upsizing and refinancing of an existing syndicated senior debt facility from USD650 million to USD1.2 billion. FirstBank was one of the two lead arrangers for another mobile telecommunications company.

Within the infrastructure space, the group plays a leading role within the financial industry at complementing the government's strategic efforts towards enhancing private sector investment in key infrastructure development. Our participation in the power sector underscores this with our participation in some of the notable power transactions.

The group won the award of Telecoms Financing Bank of the Year 2013, underlining the group's presence as the leading financial services and solutions provider, driving economic growth in the telecoms sector of the Nigerian economy.

CONGLOMERATES AND SERVICES

The Conglomerates and Services group closed several deals during the year. Key among these was the group's participation in financing the next phase of business growth for a large conglomerate with a syndicated lending programme comprising both Nigerian and offshore banks. This conglomerate plans to build:

DIVISIONAL REVIEW – INSTITUTIONAL BANKING GROUP

- the largest ammonia and urea fertiliser plant with a combined capacity of 2.8 million metric tons; and
- a 400,000 barrels per day petroleum refinery with a 600,000 metric tons petrochemical plant capacity.

As part of our main strategies to service our customers along the value chain of their business – particularly those with distributorship lines – the Bank set up a Value Chain Management Unit to cater to this line of business bank – while under the supervision of the IBG. Over the course of the year, this unit achieved commendable mileage by signing on new key and sub-distributorship relationships for some leading FMCGs in the country. In the coming year, the unit will seek to enlist more of these distributors.

MANUFACTURING

The Manufacturing group achieved considerable growth along key lines. Among the notable transactions was participation with the Bank of Industry (BOI) in an ultra-modern rolling mill with installed capacity for 300,000 metric tons per year for 5.5mm wire rods. This was a ground-breaking private sector investment in the steel industry.

FirstBank also participated in a USD435 million syndicated term loan for a large cement industry to finance enhancement of the company's factory production capacity from 2.5 million to 5 million metric tons per year.

FINANCIAL INSTITUTIONS AND MULTILATERALS

The Financial Institutions and Multilaterals group comprises experienced professionals working with clients across the banking sector locally and internationally, as well as a diverse set of non-bank financial institutions, including among others insurance, capital markets, mortgage banking, microfinance and pension fund administrators and custodians. Leveraging on the Bank's extensive branch network, investment in technology and improved customer service, we have continued to grow our relationships across all fronts and have been the natural partner for both existing and new entrants to the Nigerian financial market last year.

Our increased focus on Asia resulted in the signing of a framework agreement with China Development Bank (CDB) which provides for comprehensive financial cooperation between both our institutions, with a view to supporting Nigeria's economic development. As a start to this partnership, CDB has offered FirstBank an on-lending facility of USD100 million for five years, which is targeted at small and medium enterprises.

We have continued to build on our existing relationships with the development finance institutions and export credit agencies and are always seeking to increase this list of alternative sources of medium- to long-term offshore finance for the benefit of the Bank's clients.

OPPORTUNITIES

A considerable effort will be geared towards the entire value chain of our institutional customers in the coming year, leveraging our robust IT and other e-channels platforms. Trade transactions will be given top priority with a view to harnessing the potentials in the sector especially for relationships with huge backward and forward linkage possibilities.

Economic watchers expect the gains of the power sector reforms to start trickling in during 2014 across all economic strata. Capacity utilisation is therefore expected to greatly improve, creating several ancillary business opportunities particularly since the power sector is expected to still have huge funding gaps and requirements. In this case, our strategy would be to put IBG in good stead so as to adequately align ourselves with the opportunities arising therefrom.

STRATEGIES AND OBJECTIVES

Our broad strategy for 2014 is to consolidate our position in the markets we already play in by increasing our market share considerably. Our target is to increase market share in all our existing customer bases while ensuring that our major prospects are aggressively pursued to jumpstart business transactions. Without stifling funds to viable long-term developmental projects, we will ensure efficient assets management that will maximise returns on our loans and advances.

Our objective will be to grow our entire business portfolio among our existing and prospective customers. Working in tandem with all relevant non-market-facing groups in the Bank, adequate priority will be given to customer experience along our various service points to achieve this.

KEY RISKS AND MITIGANTS

Notwithstanding several opportunities and the challenges of the last financial year, the financial landscape in 2014 will be confronted with other major risks. Even though we do not foresee major systemic shocks, uncertainties still persist in both the monetary and fiscal circles of the economy given the expected managerial change at CBN and the upcoming 2015 election. The majority of our customers depend on importation for raw materials and machinery. As such, the trends in both the trade sector and the foreign exchange market will be critical to our success and performance in 2014.

To mitigate these risks, a proactive approach will be employed in forecasting possible outcomes in the areas highlighted to ensure we are well positioned in the face of the expected challenges. Adequate attention will be given to revolving short-term facilities and trade transactions to maximise returns on assets.

PERFORMANCE

The SBU achieved considerable growth across key metrics during the year. Net revenue increased by 8.4% to ₦50.0 billion, while deposits closed at ₦301.7 million and loans and advance at year end was ₦622.5 million. Deposits grew by 3.5% from 2012 figures due to the business nature of our institutional clientele, growing competition, pricing pressure from more sophisticated customers, and the effect of government policy relating to public funds.

These growth figures underscore our determination to continue to strive 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 2013 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 2014 PRIORITIES

A key priority is to increase net revenue contribution in the coming year. We hope to achieve this by growing profitability, improved performance across all metrics, a high level of cross-selling of 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 Holding Company of Nigeria (PHCN) assets acquisition finance deals and collaborating with FBN Capital/other lenders to syndicate the 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.

DIVISIONAL REVIEW – PUBLIC SECTOR

UK Eke
Executive Director,
Public Sector South

Dauda Lawal
Executive Director,
Public Sector North

PERCENTAGE OF NET REVENUE

16.1%

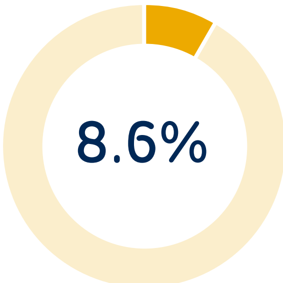
ACCOUNTS AT THE END OF 2013 – NORTH

5,907

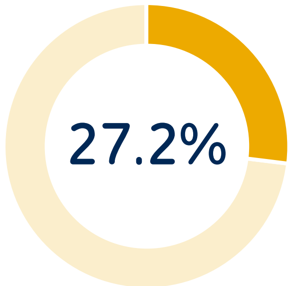
ACCOUNTS AT THE END OF 2013 – SOUTH

4,989

PERCENTAGE OF LOANS AND ADVANCES



PERCENTAGE OF DEPOSIT



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.

Public sector business is stratified into North and South Directorates. Putting this in context, the Public Sector North SBU manages the Federal ministries, departments and agencies (MDAs) in addition to the states in northern Nigeria. Public Sector South SBU 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 knowledgeable workers – as a critical element in developing and deploying customised solutions. Capacity-building training programmes are undertaken to ensure standards are sustained.

Our business model is designed such that our focus is on Federal and State governments including MDAs, major contractors and related commercials, partnership and provision of support systems for optimal revenue collection.

STRATEGY AND OBJECTIVES

Aggregate revenues of and expenditure by all tiers of government present a compelling reason for an undiluted focus on the public sector. Having played a historical role in acting as banker to the Federal Government long before the creation of the Central Bank, it's understandable this should be FirstBank's focus.

One of the Bank's strategic objectives is to extend our market leadership across all frontiers. The Public Sector, as an SBU, strives for synergy with other SBUs to unlock opportunities and bank the government value chain.

In this regard, other SBUs in the Bank will benefit from the value chain of public sector relationships. For example:

- Retail and Private Banking Groups bank local governments, high net worth individuals (HNIs) and civil servants;
- Corporate Banking SBU banks' contractors, service providers;
- Investment Banking provides financial advisory services, project financing bonds issues; and
- Electronic Business involved in taxes, levies and collections etc.

The government continues to emphasise private sector-led reform initiatives and our partnership with governments and MDAs has created a competitive advantage for the Bank in Nigeria and the allied subsidiaries of FBN Holdings.

The SBU's core strategic objectives are:

- enhancing clients' internally generated revenue through formalised structures, robust and automated collection platforms;
- supporting accelerated economic development, utilising loans and funding from multilateral agencies;
- providing alternative funding options including public-private partnership, contractor-financing and concessions;

DIVISIONAL REVIEW – PUBLIC SECTOR

- 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.

PERFORMANCE

Deposit grew 17.9% from ₦592.4 billion in 2012 to ₦698.7 billion in 2013; loans grew marginally by 0.4% from ₦130.4 billion to ₦130.9 billion and net revenue declined by 2% from ₦43.0 billion to ₦42.2 billion in the same period.

We were also able to improve synergy among SBUs to optimise business opportunities collections, asset creation, deposit retention, etc. and entrench value chain banking towards increasing overall market share.

KEY RISKS/CHALLENGES

1. Upward review of CRR from 12% to 50% and subsequently to 75% of public sector fund leading to the contraction of liquidity and consequent contraction of lending room. This challenge was managed through creative engagement with key customers in funds management and price adjustment.
2. Dwindling statutory receipts: this was mitigated through strategic partnership with key customers in internal revenue generation by the robust deployment of automated revenue collection solutions to increase and block revenue leakages.

OUTLOOK AND 2014 PRIORITIES

As the Federal Government moves towards a consolidated view of government cash through the Treasury Single Account (TSA), greater transparency, efficiency and accountability will be entrenched. The Bank will continue to target the corporate beneficiaries of the funds to reduce the velocity of outflow.

The Central Bank of Nigeria's increase of CRR for public sector deposits in the Bank to 50% (from 12%) and then to 75% earlier in 2014 – a tool to curb inflationary threats and manage liquidity surfeit during 2013 – was mitigated by a re-pricing of the deposits held for public sector clients in order to maintain positive yield and margins. In addition, a narrower re-pricing of assets for less sensitive accounts was achieved. There is the possibility of elevated CRR on public sector deposits, as we move towards 2015 – an election year. Overall, as a major player in this segment, we remain convinced that we will sustain a net positive impact on this strategic business area.

Arising from reduced revenue accruable to Federal and State governments due to a drop in oil production and crude oil theft, there is a tendency towards deficit budgeting in 2014. In the face of anticipated expenditure in the run-up to the 2015 elections, opportunities exist to issue debt instruments and raise taxes, apart from increasing efficiency in collection of taxes including adoption of electronic and automated platforms, for revenue collections, to reduce leakages.

Our strategic response will be to provide funding support via direct lending, facilitation of multilateral grants through advisory services and guarantees and finally, leveraging our group entities to ensure successful bond issuance. In addition, we will replicate the success recorded with some sub-nationals in the areas of deploying automated revenue collection platforms including the mobile payment and online options.

In 2008, the Rivers State Government (RSG) set up Rainbow Town Development Ltd, as a vehicle for the development of a massive Housing project in Rainbow Town, Trans-Amadi Industrial Layout, Port Harcourt. The project is structured as a public-private partnership. The development consists of 1,181 apartments for medium-to-high net worth individuals and corporates.

With interest currently shown by major oil and gas companies in the project, it is anticipated that the first phase shall be fully subscribed upon completion.

DIVISIONAL REVIEW – RETAIL BANKING

Gbenga Shobo
Executive Director,
Retail Banking South

Abdullahi Ibrahim
Head, Retail Banking North

PERCENTAGE OF NET REVENUE

57.9%

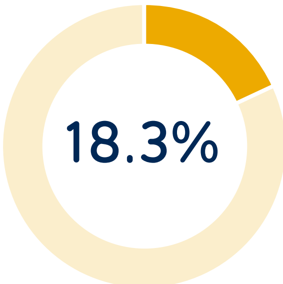
ACCOUNTS AT THE END OF 2013 – NORTH

2,726,952

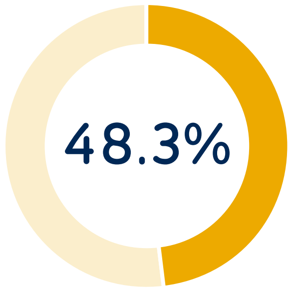
ACCOUNTS AT THE END OF 2013 – SOUTH

7,235,035

PERCENTAGE OF LOANS AND ADVANCES



PERCENTAGE OF DEPOSIT



INTRODUCTION

FirstBank's retail business is focused on offering financial products and services to individuals and corporate customers with turnover below ₦500 million per annum. This includes local governments and their parastatals. We provide various products and services under a number of highly specific value propositions for our customers.

- Convenience: various channels for customers to conveniently manage their financial activities and access their funds including online banking, mobile banking, ATMs and physical branches. We also have a number of card products that allow for online purchases and channels for bill payments.
- Loan products: loan products include credit cards for customers, consumer loans and SME loans addressing specific customer needs like mortgages and household equipment purchase.

A deep focus on our customers in order to understand the needs of each individual customer is what sets FirstBank's Retail Banking SBU apart from the competition. Based on their profile and market segment, we aim to consistently deliver products and effective services to our customers quickly and efficiently. In addition, we have ensured all customers have a dedicated Relationship Manager (RM) based on a graduated model. Our products and services provide strong value to customers by meeting their needs.

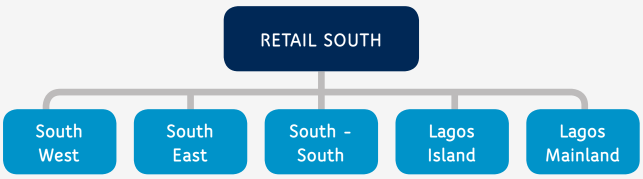
The Bank's retail business has over 760 branches spread across Nigeria, giving FirstBank one of the largest bank branch networks in Nigeria.

Retail SBU has the largest number of retail customers in Nigeria with over 8.5 million active customer accounts and the largest branch network with over 760 branches, QSPs and agencies, placing us right next to our customers. We also have the highest number of debit cards with more than 6.5 million cards in the hands of our customers. In addition, we are the only retail bank in Nigeria with over ₦1.24 trillion in deposit.

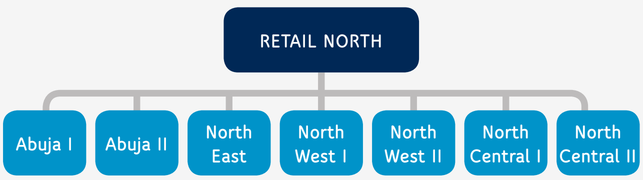
BUSINESS STRUCTURE

Retail Banking South is split into five groups while Retail North is split into seven groups, each run by a Group Head and spread across Nigeria (see organogram below).

Retail South operating structure



Retail North operating structure



DIVISIONAL REVIEW – RETAIL BANKING

BUSINESS MODEL

We have continued the implementation of our new business model built around customer segments to reflect our new strategy thrust. Retail groups are segmented based on different types of customers: affluent, SME and mass-market customers.

- **Affluent:** individual customers with an annual debit turnover between ₦5 million and ₦50 million.
- **SME:** corporate customers with an annual debit turnover between ₦5 million and ₦500 million.
- **Mass market:** corporate and individual customers with an annual debit turnover below ₦5 million.

To exploit the business potentials available within the aforementioned segments, we are creating segment-specific product bundles based on identified needs allowing for easier products sales. We have also assigned our Relationship Managers to specific segments.

STRATEGY AND OBJECTIVES

- 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.
- Low-cost liability generation: this is to ensure we continue to increase our deposit contribution to the Bank's balance sheet through attracting low-cost funds from our large customer base.
- Grow market share of all retail segments: we are carefully profiling our customers to better discover needs and sales points in order to drive an increase of our business with them. We also intend to increase wallet share from each customer.
- Focus on specific industries to drive business growth: retail intends to partner with stakeholders in various industries to develop systems and processes for profitable loans and advances (LAD) business in those areas. Some of these areas include healthcare, e-commerce and online retail.
- Improve product sales to all customers across segments.
- Cross-selling of FBN subsidiary products.
- Cost optimisation.

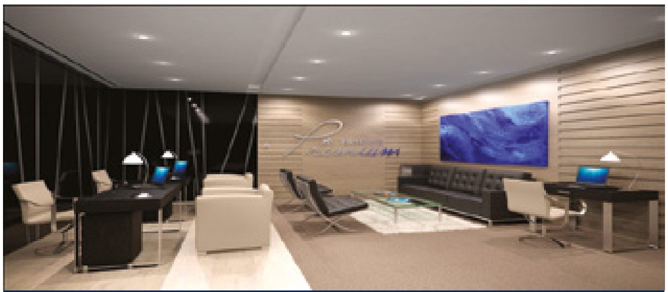
STRATEGIC PROGRESS

Retail Banking Group is in the middle of the implementation of a selection of initiatives targeted at first building a market-based perception as an SME-friendly bank, then significantly increasing its share of the SME market in the country while developing a profitable SME portfolio.

For SMEs, we have started engaging our customers in capacity-building programmes. The FirstBank SME National Conference was held in November 2013 to examine issues militating against the success of small- and medium-scale enterprises in Nigeria. We will subsequently have a number of capacity development training seminars across all the geographical zones in Nigeria aimed at deepening the business management skills of SMEs nationwide. We are also providing SMEs with a product range that addresses their specific needs while providing advisory services to them through our RMs.

For affluent customers, our strategy is founded on enhancing service delivery while increasing product sales (both loan and convenience-enhancing products like mobile banking). We have now largely deployed our premium lounges for affluent customers (see picture above). Thereby we have introduced a tiered system through which our affluent customers can be served at any premium or non-premium lounge location across the whole of Nigeria. In addition, we have provided credit cards and other electronic banking products for this customer segment.

PREMIUM ACCESS LOUNGE



Premium access lounge

Retail Banking is also rapidly pulling focus from branches as the predominant interaction channel for customers with the deployment of various electronic mediums to move a significant proportion of customer activities online. These include mobile banking, online banking and ATMs.

We also have a strategic need to attract more youth customers to the Bank. To actualise this, we are building a lot of branches in tertiary institutions. These are specially designed youth branches predominantly catering for younger customers through electronic channels.

OPERATING ENVIRONMENT

The market for the Retail Banking business is largely individuals and corporate customers. 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, yet only about 28.6 million 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. There is therefore still significant room for growth for the Retail Banking Group with regards to new customer acquisition and product sales.

OPPORTUNITIES AND CHALLENGES

The business was challenged early in the year with the introduction of some regulation impacting income, e.g., reduction in COT among others. The expansion of the CBN cashless policy nationwide also negatively impacted the Retail Banking Group. The security situation in the northern part of the country continues to adversely affect our branches as well as the clients' businesses in certain locations within the geopolitical zone. Also the increase in the cash reserve requirement for public sector funds by the CBN from 50% to 75% means banks require their retail businesses to provide more of their deposits thereby creating a stiffer competitive environment with customers becoming more sensitive to bank charges, which impacts income.

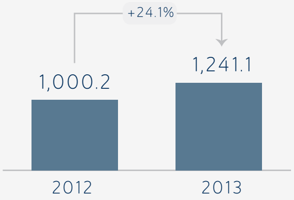
Deepening of the cross-selling activities between the Bank and its subsidiaries will provide opportunities for increased revenues. Improvement in our technology platform (online banking, mobile banking, etc.) will allow retail to increase revenue from non-interest income. The Bank is working on rolling out its agency banking network, which will allow the retail business to actually increase the Bank's share of people currently without accounts and also enable it to increase its geographical footprints, reaching more people in further locations than its branch network would presently allow.

DIVISIONAL REVIEW – RETAIL BANKING

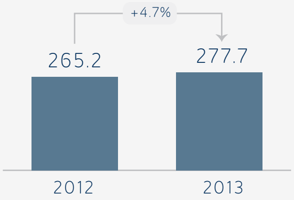
PERFORMANCE

BALANCE SHEET

Deposits (₦'bn)

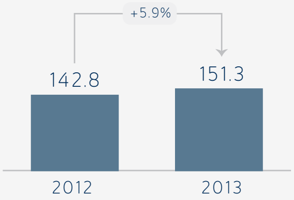


LAD (₦'bn)



PROFIT AND LOSS

Net revenue (₦'bn)



The Retail Banking group contributes 48.3% of the total deposit base of the Bank, while providing 18.3% of the loan portfolio and 57.9% of the Bank's net revenue. The number of customers' accounts have grown to about 8.5 million making the Bank the leading bank. To drive our income, we have identified specific customer needs and developed products focused on meeting those needs. The deposit position increased 24.1% during the year to ₦1,241 billion with cost of funds closing at 2.8%. The loan portfolio also grew by 4.7% closing at ₦277.7 billion.

KEY RISKS AND MITIGANTS

There is the risk of reduction in bank charges in addition to reduction in COT which could be completely removed by 2016. Retail Banking is preparing for this by increasing its non-interest income business. We are also intensifying our training programmes for our RMs to ensure our customer base is retained, adequately served and grown. We are also positioning ourselves to benefit from the recent growth in e-commerce by providing payment platforms and advisory services to SME clients in that space.

OUTLOOK AND 2014 PRIORITIES

Our priority for 2014 is to increase our share of the affluent, SME and mass markets in order to drive up our profitability and deposit base, based on meeting customer needs and product sales.

CASE STUDIES

HI-NUTRIENTS INTERNATIONAL LIMITED (HNIL)

Hi-Nutrients International Limited

Summary

HNIL is responsible for the manufacturing, sales and distribution of vitamin and mineral premixes to animal, nutrition and livestock companies. HNIL's relationship with FirstBank dates back to 2004.

Our commitments

Over the years, the Bank continued to support the company's business through the development of facilities ranging from commercial agricultural credits to LPO finance facilities. This helped improve the company's service delivery to its customer and its subsequent growth made the company patent more than 17 various marketing brands of premixes for poultry aquaculture, cattle and micro livestock nutrition under the brand Hi-Mix®.

Performance

By the third quarter in 2013, HNIL had clinched the prestigious award from Allworld Network as one of the top 50 fastest-growing companies in Nigeria, among other notable awards. This has earned the company fame both locally and internationally. By virtue of the diligence, focus and prudence of the prime movers, the Bank has witnessed good growth in its turnover over the years and in 2013 in particular.

DIVISIONAL REVIEW – PRIVATE BANKING

Bernadine Okeke
Head, Private Banking

INTRODUCTION

The Private Banking SBU of First Bank of FirstBank is focused on the upper segment of the individual customer market space. The business unit comprises three hubs: Lagos, Abuja and Port Harcourt, with teams located in a total of eight clusters where the majority of our customers can be found.

Private banking clients are the elite group of our society who are sophisticated and very sensitive about service. They are also willing to pay a premium for good-quality service. These clients are considered to be within a premium bracket; they represent less than 1% of the Nigerian population and control a significant percentage of the nation's wealth.

The private banking business in Nigeria is no longer dominated by foreign banks due to the entrance of indigenous firms like ours into this space. This has increased our share of wallet and improved our brand image in this segment of the economy.

We have two broad product offerings, structured to ensure the highest quality of service delivery to our clients:

- **personal banking and lifestyle management:** this area provides our customers with products and services aimed at meeting their transactional banking needs. We also provide our customers with access to various world-class privileges through concierge services supported by Visa International. These services include: cash delivery and pick-up, currency transfers, custodian services for assets, cash-backed loans, limousine services at destination points, private jet hire and other bespoke services
- **wealth management:** we seek to preserve, grow and transfer the wealth of our clients to the next generation through an efficient mix of understanding their investment objectives, stage in life and their risk-return outlook. Deploying industry best standards and a dedicated team of relationship and portfolio managers, we are able to deliver on this across different asset classes and product types.

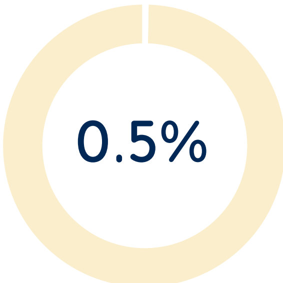
PERCENTAGE OF NET REVENUE

0.9%

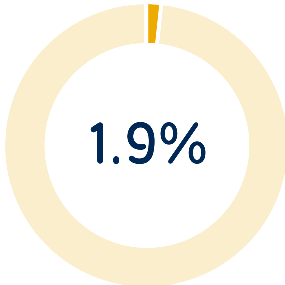
ACCOUNTS AT THE END OF 2013

1,437

PERCENTAGE OF LOANS AND ADVANCES



PERCENTAGE OF DEPOSIT



BUSINESS MODEL

We create value through a combination of accurate understanding of our clients' financial objectives, efficient asset/portfolio allocation and first-class customer service delivery, consistently providing best-in-class solutions to our clients' investment needs and objectives.

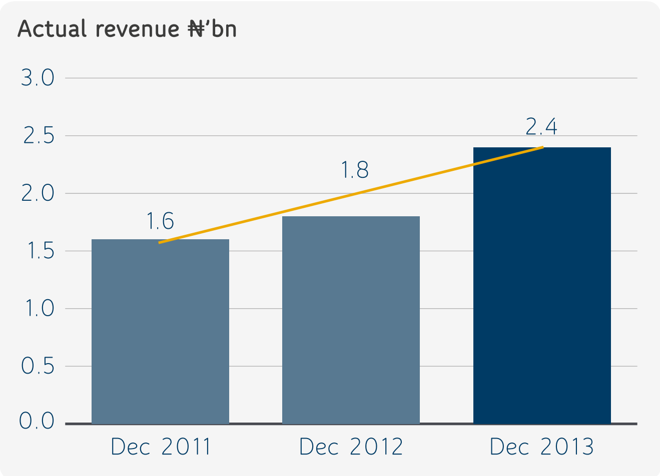
The year lent more credence to the efficient business model of the SBU, subsequent to its successful debut into the Nigerian financial services industry in 2011, engaging high and ultra-high net worth individuals (HNIs) of FirstBank and consistently expanding its clientele base. The SBU continues to provide an ever-growing bouquet of products and services specifically tailored to meet the diverse financial services and lifestyle management needs of our wealthy clients.

OPERATING ENVIRONMENT AND PERFORMANCE

Regardless of the tough business terrain of local and offshore financial markets characterised by constantly changing policy statements from local regulators and the indication of bond purchase tapering by the United States treasury, Private Banking significantly improved on its major indices and lived up to its commitment to adopt robust wealth management services structures aimed at creating and growing financial value for our clients. Our market share of the private banking business in the Nigerian economy has increased from 4.25% to 5%, enabling the SBU to generate revenues in excess of ₦2.3 billion in 2013, a year-on-year increase of 28.6% compared to our 2012 figures. Over the course of 2013, we engaged our staff in specialised wealth management training programmes aimed at improving their appreciation of the concept of private banking and wealth management.

Notwithstanding the developing nature of the SBU, Private Banking achieved a growth of 109.3% in total deposits to close the year at ₦48 billion compared to ₦23 billion in 2012, retaining 100% of our existing accounts.

DIVISIONAL REVIEW – PRIVATE BANKING

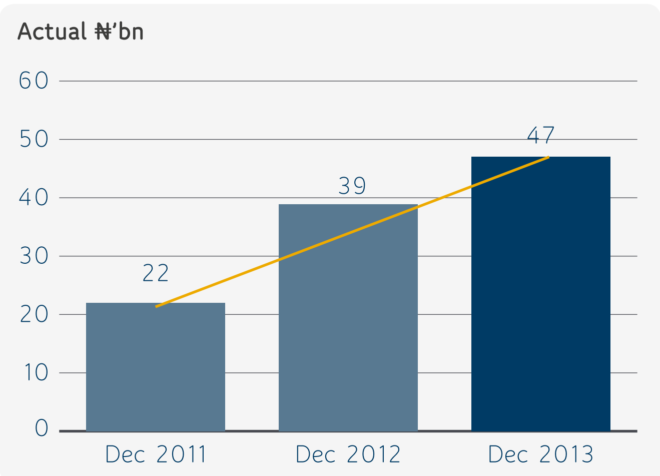


REVENUE

Our clientele base grew by the targeted 25%, from 850 in 2012 to 1,059 in 2013 and we expect this trend to characterise the coming year. The projected growth for 2014 has been set at 30% as we intend to increase our dominance in this sphere through our newly commissioned operations in the United Kingdom that are aimed at capturing a significant market of Nigerians living in the diaspora. We envisage this growth occurring mainly due to intensified business development activities, referrals from existing clients and leveraging on the Bank's ever-increasing presence in Africa and Europe.

We recorded a growth of ₦8 billion in our assets under management (AUM) business from ₦38.9 billion in 2012 to ₦47 billion under management in 2013. We were able to achieve this by providing customers with investment outlets in high-yielding products through our collaborations with our Investment Banking and Asset Management (IBAM) subsidiary and other investment partners. We expect a significant increase in the volume of our AUM over the coming year as we further increase our product offerings in this area and strengthen our portfolio management arm.

ASSETS UNDER MANAGEMENT



Opportunities: though the private banking business in Nigeria has seen an increase in the number of indigenous banks in this space, the advantage will be to those who are able to provide clients with bespoke wealth management solutions, both on and offshore, to meet their financial objectives. In a bid to exploit this opportunity, we have positioned ourselves to leverage on the expertise and extensive network of our IBAM group to provide our clients with investment outlets and instruments globally that would enable them to preserve the value of their wealth, while optimising upside returns potential on their investments.

Market risks: a key determining factor with respect to guiding a client's decision to either maintain their relationship with the foreign banks or establish a relationship locally will be the ability to deliver premium service. This is key, especially in an environment with significant infrastructural challenges, such as Nigeria.

The long-term viability of the country, determined by the political and economic landscape will also play a major role in helping customers decide whether or not to relocate their assets.

OUTLOOK AND 2014 PRIORITIES

While the launch of FirstBank Private Banking has been reasonably successful, the SBU is still some way from achieving the vision to be the private bank of first choice, setting the pace in wealth management solutions in the Nigerian financial industry. As such, in addition to our previously stated strategic imperatives, we intend to drive the following in 2014:

- **offshore and foreign currency-denominated investment:** capitalise on the success of partnering with our investment banking subsidiary and foreign partners with a view to providing customers with more efficient outlets to invest in offshore assets, as well as foreign currency-denominated instruments;
- **trustee business:** the average HNI in Nigeria is yet to understand the need for a trust to be established for his/her dependants. However, it is a well-known fact that transfer of wealth can be a long and daunting task for survivors when the unexpected happens. We intend to leverage on the reputation gained by our trustee subsidiary to grow our share of activity in this segment; and
- **continuous talent management:** we would continually seek to attract and retain the best talents in the industry to help drive our business objectives through specialised head-hunting and exposure of our staff to industry best standards. Training programmes, local and international, would be structured to better enhance the perception of private banking by our staff. We would also engage in exchange programmes across our businesses in Nigeria, Europe and the United Arab Emirates to broaden and boost the confidence, skills and capabilities of our members of staff. We also intend to improve our portfolio management infrastructure through the acquisition of efficient wealth management software to improve our business.

In 2014, we forecast improvements in private banking net revenue contribution to FirstBank's revenue and a 30% growth in our customer base across our product types.

Private Banking has shown its relevance within the Group in the last three years, with consistent growth in its major indices, and has come to stay as a viable business unit. We believe opportunities exist in this industry and would continue to position the business to benefit over the coming years. Our goal is to become Nigeria's private bank of first choice, providing the best wealth management solutions to our clients through excellent customer service and investment solutions, contributing significantly to the financial performance of FirstBank as we collaborate with other SBUs within the Bank to present FirstBank as the one-stop financial services group in the marketplace.

FINANCIAL REVIEW

MACRO AND INDUSTRY REVIEW

Global economic growths, though positive, remained weak with emerging and developing economies continuing to outperform their developed counterparts albeit gaining some speed recently. Global economic growth in the future is expected to come mainly from the USA, where activity is expected to gain momentum as fiscal consolidation eases and monetary conditions remain supportive.

Similarly to 2012, global economic growth in 2013, estimated at 2.9%[1], was largely driven by emerging and developing economies and the growth in Sub-Saharan Africa being generally healthy; the IMF in October 2013 revised estimated growth to 1.3% for developed economies and 4.7% for emerging and developing economies.

Nigeria's GDP grew by an estimated 6.2%[2] compared to the earlier forecast of 6.53% for 2013 (2012: 12%), driven largely by the non-oil sector (mainly agriculture, telecommunications and wholesale and retail trade sectors). The GDP at 6.2% was impacted negatively by the shortfall in crude oil production during the year under review. Oil prices started the year at $109.28 per barrel, closed at $107.67 per barrel and averaged at $105.94 per barrel. Foreign reserves suffered massive depreciation, closing the year at $43.6 billion, declining from the peak of $48.9 billion attained in April 2013. Inflation figures continued to decline, decreasing by 100 basis points during the year from 9% year-on-year in January 2013 to 8% as at December 2013; bringing the average inflation rate for 2013 to 8.52% (2012: 12.2%).

Despite the challenging operating environment during the year, First Bank of Nigeria Limited recorded gross earnings of ₦339.01 billion (2012: ₦314.95 billion) and profit before tax of ₦76.85 billion (2012: ₦83.28 billion), up 10% and 2% respectively.

ECONOMIC FACTORS IMPACTING RESULTS

FirstBank operated during the year within an environment impacted by various economic factors:

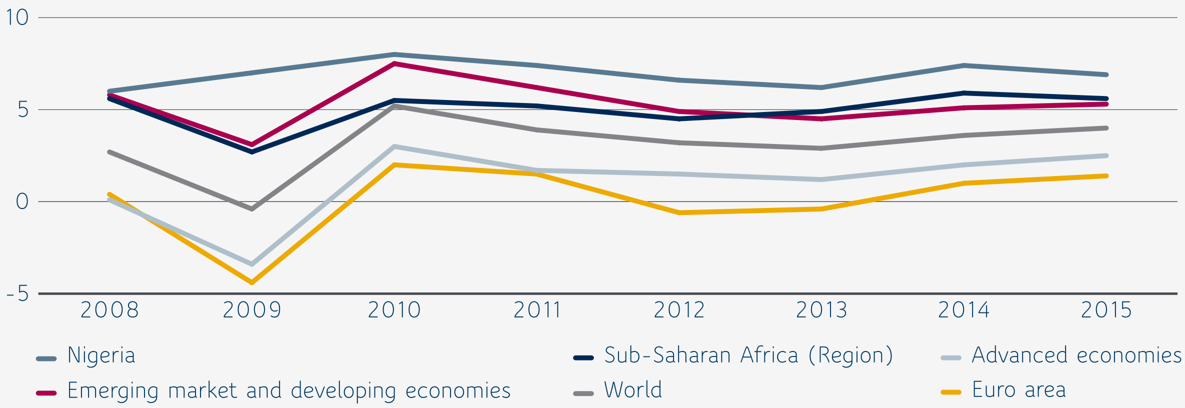
- reduced crude oil production from unabated oil thefts and pipeline vandalism resulting in a shortfall in revenues for government;
- a higher interest rate regime in the economy as the Central Bank of Nigeria (CBN) attempted to maintain a stable exchange rate and manage liquidity with the aim of reducing inflation; and
- fluctuations in the external reserves closing at $43.6 billion. This dip resulted from a drop in government revenue from crude oil occasioned by crude oil theft and increased government spending from the Excess Crude Account closing at $2.5 billion from an opening figure of $11.5 billion, including the amount spent by the CBN in defending the naira.

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

- the monetary policy committee, the rate-setting arm of the CBN, voted to maintain the monetary policy rate at 12% throughout 2013;
- increase in cash reserve ratio on public sector deposits by the CBN from 12% to 50%, increasing the amount of cash banks keep with the apex bank. This increased the cost of funds for all Deposit Money Banks (DMB), albeit maintaining 12% for private sector deposits. As a result of this pronouncement, an estimated ₦1 trillion was withdrawn from the banking system;
- maintenance of Net Open Position (NOP) of foreign exchange at 1% of net shareholders' funds; and
- expansion of the cashless initiative by the CBN during the year to six other locations (Federal Capital Territory, Abia, Anambra, Kano, Ogun and Rivers) in the Federation on 1 July 2013; this helped to reduce the transmission of cash and the burden on banks for cash-based transactions/cash management while driving the use of alternative channels among customers.

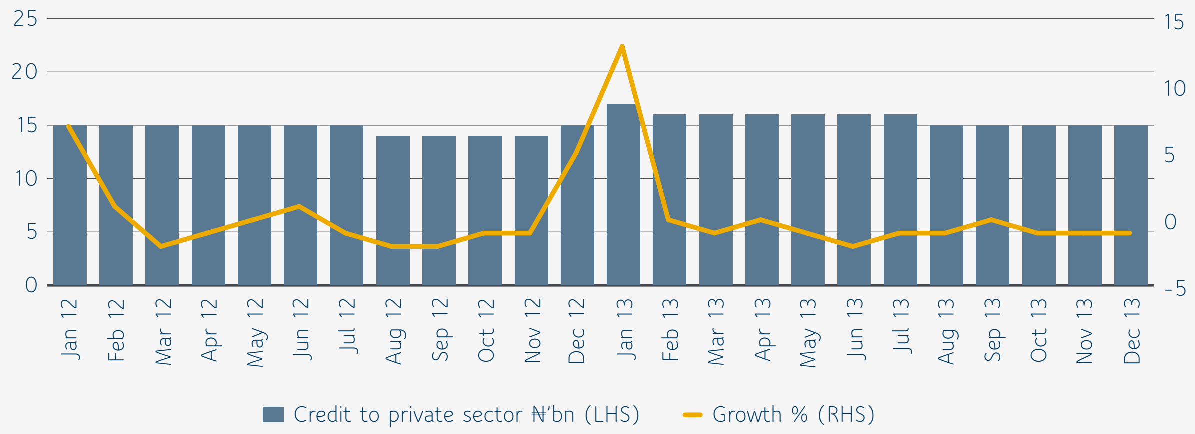
1 Source: IMF
2 Source: IMF
3 Source: IMF

Figure 1: GDP growth[3] (%)



FINANCIAL REVIEW

Figure 2: Credit to private sector growth[4]



All analysis in this section refers to the performance of the Commercial Banking Group[5] of FBN Holdings Plc. Where any analysis refers to FirstBank, the arrowhead of the Commercial Banking Group, it is stated as such.

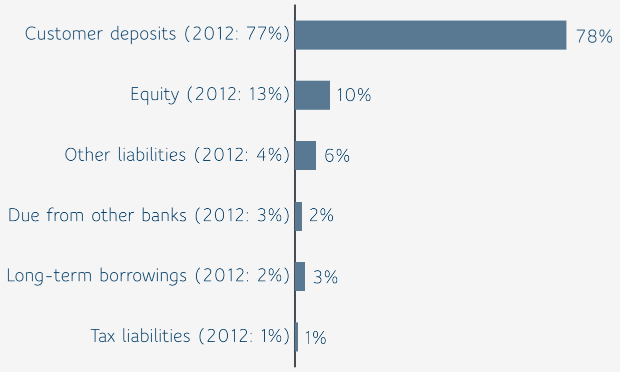
BALANCE SHEET ANALYSIS

Selected balance sheet data as at December 2013	2013 ₦ million	2012 ₦ million	% change
Assets			
Cash and balances with central bank	593,973	298,024	99.3%
Due from other banks	415,210	394,173	5.3%
Loans and advances to customers	1,797,935	1,562,695	15.1%
Investment securities	788,339	734,468	7.3%
Other assets	153,918	140,980	9.2%
Total assets	**3,749,375**	**3,130,341**	**19.8%**
Liabilities			
Customer deposits	2,942,782	2,405,035	22.4%
Due to other banks	77,481	87,551	(11.5%)
Borrowings	126,302	75,541	67.2%
Other liabilities	219,659	164,113	33.8%
Total liabilities	3,366,224	2,732,240	23.2%
Equity	383,150	398,100	(3.8%)
Total equity and liabilities	**3,749,375**	**3,130,341**	**19.8%**

The Commercial Banking business group's balance sheet grew by ₦619 billion in 2013 to ₦3.75 trillion (2012: ₦3.13 trillion), representing a 19.8% year-on-year increase, largely driven by strong growth in deposit liabilities (+22%). Deposits form 78% of the Bank's entire funding base[6] (2012: 77%). Equity and borrowings represent 14% of our funding base, interbank funds contributed about 2%, while non-interest bearing liabilities, tax liabilities and other payables made up the remaining 6% of the funding base.

Total assets also grew by 19.8% year on year, mainly driven by a 99% increase in cash and balances with the Central Bank to ₦594 billion (2012: ₦298 billion). The increase in the cash and bank balances with the Central Bank was due to the increase in cash reserve ratio to 50% on public sector deposits with deposit money banks. Loans and advances to customers increased by 15% to ₦1.80 trillion (2012: ₦1.56 trillion), while loans to other banks increased by 5% to ₦415 billion (2012: ₦394 billion). Increase in borrowings was due to the issuance of a $300 million (₦46.6 billion[7]) Eurobond in the third quarter of 2013. See figure 3.

Figure 3: Liability breakdown as at December 2013



4 Source: CBN

5 First Bank of Nigeria Ltd, FBN Bank (UK) Ltd, Banque Internationale de Crédit, ICB West Africa (ICB Ghana, ICB Guinea, ICB Sierra Leone, ICB Gambia), First Pension Custodian Nigeria Ltd and FBN Mortgages Ltd.

6 Funding base represents entire balance sheet i.e., total equity and liabilities.

7 1USD = ₦155.2

FINANCIAL REVIEW

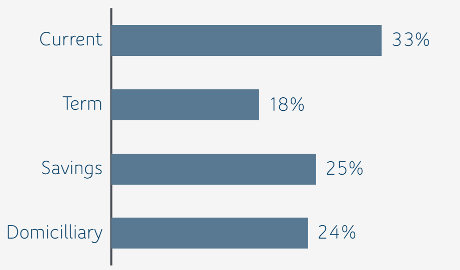
DEPOSITS

Deposits grew by 22% year on year to ₦2.94 trillion (2012: ₦2.41 trillion) on the back of an increase in customer accounts, higher deposit volumes, increased branch network, launch of new products and savings promotion, in addition to service excellence as we better understood our clients. Current and savings account (CASA) makes up 75% customer deposits and contributed 58% of growth in customer deposits, while the outstanding 42% growth in deposits were contributed by term deposits as term deposits increased by 45% year on year.

Within Strategic Business Units, deposit growth was driven by the Retail Banking Group, with a growth of 21.6% to ₦1.2 trillion (2012: ₦1.0 trillion) primarily due to an increased focus on innovative product development, aggressive marketing, improved service delivery, acquisition of new customers and a series of promotional campaigns undertaken during the period. Retail banking remains the major driver of low-cost current and savings account deposits, contributing 48.3% of deposits to the Bank as at 31 December 2013. We have begun to reap the benefits of our strategic branch expansion from previous years as it has enabled us to deepen our retail footprint to generate low-cost deposits, and has also served as a platform to build a wide agency network for the Bank's mobile money business. In addition, the Private Banking SBU recorded a 109.3% increase in its deposits to ₦49 billion (2012: ₦23 billion), Public Sector deposits increased by 17.8% year on year to ₦699 billion (2012: ₦593 billion), while our Commercial Banking SBU grew its deposits by 93.7% to ₦20 billion (2012: ₦10 billion).

See figures 4, 5 and 6.

Figure 4: Deposit mix by type of account (FirstBank only)



The growth in CASA was largely driven by the introduction of new products such as KidsFirst[8] account, MeFirst[9] account and the Bank's enterprise loyalty scheme known as FirstClub, which aims to reward loyalty from customers. A better understanding of customers' needs, improved stability in collections and remittance platforms all contributed to growth of CASA.

Current accounts[10] remain the largest proportion of our deposit base (32%) and increased by 11.4% year on year to ₦842.1 billion due to existing products such as FirstCurrent plus account[11] and First Current Business account[12] and new product offerings such as Salary Overdraft Account, new customer acquisition, deepening existing relationships with our customers and better understanding of their needs. Also the focus on commercial banking for the SMEs has helped in building up balances towards executing trade-finance transactions. Savings accounts, representing 25% of deposit liabilities, grew by 20.1% year on year as a result of existing products and the introduction of new products such as the FirstInstant Savings account targeted at the unbanked/under-banked, as well as savings promotions held during the period under review. With improvement and acceptability of the Firstmonie product, we have grown the number of customers to about 500,000, with significant growth transaction volume and value. As a result of the sustained high interest rate environment and customers' preference for increased rate, tenored funds grew by 43% year on year and represent 18% of our deposit base.

'Current accounts remain the largest share of our deposit base (32%) and increased by 15% year on year to ₦927 billion due to improvement of existing products, such as the First Current Plus account and First Current Business account, and introduction of new product offerings, such as the Salary Overdraft Account, deepening existing relationships with customers and provision of tailor-made solutions as a result of a better understanding of customers' needs.

Savings accounts represent 25% of deposit liabilities and grew by 20% year on year. This growth resulted from existing products and introduction of new products, such as the MeFirst, KidsFirst and ExploreFirst savings account targeted at children between 0 and 17 years, in addition to savings promotions (The Big Splash Promo: The 120th Anniversary Special) held during the period under review. Under the CBN revised charges, interest on savings accounts increased by 260 basis points from 1% to 3.6%'.

Term deposits represent 18% of deposit liabilities and increased by 43% year on year as a result of increased competition for deposit and an increased interest rate environment in 2013.

Increased cost of funding in 2013 was as a result of growth in term deposits, increase in cash reserve ratio, increased interest rate environment and increase in savings deposit rate by 260 basis points from 1% to 3.6%.

We have begun to reap benefits of our transformation agenda, as seen from our various product offerings geared to boost new and younger customer acquisition (MeFirst, KidsFirst and ExploreFirst savings account); increased migration to alternative distribution channels, increased e-payment and collections mandates thereby making banking with us easier and more convenient.

Across the SBUs, growth in deposit liabilities was mainly driven by Retail Banking (48.3%), the major contributor to low-cost current and savings deposits, Institutional Banking 12.5%, Corporate Banking and Commercial Banking (8.6%), with Public Sector at 27.2%. We have continued to record substantial success in the performance of the various SBUs in deposits mobilisation. We will continue to deepen our relationships and trap deposit flows via a holistic management of the value chain banking. We remain committed to leverage on the FBN Holdings operating structure in existence and our expansive branch network to address competitiveness and position FirstBank for long-term leadership in market share of customers and deposits. See figures 5 and 6.

8 KidsFirst is designed for children between the ages of 0 and 12 years.

9 MeFirst is designed for teenagers between the ages of 13 and 17 years.

10 Current accounts include electronic purse.

11 Designed to meet the needs of corporate and upwardly mobile customers with minimum opening/operating balance for individuals, associations, town unions, churches, sole proprietorships and joint account holders of ₦500,000 and minimum opening/operating balance for corporate customers (private and public limited companies) of ₦5 million.

12 A fee-based account, designed for the micro, small and medium-scale enterprises in three variants – Premium, Silver and Gold – with each variant operating at zero COT and limitless withdrawals.

FINANCIAL REVIEW

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

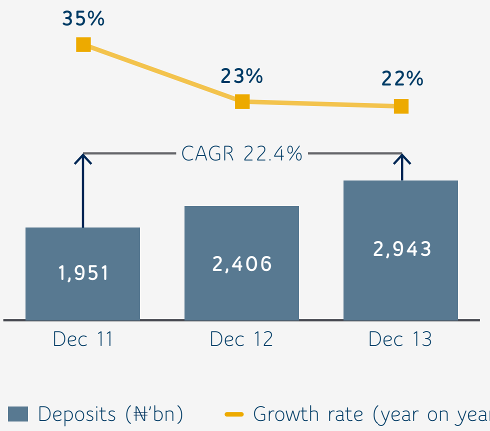
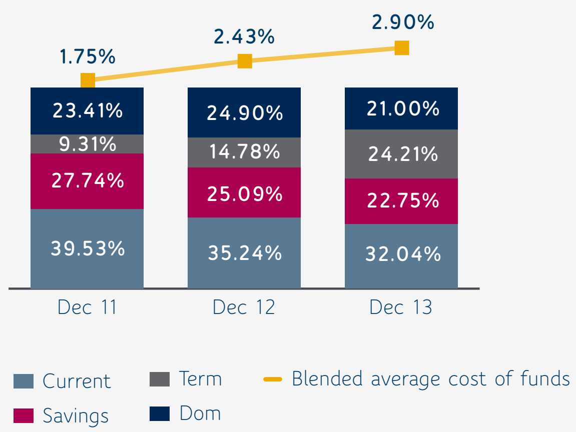


Figure 6: Three-year historical trend – deposit mix by type of accounts (₦'bn) First Bank of Nigeria only



Deposits by SBU	2011 ₦ million	% of total deposits	2012 ₦ million	% of total deposits	% growth year on year	2013 ₦ million	% of total deposits	% growth year on year
Commercial Banking	0		10,170	0.5%		19,695	0.8%	93.7%
Corporate Banking	108,084	6.1%	183,282	8.4%	69.6%	200,157	7.8%	9.2%
Institutional Banking	230,374	12.9%	310,743	14.3%	34.9%	321,558	12.5%	3.5%
Private Banking	14,894	0.8%	23,298	1.1%	56.4%	48,763	1.9%	109.3%
Public Sector	507,830	28.5%	592,894	27.3%	16.8%	698,694	27.2%	17.8%
Retail Banking	901,070	50.5%	1,000,231	46.1%	11.0%	1,241,129	48.3%	24.1%
Treasury (a)	22,238	1.2%	51,189	2.4%	130.2%	40,723	1.6%	(20.4%)
	1,783,778		**2,172,000**			**2,570,719**		

Commercial Banking SBU recorded a 93.7% growth year on year in deposits to ₦19.7 billion (2012: ₦10.2 billion), largely driven by deepening of existing relationships and commencement of new relationships with Commercial Banking customers. During the year the erstwhile emerging corporate business was reorganised/remodelled to the Commercial Banking SBU. This reorganisation has led to a better/deeper penetration of the Commercial Banking SBU as we intend to mine the various opportunities that abound in the SME customer segment.

Corporate Banking SBU recorded a 9.2% growth year on year in deposits to ₦200.2 billion (2012: ₦183.3 billion) driven by deepening of existing relationships with Corporate Banking clients and initiation of new relationships with new customers, while Institutional Banking SBU grew its deposits by 3.5% year on year to ₦321.6 billion (2012: ₦310.7 billion). Corporate Banking manages mid-size businesses with turnover in excess of ₦5 billion but less than ₦10 billion. These businesses cover every sector of the economy and are largely unstructured but with large appetite for risk and profit. These companies are major drivers of key sectors of the economy and they account for a large portion of the GDP outside Public Sector.

Corporate Banking has progressively refocused with a view to concentrating effort on the high-end segment of the middle market. We have also intensified our effort at diversifying our customer base with more emphasis on non-oil trading and manufacturing concerns. Our target customers are unquoted/unstructured organisations or companies with annual turnover of not less than ₦5 billion and not more than ₦10 billion. They are largely private companies, sometimes with dominant interest.

Private Banking SBU deposits grew by over 100% year on year to ₦48.8 billion (2012: ₦23.3 billion) on the back of an increased level of activity in its wealth management services. This was achieved by growing the business through its assets under management segment, which is more attentive and provides customised services specifically suited to meet their clients' service and wealth management needs. To read more on our Private Banking SBU go to page 52.

The Public Sector SBU constitutes 27.2% of total deposits of FirstBank and grew by 17.8% year on year to ₦698.7 billion (₦592.9 billion), resulting from acquisition of new customers and extending existing relationships at

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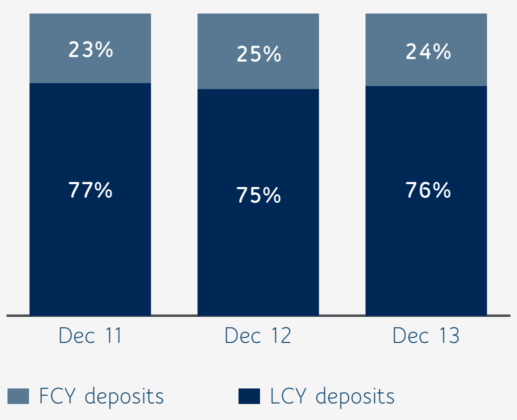
the Federal and State Government levels spanning Federal, State revenue allocation accounts and MDAs as well as collection accounts aided by our branch expansion strategy in prior years. The Public Sector SBU services the Federal Government, State governments and their MDAs, the Nigerian armed forces 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. The recent regulatory pronouncements on increase in CRR on public sector deposits have had far-reaching effects on the SBU as revenues from the SBU have begun to dwindle. We intend to mitigate losses by re-evaluating and restructuring this business model by driving value chain banking in this sector.

Retail Banking accounts for 48.3% of the total deposits and grew by 24.1% year on year. This growth was mainly driven by an increase in low-cost current and savings accounts, which grew by 14% year on year resulting from the development of innovative products (MeFirst, KidsFirst and First Current Business Account, etc.), growth in the number of customer accounts, controlled increase in the number of branches, improvement in services, extension of our mobile money services to cater for the banked, unbanked and under-banked, strategic growth in various alternative distribution channels (online banking, ATMs and POS terminals) with over six million debit cards in issue, providing more tailor-made services to suit customers' needs and more effective management of relationships with customers. We have begun to reap benefits of segmenting the Retail Banking SBU to affluent, mass market and small and medium enterprises, which have contributed in extending 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 page 49.

COMPOSITION OF DEPOSITS BY CURRENCY

Foreign currency deposits rose by 14% to ₦616.4 billion to make up 24% of total deposit liabilities. This was due to increased foreign currency product offerings through our FirstDiaspora suite of products, and increase in FirstBank's trade finance transactions with indigenous oil and gas businesses as well as in our United Kingdom subsidiary, FBN UK.



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 (over 760 locations, including branches, agency and quick service points) as we have the largest branch network in Nigeria;
- leveraging on the other subsidiaries in FBNH;
- growing alternative channels (ATMs, POS and online banking) and 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;
- increased collections;
- deepening value chain banking; and
- exploring new relationships and further mining existing ones.

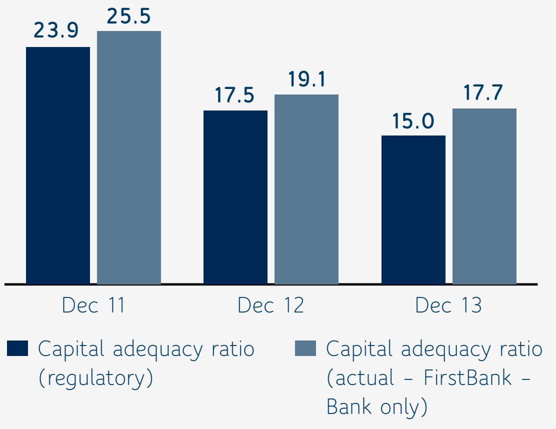
CAPITAL AND LIQUIDITY MANAGEMENT (COMMERCIAL BANKING GROUP)

Capital adequacy stood at 17.7% (2012: 19.08%) in the period under review, with minimum regulatory requirement remaining at 15%. CAR reduction is attributable to the decrease in statutory credit reserve and retained earnings by 50% and 4% respectively as well as growth of risk-weighted assets during the year.

During the period under review, tier 2 capital increased due to the $300 million Eurobond issued in the third quarter of the period under review, which was to enable us to add duration to our foreign currency deposits, support the highly volatile and episodic movement of the foreign currency, and provide funding for the transaction as well as support our capital base. Liquidity ratio as at year end was 44.2% (2012: 47.1%), well above the CBN's requirement of 30%.

In June 2014, when Basel II is expected to be fully implemented, we expect an impact of 100 basis points reduction in the CAR computation resulting in an expected CAR of c.16%. Our focus in coming periods will be to raise additional capital to support our business and optimise capital efficiency, as we grow in a reasonable and measured manner. See figure 7.

Figure 7: Capital adequacy ratio comparison



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Capital adequacy	2013 ₦ million	2012 ₦ million	% change
Tier 1 capital	352,011	356,772	(1%)
Tier 2 capital	65,206	32,517	101%
Total regulatory capital	417,217	389,289	7%
Risk-weighted assets	2,352,722	2,040,361	15%
Capital adequacy ratio	17.73%	19.08%	
Tier 1 capital ratio	14.96%	17.49%	

ASSETS

81% of total assets were made up of interest-earning assets (2012: 86%), comprising mainly loans and advances, investment securities and interbank placements. Proportion of earning assets reduced overall due to the increase in cash reserve ratio (CRR) on public sector deposits as the assets available for investments reduced during the period under review. Movements on earning assets between the years have largely been as a result of regulatory pronouncements. We remain within our threshold as our internal ratio of earning assets to non-earning assets is pegged at a minimum of 80:20.

Cash and balances with the Central Bank of Nigeria (CBN) constitutes 15% (2012: 10%) of our assets and grew by 99% to ₦593 billion (2012: ₦298 billion) principally as a result of the increase in cash reserve ratio by the CBN to 50% on public sector deposits from 12%, while loans and advances increased by 15% to ₦1.80 trillion from ₦1.56 trillion.

Balance sheet optimisation remains in focus as we sweat available assets for improved revenue. To support improved asset optimisation, we will continue to create innovative business solutions, invigorate cost containment strategies, improve operational and service delivery excellence and importantly leverage better relationships with our customers. In addition, we intend to ensure appropriate pricing of our assets, make certain covenants are strictly monitored, while improving yields and other revenues through shorter-tenured, self-liquidating transactions through more focus on transaction banking as well as further deepening value chain banking.

Risk-weighted assets increased 15% year on year. See figures 8 and 9.

Figure 8: Three-year historical trend – risk-weighted assets

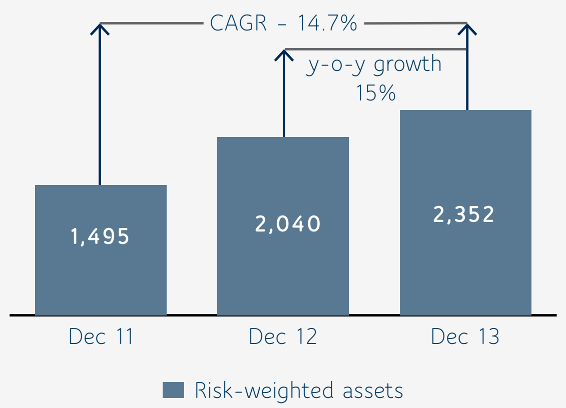
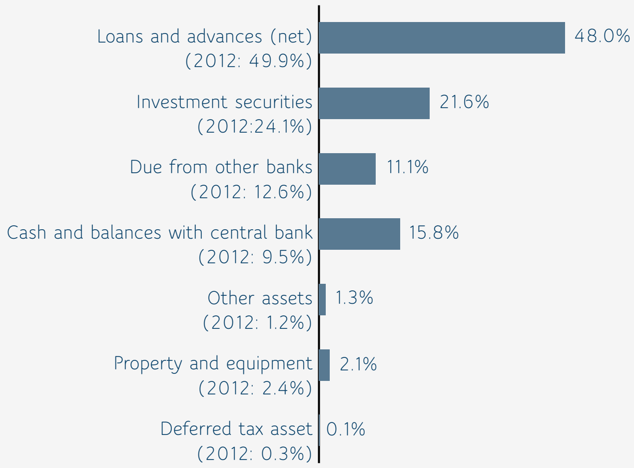


Figure 9: Asset breakdown as at December 2013 (%)



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 increase in the Group's loans and advances to customers was primarily driven by the Group's increased exposure to the oil and gas, manufacturing and real estate and construction sectors of the economy. The various constituents of our Commercial Banking business group experienced significant increase in their loans and advances (see figures 10, 11, 12, 13 and 14):

- FirstBank's gross loan book increased by 12% year on year to ₦1.52 trillion in 2013 (2012: ₦1.35 trillion), while the net loan book also grew by 12% year on year to ₦1.47 trillion (2012: ₦1.32 trillion);
- FBN UK's net loan book increased by 25% year on year to ₦291.1 billion in 2013 (2012: ₦232.4 billion); and
- BIC[13]'s net loan book increased by ₦3.3 billion to ₦23.8 billion in 2013 (2012: ₦20.5 billion), thereby recording a year-on-year growth of 16%.

Our focus on loan growth in the UK includes increasing trade commodity loans, reserve-based lending, working capital and infrastructure finance.

For our Africa operations, we intend to focus mainly on trade and trade-related transactions.

13 Banque Internationale de Crédit

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

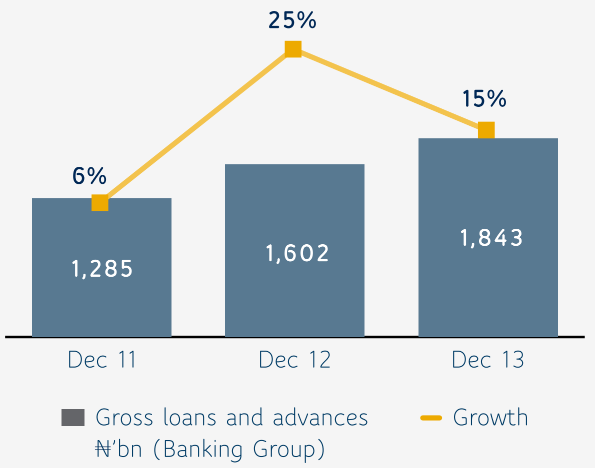
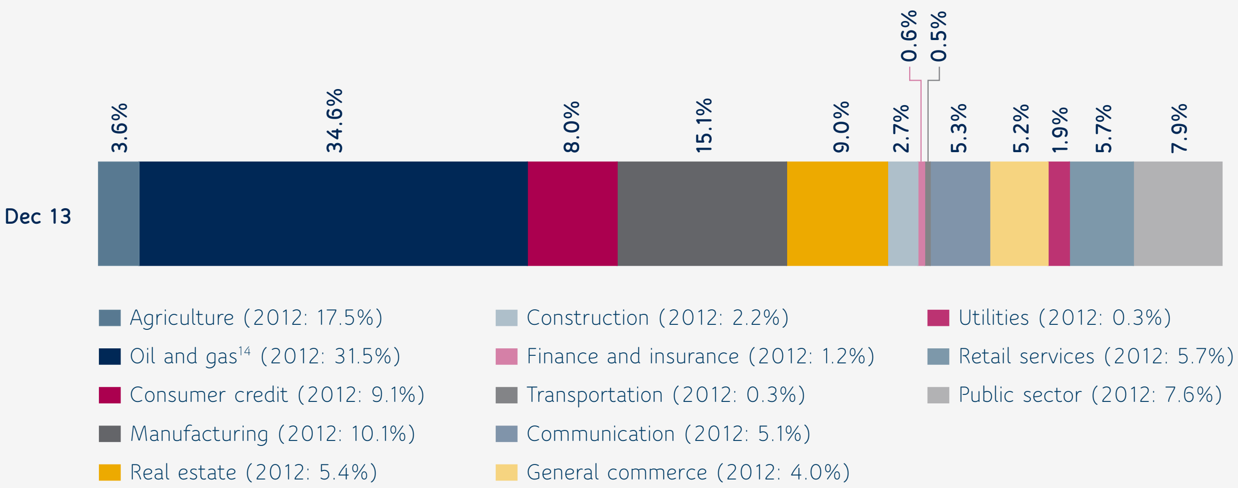


Figure 11: Net loans and advances by sector – Commercial Banking business group (%)



14 Oil and gas includes upstream, downstream and services sectors.

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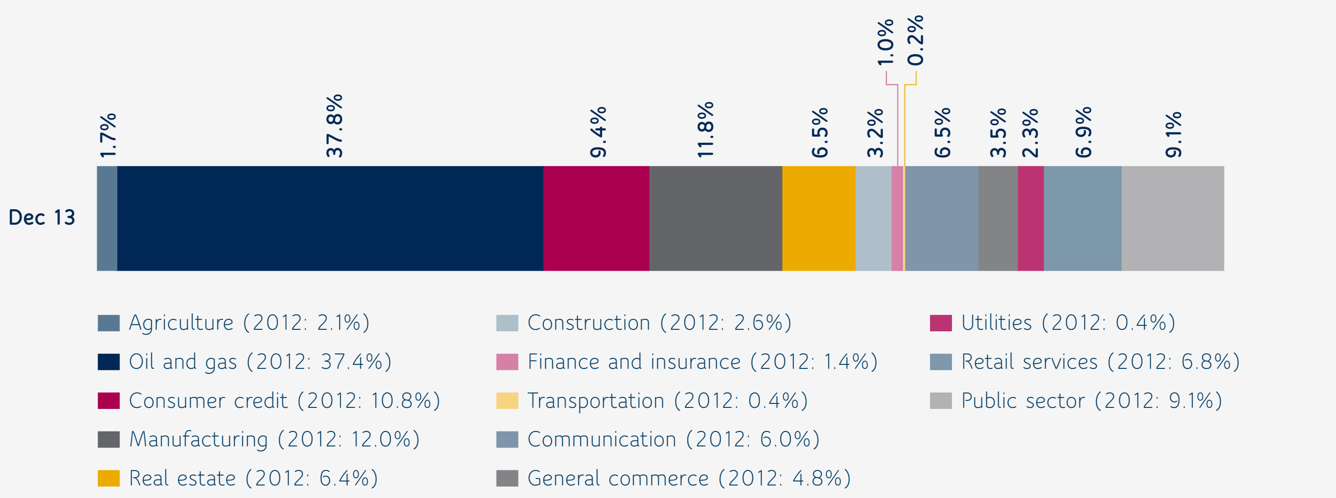
Figure 12: Net loans and advances by sector – FirstBank only (%)



Loans and advances by SBU	2011 ₦ million	% of total loans	2012 ₦ million	% of total loans	% growth year on year	2013 ₦ million	% of total loans	% growth year on year
Commercial Banking						33,316	18.3%	
Corporate Banking	276,604	23.6%	287,208	21.2%	3.8%	365,154	24.1%	27.1%
Institutional Banking	575,322	49.1%	677,003	50.0%	17.7%	700,512	46.2%	3.5%
Private Banking	5,258	0.4%	3,721	0.3%	(29.2%)	7,759	0.5%	108.5%
Public Sector	102,202	8.7%	119,441	8.8%	16.9%	130,886	8.6%	9.5%
Retail Banking	212,957	18.2%	266,013	19.7%	24.9%	277,662	18.3%	4.4%
	1,172,343		1,353,386			1,515,289		

Figure 13: Gross loans and advances by type of facility – Commercial Banking business group (%)

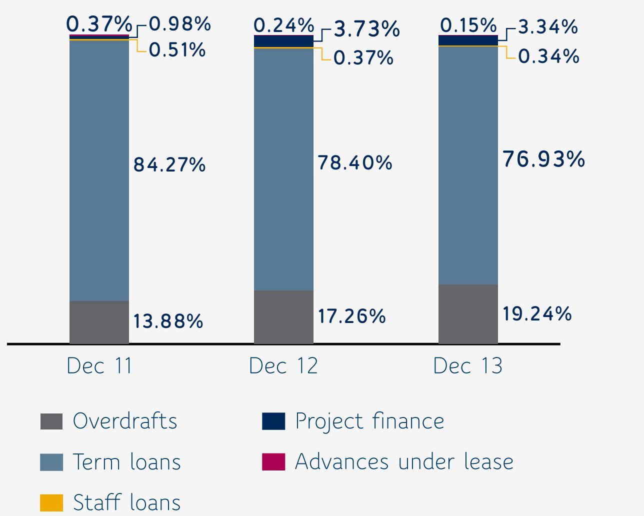


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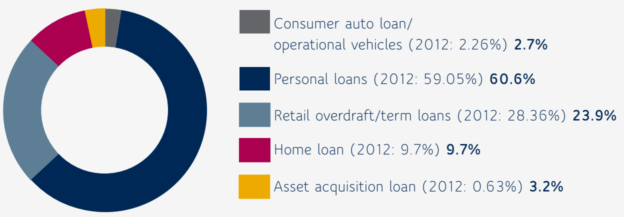
Figure 14: Gross loans and advances by SBU – FirstBank only (%)

Figure 15: Retail portfolio by type (%) (FirstBank only)



The Commercial Banking business group's loan book is completely diversified across all sectors of the economy, with general growth driven by the Nigerian and United Kingdom operations. Our loan book is split into foreign and local currency with foreign currency loans representing 33% (FirstBank only) and local currency loans representing 67% (FirstBank only). Our major exposures by proportion in Nigeria was led by oil and gas, general, manufacturing and public sectors while the UK loan book growth leaned towards structured commodity assets, project loans, mortgages, corporate loans and trade finance assets. We had exposures to the real estate sectors, power, telecommunications, manufacturing, construction, oil and gas, finance and insurance, and general commerce sectors as we drove our strategic focus while supporting most sectors of the economy.

We have begun to reap benefits from loan book diversification in prior years and focus on the emerging corporate business now known as Commercial Banking SBU. These segments are seen as growth drivers of the Company and areas with profitable yields.

In forthcoming periods, we intend to grow our loan book in a reasonable and measured manner along sectors in the macro environment where we see growth. The loan book growth will be driven by the following sectors: power, oil and gas, retail, manufacturing, telecommunications and general commerce, agriculture, trade and infrastructure, etc. See figures 10, 11, 12 and 13.

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

ASSET QUALITY

In 2013, FirstBank recorded a non-performing loan (NPL) ratio of 3.1% (2012: 2.8%) with actual NPLs of ₦46.9 billion (2012: ₦37.3 billion). The increase in the NPL portfolio was driven by increased 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 sectors, our highest NPL exposure was recorded in the general sector of ₦14.3 billion (30.6%) followed by information and communication of ₦9.1 billion (14.3%) and oil and gas downstream of ₦6.9 billion (13.7%). The increase in NPLs in these sectors was as a result of write-offs and early recognition of problem facilities.

Within customer segments, we recorded NPLs of ₦27.5 billion, ₦12.2 billion and ₦7.2 billion in the Retail Banking, Corporate Banking and Institutional Banking business segments, which represents 59%, 26% and 15% of the NPLs; Corporate Banking recorded a decline in its NPL ratios to 3.1% from 6.3% in 2012. Retail Banking NPLs were higher in retail overdraft/term loans and personal loans. FBN UK continues to record low NPL ratios, which stood at 0.38% as at December 2013. 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.

See figures 15 and 16.

Figure 15: Three-year historical trend – non-performing loans (₦'bn)

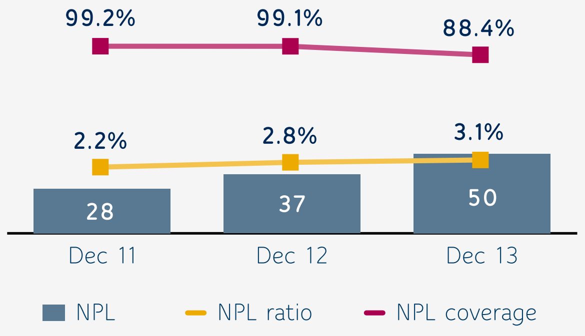


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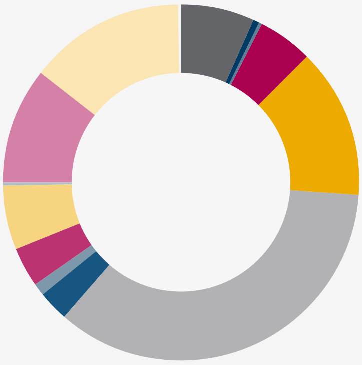
Figure 16: Non-performing loans by sector (%)



*General includes: hotels and leisure, logistics, religious bodies, retail, others.

PROFIT AND LOSS ACCOUNT ANALYSIS

In 2013, the Commercial Banking business group recorded a 10% year-on-year growth in its gross earnings to ₦373 billion (2012: ₦339 billion), driven by a 12% rise in interest income as well as non-interest income. Increase in interest income resulted from higher income from loans and advances to banks (+437%) and loans and advances to customers (+10%) attributable to a higher interest rate environment. Non-interest income stood at ₦62 billion (2012: ₦65 billion), a 4% decline year on year attributable to the regulatory pronouncements by the CBN on charges to customers. Operating expenses reduced by 5% year on year to ₦173 billion (2012: ₦182 billion); this resulted from reduction in personnel expenses and other operating expenses. Operating profit stood at ₦87 billion (2012: ₦86 billion) while pre-tax and after tax profit stood at ₦87 billion and ₦66 billion respectively (2012: ₦87 billion and ₦72 billion). These were driven by a 12% year-on-year rise in interest income with fee and commission income constituting the bulk of NIR with 77% (2012: 84%) in the period under review. This muted by a 46% increase in interest expense year on year to ₦86 billion (2012: ₦59 billion) and a 59% growth in loan loss expense year on year to ₦21 billion (2012: ₦13 billion).

The recent regulatory pronouncements by the CBN have had far-reaching impacts on non-interest income as net interest margins of banks have been negatively impacted as well. These include:

- ₦100 ATM surcharge removal, which has led to banks paying inter-exchange expenses for their customers;
- lower bank charges in the form of reduced COT to ₦3 per mille from ₦5 per mille, which will be reduced to ₦2 per mille in 2014 and eventually phased out, increase in interest on savings deposits to 3.6% and reduction in SMS alert fees; and
- rising regulatory costs: AMCON levy from 0.3% to 0.5% of year-end total assets and off balance sheet items and Nigeria Deposit Insurance Corporation (NDIC) premium due to increased customers.

Selected income statement data as at 31 December 2013	2013 ₦ billion	2012 ₦ billion	% change
Gross earnings	373	339	9.9%
Interest income	310	277	12.0%
Interest expense	86	59	47.5%
Net interest income	224	218	2.5%
Non-interest income	62	65	(4.2%)
Operating profit	87	86	0.5%
Operating expenses	173	182	(5.2%)
Impairment charge for credit losses	21	13	58.9%
Profit before tax	87	86	0.5%
Profit after tax	66	72	(7.9%)

NET INTEREST INCOME

Net interest income grew marginally by 2.5% to ₦224 billion (2012: ₦218 billion); this growth resulted from a 12.0% increase in interest income to ₦310 billion (2012: ₦277 billion) attributable to increase in interest earned on interest-earning assets like loans and advances to customers as well as loans and advances to banks, while it was muted by a 47.5% increase in interest expense to ₦86 billion (2012: ₦59 billion). This reflects an increase in rates paid on deposits from customers resulting from increase in interest on savings deposit, increase in competition for deposit and a higher interest rate environment.

Increased interest income was positively affected by: a 437% growth in interest from loans and advances from banks, 10% growth in interest income from loans and advances and 2% rise in interest from treasury bills and investment securities. A tighter monetary policy stance by the CBN led to increased open market operations (OMO) and increased cash reserve ratio for banks on public deposits, thereby reducing loanable funds to customers by the Bank and investible funds to benefit from a relatively high interest rate environment.

FINANCIAL REVIEW

The international subsidiaries of FirstBank recorded growths in their net interest income: FBN UK's net interest income increased by 41.2% to ₦12.6 billion (2012: ₦8.9 billion), while BIC also recorded a rise in net interest income of 36.2% to ₦3.4 billion (2012: ₦2.5 billion); increased net interest income in the UK was attributable to a 20.9% growth year on year of interest income to ₦19.7 billion (2012: ₦16.3 billion), largely driven by increased interest income resulting from increase in structured finance business, customer lending activities and improved asset yield, while interest expense recorded a 3.8% reduction year on year.

A higher interest rate environment, increase in interest on savings deposits, growth in term deposits due to composition for deposits and growth in customer deposits all led to a significant increase in interest expense, which was mitigated through our diversified funding base. Interest expense increased by 47.5% year on year to ₦86 billion (2012: ₦59 billion) as total cost of funds stood at 3.0% (2012: 2.4%), see table on page 63. Growth in interest expense was observed across all deposit buckets with interest on savings accounts recording the highest growth at over 100%, while interest on term deposits and current accounts grew by 83% and 35% respectively.

Net interest margin stood at 8.0% (2012: 8.6%) as expected, substantially impacted by a higher interest rate environment, and increased interest expense resulting from increase in savings deposit interest and increased competition for deposits.

NON-INTEREST INCOME

Non-interest income mostly consisting of fees and commissions stood at ₦62 billion (2012: ₦65 billion) a 4% dip year on year mainly attributable to the various regulatory pronouncements during the year. Fees and commissions income stood at ₦48 billion (2012: ₦55 billion) while other income increased to ₦14.5 billion (2012: ₦10.2 billion). Growth in other income was as a result of increase in foreign exchange income (+170%) and dividend income (+26). Growth drivers for non-interest income include:

- a rise in commission from collections for various public and private institutions as we expanded our collections mandate and improved on the collection platform including the value chain;
- a rise in credit-related fees resulting from increase in loans and advances, increase in money transfer commission; and
- closer monitoring of concessions on COT.

Growth was muted by:

- a decline in COT of 39% year on year, driven by reduction in COT charge from higher transaction volume, which is attributable to the Group's strategy to increase shorter-tenor transactions that have a higher turnover rather than longer-term transactions.

Non-interest income breakdown	Dec 13 ₦ million	% of total	Dec 12 ₦ million	% of total	% growth year on year
Other fees and commissions	19,974	32%	12,977	20%	54%
Commission on turnover	17,618	28%	28,935	44%	(39%)
Other income	1,558	2%	4,530	7%	(66%)
Credit-related fees	3,488	6%	2,532	4%	38%
Letters of credit commission and fees	4,528	7%	4,748	7%	(5%)
Commission on bonds and guarantees	617	1%	1,215	2%	
Funds transfer and intermediation fees	3,388	5%	3,867	6%	(12%)
Money transfer commission	3,634	6%	1,731	3%	110%
Income from investment securities	1,383	2%	(408)	(1%)	439%
Net gains/(losses) from financial assets classified as held for sale	(1,386)	(2%)	1,752	3%	(179%)
Dividend income	905	1%	719	1%	26%
Foreign exchange income	6,625	11%	2,456	4%	170%
	62,333	**100%**	**65,054**	**100%**	

FINANCIAL REVIEW

COST EFFICIENCY

Operating expenses decreased by 5% to ₦173 billion (2012: ₦182 billion) largely driven by: a 51% rise in regulatory cost, resulting from an increase in AMCON levy on the back of an increase in balance sheet size in addition to an increase in NDIC premium on deposits; 6% reduction growth in staff costs, resulting from a reduction in the defined benefit plan for staff; a 35% decrease in other operating expenses; and a 46% reduction in auditors' remuneration. Costs were also impacted by reduction in legal and professional fees, donations and subscriptions, advert and promotions, and consultancy fees.

Operating expenses	2013 ₦ million	% of total	2012 ₦ million	% of total	% change
Staff costs	61,790	35.8%	65,883	36.2%	(23.0%)
Profit/(loss) on sale of property, plant and equipment	(284)	(0.2%)	(1,760)	(1.0%)	(83.9%)
Depreciation	9,823	5.7%	9,895	5.4%	(0.7%)
Amortisation	1,517	0.9%	645	0.4%	135.2%
Maintenance, rent and insurance	25,923	15.0%	25,369	13.9%	2.2%
Stationery and printing	2,016	1.2%	2,407	1.3%	(6.2%)
Advert and corporate promotions	7,705	4.5%	8,577	4.7%	(10.2%)
Donations and subscriptions	1,747	1.0%	1,904	1.0%	(8.2%)
Consultancy fees	1,534	0.9%	1,998	1.1%	
Regulatory cost	24,922	14.4%	16,550	9.1%	50.6%
Legal and professional fees	2,011	1.2%	3,704	2.0%	(45.7%)
Auditors' remuneration	321	0.2%	315	0.2%	1.9%
Directors' emoluments	6,085	3.5%	4,210	2.3%	44.5%
Other operating expenses	27,608	16.0%	42,499	23.3%	(35.0%)
	172,718	100.0%	182,196	100.0%	

Cost-to-income ratio stood at 61.5% from 64.6% in 2012; this was driven by a reduction in operating expenses year on year in spite of the 0.5% reduction in net revenue year on year. CIR was mainly impacted by the reduction in (-1%) net revenue; net revenue decrease was as a result of increase in interest expense (+48%) resulting from increases in savings deposit rate from 1% to 3.6% and higher-term deposit rates as deposits were more expensive to source, reduction in non-interest income and increase in fee and commission expense.

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

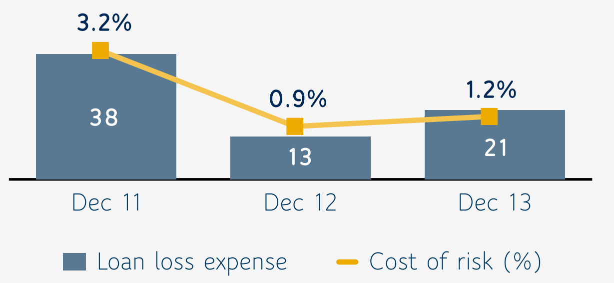
- continuous review of our current staff mix;
- centralised processing of back-office branch processes, reduction in turnaround time, which has led to increased volumes;
- continuous automation of increasing processes;
- reduction in aggressive branch expansion and roll-out;
- branch benchmarking initiatives;
- review service level agreements (SLAs) and improvement on our procurement processes;
- termination of staff gratuity during the year eliminates the need to fund liability gaps we had experienced; and
- optimisation of various delivery channels and migration of customers to such channels.

Overall, we plan to keep the cost base at 0% to 5% in 2015-2018 as part of our strategy cycle.

IMPAIRMENT CHARGE FOR CREDIT LOSSES

Impairment charge for credit losses stood at ₦21 billion (2012: ₦13 billion) for the period under review and this increase was primarily due to a 60% rise in specific impairment charge to ₦22 billion (2012: ₦14 billion) and an increase in impairment recognised on other assets. There was a reduction in collective impairment to ₦1.3 billion (2012: ₦3.2 billion), while there was a dip in recoveries on loans previously written off to ₦2.6 billion (2012: ₦3.8 billion). Increment in specific impairment was largely due to the clean-up of the Bank's loan books via writing-off delinquent facilities; in telecommunication, retail, and others in addition to logistics sector and remediation of non-performing loans that occurred during the financial year. FirstBank's credit policy is continuously reviewed in line with international best standards. Cost of risk increased by 40 basis points to 1.2% (2012: 0.9%). We expect our 2014 cost of risk to be at 1.3%. See figure 17.

Figure 17: Three-year historical trend – loan loss expense (₦'bn) and cost of risk (%)



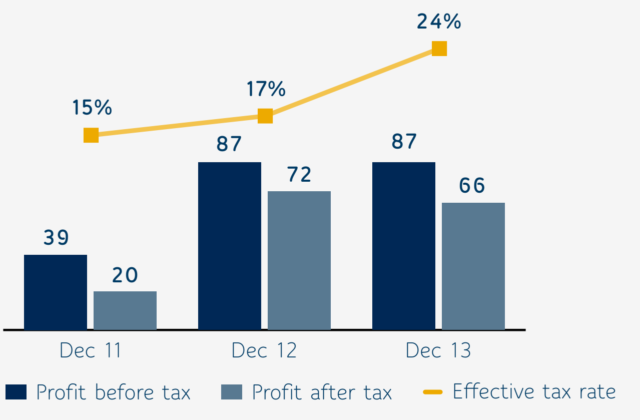
FINANCIAL REVIEW

PROFITS

FirstBank's profit before tax stood at ₦87.5 billion (2012: ₦87.1 billion), a marginal increase of 0.5% year on year. Pre-tax profit was positively impacted by increased interest income and muted by reduced non-interest income (4%), in addition to higher interest expense (+43%) and increased impairment charge for credit losses (+59%), while effective tax rate was 24% for the year under review (2012: 17%). See figure 18.

To further improve earnings in the future, we will use numerous strategies such as cost optimisation, increased market penetration, transaction banking, trade finance, complete review of our public sector business model in view of the regulatory impacts, deepening value chain banking of public sectors and IBG customers, up-scaling our emerging Corporate to Commercial Banking SBU, growing business volumes by moving more transactions to alternative platforms, capping cost growth to between 0% and 5% and improving quality of assets to reduce impairment charge and cost of risk. We expect effective tax rate to be 15% to 18% in the coming strategic cycle.

Figure 18: Three-year historical trend – profit (₦'bn)



KEY PERFORMANCE INDICATORS

Pre-tax return on average assets (ROAA) and return on average equity (ROAE) stood at 2.5% (2012: 2.9%) and 22.4% (2012: 22.7%) respectively, while after-tax return on assets and equity stood at 1.9% (2012: 2.4%) and 17.0% (2012: 18.8%) respectively. Earnings per share stood at ₦2.04 (2012: ₦2.33). See figures 19 and 20.

Figure 19: Three-year historical trend – returns on assets and equity (%)

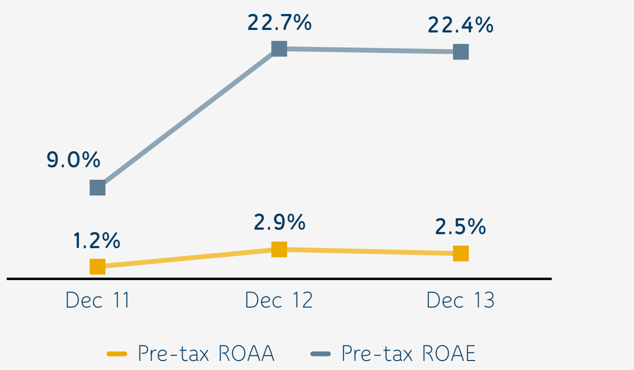
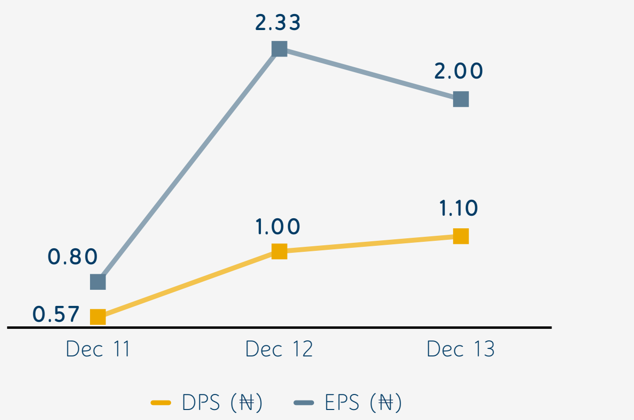


Figure 20: Three-year historical trend – earnings and dividend per share



INTRODUCTION

OUR COMMITMENT TO CITIZENSHIP

Citizenship at FirstBank aligns with FBN Holdings' approach. It means considering the needs of stakeholders in making decisions. It includes our commitment to conduct business transparently and dependably by managing our business processes towards ensuring an inclusive, positive impact on society.

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

THE JOURNEY OF EMBEDDING SUSTAINABILITY

As the biggest subsidiary of FBN Holdings, and with a strategic role in the Group, FirstBank initiated the journey to help embed sustainability and drive responsible practices in FBN Holdings. With a core team consisting of business units across the Bank in partnership with Accenture, FirstBank has developed a sustainability strategy, an implementation road map and a performance management system for 2014–16. This is based on engagement with our customers, employees, investors, regulators, communities, industry partners and NGOs.

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

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

The sustainability strategy is enhanced by a set of enablers that help drive our priorities. They include sustainability capacity development, stakeholder management, partnerships and communications as well as sustainability performance management.

RELATIONSHIPS AND OUR CITIZENSHIP APPROACH

At FirstBank, relationships and corporate responsibility are interdependent.

We believe that building strong relationships with our customers, employees and communities informs our focus areas and priorities, and underpins our own sustainability. Hence, our goal is to continuously sustain mutually beneficial, trusting and meaningful relationships between us and our stakeholders.

Our proactive approach ensures that relationships play a vital role in successfully embedding a sustainable mind-set in our business operations and processes. This includes employing environmental and social screening procedures for corporate lending and project financing, mainly aimed at improving the quality of life of our customers and communities.

RESPONSIBLE LENDING

As part of our commitment to driving sustainability in FirstBank, we have enhanced the existing environmental and social screening process so that it is a more comprehensive mechanism – the environmental, social and governance management system (ESGMS).

The ESGMS consists of environmental, social and governance policy; procedures to screen transactions; guidance for monitoring performance and maintaining ESGMS records; ways of reviewing ESGMS and continuously improving it based upon changing international standards; the company's lending profile; considerations with regard to internal and external reporting of ESGMS performance; and details of roles and responsibilities for implementation as well as budget, training and senior management approval.

In line with local and international standards, the ESGMS also highlights the sector-specific policies and requirements with high impacts including oil and gas, agriculture and power.

We plan to begin implementation of the ESGMS in 2014 in line with the sustainability implementation plan.

OUR CUSTOMERS COME FIRST

For us at FirstBank, responsibility includes constantly looking for innovative ways of improving the quality of life and enhancing the financial security of our customers and their families. This has seen us design sustainable products and services tailored to meet their needs and expectations.

Financial inclusion remains a vital focus in driving new industry solutions. In 2013, we upgraded our robust IT infrastructure from Finacle 7 to Finacle 10, which significantly improved the ATM uptime by 18% and further guaranteed the reliability of our ATMs to our customers, resulting in a significant reduction in complaints and the inconvenience associated with ATM downtime.

This upgrade has also enhanced Firstmonie, an innovative product targeted at the unbanked segments of the nation's adult population. Firstmonie's main selling point is that it allows customers and non-customers to withdraw money from any FirstBank ATM without a payment card. Related to this, our FirstInstant account, designed for the under-banked/unbanked, has provided around 500,000 customers with access to formal financial services. In addition, through active partnerships with government and other stakeholders, we have successfully provided loans and financial services to over 40,000 SMEs in Nigeria. In 2013, through our SME Connect, we also started our capacity-building programmes for SMEs as well as providing downloadable business management resources and tools for them from FirstBank SME Connect's dedicated website.

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

A GREAT PLACE TO WORK

In line with our Group human resource development goal, which is to become a hub for the best talent in the industry, we have structured our training and capability initiatives to focus on the competency requirements of the different roles and in line with industry requirements. Over the last six years, at least 90% of the workforce has attended courses and programmes designed to boost their job performance.

DIVERSITY, INCLUSION AND HUMAN RIGHTS

Our responsibilities to our people and stakeholders include protecting, respecting and upholding their rights. We ensure human rights are not abused. We also make it our responsibility not to get involved in the violations of human rights. We believe our responsibilities go beyond legal compliance to moral obligation. The areas covered in our policies regarding rights and labour include:

- children's rights;
- forced labour/child labour;
- freedom of association and collective bargaining; and
- all forms of discrimination.

With our Jerk Behaviour policy, as well as the Diversity policy, we have worked towards enhancing the quality of relationships among all people in the Bank, as this is a key determinant of qualitative decisions and how they are implemented. To this end, our mantra for 2013 was 'WHOLESOMENESS'. This was borne out of a deep reflection on the all-important need to proactively drive synergies across the Bank, its various teams and subsidiaries.

Our engagement plan included people integration, managing change, and promoting diversity and inclusion. Our diversity policy aimed at promoting diversity and inclusion in the workplace. We recognise that advancing diversity and inclusion creates possibilities for change and innovation as unique views and ideas are aligned for a common goal.

Our employees come from diverse ethnic tribes in Nigeria. This tribal diversity also applies to our recruitment in other countries in which we operate. Our encouragement of inclusion in the workplace also involves supporting our employees with disabilities. We also currently have nine women on the respective Boards of the subsidiaries that make up FBN Holdings – the highest of any holding company in Nigeria. In addition, to engender healthy relationships and employee bonding, we have created platforms for our employees to express themselves and have truly fulfilling experiences.

SUPPORTING OUR COMMUNITIES

Our ability to respond to the changes in our operating environment since 1894 has been largely attributed to the quality of relationships we have built and sustained with our relevant stakeholders, including the communities, over the years. The communities where we live and work have been instrumental to our success. It has been a relationship based on mutual trust, respect and support. Our support under the communities pillar is informed by the views gathered from stakeholder engagement with our communities.

Under the platforms of education, economic empowerment and environment, FirstBank has some key programmes, but constantly supports various community investment activities. On average, 40 community support activities are supported by the Group on a yearly basis, and over the past 10 years, we have spent an average of ₦500 million annually to support community development projects. The key programmes include FirstBank Endowment programme, Future First programme, Infrastructure Development programme, Youth Leadership programme and Hope Rising programme. These programmes are continuous and have significantly impacted the communities at large.

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

STANDARDS AND CODES

We are committed to international standards and have only adopted principles that can be supported by the relevant frameworks, as well as those 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, one of the subsidiaries of FBN Holdings, is a technical partner in the Nigerian adoption process tagged 'ISO 26000: NAP', which began last year. As a technical partner, we are fully committed to the seven core subjects of ISO 26000 guidance. These are: community involvement and development, human rights, labour practices, the environment, fair operating practices, consumer issues and organisational governance.

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

INTRODUCTION

THE NIGERIAN SUSTAINABLE BANKING PRINCIPLES (NSBP)

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

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

As part of the process of putting the necessary frameworks in place and harmonising all the elements that will drive the sustainability embedding process in the Group, we have developed a sustainability strategy and an implementation road map, and identified some key opportunities.

NSBP IMPLEMENTATION UPDATE

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

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Principles	Requirements	Status update
Principle 4: women's economic empowerment – we will promote women's economic empowerment through a gender inclusive workplace culture in our business operations and seek to provide products and services designed specifically for women through our business activities.	• Developing and implementing a women's economic empowerment policy. • Establish a women's economic empowerment committee. • Develop initiatives and programmes to promote and celebrate women's empowerment. • Invest and dedicate resources for female talent. • Support the establishment of a sector-wide women's empowerment fund.	• A policy is being developed. • The Bank has a market share of 26% under the Federal Government's Growth Enhancement Support Scheme designed for SMEs. • Over 3,000 SMEs run by women get support from FirstBank. • FirstBank Board composition consists of four women out of 19, representing 21% of the Board. • Women's economic empowerment committee established. • Partners with WOWE, WIMBIZ on women's development. • Developed a diversity policy for promoting inclusion and diversity.
Principle 5: financial inclusion – we will promote financial inclusion, seeking to provide financial services to individuals and communities that traditionally have had limited or no access to the formal financial sector.	• Developing and implementing a financial inclusion policy. • Providing development and growth support to SMEs. • Improving financial literacy and institutional practices. • Improving access to bank facilities and services.	• Developing a policy. • Loans for over 40,000 SMEs. • FutureFirst and other programmes in place for financial literacy. • Firstmonie; FirstInstant for the unbanked.
Principle 6: E&S governance – we will implement robust and transparent E&S governance practices in our respective institutions and assess the governance practices of our clients.	• Establish E&S governance responsibility. • Develop institutional E&S governance practices. • Actively support key industry initiatives that aim to address E&S governance issues with clients operating in sensitive sectors. • Implement E&S performance-linked compensation and incentive schemes. • Establish internal and, where appropriate, external E&S audit procedures.	• Developed sustainability governance team chaired by Chief Risk Officer (CRO). • A member of the NSBP steering committee.
Principle 7: capacity building – we will develop individual institutional and sector capacity necessary to identify, assess and manage the environmental and social risks and opportunities associated with our business activities and business operations.	• Identify relevant roles and responsibilities for delivery against sustainable banking commitments. • Provide sustainable banking training sessions. • Create practical E&S training tools and resources. • Multi-stakeholder capacity building.	• Board and executive management have been trained on sustainability. • 40 strategic key heads of SBUs and departments. Part of the team that developed the sustainability strategy and opportunities has been trained. • Partnering with the NSBP, and IFC in training key staff. • Plans within the Group to ensure every member of staff is trained in sustainability.

INTRODUCTION

Principles	Requirements	Status update
Principle 8: collaborative partnership – we will collaborate across the sector and leverage international partnerships to accelerate our collective progress and move the sector as one, ensuring our approach is consistent with international standards and Nigerian development needs.	• Collaborate and coordinate with other banks. • Convene sector-wide workshops and events. • Commit to international standards and best-practice initiatives. • Establish and participate in Nigerian sector-level initiatives.	• A member of the NSBP steering committee. • Participate in industry-wide workshops. • Member UNGC and signatory to ISO 26000.
Principle 9: reporting – we will regularly review and report on our progress in meeting these principles at the individual institution and sector level.	• Establish a sustainable banking reporting template. • Set clear targets and relevant performance indicators. • Ensure the necessary systems are in place to collect data. • Agree the frequency, nature and format of internal and external reporting. • Contribute to sector-level reporting.	• Developed a reporting template. • Targets and KPIs set. Implementation from 2014. • Developing a system to collect data. • Internal reporting: quarterly. External reporting: yearly.

THE UN GLOBAL COMPACT

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

Membership of the UNGC implies an organisation's willingness to align with UN values and support initiatives that advance the UN goals as contained in the Millennium Development Goals (MDGs). Participants simply commit to align their strategies and operations with 10 principles in the areas of labour, human rights, environment and anti-corruption.

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

This 2013 annual report serves as our Global Compact communication on progress.

Human rights	
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and	Human rights; Diversity
Principle 2: make sure that they are not complicit in human rights abuses.	Human rights; Diversity
Labour	
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	Human rights; Diversity
Principle 4: the elimination of all forms of forced and compulsory labour;	Human rights; Diversity
Principle 5: the effective abolition of child labour; and	Human rights; Diversity
Principle 6: the elimination of discrimination in respect of employment and occupation.	Human rights; Diversity
Environment	
Principle 7: Businesses should support a precautionary approach to environmental challenges;	Resource efficiency
Principle 8: undertake initiatives to promote greater environmental responsibility; and	Community support
Principle 9: encourage the development and diffusion of environmentally friendly technologies.	Community support
Anti-corruption	
Principle 10: Businesses should work against corruption in all its forms including extortion and bribery.	

INTRODUCTION

STAKEHOLDER ENGAGEMENT

Stakeholders are those who affect or are affected by an organisation. Our key stakeholders include our staff, customers, shareholders, regulators, communities and the media.

	REASONS FOR THE ENGAGEMENT	TYPES OF ENGAGEMENT
Staff		
	• To ensure that FirstBank remains a great place to work by providing a secure, positive and inspiring working environment. • Listening, understanding and responding to staff needs and concerns. • To ensure all staff are aware of the Bank's vision and activities, and the role they are required to play.	• These include focus groups: knowledge sharing sessions; roadshows; engagement surveys; emails and intranet communications; magazines and training.
Customers		
	• To have a better understanding of the financial services needs of our customers. • To meet the needs of our customers by providing appropriate solutions.	• Interactions through branch service points; Relationship Managers; contact centres' complaint lines and customer engagement forums; and social media, surveys, marketing and advertising activities.
Investors		
	• To provide the necessary information to current and future shareholders.	• Roadshows. • Communications and responses to investor and analyst queries. • Annual general meeting. • Conferences and presentations.
Regulators		
	• To build and enhance relationships with regulators by ensuring all legal and compliance requirements are met to minimise associated risks and safeguard our licence to operate.	• Meetings. • Statutory reporting.
Communities		
	• To develop and sustain mutually beneficial, trusting and meaningful relationships with our communities, aimed at enhancing the Bank's corporate responsibility goals. • To obtain inputs from communities regarding the Group's corporate responsibility programmes and how their needs can be better met. • To partner with NGOs in ensuring that the Bank's activities and operations are conducted responsibly. • To create awareness of the Bank's corporate responsibility initiatives.	• Citizenship approach – ongoing support of projects and interaction with a wide variety of NGOs and government organisations. • Sustainability and corporate responsibility partnerships with Global Compact; LEAP Africa; and Junior Achievement Nigeria. • Steering Committee – Sustainability Champions of NSBP.

CUSTOMERS

OUR CUSTOMER FOCUS

Our strategic drive for 2013 focused on improving the overall customer experience, expanding our service offerings to meet with the ever-growing needs of our customers by concentrating on our key satisfaction themes: customer care, convenience, system and infrastructure, process efficiency, and products and services.

We know that we can only achieve service excellence when we put customers at the centre of our business. This means anticipating our customers' needs as well as offering suitable products, easy-to-use channels, greater convenience and superior experience across touch points. For service improvement purposes, we conducted a satisfaction survey on a quarterly basis and used the feedback received to drive improvements and to effect specific changes based on identified customer preferences.

As a forward-looking bank we continue to use digital technology to change the way customers transact with us. We recently revamped our online banking platform to create 'wow' experiences. In addition, the recent upgrade of our core banking application from Finacle 7 to 10 means that we can consummate transactions quickly and with additional benefits.

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

MAIN ACTIVITIES IN 2013

- Migration of our core banking application to Finacle 10 from Finacle 7.
- Renovation of our online banking platform to provide additional features.
- Customer forums held in various locations to gather direct information on improving satisfaction and meeting expectations.
- 2,107 visits were made to the branches by vendors and Service Delivery Excellence staff, to experience service from our customers' perspective.
- The surveying of 17,240 customers to measure satisfaction with our products and services.
- Reviewed service performance framework to include service KPIs in scorecards to ensure better ownership.
- Establishment of the Service Steering Committee as the highest service decision-making body within the Bank.

EMPOWERING BRANCH TEAMS TO TAKE OWNERSHIP

We understand that the adoption of new behaviours accelerates when the branch manager and local team fully participate in planned changes. With over 760 branch outlets, our branch staff play a critical role in quality service and as such we have devised several means by which branch staff can embrace the changes and own the change agenda. Through the Voice of the Employee forum, senior management is able to engage with branch staff to identify service issues and agree the required resolution. Our complaints -handling policy also encourages staff to aim to resolve complaints at the first point of contact. We actively seek out staff members who are providing exceptional service to customers. These personnel are recognised Bank-wide and rewarded. Across the Bank, all staff understand our zero tolerance policy of unacceptable behaviours towards our customers and they are expected to conform accordingly.

SERVICE DELIVERY

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

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

CUSTOMER SERVICE

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

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

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

OUR CUSTOMER FOCUS

BUILDING STRONG RELATIONSHIPS

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

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

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

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

CUSTOMER SATISFACTION

Interacting with our customers to solicit feedback on our services, their expectations and suggestions on how we can better serve their needs is of utmost importance to us. Hence, we continued with this customer engagement model, through the Bank, and organised four Voice of the Customer forums across the country. This allowed the Bank to have a clear perception of the service issues capable of having a negative impact on the Bank's relationship with its customers and ensured such issues were handled with the attention they deserve.

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

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

COMPLAINT HANDLING

In line with our drive to continually delight our customers, we identified the achievement of service excellence as a very important non-financial priority. Crucial to this is the enrichment of customers' experience through the proactive management of complaints and issues. We respond to requests and enquiries, and resolve complaints, 24 hours a day, seven days a week, through our contact centre and various other channels such as emails via the online platform, the short messaging service (SMS), the Relationship Managers or by walking into any branch to speak to a customer service officer. These are channels through which customers can contact us.

We also took a step further in ensuring customers are aware of all our complaints channels by displaying information about them in all our branches. This includes escalation channels for complaints that are not adequately resolved. To further protect customers, the Bank renders customer complaints to the CBN on a daily basis and is expected to resolve outstanding issues within defined timelines.

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

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

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

OPERATIONAL EXCELLENCE

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

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

Complaints received

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

OUR CUSTOMER FOCUS

FINANCIAL INCLUSION

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

OBJECTIVES IN 2014

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

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

CUSTOMERS

SOCIAL ROLE

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

HELPING TO DEVELOP AND SUPPORT BUSINESSES

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

SPEEDING UP REVENUE COLLECTION

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

GIVING OUR CUSTOMERS BUSINESS ADVANTAGE IN TOUGH ECONOMIC TIMES

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

SUPPORTING THE AGRICULTURAL SECTOR

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

RESPONDING TO CHANGING CUSTOMER NEEDS

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

LOOKING AHEAD

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

SUPPORTING OUR CUSTOMERS WITH A DIVERSE RANGE OF PRODUCTS

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

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

CUSTOMERS

SOCIAL ROLE

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

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

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

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

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

FACILITATING PAYMENT FOR OUR CUSTOMERS

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

ELECTRONIC PAYMENT AND COLLECTION

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

CUSTOMERS

SOCIAL ROLE

SUPPORTING INDUSTRY

FIRSTHEALTHCOLLECT+

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

AVICOLLECT

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

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

CONTRIBUTING TO AGRICULTURE POLICY ADVOCACY

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

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

Being the star and preferred product of customers due to its single-digit interest rate and fairly long-tenured structure, the exhaustion of the CACS fund in Q1 2013 and the prevailing high interest rate in the money market combined to depress the demand for credit in the agricultural sector. As a mark of its footprint in the sector, two FirstBank customers were invited personally by the President and Commander-in-Chief of the Federal Republic of Nigeria to the presidential dialogue at the summit. These customers were the only agro-industrialists and farmers from across the country that featured in the presidential dialogue during the summit.

SUPPORTING OUR CUSTOMERS THROUGH FINANCE SCHEMES

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

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

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

During the financial year under review, we endorsed a Memorandum of Understanding (MoU) with two major oil companies to provide financial support to their contractors and local vendors to the tune of a combined $325 million under our Oil and Gas Contract Finance product. This strategic alliance is in furtherance of the Group's continued support to the oil and gas sector of the Nigerian economy, in which it committed in 2012 to provide $1 billion over a five-year timeframe to provide financial support to the contractors of Shell Petroleum Development Company (SPDC)/Shell Nigeria Exploration and Production Company (SNEPCo) to build capacity.

IMPACTING LIVES AND SOCIETIES

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

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

CUSTOMERS

SOCIAL ROLE

Firstclub is our point-based loyalty and reward programme designed to appreciate customers' patronage across low-medium to upper segments of our customer base.

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

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

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

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

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

2014 PRIORITIES

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

CUSTOMERS

INNOVATIVE BANKING SERVICES

Although the industry has been very uncertain as a result of regulatory interferences, the Group has continued to focus on driving the key strategic objectives of growing service delivery excellence, key product volumes and profitability and thus have sustained our leadership position in the electronic space.

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

A key differentiating factor in the industry is the quality of service provided.

A number of strategic initiatives were employed to strengthen the Group's ATM business in 2013; we improved availability of our ATMs through 24/7 monitoring and improved the accessibility of our ATMs at our branches to ensure both our customers and other banks' customers have access to them.

We believe focusing on our customers is critical to sustaining the business and running a profitable business that delivers returns to our shareholders. We recognise 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 deployed and debit cards issued in the industry, making FirstBank the financial entity with the widest retail footprint in the country. This unparalleled reach makes it convenient for our customers to carry out banking transactions, reducing travel time and cost as we are closest to the customer. Our ATMs dispensed ₦1.7 trillion in 2013, a growth of 23% from the over ₦1.3 trillion dispensed in 2012, with over 71% of the transactions done by our customers.

We introduced a number of innovative products and services, especially in the area of e-commerce.

We introduced a number of innovative products and services, especially in the area of e-commerce – First eConnect and Mobile Financial Services – the Mobile Banking module of the Firstmonie platform. We also completed the project for revamping our Internet Banking solution to meet the increasing demands from users for a more responsive, easy-to-use online banking portal and to improve the mean time to deploy and market new services on the platform through the use of more recent and agile technologies. Our Internet Banking solution was launched in November 2013 and has begun to add significant impetus to the Bank's drive for improved service delivery.

Our Internet Banking offering increases access to banking for our customers and reduces costs-to-serve. For instance, in 2013 customers' transactions on the Internet Banking platform amounted to over ₦378.1 billion, representing about 311% growth from about ₦91.9 billion in 2012. We are determined to continuously improve banking access for our customers and, as a result, FirstBank and FBN UK have upgraded the Internet Banking platform to a more robust system capable of improving the turnaround time of enrolling new customers while offering a better and more appealing customer interface and experience.

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

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

CUSTOMERS

INNOVATIVE BANKING SERVICES

Our mobile payments solution supports deposits, withdrawals, transfers, airtime recharge and bill payment transactions. Through this technology, people with access to mobile phones are able to transfer and receive funds, make payments for goods and services and withdraw cash at agent/merchant locations or banks without having a bank account or leaving their local communities to travel far distances in search of traditional banking outlets/ branches to handle their payment needs as done previously. This has made access to financial activities available anytime, anywhere – beyond normal banking hours.

We are creatively using technology to grant the unbanked and under-banked population in Africa access to reliable, convenient and affordable financial services. Through our Mobile Financial Services offerings, we would offer cross-border remittance services to our customers and further reduce financial market boundaries in Africa, and include people who are today excluded from financial services into the mainstream.

In addition, more ATMs and point of sale (POS) terminals have been strategically 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.

Our earnings from cards and channels grew by about 76% from ₦4.3 billion in 2012 to ₦7.6 billion in 2013. We are convinced that we will continue to record growth in our revenues given the focus on a cashless society and our drive for financial inclusion.

Transactions done across the Group accounted for over 33% of completed transactions, while our issued cards constitute about 31% of total Verve Cards, on the InterSwitch network – the dominant switching and payment processing platform controlling about 75% of the electronic payment market in Nigeria.

The Group closed out the 2013 financial year with 6.46 million issued payment cards, an 82% growth from about 5.93 million cards in 2012, and has continued to maintain its leadership position in this space. Over 87% of these cards are active, which is significantly above the average industry active card rate of 78%.

LOOKING FORWARD

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

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

COLLEAGUES

OUR HIGHLIGHTS IN 2013

- Achieved comprehensive job/cost optimisation via a holistic review of all job descriptions and job competency profiles in the organisation.
- Developed a competency framework that helped the identification of competencies for each job, enabled placement of employees in the right roles and also assisted in the identification of skill gaps.
- Provided more online training in 2013 so that while 80% of our training was delivered in the classroom, 20% was conducted online. This translated into 200% growth in 'cost savings' of ₦1.2 billion against ₦0.4 billion in the preceding year, 2012.
- As recognition for our efforts in the Knowledge Management Space, we obtained the prestigious APQC (American Productivity and Quality Centre) certification.
- Achieved the full cascade and entrenchment of the use of individual Key Performance Indicators (KPIs) to galvanise staff towards making their input to the implementation of the enterprise scorecard.

OUR PRIORITIES IN 2014

- Deploy 360° appraisal in a phased approach via a pilot using our current bank-wide competencies.
- Implement mobile learning bank wide and ensure its full effectiveness.
- Establish and implement key HR guidelines to enable the success of the acquisition and SSA expansion.
- Compensation restructuring for ease of implementation of the Personal Income Tax Amendment Act (PITAM) and International Financial Reporting Standards (IFRS).
- Implementation of the international labour framework.

INTRODUCTION

The Bank's focus for 2013 was to: 'Structure HR policies and practices to strengthen the Bank's global expansion strategy and play strong in the global market', albeit founded on a 'sustainable leadership' earlier built in 2012 through structures and frameworks for talent management, knowledge management, and performance and reward management.

The Bank's HR initiatives have supported its aspirations and strategic priorities and, in addition to ensuring vertical alignment with the corporate strategy, we also did our very best to ensure that the initiatives aligned with 'fit-for-purpose' HR best practices. While there is still so much to do in the area of people management, our aspiration of putting in place structures on which the next 120 years can be built is our inspiration. "A journey of a thousand miles", it is said, "begins with a step in the right direction".

Against this background, the fundamental focus of the Bank in 2013 was to continue the implementation of strategies to drive the achievement of its strategic aspirations with effective talent management/development towards 'flaunting sustainable leadership'.

DRIVING TALENT MANAGEMENT INITIATIVES

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

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

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

In designing this framework, we have positioned the organisation with the following:

- an all-inclusive talent pool/career path framework;
- proper workforce segmentation guidelines;
- a clear career track definition framework;
- a holistic career management framework;
- a detailed assessment centre/skills audit framework; and
- succession planning framework.

COLLEAGUES

Nine-box talent management matrix

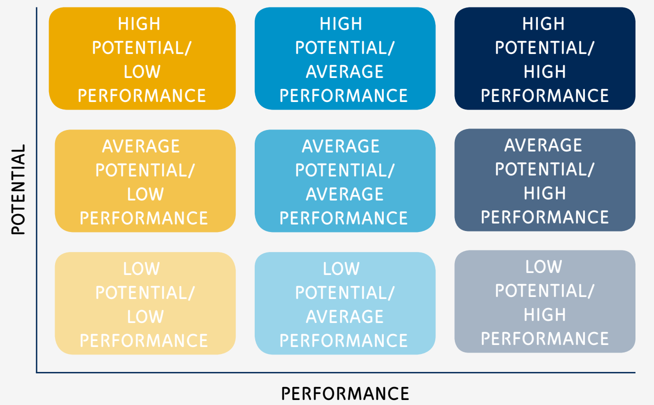
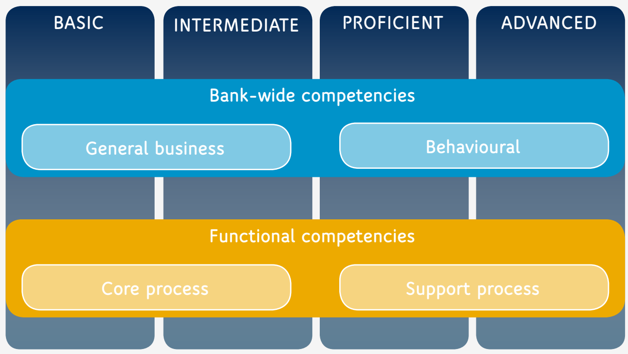


Illustration of competency framework



Job descriptions and job competency profiles were also reviewed using the Hay Methodology and, so far, less than 500 officers within the entire workforce are in jobs above the evaluated grades in addition to jobs that have been ceded to the non-core workforce. This has ensured job/cost optimisation although ultimately the effect is subsumed in the expanded number of jobs (1,000 jobs) and positions. This initiative supported us in the following areas:

- right competencies for job roles;
- correct evaluation of jobs; and
- effective promotion decisions.

Partnering with Deloitte, we also embarked on a workload analysis to review organisational processes that may further be enhanced by automation, outsourcing, standardisation, centralisation, agencies/franchising, offshoring, flex or virtual work modes etc.

BUILDING STAFF COMPETENCIES

In every organisation today, the source of competitive advantage is its people. As such, having the right and quality talents is critical to our continued survival as a business. For us in FirstBank and indeed the Group, it is not sufficient to able to attract and retain the best talents in the industry, we must also be able to design and implement strategies and initiatives to develop their skills and competencies such that they can continue to support the achievement of the overall goals and objectives and also provide us with a competitive edge.

We have therefore designed a competency framework to serve as a guide on how we intend to approach the management of our human resources and development of staff competencies.

The Bank's newly designed competency framework was formally communicated bank wide via the upload on the portal. In all there are 12 bank-wide competencies common to all staff with different degrees of usage according to grade. Essentially, the job competency profiles (specifically for jobs), which are being driven by the competency framework, were further reviewed across SBU/SRF and validated by the business owners. The functional competencies across jobs in the Bank totalled 119 (97 support process competencies and 22 core process competencies).

The validated version was utilised for the first time to assess staff in the 2013 half-year appraisal of the Bank. Functional and bank-wide competencies were attached to all jobs on the People First Management System (PFMS) and ratings attached to each competency. Supervisors rated their direct reports using this rating.

Our recruitment and trainings in 2013 were fully aligned with the framework. Competency-based assessment centres were carried out with simulations, role play and case studies to support competency-based interviews as deemed appropriate.

The training curriculum for First Academy across the various schools was also drawn up based on the competency framework. We are currently testing the cascade of the competencies into appraisals so that the end-of-year appraisals will be a more robust platform on which to base our talent management processes.

It is important to note that the CBN has also put in place a mandatory Competency Framework for Banks, which we have also incorporated. Closing skill gaps based on these competency requirements has been the main focus of our training curriculum. We are, however, engaging line managers in their role in talent nurturing.

FIRST ACADEMY – HUB FOR TALENT DEVELOPMENT IN SUB-SAHARAN AFRICA

TOWARDS SERVICE IMPROVEMENT

In 2013, we designed/developed a robust Service Excellence Curriculum, which was driven by a duly constituted Service Excellence Faculty comprising First Academy Internal and External Faculty in conjunction with the Service Delivery Excellence Unit. The Service Excellence Curriculum is to be rolled out as a blended programme – starting from January/February 2014 after the sign-off of the FirstBank Service Steering Committee.

TOWARDS GLOBAL EXPANSION

We rolled out two intensive service management training programmes - as part of the Banking Services School (launched on 8 July 2013), for branches identified with customer services issues by the Corporate Transformation Branch Experience Improvement Project.

COLLEAGUES

TOWARDS TECHNOLOGICAL DEVELOPMENT

To address the dearth of product knowledge among the relationship marketers, we introduced the Mobile Learning with Knowledge repository function to facilitate access to FirstBank product knowledge and features, as well as business-critical information, by our mobile workforce in the field, in real time.

To this end, we have successfully installed and tested a fully integrated Mobile Learning Platform that allows all e-learning courses to run/play from mobile devices. There was also a need to change the methods by which training is delivered from 95% classroom-based and 5% online to 80% classroom-based and 20% online, so as to save training cost (cost containment) on First Learn Platform. First Learn (PFMS/OLM) capacity was enhanced to handle more concurrent users. This enabled us to drive more online training in 2013 and we were able to conduct 20% of training online and 80% in the classroom. This translates into 200% growth in 'cost savings' of ₦1.2 billion against ₦0.4 billion in the preceding year, 2012.

In conjunction with the project teams, a total of 10,606 and 305 staff were trained on Finacle 10 and Finnone 3.9 respectively to enable the go-live of both applications in June and November 2013.

SCHOOLS FOR FIRSTBANKERS

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

- **Foundation School:** This school provided basic banking knowledge for graduate hires in 2013.
- **Supervisory School:** This school was targeted at two categories of staff: those with supervisory responsibilities and those who will soon assume supervisory responsibilities.
- **Leadership Schools:** In 2013, we ran trainings for staff in leadership positions and taught general leadership principles in the Bank.
- **Specialised Schools:** In 2013, we added Credit, Operations, Treasury, People Management and Sales force schools to our specialised school portfolio. We are particularly proud of our Leadership Schools with Pan African, Cornell, INSEAD and Michigan Ross Universities in signature programmes such as Blue Ocean Strategy.

RETURN ON TRAINING INVESTMENTS

All our initiatives have been carefully tailored to provide solutions. We achieved the following for the period January-December 2013, which is a significant improvement when compared to the corresponding period in 2012.

Performance metrics	2012	2013	Comments
Training spend per hour: $\frac{\text{Training cost}}{\text{Training hours achieved}}$	₦4,446.81/hour	₦2,611.84/hour	A 41% reduction in the amount spent per training hour/credit was achieved. Initiatives such as the Internal Faculty, structured leadership development, e-learning and mobile learning will further reduce training spend/hour.
Training cost per FTE: $\frac{\text{Training spend}}{\text{Number of FTEs}}$	₦130,995.53	₦76,204.66	A 42% reduction in the training costs per staff member (at the same level of activity) was achieved. This directly impacts on staff costs, fostering the Bank's ability to achieve the desired cost-to-income ratio of 55%.

Overall a training coverage of 93% was achieved between January and December 2013.

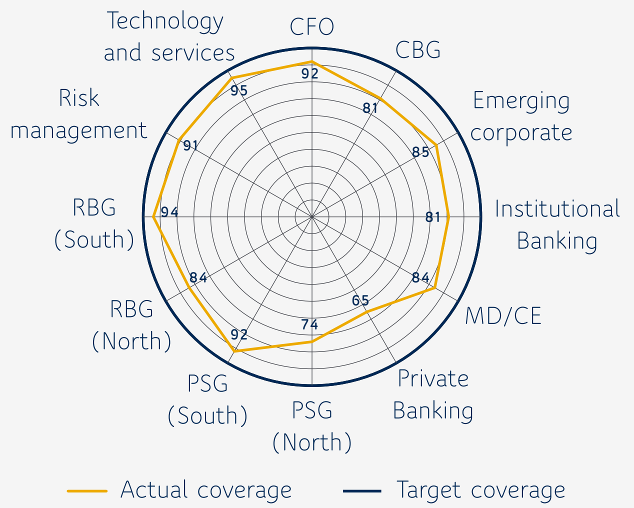
$$\frac{\text{Number of staff members exposed to learning opportunities}}{\text{Total number of staff}}$$

The graph opposite shows the percentage of staff covered in terms of actual training for the financial year under review vis-à-vis the target percentage training coverage.

We have contributed to improvements in service ratings, product knowledge, revenue generation and cost optimisation through the portfolio of tailor-made programmes and through building in pre- and post-measurement metrics to reflect business impact. For example we have had over 12,000 staff go through service quality trainings over the three-year horizons. These, together with our case study review sessions with BSG and RBG, have been particularly valuable. Also a Service Training Curriculum has been drawn up for the Service Delivery Excellence Team and we are working on an e-programme together with them to reinforce their efforts.

While we still feel there is room for improvement, we will continue to support our current efforts in 2014 with service re-orientation campaigns and role modelling.

Actual vs target training coverage across directorates



COLLEAGUES

IMPLEMENTING FRAMEWORKS TO DRIVE STAFF DEVELOPMENT

KNOWLEDGE MANAGEMENT FRAMEWORK

The Knowledge Management framework was developed in 2013 and, while being fine-tuned, it is achieving exciting results. Such initiatives as the storytelling initiatives, communities of practice, knowledge portal, case study initiative and Project Retrospect were operational in 2013. Given that FirstBank is a legacy institution, and given the nature of the current workforce demographics, it is a critical tool to preserve knowledge.

We had two major storytelling sessions in 2013.

Akinwumi Fanimokun
Head, Technology & Processes

Tim Bolade
Head, General Services

As recognition for our efforts in the knowledge management space, we have obtained the prestigious APQC (American Productivity and Quality Centre) certification.

SUCCESSION PLANNING FRAMEWORK

In 2013, the Succession Planning framework was developed taking into consideration modalities from the Talent Management framework.

The level-critical job roles have been selected and the framework's process approved as shown below:

- review and identification of critical roles/jobs;
- identification and selection of potential successors;
- matching of identified potential successors to the critical jobs;
- calibration sessions and ranking in order of readiness to take on the critical role;
- assessment of bench strength and review of areas of vulnerability; and
- review of schedule for endorsement.

Phase 2 of the framework, which entails identification and review of competency/readiness gaps and implementation of learning/developmental programmes to bridge learning/readiness gaps as well as communication of the succession plan to incumbents/relevant stakeholders, will kick off in 2014.

A properly implemented Succession Planning framework provides a sense of direction, stability and expectations for all key stakeholders by aligning strategic goals and human resources to enable the 'right people in the right place at the right time' to achieve desired business results.

INSTITUTING AN EFFICIENT PERFORMANCE MANAGEMENT SYSTEM

It is our aspiration and Management's mandate to ensure that the performance management system truly triggers the appropriate behaviours, serves as a developmental tool and aligns individual performance with corporate performance. Our achievements in the year include:

- the cascade of KPIs for individuals - the engagement sessions and modalities;
- organisation and coordination of calibration sessions after the end-of-year appraisals;
- creation of a zonal approach to aspects of performance management to encourage understanding of the different business segments and for flexibility;
- series of interactive engagements with Business Performance Management (BPM) on how to commence and run the engagements for the cascade session by the use of a framework; and
- identification of change requirements and the upgrade of the appraisal process.

The FirstBank Annual Merit Awards were also planned and completed with the theme 'Ageless', which was to depict our 120 years of existence while the concept of 'pop hip hop' provided the link between different generations of staff in the Bank. A number of teams and individuals were rewarded and the awards have served as incentive and reward schemes to encourage high performance in the Bank.

COLLEAGUES

EMPLOYEES AT THE FIRSTBANK ANNUAL MERIT AWARDS


Some top level executives present at the event


The GMD (in front) walking into the event


FirstBank staff strike a pose


The guest artiste thrilling staff with his performance

ENGAGING OUR EMPLOYEES TO ACHIEVE THE DESIRED CULTURE AND VALUES

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

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

- change management;
- brand identity unification (based on new acquisitions);
- poor staff attitude;
- poor staff knowledge; and
- poor employee engagement.

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

CHANGE MANAGEMENT

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

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

COLLEAGUES

BRANCH MENTORING – 'ADOPT A BRANCH' PROJECT

The Branch Adoption and Mentoring Framework was designed to complement other FirstBank initiatives for improving service delivery and eliminating issues of poor staff attitude across the organisation.

Branch mentoring is an initiative whereby very senior executives and heads of departments hand-hold branches and take them through an experiential process of entrenching our values, service delivery aspirations and superior performance into the Bank's DNA.

25 branches were selected for mentorship and several series of engagements commenced within the course of the year.

The Human Capital Team was present in a few inaugural meetings between branches and their mentors. Some of these include Toyin Olowu branch, Abeokuta branch, Kubwa Abuja branch, Bariga, Epe, Abule-Egba and Iwo Road (Ibadan) branch. Liaisons have been maintained with all other branches.

Issues identified by start-off reports were monitored and have been addressed by branches, and feedback reports on progress indicate some of these issues - particularly ambience and physical features – have been addressed.

ENGAGEMENT SURVEYS

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

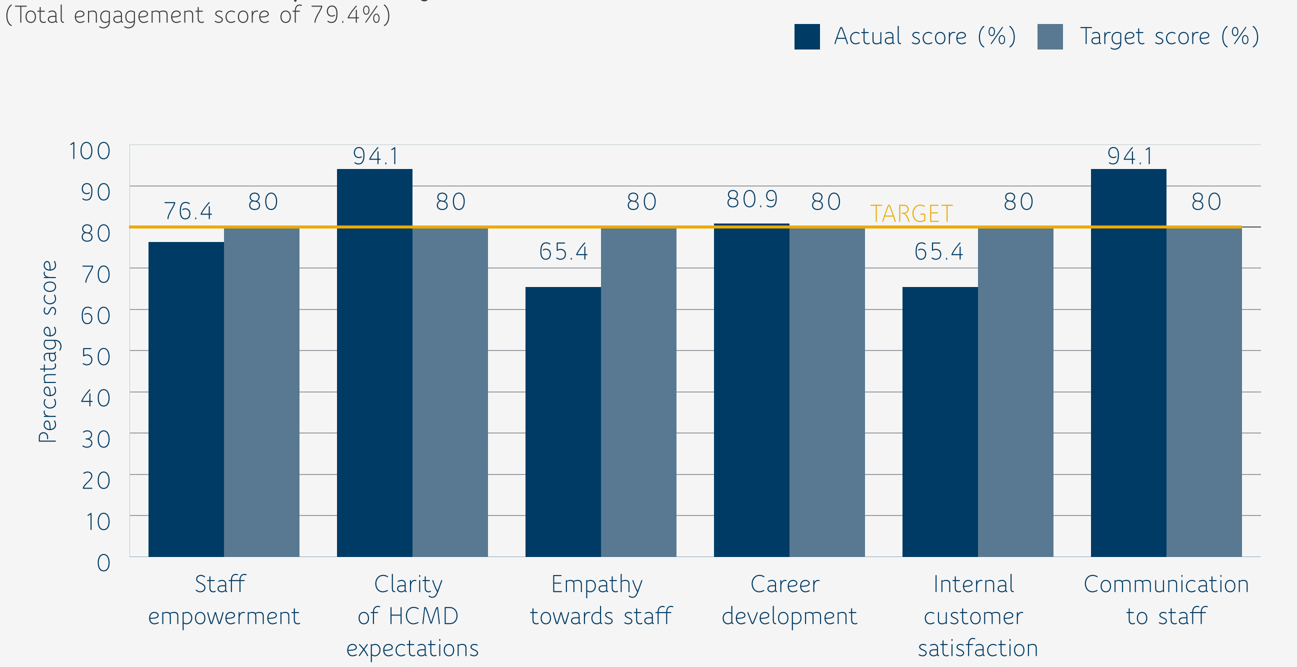
A total engagement score of 79.4% was achieved, which is close to our benchmark target score of 80%. Key issues noted from comments include: favouritism; politicking and backstabbing; lack of clarity with regard to the just-concluded appraisals; work-life balance; distrust; 'jerk attitude'; and inability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

In response to the results of the Gallup survey, we identified tailored solutions and recommendations to address the issues raised:

- regional policy roadshows to reinforce our policy and provide clarification in some key areas;
- the 'Knock Knock' campaigns for Head Office departments;
- regional stakeholders sessions;
- periodic/structured visitation plan by our business consultants;
- 'jerk behaviour' campaigns;
- branch adoption and mentoring framework to influence attitude and service excellence;
- revamped village meetings;
- periodic telephone conversation with RSMs and ASMs;
- counselling sessions for staff who have spent four years and above on a grade;
- working in creative ways to implement work-life balance with emphasis on annual leave;
- encouraging staff to exploit internal adverts for new job opportunities so that they can widen their professional experience; and
- put in place the People Management School by First Academy which will take managers through the evolution and importance of people management.

The Gallup survey clearly states how employees feel and, as this survey is an international standard of internal measurement, we have chosen to adopt it and build on it progressively to measure feedback bi-annually.

Deductions from the Gallup Q12 survey
(Total engagement score of 79.4%)



COLLEAGUES

DIVERSITY AND INCLUSION

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

- The Bank has a diversity team responsible for ensuring it has a diverse workforce and an inclusive workplace, with opportunities for the talents of all employees to create value, deliver a superior client experience and develop innovative solutions for the markets and the communities we serve. We have set aside a Diversity & Inclusion Day to create awareness and ensure an inclusive workplace/work culture.
- As part of recruitment and posting, this is subtly worked into selections without dampening the meritocracy that needs to be entrenched in the system. For example, this year prior to the graduate test we deliberately carried out a campaign in a wider set of universities that yielded a set of graduates across the nation that sat for the entry test.
- We have created a working environment where the various workforce generations will thrive. We have also reviewed the gender policies and demographics.
- We have a gender split of 61% male and 39% female in the workforce as a whole, while at senior management level the split is 64% male and 36% female. At the Board level, the gender diversity ratio is 84% male and 16% female.
- The diversity objective of the Bank is to be a recognised industry leader in workforce diversity and leverage diversity for the growth of FirstBank and the success of the customers and communities we serve.

POSITIONING THE ORGANISATION THROUGH EMPLOYEE BENEFITS AND WELLBEING

COMPENSATION PHILOSOPHY AND STRATEGY

In 2013, we designed various initiatives to align our compensation strategies with the workforce segmentation to ensure staff in different functions/ segments are motivated to higher performance. We designed a compensation strategy to substitute long-term incentives with staff optional schemes. We considered various options that will increase employee value proposition while retracting long-term options that are no longer sustainable. A major step we took this year was the discontinuation of gratuity payment, and we commenced the design of a long-term incentive plan to encourage staff to voluntarily and personally put funds aside towards their retirement.

In order to recommend suitable options to Management, we participated in two remuneration surveys with Hay Group and KPMG. This was to establish the Bank's current position in comparison with contemporary banks. The Hay Group result shows that FirstBank is below the 50th percentile of the participating banks - African Export-Import Bank, African Finance Corporation, African Reinsurance Corporation, FirstBank, Stanbic IBTC and Standard Chartered Bank, Nigeria.

The compensation survey was done to determine the Bank's positioning within the industry, keeping in mind our desire to be the employer of choice.

- From KPMG's 2013 Financial Service Institution (FSI) report, FirstBank's total remuneration to market average hovers between the 51st to 71st percentile and 5th to 7th positions in the market. This shows that our remuneration is below the market average. 16 banks excluding UBA and Zenith participated in this year's survey.
- While the analysis shows FirstBank to be within the 87th percentile in terms of performance and financial size, its remuneration (which should be a source of motivation/driver of improved productivity) is between the 51st and 71st percentiles of the market.

Also, while FirstBank is placed 2nd to Guarantee Trust Bank (GTB) in financial size and performance, the Bank is placed between 5th and 7th positions. In view of the above, the Bank will continue to ensure that it develops and implements other innovative and creative initiatives aimed at driving employee motivation and engagement.

HEALTH AND WELLBEING

The Occupational Health & Safety Management System (OHSMS) certification process was commenced as a demonstration of Management's commitment to employees' health and safety. This is expected to go a long way in enhancing business continuity and performance. The process has been approved and the final stages of the process are ongoing.

The FBN medical scheme was reviewed bank-wide. This included an assessment of local and international healthcare providers and managers. A comparative analysis done on 15 banks revealed that over 55% engaged the services of Health Maintenance Organisations (HMOs) while about 25% adopted a mixed medical scheme. A bank-wide inspection/review of approved hospitals was embarked upon with a view to retaining/appointing standard facilities and maintaining quality services.

OUR SUPPORT FOR THE GROUP/SUBSIDIARIES IN 2013

GROUP HR OPERATING FRAMEWORK

A four-tier support structure has been approved and is already operational:

- **Tier 1** - support targeted at the International Banking Group and representative offices. This is through guidance and advisory support on people management issues.
- **Tier 2** - support targeted at FirstBank subsidiaries (local and international). This is a community of practice (i.e., heads of HR/officers with overall responsibility for the HR function in the respective subsidiaries).
- **Tier 3** - support targeted at FBN Holdings Plc, where the Human Capital Management Department (HCMD) provides strategic and transactional support to FBN Holdings Plc.
- **Tier 4** - support targeted at the FirstBank Group, which focuses on FBN Holdings Plc subsidiaries and the HR Operating Committee.

FIRSTBANK HR GOVERNANCE FRAMEWORK

- Launched the HR Community of Practice (CoP) to support the HR direction across the subsidiaries. The key objectives of the committee are: to influence and support the implementation of HR initiatives; and to monitor and report HR performance, while ensuring the realisation of the benefits of synergies.
- Finalised the CoP Charter to ensure the committee has an approved governance framework guiding its operations.
- Meetings are held on the last Thursday of every month (FBN Bank UK and BIC Congo join via virtual medium).
- Achieved the articulation and documentation of HR strategy, strategic initiatives and scope for the people function (for the respective subsidiaries).

HCMD GROUP SUPPORT STRUCTURE

- Dedicated HCMD team to provide support and advisory role to subsidiary HR.
- Ongoing collaboration and support (where subsidiaries draw on the capability of FirstBank HCMD) in the areas of recruitment, competency/ capability development, organisational design etc.

COLLEAGUES

KNOWLEDGE MANAGEMENT AND CULTIVATION FRAMEWORK

- Obtained approval for Knowledge Cultivation framework and the pioneer session on Akeem Oladele of BIC, Congo.
- Project Retrospect session held in April 2013, which served as a formal process to harvest critical learning points using BIC as a case study. The session captured real issues, learning points and key improvement areas.

STAFF ASSIGNMENT AND REPATRIATION FRAMEWORK

- The approved framework outlines the terms and conditions applicable throughout the assignment period (pre-assignment, assignment and repatriation). The framework will ensure that:
  - staff are well prepared for the assignment and are clear about their roles and responsibilities;
  - staff are assisted to quickly adapt to their new environment; and
  - improved re-integration strategies are implemented.

PEOPLE INTEGRATION PLAN (NEW LOCATIONS)

- The approved people integration plan highlighted the key people and organisational related risk (people and cost, structure, talent, regulatory, culture and engagement, and process and policy) and corresponding risk mitigation strategies. The next steps will be to work with the Integration Committee to implement.
- Interim People Management Plan is currently being implemented. Four HCMD officers have been deployed to the various locations to provide support on people management issues.
- Held engagement sessions with union members of the key location (Ghana) in order to allay fears and apprehension.

CONCLUSION

For the 2014 financial year our plans will hinge on the HCMD strategy, with our focus on the following initiatives to serve as drivers for future growth in line with the Bank's new strategy horizon. Key for us will be implementation of a comprehensive resourcing strategy, commitment strategy, international expansion strategy and talent management strategy.

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

Our targets for the Group in 2014 include the following:

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

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

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

COMMUNITIES

Under communities support, we focus on four key platforms. These are education, economic empowerment and environment.

Our key programmes under these platforms include FutureFirst; Educational Endowment; Infrastructure Development; Youth Leadership; Hope Rising and Employee Giving and Volunteering.

INFRASTRUCTURE DEVELOPMENT

FirstBank's Infrastructure Development programme is aimed at promoting and supporting infrastructure development in identified areas such as schools, hospitals and environmental infrastructure projects. This recognises the place of infrastructure in facilitating economic performance and improving quality of life. The support projects include the Faculty of Arts building in the University of Port Harcourt; the Entrepreneur Centre in the University of Abuja; the sports pavilion for Queens College and the squash court for Kings College; the Administrative Block for the Jesuit Memorial College; a Red Cross Clinic in Ibadan and the Bank's Ivory Park in Banana Island.

Faculty of Dentistry Building, University of Nigeria Nsukka

HOPE RISING

The Hope Rising initiative is one of the key programmes of the Group designed to empower people living with disabilities. Its objectives are engendering inclusivity and diversity through education, advocacy and enlightenment; skills acquisition through training; and inclusive events. Our main focus is creating awareness about Down's syndrome and how to live with it. This is enhanced by the *Hope Rising* drama series which highlights the challenges of Down's syndrome, explores efforts at combating the disorder and also provides a platform for advocacy and public enlightenment.

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

FUTUREFIRST DRIVING FINANCIAL LITERACY AND CAREER COUNSELLING FOR YOUNG ONES

FutureFirst Career Counselling and Financial Literacy event for secondary school students

The FutureFirst programme is designed to achieve the main objective of the youth strategy, which is to engage youth, change their perceptions and encourage a banking relationship with FirstBank. Through Career Counselling and Financial Literacy, FutureFirst focuses on empowering secondary school students between 13 and 17 years old, from junior secondary school 3 (JSS) to senior secondary school 2 (SSS). The key objective is to help students develop fulfilling careers and better equip them with the tools and knowledge for long-term financial independence.

The FutureFirst programme was launched in the last quarter of 2013 in partnership with Lagos Empowerment and Resource Network (LEARN) and Junior Achievement Nigeria (JAN). As with all our programmes, FutureFirst is also implemented through a structured Employee Volunteering Scheme (EVS) where our employees offer their time and knowledge to assist high school students in Lagos State with financial literacy and career counselling. Over 1,000 students have benefited from the programme and our target for 2014 is to enrich the lives of 10,000 students.

EDUCATIONAL ENDOWMENT

EMPOWERING YOUTH THROUGH EDUCATION

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

COMMUNITIES

YOUTH LEADERSHIP

INSPIRING FUTURE LEADERS

The Youth Leadership programme is targeted at young people between 14 and 35 years old. The key objectives of the programme are providing a platform for young people to imbibe a deeper understanding of the necessary but rewarding sacrifices and qualities of great leadership; equipping them with the relevant tools and skills to become great leaders; opportunities for them to participate in developing the country through sustainable community development programmes; mentorship and value-based leadership.

Our current partners are the Nigeria Leadership Initiative (NLI) and Leadership, Effectiveness, Accountability and Professionalism (LEAP) Africa. We have partnered with NLI since 2008 and have been committed to bridging the knowledge gap between NLI fellows and the young Future Leaders associates. In December 2013, we partnered with LEAP Africa on a youth development programme where staff of FirstBank were trained as trainers of life, leadership and facilitation skills; which they will be expected to cascade to at least 30 young people between 14 and 35 years old within their networks.

Staff volunteers who attended the youth development training programme were exposed to the in-depth knowledge, skills and tools of effective leaders and received specific instruction on self-discipline, mastering potential, project planning and management. About 1,000 young people will be further empowered through this initiative as FirstBank staff volunteers share their knowledge and impart leadership skills to young Nigerians in public secondary schools using the LEAP Africa training curriculum.

NLI class of 2013 - Future leaders seminar

EMPLOYEE GIVING AND VOLUNTEERING

MAKING THE DIFFERENCE

The Employee Giving and Volunteering scheme is a platform FirstBank is currently using for its employee volunteering engagement strategy, enabling the Bank to effectively 'give back' to employees and stakeholders through varied corporate responsibility initiatives, and it is an integral element of the FirstBank corporate culture. This approach complements business goals and values as it builds the morale of our workforce. It creates a suitable environment for team building and leadership activities and opportunities. More importantly, it addresses and helps to alleviate community development challenges, as well as benefiting our employees.

Such employee-driven programmes, executed in fun ways, connect the FirstBank family with the community, while also addressing pressing social issues, creating room for partnerships and giving access to valuable resources and skills. They generate a platform for new ideas, talents and concepts, opening clear lines of communication between the different sectors of the community and the Bank.

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

EVS visit centre for destitute development

Breakdown of the corporate social responsibility (CSR) spend

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

COMMUNITIES

Scorecard for our community development programme

Objective and programme	What we have accomplished this year	Measure	2013	2014 target
FUTUREFIRST: Ensure financial literacy and career counselling for young ones	Support of Best Man Games and Junior Achievement Nigeria (JAN) in driving financial literacy through Monopoly Partnership with Lagos State Empowerment & Resource Network (LEARN) in implementing career counselling for secondary students Partnership with JAN in driving financial literacy for secondary school students	No of students impacted	2,000	6,000
INFRASTRUCTURE DEVELOPMENT: Promote and support infrastructure development in schools and in society	Built a sports pavilion for Queen's College, Lagos	No of students benefited	11,000	13,000
	Built an administrative block for Jesuit Loyola College, Port Harcourt Built a squash court for King's College, Lagos	No of projects	3	3
EDUCATIONAL ENDOWMENT: Enhance academic excellence towards long-term development of Nigeria	Research: FUTA: technical framework for combating cybercrime in Nigeria Federal University of Agriculture, Makurdi: developing sustainable weed management and soil improving low-input technologies to improve food security and reduce poverty among resource-poor farmers in Benue State, Nigeria	% of students impacted	6,000	6,500
HOPE RISING: Engender inclusivity and diversity through education, advocacy and skills acquisition	Inclusive events: Impact series	Numbers of people benefitted	400 students	500 students
	KidsFirst launch with LEGO NLI Future Leaders seminar		50 students	Radio drama series in partnership with Down's Syndrome Foundation
	Hope Rising workshop for health writers International Day for Persons with Disabilities – lecture and social dialogue Partnership with Down's Syndrome Foundation: awareness day		450 students	
YOUTH LEADERSHIP: Provide a platform and relevant tools for youth to acquire the qualities of great leadership	Partnership with NLI: Future Leaders seminar	% of positive feedback from participants	86%	90%
	Partnership with NLI: Guest Speaker forum		85%	90%
	Partnership with LEAP Africa: Youth Leadership development programme		90%	95%
EMPLOYEE GIVING AND VOLUNTEERING: Provide a platform for employee giving, volunteering and engagement	Volunteering on Future First, Youth Leadership programme and orphanage visits to Port Harcourt, Abuja and Lagos	No of volunteering hours	23,415	33,400

FUTURE GOALS FOR 2014

Our corporate responsibility programmes are long term and align with our corporate responsibility strategy. While we carry out a yearly review based on our targets and goals, we will conduct a detailed review of the programmes at the end of 2016.

As in 2013, our priorities will be to drive our key corporate responsibility programmes.

COMMUNITIES

RESOURCE EFFICIENCY

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

CENTRALISED PROCESSING CENTRE (CPC)

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

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

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

PRINT OPTIMISATION

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

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

BRANCH PROFITABILITY ENHANCEMENT PROGRAMME

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

In addition, environments prone to high security threats and locations with low viability have been identified and earmarked for closure or downgrade in order to preserve lives and property and enhance shareholder value. We are taking further steps towards resource efficiency by partnering with Mobile Financial Solutions, in working out a model wherein Firstmonie and agent banking will be leveraged on to promote financial inclusion. Additionally, we plan to explore the benefits derivable from the use of these Firstmonie agents to solve the problem of overcrowding at identified branches, thereby enhancing service delivery.

USE OF TELEPRESENCE LOCATIONS FOR MEETINGS

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

PAPERLESS MEETINGS

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

POWERING-DOWN TIMERS IN THE OFFICE BUILDING

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

FLEET MANAGEMENT

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

CORPORATE GOVERNANCE

First Bank of Nigeria has a well-defined corporate governance framework in place to support the Board's aim of achieving long-term and sustainable shareholder value.

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CHAIRMAN'S STATEMENT

Prince Ajibola Afonja
Chairman

HOW DO WE GOVERN FOR LONG-TERM SUSTAINABILITY?

Across the different dimensions of our operations, and especially so in matters of governance, FirstBank's overarching imperatives include a constant search for a balance that optimises stakeholders' expectations. Inevitably, as this means we must respond to changes in our operating environment, we continued to reposition the business accordingly. In the review period, fundamental demand trends remained intact across the domestic economy. Fuelled by the natural financing needs of an expanding economy, our businesses focused on the needs of a burgeoning consumer segment. In addition, we continued to expand our businesses' cross-border frontiers into regions with attractive trade flows with Nigeria as well as growth prospects for their respective domestic banking industries.

ADOPTION OF THE HOLDING COMPANY STRUCTURE

The change in the business operating structure of First Bank of Nigeria Limited ('Bank', 'Banking Group', 'FirstBank' or 'Group') in mid-2012, to the holding company system, resulted in FirstBank being the arrowhead for the Commercial Banking business of the FBN Holdings Group. The FirstBank Group comprises eight subsidiaries operating in banking, pensions and mortgages, making it one of the largest financial services groups in Sub-Saharan Africa, excluding South Africa. FirstBank currently has business locations in London, Johannesburg, Paris, Beijing, Abu Dhabi and the Democratic Republic of Congo.

In November 2013, we expanded our international presence in four West African countries with the acquisition of the West African assets of the International Commercial Bank, comprising operations in Ghana, Sierra Leone, Guinea, and the Gambia. A broader stakeholder universe imposes additional pressure on the proper governance of our subsidiaries, especially through the conflation of idiosyncratic governance expectations in these new jurisdictions with established practices in the Group. We are addressing these concerns by seconding top management staff already immersed in the 'FirstBank way' to the boards of the new acquisitions.

As a Board, we are committed to implementing initiatives that improve corporate governance for the benefit of all stakeholders and to keeping our governance practices in line with international best practices.

THE GROUP GOVERNANCE FRAMEWORK

The Group operates a governance framework that enables the Board to balance its role of providing oversight and strategic counsel with its responsibility of ensuring compliance with regulatory requirements. Within this context, we are also concerned to ensure the Bank's compliance with acceptable risk-tolerance parameters in a manner consistent with our overarching aim of sustaining and enhancing stakeholders' value. The Board continues to monitor the risks inherent in our business, and in the past year, reviewed our credit policies and the product programmes guiding our retail business to reflect changes in the dynamics in certain sectors of the economy. In addition, we strengthened our business continuity management practices, paying particular attention to further entrenching the culture and shared values of 'passion, people, partnership' within the company.

The Group operates in highly regulated industries, and in compliance with applicable legislation, regulations, standards and codes, including transparency, accountability and disclosure, which remain essential characteristics of FirstBank's culture. As a Board, we have strived to maintain a strategic balance between risk, growth and performance. 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 global trends that have seen banking industry regulation incorporate macroprudential policy making into the financial services sector's regulatory ecosystem, the Central Bank of Nigeria (CBN) increased the cash reserve requirement for public sector deposits as it focused more on moderating industry liquidity. The larger part of the regulatory response function in the review period was taken up by a clear trend towards rising consumer protection. Indeed, the imminent implementation of Basel 2 and 3 suggests a further heightening of the industry's regulatory and compliance risks.

On the back of these, we have had to rethink our policy response function, and to re-calibrate our businesses differently, particularly against the backdrop of heightened competition. The CBN has made significant progress in its drive towards the implementation of its risk-based supervisory framework, aimed at strengthening the overall fabric of the financial sector, and, in particular, banking. The apex bank's continued concern with increasing liquidity in the banking system has filtered through to domestic prices, especially the naira's exchange rate, and we saw it raise the cash reserve requirement on banks' public sector deposits. The resulting constraint on the public sector business meant that we will have to redesign our business model, as part of a process of responsiveness to environmental stimuli engineered into our response function.

The lessons from the Great Recession indicate renewed emphasis by the CBN on financial stability, going forward. This will require further recourse to the design and implementation of macro-prudential regulation of the domestic banking space. The short- to medium-term prognosis is of a tighter regulatory space, along with the traditional concern with price stability.

In 2013, the importance of observance of good corporate governance practices grew within the banking industry and, indeed, the national psyche, as may be discerned in the attempts by the Federal Government to develop a universal code of corporate governance applicable to all sectors and industries in the country.

Similarly, the Nigerian Stock Exchange (NSE) has commenced a corporate governance rating system wherein listed companies are ranked based on their corporate governance compliance. FirstBank's parent company, FBN Holdings Plc, is indeed one of the pilot companies volunteered to kick-start the project. This underscores the importance the FirstBank Group places on transparency, disclosure and accountability.

CHAIRMAN'S STATEMENT

OUR GOVERNANCE FRAMEWORK

First Bank of Nigeria's major subsidiaries - FBN Bank (UK) Limited, First Pension Custodian Nigeria Limited, Banque Internationale de Crédit (BIC), FBN Mortgages Limited and The International Commercial Bank West Africa in Ghana, Guinea, Sierra Leone and the Gambia – have their own distinct boards and take account of the particular statutory and regulatory requirements of the industries they operate in. Our policy is to align the respective governance frameworks of our subsidiaries with those 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 the Board. More information on this can be found on pages 108-117 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 proceedings at meetings allowing for extensive deliberations on key issues. In addition, the non-executive members of the Board have access to management and other subject matter experts, as the need arises, in order to improve their overall understanding of issues being discussed and their ability to review constructively. The Board plays an active role in strategy development and continuously monitors implementation to drive improved performance.

Overview of Board and Management Committees and Chairmen

- Board Credit Committee Mahey Rasheed, OFR
- Board Finance & General Purpose Committee Ebenezer Jolaoso
- Board Audit & Risk Assessment Committee Ambrose Feese
- Board Governance Committee Ambrose Feese
- Executive Committee Bisi Onasanya
- Management Committee (General) Bisi Onasanya
- Management Committee (Credit) Bisi Onasanya
- Assets & Liabilities Management Committee Bisi Onasanya
- IT Steering Committee Bisi Onasanya

The Board is a well-diversified organ of the Bank, comprising distinguished individuals of varying ages, possessing requisite experience in various fields of endeavour ranging from private to public service, legal, entrepreneurship, accounting, finance, information technology, human resource management, etc. Each Board member brings valued perspectives and expertise to the Board's deliberations. This board diversity is considered a strategic advantage 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

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 environmental behaviour, workplace practices, corporate social responsibility, and more. We have continued to improve the quality of disclosure in our operations, interim reports 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.

In line with best-in-class global transparency and disclosure standards, the Bank reports using the International Financial Reporting Standards (IFRS). The adoption of IFRS further enhances shareholder value and further encourages 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 Standards Board and the Financial Reporting Council of Nigeria.

Our annual reports are very detailed and well thought through, with the intention of providing users of the reports 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 the annual report by strengthening the discussion of governance and including a section on our business model, to improve overall understanding of our business.

INCREASING REGULATORY FOCUS ON GOVERNANCE

The Exposure Draft of the Revised Code of Corporate Governance for Banks (Exposure Draft) by the CBN 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. Although not yet promulgated, the Exposure Draft reflected a leaning by the apex bank towards entrenching increased regulatory oversight of 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 remain:

- 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, other applicable regulatory requirements impacting the corporate governance space are provided for in the Companies and Allied Matters Act (CAMA), the Securities and Exchange Commission (SEC) Act and the Banks and Other Financial Institutions Act (BOFIA). In addition, the Code of Corporate Governance issued by the Securities and Exchange Commission (SEC Code), which regulates all corporate governance issues involving listed and public companies in Nigeria, is of persuasive influence on the Group's corporate governance practices.

CHAIRMAN'S STATEMENT

2014 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:

1. transform the branch into a best-in-class service and sales machine;
2. develop a Relationship Manager sales excellence programme;
3. launch an integrated cost-containment programme;
4. build a distinctive transaction banking capability;
5. be the commercial bank of choice;
6. drive aggressive non-performing loans (NPL) management; and
7. aggressively pursue a service excellence programme.

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. It is our intention as a Board to ensure that our standards of corporate governance, accountability and disclosure meet and exceed regulatory demands and threshold.

I, on behalf of the Board, pledge to ensure continued adherence to global best practices and will remain unrelenting in the short and long terms in our commitment to the observance of good corporate governance practices to ensure our business model remains sustainable.

KEY GLOBAL TRENDS IN CORPORATE GOVERNANCE

Following thorough ongoing reforms of the domestic governance space, corporate governance infractions were not common in the period covered by this report. Nonetheless, compliance challenges have arisen as diverse regulators have tried to strengthen the regulatory space. This means broadening the governance remit to include monitoring of the extent to which work ecosystems have been structured to promote rule-based conduct. At FirstBank, this challenge manifests at two levels. First, ensuring that compliance functions do not deteriorate into box-checking routines; and second, to clearly delineate the goals of corporate governance. Increasingly, it is obvious that the Board and senior management's responsibility for good governance is a collective effort to strengthen both reporting and compliance mechanisms.

BOARD COMPOSITION AND DIVERSITY

Some countries have set diversity targets with a specific timeframe, 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 is 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 2014 – continuing the trend of 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.

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.

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, by investors, employees, regulators, competitors, customers and communities, and is factored into their investment, business, purchasing and employment decisions.

KEY GLOBAL TRENDS IN CORPORATE GOVERNANCE

CORPORATE GOVERNANCE DEVELOPMENTS IN NIGERIA IN 2013

With its ever-dynamic banking policies since its creation in 1894, FirstBank has maintained its pre-eminent status as Nigeria's largest, leading and most diversified bank, now operating a holding structure providing a spectrum of financial services covering commercial banking, investment banking, insurance and mortgage banking, and with a total assets base of ₦3.2 trillion, customer deposits of ₦2.6 trillion and 867-business locations in Nigeria. The FBN Holdings Group has continued to consolidate its position every year in all financial sectors of the Nigerian economy and in corporate governance.

FirstBank has continued to sustain its formidable corporate governance structure as a leading player, keeping all contending Nigerian competitors at bay. FirstBank has continued to produce renowned and formidable leaders in the Nigerian financial sector, replacing them with comparative banking leaders ensuring business continuity and stability, build new and expanded networks in Nigeria and abroad, train and employ well-qualified staff, and create and implement successful and profitable banking models, etc. The consequences have been the appointment of a former managing director of FirstBank, as the Governor of the CBN and the recent appointment of a current director and Chief Financial Officer, Adebayo Adelabu, as a Deputy Governor of the CBN. The overall consequences of FirstBank's strict implementation of a properly structured corporate governance culture in 2013 were a harvest of local and international awards. Major awards garnered by the Bank locally and internationally in 2013 include:

- The African Bankers Award for Most Innovative Bank in Africa for original and practical use of technology.
- The Bank has won, back to back for the last nine years including 2013, the Best Trade Finance Bank in Nigeria and Best Foreign Exchange Bank in Nigeria from the U.S.-based *Global Finance Magazine*.
- FirstBank won the EMEA Finance magazine award for the last four consecutive years including 2013.
- The Best Bank in Nigeria award in the Euromoney Awards for Excellence.
- The Best Corporate Governance award for a bank in Nigeria by World Finance Award.
- EMEA finance treasury services has named FirstBank the Best Foreign Exchange Services Bank in Africa for three consecutive years, namely 2011, 2012 and 2013.
- Two leading international rating agencies, Standard and Poor's and Fitch, had rated FirstBank BB-, B and B+ based on the Bank's large branch network, liquid balance sheet, large deposit franchise and pre-eminent position in Nigeria's banking sector.
- Global Credit Rating, a SEC-licensed rating agency, also rated FirstBank 'AA-' and 'A1+' while Agusto & Co. upheld its rating of 'A+' for 2013.
- The International Organization for Standardization (ISO) granted FirstBank ISO 27001, the highly prestigious accreditation in protection and security.
- The British Standard Institute granted FirstBank an international certification on business continuity management called ISO 22301.
- FirstBank was certified for the Payment Card Industry Data Security Standards (PCI DSS).

The pilot stage of the Corporate Governance Rating System, organised by the NSE and the Centre for Business Integrity, began to rank listed companies on the basis of their compliance with corporate governance principles.

Pursuant to the above, the NSE announced that all directors of listed companies would now be required to undertake a fiduciary awareness course in order to be certified. The purpose of the course is to make directors understand their fiduciary duties to the companies they serve.

The Financial Reporting Council of Nigeria inaugurated a committee with the responsibility of developing a national code of corporate governance in Nigeria, to regulate all sectors and industries in the country on corporate governance matters.

The Society for Corporate Governance Nigeria, in collaboration with the NSE, organised a corporate governance programme for directors dealing with current issues that affect directors for 117 stock broking and investment firms that are members of the Exchange. These issues include how good boards are run, the importance of corporate governance, the fiduciary duties of directors, transparency and integrity of directors, critical issues in corporate governance in Nigeria, board evaluation and development, legal/regulatory framework and compliance, among others.

LEADERSHIP

WHO IS ON OUR BOARD?

The FirstBank Board comprises 19 members, made up of 12 non-executive directors and seven executive directors, 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 the number of 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 the appointment of independent directors.

The number and stature of non-executive directors ensures that adequate contributions are made to deliberations of the Board. The composition ensures a balance of authority and power, so that no one individual has absolute influence and power. In the area of equal opportunity and diversity in the workplace, FirstBank implements and enforces the CBN circular, which enjoins that banks should consider the diversity of gender when making board appointments. The gender composition of the Bank's Board is currently about 16% for females and 84% for males.

Below are the profiles of the members of the Board of Directors:

Prince Ajibola Afonja

Chairman
Appointed Non-Executive Director 23/08/2005,
Appointed Chairman 29/12/2010

Prince Ajibola Afonja 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 pioneering Managing Director. He was also the Chairman/CEO, Integrated Dimensional Systems Limited, Oyo. Prince Afonja has served on various committees on 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 and science magazines.

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 and 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, a Fellow of the Chartered Institute of Bankers of Nigeria with 30 years' post-qualification experience and an Associate Member of the Nigerian Institute of Taxation. He sits on the boards of several companies and has served as a member of the Chartered Institute of Bankers' Sub-Committee on Fiscal & Monetary Policies as well as the Presidential Committee on Reduction of Interest Rates. He has attended various executive programmes at London Business School, Harvard Business School and Wharton Business School. He loves swimming and is married with children.

Adetokunbo Abiru

Executive Director, Corporate Banking
Appointed Executive Director 01/08/2013

Adetokunbo Abiru joined the Board of the Bank in 2013 as Executive Director, Corporate Banking. Prior to this, he was Group Head, Corporate Banking and a pioneer Business Development Manager in 2006 at the inception of this business model by the Bank. In the same year, he won the prestigious FirstBank MD/CEO Merit Award as the Best Branch Manager of the Year. He has over 22 years of banking experience, and served as the Commissioner of Finance for Lagos State between 2011 and 2013. He brings his far-reaching experience to bear on the Bank's Board. Adetokunbo is a Fellow of the Institute of Chartered Accountants of Nigeria (FCA) and Honorary Senior Member, the Chartered Institute of Bankers of Nigeria (FCIB).

Abiodun Odubola

Executive Director/Chief Risk Officer
Appointed Executive Director 16/01/2014

Abiodun Odubola joined the Board of the Bank as Executive Director in 2014, after being appointed Chief Risk Officer in 2013. He had previously been Head, Credit Analysis and Processing Department in FirstBank and Chief Risk Officer at Ecobank Plc. Abiodun started his banking career with Citibank over 18 years ago and garnered diverse hands-on experience covering relationship management, credit underwriting, credit risk management, country risk management and credit audit within and outside Nigeria. He brings these varied experiences to bear in performing his function in the Bank. He is an Honorary Member of the Chartered Institute of Bankers of Nigeria (HCIB) and a Director of CRC Credit Bureau Limited. He is married with children and loves reading.

UK Eke

Executive Director, Public Sector (South)
Appointed 24/03/2011

UK Eke joined the Board of FirstBank in 2011 as Executive Director, Public Sector (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 a 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 29 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 group as well as on the Board. UK is a member of the Institute of Management Consultants and a Fellow of the Institute of Chartered Accountants of Nigeria. He is a Director of FBN Bank (UK) Limited, First Pension Custodian Limited and Financial Institutions Training Centre (FITC). He is involved in philanthropy and mentoring and is happily married with children.

LEADERSHIP

Dauda Lawal
Executive Director, Public Sector (North)
Appointed 11/09/2012

Dauda Lawal joined the Board in 2012 and was, until his appointment, Executive Vice President, Public Sector (North). He has held several management positions within the Bank including Business Development Manager (BDM), Maitama Abuja, where his principal remit was to grow the Bank's business in the Abuja metropolis. He has over 25 years' post-qualification experience, which covers commercial, and public sector banking. Dauda's competence has recorded strong achievements in his present function within the Public Sector group. 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 and enjoys reading and travelling

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 Channels Development for the Bank, in addition to several management positions held within the Bank. His banking career spans over 23 years and covers corporate banking, institutional banking, commercial banking, retail banking and treasury. His vast proficiency is epitomised in his achievements within the Bank's Retail Banking (South) Strategic Business Unit. He is an alumnus of the Obafemi Awolowo University, Harvard Business School and Kellogg School of Management. Gbenga is a Fellow 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 and loves reading, playing golf and tennis.

Adebayo Adelabu
Executive Director/Chief Financial Officer (CFO)
Appointed 13/12/2012
Effective date of resignation 30/06/2014

Adebayo 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 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 of 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 an 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 re-joined the Board of the Bank as a Non-Executive Director in December 2012. He has over 24 years of financial services experience covering retail, corporate and investment banking at Ecobank Nigeria Plc, New Africa Merchant Bank Limited, and 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 very diverse experiences across the financial services industry to the Board. He was a member of the Finance Committee, National Council on Privatisation, the Implementation Committee, Financial System Strategy (FSS) 2020, and Presidential Monitoring Committee on NDDC, among others. Between March 2009 and June 2012, he was also a Council Member of the NSE. A chartered stockbroker, Bello is happily married with children. He holds the traditional title of 'Wakilin Sokoto' and loves basketball.

Ibiai Ani
Non-Executive Director
Appointed 20/08/2008
Effective date of resignation 20/03/2014

Ibiai Ani was appointed to the Board in 2008. She is a human resources professional with over 20 years of core HR experience at the senior management level. Ibiai began her career in the Rivers State Ministry of Justice and also worked in the Federal Ministry of Justice before she joined the Shell Petroleum Development Company of Nigeria, where she garnered experience in diverse human resource functions, which included 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 Nigerian 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 Ibrahim 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 Organisational Culture, and Leading with Impact from the African Development Bank, Witwatersrand University, South Africa and Harvard Business School respectively. Lawal Ibrahim served as a member of Vision 20:20 Technical Working Group SMEs Thematic Area and is presently on the Board of Borini Prono Nigeria Limited. He holds the traditional title of Dallatun Kankia and is married with five children. He is a strong advocate of family values and loves reading, writing and philanthropy.

LEADERSHIP

Ambrose Feese
Non-Executive Director
Appointed 28/10/2010

Ambrose Feese joined the Board of the Bank in 2010. He has over 25 years of 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 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 is of profound relevance to 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 experience in commercial banking, corporate banking, credit and risk management. He has also been 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, where he spearheaded and managed the organisation's corporate responsibility initiatives to give back to the immediate society within which the business was 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. Ebenezer is the proud father of five children. He plays table tennis, snooker and billiard and loves watching football.

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 the 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. Ibukun loves watching investigative movies and travelling to see the world.

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 rising 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. Mahey Rasheed is an Edward Mason Fellow, Harvard University and 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, and 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 the 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 negotiations, contracts 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. Khadijah recently got her black belt in mixed martial arts. She enjoys target shooting and reading.

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 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. His interests include horse riding, playing polo, watching football and reading.

LEADERSHIP

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 happily married with a child. He loves playing tennis, reading and seeing new places.

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 of 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 Limited and the Pipelines and Products Marketing Company Limited, Deputy Managing Director, Nigeria LNG Limited, Managing Partner, Gulf of Guinea Petroleum Consulting Limited and Board Chairman of the Transmission Company of Nigeria. He is a fellow of the Institute of Directors (IOD) and his extensive experience across industries is brought to bear in his contributions to the Board. Ibrahim is married with five children and loves reading, swimming, golfing, listening to music and nature conservation.

GROUP EXECUTIVES

Cecilia Majekodunmi

Group Executive, Commercial Banking

Cecilia Majekodunmi was appointed Group Executive, Commercial Banking in 2013. She was the pioneer head of the Bank's Emerging Corporates sub-business unit, which she steered to remarkable growth within two years. Her sterling performance informed the upgrade of FirstBank's Emerging Corporates business to a fully fledged Commercial Banking business unit. She is a versatile professional with over 27 years of banking experience covering relationship management, business development, institutional banking and corporate banking. She is an Honorary Senior Member of the Chartered Institute of Bankers of Nigeria, Member of the Institute for Fraud Management Control (IFMC), an alumnus of London and Lagos Business Schools and has attended executive courses at the Harvard Business School. Cecilia is a recipient of the FirstBank CEO's Annual Merit Awards as 'The Best Business Development Manager of the Year' in 2009 and 'The Best Market Facing Staff of the Year' in 2011. She is married with children and loves travelling, cooking and watching movies.

Bernadine Okeke

Group Executive, Private Banking

Bernadine Okeke was appointed Group Executive and Head of Private Banking 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 24 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 business. She is married with children and loves reading, travelling to new places and meeting new people.

Bashirat Odunewu

Group Executive, Institutional Banking

Bashirat Odunewu was appointed Group Executive, Institutional Banking Group in 2011. Until this appointment, she was Group Head, Ikoyi/Victoria Island, in the Corporate Banking Strategic Business Unit of the Bank. With over 25 years of 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 Group. 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 and has attended several executive programmes in Harvard Business School and Columbia Business School. She is married with children and is passionate about mentoring.

Abdullahi Ibrahim

Group Executive, Retail (North)

Abdullahi Ibrahim was appointed Group Executive, Retail Banking (North) in 2012. He was formerly Group Head, Manufacturing, in the Institutional Banking Group. Abdullahi had served as Business Development Manager in the Bank with responsibilities across consumer, retail, commercial and wholesale banking segments, as well as the Group Head, Multinationals. His banking experience spans over 23 years and cuts across investment, wholesale and commercial banking and his proven ingenuity in these areas is brought to bear on the Bank's retail business. Abdullahi is an Honorary Senior Member, Chartered Institute of Bankers of Nigeria. He is married with children and loves reading, photography and horse riding.

LEADERSHIP

RESPONSIBILITY OF THE BOARD OF DIRECTORS

The Board of Directors conducts the affairs of the Bank in a lawful and efficient manner so as to ensure that the company constantly improves in value creation for the benefit of the stakeholders. The Board's functions could be summarised as follows:

- policy direction;
- strategic planning;
- succession planning;
- stakeholder management;
- ensuring the integrity of financial reports and controls; and
- maintaining ethical standards and compliance.

WHAT CHANGES WERE MADE TO THE BOARD DURING THE YEAR?

During the preceding year, Remi Odunlami, Executive Director/Chief Risk Officer, and Kehinde Lawanson, Executive Director, Corporate Banking, resigned and retired respectively from the Board with effect from 31 May 2013. Tokunbo Abiru was appointed Executive Director, Corporate Banking, with effect from 1 August 2013 and Abiodun Odubola was appointed to the Board as Executive Director/Chief Risk Officer with effect from 16 January 2014.

HOW DO OUR BOARD MEETINGS WORK?

The Board meets quarterly and extraordinary meetings are convened as may be required. The annual calendars of board and committee meetings are approved in advance at the last quarterly meeting of the Board and the first quarterly meeting of the committees in each financial year. All directors are expected to attend each meeting. Material decisions may be taken between scheduled meetings through written resolutions as provided by the Bank's Articles of Association.

- The Board's Audit Committee meets quarterly and as may be required.
- The annual calendar of board and committee meetings is approved in advance.
- 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 memoranda in advance of each meeting.
- The FirstBank Board met seven times in 2013, two of which were extraordinary board meetings.
- Notices of meetings are usually sent at least 14 days before each scheduled meeting.
- The Company Secretary is responsible for preparing the agenda of meetings in consultation with the Chairman and the Group Managing Director/CEO, based on memoranda submitted by the various directorates, business units and resource functions.
- The Bank has 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 opportunities and challenges facing the institution. All directors are provided with notices, agenda and meeting memoranda in advance of each meeting and when a director is unable to attend a meeting he/she may discuss with the Chairman any matter he/she may wish to raise at the meeting.

The FirstBank Board met seven times in 2013, out of which three 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, the complexity of the issues, play a major role in determining the duration of the meetings. Board memoranda are dispatched in advance to enable directors to have adequate time to review and prepare for meetings. The time that each director spends in preparing for a meeting would vary based on the peculiarities of each director and his/her schedule at the material time.

In addition, to drive well-informed and high-quality decision-making, and ensure that the Board is effective, we:

- provide high-quality board documentation – typically, our board memoranda describe the process that has been used to arrive at and challenge a proposal prior to its presentation 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 proposal 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.

LEADERSHIP

The process for setting the agenda of topics to be covered at meetings is coordinated by the Company Secretary, based on memoranda submitted. The Company Secretary consults the Chairman and the Group Managing Director/CEO in this regard. A director may, upon notice, request that a matter be considered at a meeting. In addition, any director may bring up any urgent issue deemed deserving of discussion for deliberation at a meeting, notwithstanding that prior notice was not given.

WHAT ARE THE RESPONSIBILITIES OF THE BOARD?

The Board has a formal charter that is reviewed at least once in every three years, or earlier if required, to ensure that it remains consistent with the purpose and remit of the Board. The charter covers policies regarding board membership and composition, board procedures, conduct of directors, risk management, remuneration, board evaluation and induction. The key responsibilities of the Board are to:

- 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, market, 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 Boards 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; and
- approve the Group's secondment/mobility policy.

BOARD DISCUSSION FOR 2013

WHAT KEY THEMES DID THE BOARD FOCUS ON?

A few of the deliberations held by the Board for the year under review focused upon:

GROWTH

International expansion

The Board deliberated on the Bank's international expansion drive with the fundamental objective of expanding its local dominance to other African markets, on a selective basis. In 2013, the Bank recorded significant progress in its African expansion drive, with the acquisition of the operations of International Commercial Bank West Africa in Ghana, Guinea, Sierra Leone and the Gambia. This was consequent upon the approval of the CBN and the regulatory authorities in the four countries.

Corporate identity refresh

Being a mature brand, and in line with international best practice, the Board approved a corporate identity refresh project aimed at sustaining the brand's visibility in a competitive market terrain.

Branch expansion

As part of deepening our retail footprint and ensuring continued ability to mop up cheap deposits, additional new branches/quick service points were approved for deployment in 2013.

Alternative delivery channels

The focus was on ensuring compliance with the cashless policy of the CBN while leveraging on 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 a mobile money platform, Firstmonie, with its huge potential for reaching the unbanked and under-banked, also received significant board attention.

Appointment of directors to fill casual vacancies on the Board

The Board approved the appointment of two new Directors, Tokunbo Abiru and Abiodun Odubola, to fill casual vacancies on the Board occasioned by the resignation/retirement of Remi Odunlami and Kehinde Lawanson.

Implementation of a holding company structure

Considerable time was spent on the implementation of the holding company structure, with a view to optimising the operating and governance structure of the Group.

Today, each company under FBN Holdings Plc, 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.

LEADERSHIP

Divestment from First Registrars

The Board concluded the divestment from First Registrars Limited, in line with the regulations of the CBN on the adoption of a holding company structure.

Business line expansion

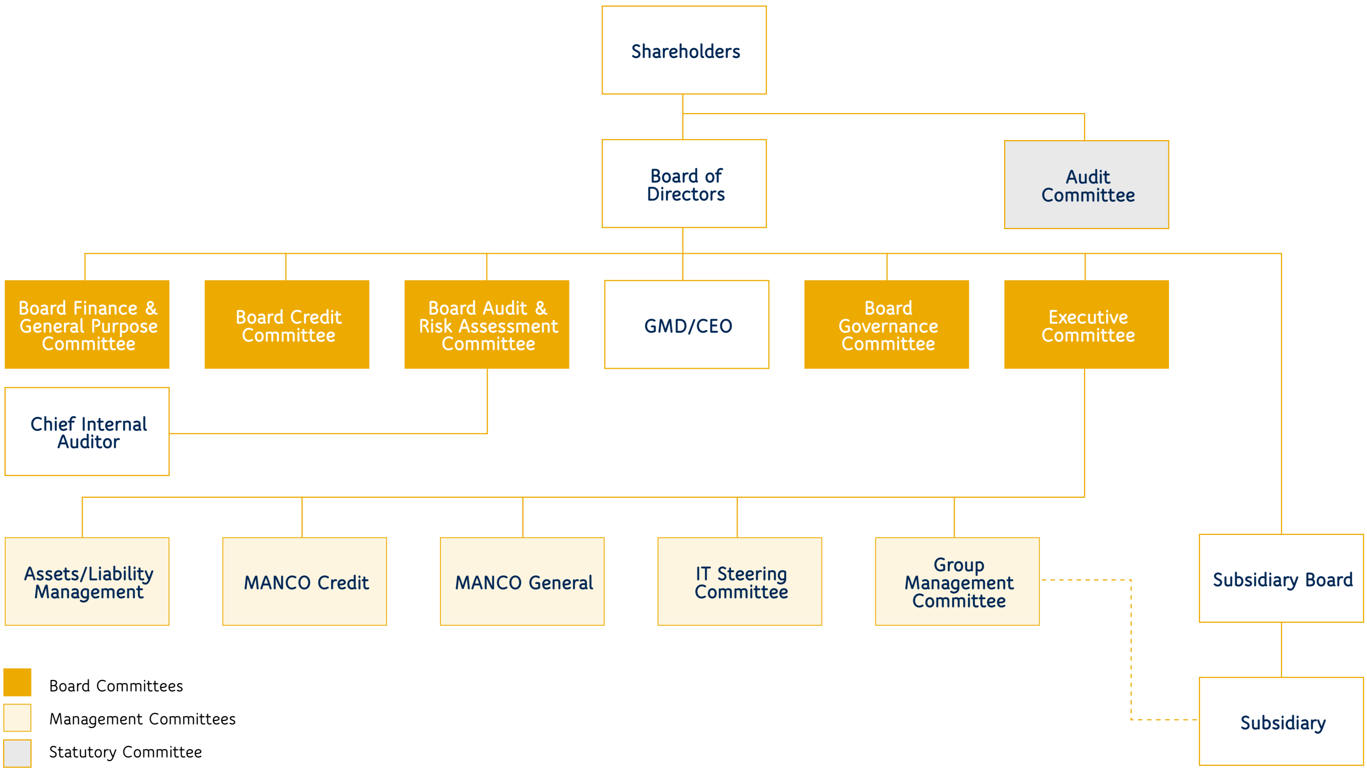
Over the last year, the Board discussed FirstBank's growth capacity leveraging on its strong product platform and superior risk management capabilities, to address the middle corporates segment which is considered economically important and which has been traditionally untapped given the challenging risk profile.

PRIORITIES FOR 2014:

Our focus and priorities for 2014 shall be to:

a) transform the branch into a best-in-class service and sales machine;
b) develop a relationship manager sales excellence programme;
c) launch an integrated cost containment programme;
d) build a distinctive transaction banking capability;
e) be the commercial bank of choice;
f) drive aggressive NPL management; and
g) aggressively pursue a service excellence programme.

WHAT IS OUR CORPORATE GOVERNANCE FRAMEWORK?



LEADERSHIP

HOW DO WE DELEGATE AUTHORITY?

The ultimate responsibility for the performance of the 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 is to manage 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 powers to any member of the executive management team as he shall determine from time to time. The Management Committee (MANCO) comprises seven executive directors (including the CEO) and five Group executives (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 Group executives are provided on page 100 of this report.

WHAT ARE THE ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In strict compliance with 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 is not a member of the board of any subsidiary or of any of the board committees.

The record of board attendance for 2013 is provided below:

Name	Attendance
Chairman	
Prince Ajibola Afonja	7 of 7
Executive Directors	
Bisi Onasanya	7 of 7
Tokunbo Abiru*	3 of 7
Kehinde Lawanson**	3 of 7
Remi Odunlami***	2 of 7
Abiodun Odubola****	0 of 7
UK Eke	7 of 7
Dauda Lawal	6 of 7
Gbenga Shobo	6 of 7
Adebayo Adelabu	7 of 7
Non-Executive Directors	
Ibrahim Waziri	7 of 7
Obafemi Otudeko	7 of 7
Khadijah Alao Straub	7 of 7
Lawal Ibrahim	7 of 7
Ibukun Awosika	7 of 7
Ibiai Ani	7 of 7
Mahey Rasheed	7 of 7
Ambrose Feese	7 of 7
Ebenezer Jolaoso	7 of 7
Tunde Hassan-Odukale	7 of 7
Bello Maccido	7 of 7
Other attendees	
Employees and external parties, including consultants, may attend meetings to give the Board insight depending on the matters to be deliberated on.	

* Joined the Board on 1 August 2013
** Retired from the Board on 31 May 2013
*** Resigned from the Board on 31 May 2013
**** Joined the Board on 16 January 2014

STATEMENT OF COMPLIANCE

The Bank is a private limited liability company and subject to the CBN Code of Corporate Governance (CBN Code) and regulations. For the period under review, there was no breach of the CBN Code as we complied with the relevant provisions of the CBN Code. The Bank defers to the provisions of the CBN Code as the CBN is 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, like many other banks, were not in compliance with the CBN Code, which requires at least two independent directors on the Board. However, post-balance sheet date, we have complied with the CBN Code and presently have two independent directors.

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 2013:

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 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 the executive committee;
- recommending capital expenditure beyond 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 transactions;
- reviewing and recommending the Group's organisational structure, remuneration policy, and 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 2013

Discussion	Rationale	Objective
Replacement of electricity generators for the head office building.	The old generators were no longer working effectively.	To ensure uninterrupted power supply which is very critical to operations.
Deployment of Data Security Solution.	Compliance with Payment Cards Industry Security Standards (PCI DSS) and need for vulnerability remediation.	To strengthen the Bank's IT security and achieve compliance with the PCI DSS.
Review of the 2012 end-of-year employee appraisal fallout.	To implement performance management.	To ensure a competitive workforce.
Deployment of 450 ATMs and infrastructure.	Implement alternative delivery channel and decongest the banking halls.	To improve on service delivery.

The record of BFGPC attendance for 2013 is provided below:

Name	Attendance
Committee Chairman	
Ebenezer Jolaoso	4 of 4
Executive Directors	
Bisi Onasanya	4 of 4
Tokunbo Abiru*	1 of 4
Kehinde Lawanson**	2 of 4
Non-Executive Directors	
Ibrahim Waziri	3 of 4
Obafemi Otudeko	3 of 4
Khadijah Alao Straub	2 of 4
Lawal Ibrahim	4 of 4
Ibukun Awosika	3 of 4
Ibiai Ani	4 of 4
Other attendees	
Employees and external parties, including consultants, may attend meetings to give the Board insight, depending on the matter to be deliberated on.	

* Joined the Board on 1 August 2013
** Retired from the Board on 31 May 2013

LEADERSHIP

BOARD AUDIT & RISK ASSESSMENT COMMITTEE (BARAC)

Committee chairman
Ambrose Feese

ROLE AND FOCUS

The overall purpose of the Committee is to protect the interests of FirstBank's shareholders and other stakeholders by overseeing, on behalf of the Board, the:

- integrity of financial reporting;
- adequacy of the control environment;
- management of risk;
- internal and external audit function; and
- compliance function.

FOCUS OF BARAC DISCUSSIONS FOR 2013

Some of the deliberations held by BARAC for the year under review focused on:

Discussion	Rationale	Objective
Quarterly Internal Audit Activity Report.	To give an overview of the activities of the Internal Audit function.	To obtain assurance on extent of compliance with laid-down rules and regulations.
Payment card security policy.	Compliance with Payment Card Industry Data Security Standards (PCI DSS).	To strengthen the security for payment cards.
Internal Audit Charter.	To define the scope and remit of the Internal Audit Department.	To emplace an effective internal audit and control system.
Internal Audit Plan.	To plan internal audit activities for the year.	To ensure adequate coverage of all aspects of the Bank's business in obtaining assurance of compliance with laid-down rules and regulations.
Compliance Activities Quarterly report.	To give an overview of the activities of the compliance function.	To determine extent of compliance with regulations and avoid infractions/penalties.
FirstBank Related-Party Transactions Policy.	To put a mechanism around tracking of and reporting on direct or indirect interests by directors in transactions with the Bank.	To ensure compliance with regulations on directors' disclosure of interest and conflict of interest.
Product risk management and product programme development and approval policy.	The need to put in place formal and codified guidelines on product risk management, product programme development and approval policy standard.	To ensure that there is consistency in the production of products and its management according to international standards.
Quarterly operational risk appetite report.	To set the capacity for absorbing operational loss by the Bank.	To ensure that Management operates within the set limit for operational loss.
Market and Liquidity Risk Management Report.	To ensure that the Bank is not exposed to market and liquidity risks.	To manage the risks that may arise from market risk factors.
Information Security Management Quarterly Report.	To protect information assets while ensuring the confidentiality, integrity and availability of all information assets of the organisation.	To ensure that security risk is effectively and efficiently managed, and that the Bank is in compliance with relevant laws and regulations.
Summary of Control Issues.	To identify key control risks in the Bank's business or operations for appropriate measures.	To ensure a good system of internal controls.

LEADERSHIP

The record of BARAC attendance for 2013 is provided below:

Name	Attendance
Committee chairman	
Ambrose Feese	4 of 4
Executive Directors	
Bisi Onasanya	3 of 4
UK Eke	4 of 4
Non-Executive Directors	
Ibrahim Waziri	4 of 4
Tunde Odukale	3 of 4
Abiodun Odubola	4 of 4
Other attendees	
Employees and external parties, including consultants, may attend meetings to give the Board insights, depending on the matter to be deliberated on.	

BOARD GOVERNANCE COMMITTEE (BGC)

ROLE AND FOCUS

Committee chairman
Ambrose Feese

The primary purpose of the Board Governance Committee is to advise the Group Board on its oversight responsibilities and Board remuneration, to advise on the composition of the Board and board committees, and to design and execute a 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 the 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 2013

Some of the deliberations held by the BGC for the year under review focused on the following issues:

Discussion	Rationale	Objective
Issues arising from 2012 Board evaluation report, including appointment of second independent director, review of terms of reference of board committees, non-disclosure of board committees.	To resolve outstanding issues and identified governance gaps.	Compliance by the Bank with the CBN Code of Corporate Governance.
Consideration of appointment of two new executive directors.	To fill causal vacancies existing on the Board.	To ensure full manning of executive management positions.
Appointments to the executive management of FBN Bank (UK) Limited.	To implement succession planning for MD/CEO and strengthen the executive management.	
Proposed interim board structure and nominees for appointment to the Boards of ICB Ghana, Guinea, Sierra Leone, the Gambia and Senegal.	Preparation to take control of the target entities upon conclusion of acquisitions.	Implementation of board structure for the entities in line with local legislations.
Ceding of the functions of the Statutory Audit Committee to the Board Audit & Risk Assessment Committee and for the committee to be split into two, namely: the Board Audit Committee and the Board Risk Assessment Committee.	BARAC to assume the responsibilities of the erstwhile Statutory Audit Committee consequent upon the adoption of the holding company structure and the conversion of FBN Plc to FBN Ltd.	Compliance with regulations.

The record of attendance for year 2013 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

LEADERSHIP

BOARD CREDIT COMMITTEE

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 to the Board credit facility requests above its limit.

FOCUS OF BCC DISCUSSIONS FOR 2013

Discussion	Rationale	Objective
Consideration of product programmes.	To confer approval for the offer of standard credit products.	To standardise credit offerings for ease of access by customers.
Credit portfolio report.	To conduct an analysis of sectorial distribution of risk assets.	Maintain balance in the Bank's exposure to different sectors.
Non-performing assets report.	Identify criticised risk assets for remedial action.	To minimise potential loss on the credit portfolio.
Approval of credit facilities.	To approve credit requests.	Implementation of the Bank's risk assets creation strategy and policies.
Insider-related credits.	Review of insider-related credits.	To comply with the credit policy and CBN regulation.
Credit recovery matters.	To consider proposals on remedial actions on criticised risk assets.	To minimise potential loss on the credit portfolio.
Write-off of facilities.	Consideration of credit write-offs and proposals for concessions on classified accounts.	To achieve work out on criticised risk assets.
Credit portfolio plan.	To consider 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 sectors in line with the Bank's risk assets allocation strategy.
Project status reports.	To consider reports presented by relationship teams on key projects being financed by the Bank.	Monitoring of adherence to terms of credit approval.
IFRS loan impairment methodology.	To understand requirements on loan-loss provisioning under IFRS.	Ensure adequacy of loan loss provisioning.
Appointment of senior credit officers.	Approve the appointment of senior credit officers.	To ensure timely processing of credit requests.

LEADERSHIP

The record of Board Credit Committee attendance for 2013 is provided below:

Name	Attendance
Committee Chairman	
Mahey Rasheed, OFR	9 of 9
Executive Directors	
Bisi Onasanya	7 of 9
Remi Odunlami (CRO) *	3 of 9
Kehinde Lawanson **	3 of 9
Adebayo Adelabu (CFO)	9 of 9
Abiodun Odubola (CRO) ***	3 of 9
Dauda Lawal	5 of 9
Gbenga Shobo	6 of 9
Tokunbo Abiru ****	2 of 9
UK Eke	8 of 9
Non-Executive Directors	
Ebenezer Jolaoso	9 of 9
Khadijah Alao Straub	9 of 9
Tunde Hassan-Odukale	8 of 9
Obafemi Otudeko	8 of 9
Ibrahim Waziri	9 of 9

* Resigned from the Board on 31 May 2013
** Retired from the Board on 31 May 2013
*** Appointed CRO on 11 September 2013
**** Joined the Board on 1 August 2013

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 plans approved by the Board;
- ensure efficient deployment and management of the Bank's resources; and
- provide leadership to the management team.

WHAT ARE THEIR 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
- take important decisions in all other areas where delegated authority is granted.

In view of the delegation of its duties to the Management Committee, (comprising all members of the Executive Committee and all Group Executives) the Executive Committee did not meet during the period under review.

MANAGEMENT COMMITTEES

FirstBank has the following management committees that play vital roles in the governance of the Bank:

MANAGEMENT COMMITTEE – GENERAL (MANCO GENERAL OR MCG)

The Committee discharges the responsibilities of the Executive Committee as detailed above, but is not responsible for any matter relating to making recommendation on the elevation to the grade of Assistant General Manager and above, which is reserved to the Executive Committee.

KEY RESPONSIBILITIES

These include all the responsibilities of the Executive Committee with the exception of all matters relating to the consideration of elevation of staff to the grade of Assistant General Manager and above.

LEADERSHIP

MANAGEMENT CREDIT COMMITTEE (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, both at the corporate level and for individual asset-creating business units in the Bank. The Committee also, on an ongoing basis, ensures compliance by the credit environment in the Bank with approved policies and frameworks.

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's 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 2013

Discussion	Rationale	Objective
Deployment of 500 ATMs.	To increase alternative service delivery points.	For enhanced service delivery.
Review of vendor management and maintenance functions.	To streamline functions for ease of management.	For enhanced management.
Planning for the World Economic Forum scheduled for the second half of the year.	To plan and ensure attendance of the MD/CEO along with selected Bank representatives of the Bank.	For focused and beneficial participation by the Bank.
Framework for meetings of MANCO and its sub-committees.	To implement a broad framework for delegation of MANCO's responsibilities to sub-committees.	To reduce the volume of routine matters that are presented to MANCO General Committee and cede some powers to MANCO sub-committees.
Knowledge management framework project.	To evaluate and improve the Bank's existing knowledge management structure.	Improvement of the training and coaching practices within the Bank for enhanced staff productivity.
Proposed joint venture between FBN Mortgages, Dewan Housing Finance Corporation and IFC.	To admit partners to collaborate in mortgage finance business.	Strategic diversification of the market placement of FBN Mortgages Limited.
Maiden FirstBank SME National Conference 2013.	Promotion of small and medium enterprises.	To grow small and medium enterprise by providing the requisite knowledge and resources.
CBN Competency Framework.	To gauge and address compliance with the CBN regulations on the deployment of staff to specific functions.	To ensure appropriate deployment of staff with the right qualifications for particular roles and also to eliminate skill gaps.

LEADERSHIP

Discussion	Rationale	Objective
Audited IFRS Financial Statements for the 9 months ended 30 September 2013.	Consideration of compliance with regulatory requirement for audit of the Bank's September 2013 nine months' accounts, in line with the approval obtained from the CBN for the Bank's December 2012 Audited Financial Statements.	Regulatory compliance and acceleration of completion of 2013 Audited Financial Statements.
FirstBank@120 project framework and implementation structure.	To commemorate the Bank's 120th anniversary.	To strengthen the Bank's brand.
Compliance with the Foreign Account Tax Compliance Act (FATCA).	To preview the requirement of FATCA and plan compliance, in line with the CBN's directive.	Regulatory compliance.

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's key responsibilities are to:

- develop and review, on an ongoing basis, the Group's business focus and strategy subject to the approval of the Board;
- ensure efficient deployment and management of the Group's resources;
- confirm alignment of each subsidiary company's plan with 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 Group;
- track and monitor progress and accomplishments on major Group initiatives and projects at subsidiary level;
- articulate appropriate responses to environmental factors, regulations, government policies, competition, etc., across the Group; and
- recommend high-level policies to assist in the successful achievement of the Group's overall business objectives.

SNAPSHOT OF DISCUSSIONS AT THE GMC IN 2013

Discussion	Rationale	Objective
Group performance highlights/review.	Benchmarking actual quarterly performance against targets.	To ensure that the Bank and its subsidiaries meet and surpass performance.
Emplacing and implementing a performance management system for the subsidiaries.	To align existing performance management structures at the subsidiaries with that of the Bank.	To implement a uniform performance management system across the Group for optimal results.
Winding up of the real estate investment business of FBN Mortgages business.	Plan and implement the divestment of FBN Mortgages Limited from real estate investments, in line with CBN regulations.	To ensure a sustainable mortgage financing business for FBN Mortgages Limited.
Harmonising branding and communication across the Group.	To maximise Group synergies and achieve branding standardisation.	Align approach to branding across the Group.
Revocation of business licence of FBN Bureau de Change.	Review of reasons for revocation and available options.	Determine reaction and way forward for FBN Bureau de Change Limited.
Acquisition of the International Commercial Bank West Africa.	To give an update to executives of subsidiaries on the transaction.	Keep executives across the Group keyed into the Group's expansion strategy.

LEADERSHIP

ASSETS & LIABILITIES MANAGEMENT COMMITTEE (ALCO)

ROLE AND FOCUS

ALCO is the highest technical body charged with 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 risks 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 the appointment of dealers.

SNAPSHOT OF DISCUSSIONS OF THE ASSETS & LIABILITIES MANAGEMENT COMMITTEE IN 2013

Discussion	Rationale	Objective
Stress-test report.	To gauge the Bank's ability to survive low-tail events associated with market and liquidity risks and assess the Bank's vulnerability to extreme but plausible market conditions.	To determine and implement changes or amendments to the Bank's contingency funding plan based on the stress-test results.
Capital adequacy.	Assess the capital adequacy position.	Compliance with the regulatory and Board-approved capital adequacy requirements and identification of any combination of strategic and/or tactical actions to correct any inadequacy.
Liquidity management.	To confirm that liquidity risk management efforts support the Bank's strategy, and ensure that regulatory liquidity limits are complied with.	To determine appropriate management intervention or action, or any change in strategy required for medium/long-term liquidity management.
Funding concentration risk.	To consider the concentration risk in both local and foreign currency deposits and ensure that sufficient liquid asset cover is in place for any identified concentration risk.	Ensure that dependency on certain significant sources of funding remains within approved thresholds.
Deposit mobilisation.	To consider the deposit growth achievements of the Bank and Strategic Business Units. To review business units' strategies for bridging any identified gap. To consider deposit growth initiatives and track their progress.	Ensure that deposit levels support the liquidity and asset creation targets.
Fixed-income securities portfolio.	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 and Liquidity Risk Management Departments to sell, buy, or reclassify securities.	Ensure that the fixed-income securities portfolio remains within approved levels and that trading and investment positions do not pose a significant risk of loss to shareholders' value.
Foreign exchange risk.	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.	Ensure that foreign exchange positions are within approved levels and that foreign exchange positions do not pose significant risk of loss to shareholders' value.
Approval of policies.	To review and approve proposed amendments to market and liquidity risk management policies after in-depth consideration by the Market Risk Policy Committee.	Ensure that the overall approach to managing the Bank's market and liquidity risk is responsive to changes in the environment and the Bank's strategies.

LEADERSHIP

Discussion	Rationale	Objective
Pricing of deposits and loans and advances.	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 reviews of deposit rates, and pricing of loans and advances.	Ensure that pricing of deposit liabilities and loans and advances respond to changes in regulatory pronouncements and direction of market indices.
Transfer pricing.	To review the results of benchmark market indices and compare them to existing pool rates. To consider and approve proposed changes to the pool rates.	To ensure that agreed transfer pricing reflects the market direction and drives the desired behaviour towards the overall strategy of the Bank.
Economic review.	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.	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.

GROUP IT STEERING COMMITTEE (GITSC 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:

- review and recommend an 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 the IT strategy, including application of and leverage on technology in the Bank;
- establish a 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 the service levels of the IT Department and service improvements initiatives;
- promote effective relationships between the business groups and IT by encouraging communication of business requirements to IT management, addressing IT capacity requirements, and 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 Operations Committee (GITOC);
- make recommendations to the Management Committee – General for approval of specific IT spending/expense;
- encourage innovation and idea generation to support new product development;
- ensure that FirstBank derives optimal value from its investments in IT;
- ensure that the Board is regularly informed of the status of major IT projects or initiatives; and
- ensure the Board has adequate information to make informed decisions about IT investments and operations.

LEADERSHIP

SNAPSHOT OF DISCUSSIONS AT THE GITSC IN 2013

Discussion	Rationale	Objective
Set strategic direction.	The development of IT strategy and continuous monitoring of strategy against actual completion of supporting initiatives. Some key strategies presented at the Group IT Steering Committee during 2013 include cloud adoption and sourcing strategy, e-kiosk strategy, and the IT strategy retreat feedback.	To ensure alignment between IT and business objectives.
Project status reports and service performance management.	To review strategic projects that impact corporate performance, report lessons learnt as a form of knowledge management, and showcase IT business service availability trends.	To support project and programme management, control of project risks, budget and performance, and to provide updates on IT service performance.
Business continuity plan update.	To consider results of routine tests to ensure compliance of business continuity process.	To consider and ensure adequate operational business continuity plan for banking services in the event of disruption to IT services. To consider results of routine tests to ensure compliance of business continuity process.
Business value proposition/ justification for key initiatives.	To review the business and strategic justifications for IT projects. Projects subjected to review within 2013 include Biometric-ATM, Hyperion Balance Scorecard, centralised processing, CRM, online banking, upgrade of Finnone credit processing solution, and Enterprise General Ledger.	Agree business value metrics and justifications for key projects under consideration and define value realisation plan for ongoing projects.
IT budget review.	To control IT spend in line with the Bank's priorities at four major levels: annual budget, capital expenditure, operating expenditure and project performance.	To align IT budget proposals 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 2013 include the asset replacement policy, the IT engagement process, the FBN hardware replacement policy and the after business hours (ABH) policy.	Ensure currency and alignment of IT policies with corporate strategy and operating dynamics.
Vulnerability assessment remediation update.	To improve the Bank's information security posture.	To review status of resolution of open items identified in IT vulnerability assessment report.
Oversight activities for GITOC.	Implement Group-wide policies and standards, and management of software licences and contracts at a Group level to reduce operating expenses and application duplications.	To derive optimal value from IT assets through Group-wide synergies and shared services.
Review of IT architecture, innovation, and idea management.	To evaluate and promote innovative ideas from concept to realisation. Conception and initiation of bio-ATM and infrastructure virtualisation projects.	Development and maintenance of IT architecture to ensure technology architecture standards are adhered to and maintained.
Review adequacy of IT resources.	IT infrastructure and human capacity are constantly evaluated to ensure they are not over or under-utilised. Some of the initiatives include IT right sourcing and organisational restructuring.	To ensure IT Department has the right capacity to support business demands, improve service delivery, and reduce time to market for IT-related products.

REMUNERATION REPORT

This section provides stakeholders with an understanding of the remuneration philosophy and policy applied at FirstBank 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 who will keep the Bank ahead of competition. In reviewing our compensation, some of the triggers include organisational policy, market positioning, financial performance of the Bank, government policies and regulations, industry trends, inflation and the 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 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, allowances, 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. They 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 are 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 stock option or paid holidays, and 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 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 allowance, subscriptions, and deferred benefits such as pensions and gratuity. Benefits may be present (in service) or deferred payments (outside service).

To guarantee staff convenience and 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 ensuring adequate cash flow for staff, 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 of Corporate Governance, non-executive directors receive fixed annual fees, directors' sitting fees for meetings attended and reimbursable travel expenses. 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 regularly 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 for meetings attended. The Governance Committee reviews and makes recommendations to the Board on all retirement and termination payment plans for executive directors.

The amounts specified below represent the total remuneration paid to executive and non-executive directors for the period under review.

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Fees and sitting allowance	254	79
Executive compensation	471	319
Total	**725**	**398**

The Group will continue to ensure its remuneration policies and practices remain competitive, incentivise performance and are in line with its core values. Additional details on the remuneration of the Board can be found on page 296 of this annual report and accounts.

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 performance of the Board, and the creation of shareholder value.

Performance management is taken very seriously, at both Board and executive management levels, 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 each group executive, has an individual scorecard, which aggregates 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

As part of its oversight role, the Board continuously contributes new ideas to the strategic success of the Bank, through its engagement from the planning phase to the execution and continuous monitoring of the corporate strategy. The Board holds an annual board retreat, to review the implementation of the corporate strategy in the preceding period. Also, the strategy for the coming year is rigorously debated and agreed by management and the Board at the annual strategy retreat. 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 put in perspective our performance against competitors.

EFFECTIVENESS

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 group executive has a defined scorecard, which dovetails into the corporate strategy.

The Board considers and approves the Group strategy and financial objectives. FirstBank runs a three-year strategic planning cycle that is validated annually by the Board at a board strategy retreat. The Bank is presently running a 2014 to 2016 strategic planning cycle, the main objectives of which are to transform the branch into a best-in-class service and sales machine, develop a Relationship Manager (RM) sales excellence programme, launch an integrated cost-containment programme, build a distinctive transaction banking capability, be the commercial bank of choice, drive aggressive NPL management, and aggressively pursue a service excellence programme.

Key members of senior management and all board members attend each annual strategy 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 that Management effectively discharges its duties and responsibilities with respect to the management of the Bank and creating value for shareholders. The Board is also charged with the responsibility for succession planning. Though the Board is satisfied with its current pool of management talent, it continually takes initiatives to enlarge and deepen this pool so as to sustain both short- and long-term performance.

The depth of banking knowledge and experience in the Group cuts across executive directors, to non-executive directors, group executives and executive management. Non-executive directors have access to the Group's management and corporate information to enable them to discharge their responsibilities effectively.

The conduct of an annual 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 Bank. 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 by:

- 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; and
- monitoring performance against set goals, indicators and objectives.

WHAT WAS THE FOCUS OF THE BOARD REVIEW?

A board appraisal and individual director peer appraisal were conducted for the year ended 31 December 2013 by KPMG, an independent consulting firm. The board appraisal was carried out in compliance with the Central Bank of Nigeria Code of Corporate Governance (the CBN Code) and driven by our commitment to strengthen the Bank's corporate governance practices and enhance 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 fed 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 to 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 had been, referencing the level of implementation of the prior year recommendations;
- a review of Board operations and existing governance documentation;
- observation of a Board meeting;
- facilitation of a peer appraisal of directors through a one-on-one interview session with each director; and
- feedback session with the entire Board.

The consultant's 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, specific recommendations for further improving the Bank's governance practices were articulated and included in a detailed report to the Board.

EFFECTIVENESS

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.

2013 priority areas	Progress to date
The Board is to develop an action plan for the implementation of the annual strategic plan, setting out objectives, tasks, responsibilities and timing, with mechanisms for periodic checks to monitor the progress of the implementation.	A process has been implemented on this and the Board monitors progress on a quarterly basis.
The Bank's whistleblowing policy is to be updated with the provisions of the SEC Code.	The Bank has updated its whistleblowing policy in accordance with the relevant circular of the CBN on whistleblowing. With its conversion to a private limited liability company, the Bank is no longer subject to the SEC code.
The Bank has a documented Code of Conduct attested to by all staff, but the directors do not annually attest to any code of conduct to guide their ethical conduct. Currently, directors only attest to the CBN Code of Conduct.	A draft Code of Conduct and Ethics has been articulated for the Board of Directors and is being reviewed by the Board Governance Committee. Meanwhile, the Directors continue to abide by the CBN Code of Conduct.
The Board should ensure that a compliance-monitoring plan is developed and implemented to enable the Bank to proactively monitor activities designed to ensure its compliance with regulatory requirements.	This has been implemented.
Directors' interests in other companies to be tracked and updated in a central repository as required by sections 2.2.3c and 2.2.4b of the Bank's conflict-of-interest policy. Currently, directors' interests are documented and kept in their individual files.	A Conflict of Interest (COI) Register is maintained and utilised in tracking directors' related parties and interest.
Implement a sustainable strategy-reporting framework for the Bank.	The Bank has adopted a sustainable framework and is working on its implementation.
Appoint a second Independent Non-Executive Director (INED).	A nominee earlier proposed as a second INED was not approved by the CBN. Post balance sheet date, another nominee had been proposed and was approved by the CBN as an INED.

WHAT IS OUR APPOINTMENT PHILOSOPHY AND INDUCTION PROCESS?

Our appointment philosophy ensures strategic alignment of all relevant regulations, especially the provisions of the Companies and Allied Matters Act, Banks and Other Financial Institutions Act, the Bank's Memorandum and Articles of Association, and CBN guidelines.

Board appointments 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 for the prospective role. Consideration for appointment as a director also takes cognisance of existing appointments to other boards for potential conflicts of interest and to ensure that directors will be able to dedicate time and attention to the Bank.

The Bank has a Board Governance Committee (BGC), which is responsible for identifying and nominating suitable candidates for appointment to the Board. The BGC is headed by a non-executive director.

Board appointments are preceded by a careful analysis of the existing Board's strengths, weaknesses, skills and experience gaps, appropriate demographic representation, and diversity, to ensure that the Board composition aligns with best practice and FirstBank's strategic objectives. New members invariably contribute new ideas and fresh perspectives.

The factors considered by the Governance Committee in identifying and nominating a candidate to the Board are possession of the requisite qualifications and experience, prior demonstration of business/professional acumen, and successful management record.

HOW LONG DO OUR DIRECTORS SERVE?

Non-executive directors are appointed for an initial term of four years and can be re-elected for a maximum of two subsequent terms of three years each, subject to satisfactory performance. In line with our Memorandum and Articles of Association, one-third of directors retire every year and may be re-elected by members. Hence, the maximum tenure of non-executive directors is 12 years.

Executive directors are appointed for an initial term of three years and their tenure can be renewed for another three years, subject to satisfactory annual performance. They are also subject to retirement of directors by rotation, subject to re-election by members. Hence, the maximum tenure of an executive director is six years. Executive directors are discouraged from holding several other directorships outside FirstBank, unless as representatives of the Bank.

EFFECTIVENESS

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 and has in place a robust induction and training programme for directors. The Board of FirstBank established an induction programme for new directors, to familiarise them with the Bank's operations, business environment, fiduciary duties, responsibilities, etc., in line with the relevant laws, the CBN Code, and leading corporate governance practices. There is also a continuous training programme for directors, which focuses on the key competencies for the continued performance of their roles.

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 covers the following:

Training focus area	Description
Overview of the Bank and the banking industry	This module covers 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 FirstBank Corporate Governance Framework	This module covers 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 entails briefing new directors on the Bank's expectations of them.
Introduction to senior management and site tours	This section entails the introduction of new directors to key senior management staff and conducting new directors around the Bank's key facilities.

With the dawning of the CBN Banking Industry Competency Framework (released in November 2012), a comprehensive competency-based learning curriculum for FirstBank's directors has been developed and is being implemented, with the aim of deploying appropriate learning interventions to deliver the key competencies required by directors, through attendance at local and international training programmes.

In addition, Management also undertakes regular presentations to update the Board on the progress, challenges, opportunities and risks facing the respective areas of business and services operations. This is achieved by way of regular management reporting and quarterly board meetings.

WHAT IS THE ROLE OF OUR COMPANY SECRETARY

An effective board is one which observes good corporate governance practices, and an effective Company Secretary is one who 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 on procedure and corporate governance. 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. The Company Secretary ensures this by being involved in compliance, disclosure and accountability, and by ensuring transparency in the administration of the Bank by the Board, as the first source of corporate advice to the Board. He plays an active role in board training, strategic retreat planning, board administration, and the directors' induction and continuous training programmes. The Company Secretary advises and updates the Board on relevant corporate governance codes and rules to ensure compliance. 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. Individual directors may also request professional advice from experts at the Bank's expense, subject to the prior approval of the Chairman. We are not aware, however, of this right being exercised by any of our directors in 2013.

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 Board Audit & Risk Assessment Committee.

EFFECTIVENESS

REPORT OF THE EXTERNAL CONSULTANT ON THE APPRAISAL OF THE BOARD OF DIRECTORS

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In compliance with the provisions of the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks in Nigeria Post Consolidation ('the CBN Code'), First Bank of Nigeria Limited ('FirstBank' 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 2013. 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.

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: composition of the Board and Board Committees, Board appointment process, directors' remuneration and related-party transactions.

Olumide Olayinka
Partner, KPMG Advisory Services

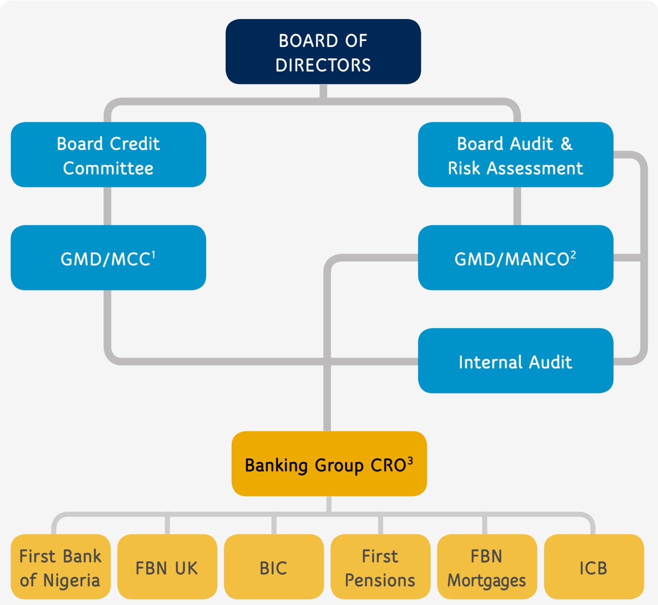
FRC / 2013 / ICAN / 00000000427
24 April 2014

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 this appetite.
- Ensure executive Management takes steps necessary to monitor and control risks.
- Ensure that Management maintains an appropriate system of internal control and review its effectiveness.
- Ensure risk strategy reflects the Banking Group's tolerance for risk.
- Review and approve changes/amendments to the risk management framework.
- Review and approve risk management procedures and control for new products and activities.
- Periodically receive risk reports from management highlighting key risk areas, control failures and remedial action steps taken by Management.

BOARD COMMITTEES

The above responsibilities of the Board of Directors shall be discharged primarily by two committees of the Board namely:

a) Board Audit & Risk Assessment Committee (BARAC); and

b) Board Credit Committee (BCC).

Without prejudice to the roles of these committees, the full Board shall retain ultimate responsibility for risk management.

BOARD AUDIT & RISK ASSESSMENT COMMITTEE (BARAC)

The primary role of the BARAC is to report to the Board and provide appropriate advice and recommendations on matters relevant to risk management, control and audit. The Committee is made up of the Group Managing Director, three executive and two non-executive directors, with a non-executive director as Chairman. The Chief Risk Officer (CRO) reports to this committee and is a non-voting member.

Specific roles of the Committee for risk management are:

a) Evaluating internal processes for identifying, assessing, monitoring and managing key risk areas, particularly:
   - important judgements and accounting estimates;
   - business risk in the areas of credit risk, market risk, operational risk, information security risk and legal risk;
   - specific risks relating to outsourcing; and
   - consideration of environmental, community and social risks.

b) Evaluating:
   - the adequacy of the Banking Group's risk management systems and the adequacy of the Banking Group's control environment with management and the internal and external auditors;
   - evaluating the Banking Group's risk profile, the action plans in place to manage risks and progress against plan to achieve these actions; and
   - reviewing the processes the Banking Group has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.

c) Approving the provision of risk management services by external providers.

RISK GOVERNANCE

BOARD CREDIT COMMITTEE

Roles and responsibilities

- Ensure the effective management of credit risk in the Banking Group.
- Approve credit risk management policies and standard proposals on the recommendation of the Management Credit Committee (MCC).
- Approve definition of risk and return preferences and target risk portfolio.
- Approve credit risk appetite and portfolio strategy.
- Approve lending decisions and limit setting.
- Approve credit products and new processes.
- Approve assignment of credit approval authority on the recommendation of the Management Credit Committee (MCC).
- Approve changes to credit policy guidelines on the recommendation of the Executive Credit Committee (EXCO Credit).
- Approve credit facility requests and proposals within limits defined by First Bank's credit policy and within the statutory requirements set by the regulatory/supervisory authorities.
- Recommend credit facility requests above stipulated limit to the Board.
- Review credit risk reports on a periodic basis.
- Approve credit exceptions in line with Board approval.
- Make recommendations to the Board on policy and strategy where appropriate.

The Committee is made up of the Banking Group Managing Director/Chief Executive, all the executive directors and five non-executive directors. The Chairman is a non-executive director.

SENIOR MANAGEMENT COMMITTEES

Roles and responsibilities

- Implement risk strategy approved by the Board of Directors.
- Develop policies and procedures for identifying, measuring and controlling risk.
- Provide appropriate resources to evaluate and control risk.
- Review risk reports on a regular and timely basis.
- Review periodic risk reports for operational and other risks separate from credit and market risks.
- Provide all reports required by the Board and its committees for the effective performance of risk management oversight functions.

The following management committees are directly responsible for risk management oversight:

- Management Committee;
- Management Credit Committee; and
- Assets & Liabilities Management Committee.

MANAGEMENT COMMITTEE (MANCO)

Roles and responsibilities

- Formulate policies.
- Monitor implementation of risk policies.
- Review risk reports for presentation to the Board/Board committees.
- Implement Board decisions across the Group.

MANAGEMENT CREDIT COMMITTEE (MCC)

Roles and responsibilities

- Review proposals in respect of credit policies and standards and endorse them to the Board of Directors for approval.
- Approve credit facility requests within limits defined by FirstBank's credit policy and within the statutory requirements set by the regulatory/supervisory authorities.
- Agree on a portfolio plan/strategy for the Bank.
- Monitor, on an ongoing basis, the Banking Group's risk quality and performance.
- Review periodic credit portfolio reports and assess portfolio performance.
- Establish and maintain an effective risk management environment in the Banking Group.
- Review credit policy changes initiated by the management of the Banking Group and endorse to the Board of Directors for approval.
- Define the Banking Group's risk and return preferences and target risk portfolio.
- Define credit approval framework and assign credit approval limits in line with the Banking Group policy.
- Review defined credit product programmes on recommendation of the relevant risk management units and endorse to the Board of Directors for approval.
- Ensure compliance with the Banking Group credit policies and statutory requirements prescribed by the regulatory/supervisory authorities.
- Request rapid portfolio reviews or sector/industry reviews from risk management units when deemed appropriate.
- Review and recommend to the Board Credit Committee, credits beyond management approval limits.
- Approve exceptions/write-offs, waivers and discounts on non-performing credit facilities within a specified limit.
- Review and approve the relevant risk management unit's response to material events that may have an impact on the credit portfolio.

RISK GOVERNANCE

ASSETS & LIABILITIES MANAGEMENT COMMITTEE

Roles and responsibilities

Market risk

- Approval of ALM and market risk management policies.
- Policy oversight for liquidity, interest rate, foreign currency and equity risks.
- Approval of risk strategy in the money, forex and capital markets.
- Monitoring liquidity, asset and liability mismatch, pricing and interest rate.
- Development of policies, procedures, tools and systems for identifying, measuring, controlling and reporting market risks.
- Evaluating market risk inherent in new products.
- Ensure compliance with statutory and regulatory requirements.
- Limit setting for position, concentration, currency, dealing, gap, total portfolio and counterparty.
- Appointment of dealers.
- Balance sheet management.

Liquidity risk

- Responsibility for the implementation of sound policies and procedures for managing liquidity risk, in line with the strategic direction and risk appetite specified by the Board.
- Reviewing and articulating funding policy.
- Development and implementation of procedures and practices that translate the Board's goals, objectives and risk tolerances into operating standards that are well understood by the Bank's personnel and consistent with the Board's intent.
- Ensure adherence to the lines of authority and responsibility that the Board has established for managing liquidity risk.
- Overseeing the implementation and maintenance of management information and other systems that identify, measure, monitor and control the Bank's liquidity risk.
- Establishment of effective internal controls and limits over the liquidity risk management process.

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, codes of conduct, policies, procedures and actions, which exist in the Group and are designed to ensure:

(i.) that essential business objectives are met, including the effectiveness and efficiency of operations and the safeguarding of assets against losses;

(ii.) the reliability of financial reporting and compliance with general accounting principles;

(iii.) compliance with applicable laws and regulations including internal policies;

(iv.) systematic and orderly recording of transactions; and

(v.) 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, the FirstBank Group 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.

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, reliability and compliance of the Bank's information systems and resources, including:

- management and administration of users/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 and proper segregation of duties based on individual job roles;
- 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, and 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;
- quality assurance, systems development controls and user acceptance testing (UAT); and
- reviewing all new systems end to end and identifying technology-related risks and vulnerabilities in the product, process or system being developed and advising mitigating controls.

FRAUD MANAGEMENT STRATEGIES

- Implementation of world-class enterprise fraud management software with strong emphasis on automated fraud prevention and detection is of paramount importance to the Bank. To this end, FirstBank has deployed the Internal Control and Anti-Fraud Automated Solution (ICAFAS) software in the prevention and timely detection of fraud in the system.
- Strict compliance with internal policy and 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 control officers.
- 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.
- Improve control officers' 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.
- Effective implementation of whistle-blowing policy.

INTERNAL CONTROL AND ANTI-FRAUD AUTOMATED SOLUTION (ICAFAS) PROJECT

In addressing the volatile risk environment in the banking industry, while also strengthening automated prevention and detection of control infractions, FirstBank intensified efforts in the current year to reap the maximum benefits from the ICAFAS that began in the previous year.

The ICAFAS solution is broken into two categories:

(vi.) anti-fraud detection solution; and

(vii.) governance, risk and compliance software.

Currently, various fraud rules have been deployed using the anti-fraud solution to alert responsible officers of the Bank to activities that may lead to potential fraud based on specific scenarios. The implementation of additional fraud rules and reconciliation scenarios is ongoing.

INTERNAL CONTROL

Easy2Comply (E2C), the integrated governance, risk and compliance (GRC) software which is structured to integrate the activities of inter-related departments within the organisation, has been fully deployed bank-wide. This enables departments such as Internal Control, Compliance, Information Security, Operational Risk, Information Technology and Internal Audit to operate from an integrated platform. The additional advantage of this is 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 to 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 increasing the control consciousness of the first line of defence (the operational staff).

INTERNAL CONTROL IMPROVEMENTS ACHIEVED IN 2013

We set out in the year with strategic priorities for improving the efficiency and effectiveness of internal control in the Group. This we achieved, among other things, as outlined below by:

- Successfully strengthening internal control consciousness and the sense of responsibility of front-line staff in their role as the first line of defence in risk management. In this regard, we carried out effective training, classroom simulation exercises and hands-on practical training and guidance of staff, particularly front-line staff. The outcome of our training has been remarkable over the last year. We started the credit training for branch service managers (BSMs) on pre-disbursement document verification and are currently running the Control Awareness Campaign (CAC) for the banking services group. Operators are better informed about the control implication of their job functions and are better equipped.
- Effectively deploying our exception resolution workflow/governance reporting software (Easy2Comply) for control issues noted with deadlines for the operators to ensure prompt resolution. The workflow also ensures effective monitoring and aggregation of control issues over a period to aid planning and review of policies and procedures. Easy2Comply also provides a database for the control-exception index of branches and a good tracking mechanism which ultimately flows into the banking services group scorecard for BSMs.
- Monitoring branch, subsidiary and head office activities to ensure policies and procedures are adhered to. In this regard, cross-functional monitoring teams were constituted and periodic surprise visits were made to branches and subsidiaries to evaluate compliance with controls.
- Expanding the scope of revenue assurance to additional income lines thereby ensuring total elimination of income leakages. This is a planned activity on a quarterly basis. We intend to expand our review to cover foreign banking services where revenue lines, such as letters of credit, bills for collections and other commission/charges, will be reviewed and collected to forestall any income leakage.
- Strengthening of IT controls and monitoring to ensure adequate controls built around all the software of the Group. During the year, user administration control was successfully extended to most user applications in the Group and this was effectively administered and implemented by Internal Control.
- Preparing and presenting monthly reports to senior management and the Board Risk and Compliance Committee (BRCC) and quarterly reports to the Board Audit & Risk Assessment Committee (BARAC) on control failures and action taken to address such failures. These, and the trend analysis, are being tracked on a monthly basis to see how well recommendations are implemented.

INTERNAL CONTROL PRIORITIES FOR 2014

- Implementation and adoption of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) updated 2013 Integrated Internal Control Framework.
- Expanding the scope and increasing the frequency of control monitoring visits and reviews to ensure compliance with policies and procedures.
- Institution of internal governance committees consisting of internal control and operations staff to enhance inter-departmental collaboration and close working relationships with a view to enhancing excellent service delivery within a control-conscious environment.
- Implementation of measurable processes to enhance and maintain high-quality documentation to consequently reduce the turnaround time (TAT) of External Audit Function in performance of their duties.
- Use of automated tools to monitor and improve TAT in which issues are addressed thereby improving control consciousness at all levels of management.
- Process review of head office key control points. We will commence with our culture of internal control improvements by reviewing head office processes to determine synergies that can be achieved between our head office control point and branch controls to minimise redundancies and improve efficiency.
- Creation of knowledge hubs to guide staff on control activities performed and ensure control policies and procedures are adequately communicated and clarified, and made easily accessible to staff bank-wide.

PROCEDURES TO ENSURE COMPLIANCE WITH EXTERNAL REGULATIONS

Internal Control uses automated tools, when available, in complying with external regulations. The introduction of the cashless policy in additional regions in 2013, as well as the reduction in COT rates, necessitated a process to ensure minimal penalties and income leakages. The revenue assurance team within Internal Control is the team charged with ensuring compliance with regulation via automation in order to minimise losses. Other issues regarding compliance with regulation are handled by the process improvement team, Control Techniques and Standards.

PROCEDURES TO LEARN FROM CONTROL FAILURES

While noting control failures is a daily activity of control officers, significant issues with major financial impact are periodically reported by the control officers using an incident reporting form. Such reports contain sections on remedial action taken to forestall reoccurrence of the issue. As necessary, Internal Control, through its process improvement team, will modify controls in line with lapses observed or changes in our internal processes. Given the dynamic and electronic environment that we operate in, such reviews and changes are required to be implemented promptly. Changes are monitored through our post-monitoring visits to ensure adherence to the newly implemented control process.

INTERNAL CONTROL

RANGE OF CORPORATE POLICIES, PROCEDURES AND TRAINING

Trainings on corporate policies and procedures that impact internal control are conducted by a team of certified facilitators for both operations staff and internal control staff as necessary. For areas that require specialised training outside the purview of the department, training programmes are arranged and agreed with First Academy (our internal learning institution), which is responsible for providing the required facilitators and ensuring that the high quality of training is maintained. For example, implementation of IFRS required specialised training for internal control staff during 2013.

REVIEWS OF CONTROL ACTIVITIES AND RESPONSE RESOLUTION

The use of our automated tool (Easy2Comply) to drive and monitor the activities of control officers has provided a platform to also monitor issues raised and resolution via a workflow in the system. Control officers are required to document issues noted in branches related to cash, fund transfers, customer services etc., via this workflow. Responses to such exceptions are also sent via the workflow, where issues can then be closed or escalated as appropriate.

ACTIVE ENGAGEMENT OF SENIOR MANAGEMENT IN CONTROL PROCESSES

Internal control periodically sends summary control reports to senior management and the BRCC and quarterly reports to the BARAC on control failures and action taken to address such failures.

As an initiative for 2014, governance committees will also be established that will consist of internal control and operations staff at three different levels in the organisation: area operations level, regional level and executive level. This will enable timely discussion and resolution of issues and quicker identification of similar minor issues with the potential to aggregate to significant issues, at an earlier stage than previously experienced. This will also increase the control awareness of operations staff and highlight the benefits of maintaining an enhanced control environment at each operational level.

MAKING SURE OUR INTERNAL CONTROL IS EFFECTIVE

To ensure the effectiveness of our internal control, more emphasis is being placed on automation both on the documentation of work done as well as the use of red flags to guide control officers on potential issues. To this end, the use of the ICAFAS as been of great focus in 2013. ICAFAS provides the tool to achieve the effectiveness of internal control by providing a platform for automation.

During the year, additional fraud rules that act as red flags were implemented. Paper documentation in internal control has been minimised and the regrouping of control officers into teams has enabled knowledge sharing among team members. Training of control officers in the performance of their functions was organised throughout the year to further sharpen the skills of officers.

In 2014, the widely accepted international standard for evaluation of the effectiveness of internal controls, 2013 COSO Integrated Internal Control Framework, was implemented and will be further used to identify areas of improvement. With the expansion of the Group it is imperative to ensure that the standard of internal control is in line with leading practices and can be independently assessed and evaluated by external bodies.

Practical implementation of the COSO framework will require the adoption of the five integrated components namely: control environment, risk assessment, control activities, information and communication as well as monitoring activities. For Management to conclude that its system of internal controls is effective, all five components must be present (exist within the design and implementation of an entity's internal control), and functioning (continue to exist in the operation and conduct of the control system) to ensure that the aggregation of deficiencies across the components does not result in one or more major deficiencies.

This updated framework will become the standard of measurement of the effectiveness of the Internal Control function.

While absolute assurance cannot be achieved as it relates to the non-existence of control failures, measures have been and will continue to be put in place to ensure reasonable assurance of control effectiveness in line with the achievement of organisational objectives.

ENGAGEMENT

WHO ARE OUR SHAREHOLDERS?

With the adoption of the holding company structure in the latter part of 2012, First Bank of Nigeria Limited, previously known as First Bank of Nigeria Plc, became a fully owned subsidiary of FBN Holdings Plc, with the shareholders being FBN Capital Limited and FBN Holdings Plc.

WHAT HAPPENS AT OUR ANNUAL GENERAL MEETINGS (AGM)?

The Bank is a private limited liability company and has two shareholders, FBN Holdings Plc and FBN Capital Limited. Shareholders' meetings are convened and held in line with the Bank's Articles of Association, and the Companies and Allied Matters Act (CAMA), in an open manner. Representatives of the Bank's regulators, CBN, NDIC, and the Corporate Affairs Commission are in attendance on the Bank's invitation. A separate resolution is proposed on each item on the agenda for AGM and voting is 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.

The Bank's general meetings afford shareholders the opportunity to appraise the performance of the Bank, and the medium to give their approvals on certain decisions. This forum gives them an opportunity to assess the performance of the Bank and, by implication, the performance of the directors who take responsibility for effective management of stakeholders' interest.

> *"As the primary custodian of the Bank's corporate governance framework, it is my responsibility to provide a comprehensive advisory compliance and enforcement framework to the Board in accordance with global best practices."*

Olayiwola Yahaya
Company Secretary

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 the society. 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 it in a responsible and sustainable way. As a good corporate citizen, doing business responsibly involves making conscious efforts aimed at ensuring 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 thrive competitively in the future. In order to create long-term value for our stakeholders, we ensure that we incorporate 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. Please see pages 67-93 of the annual report and accounts for a detailed write-up on our relationships and responsibility.

CORPORATE ETHICS AND CULTURE

The Code of Ethics rolled out in the Bank in 2007 remained in force during 2013.

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 whistle-blower 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 Bank's compliance with laws 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 Bank'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.

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 unsatisfied customers and taking action to remedy issues, where appropriate, we are able to review our service standards and delivery processes to meet the 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 issue 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.

ENGAGEMENT

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, which 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.

It is essential that customers who make complaints are satisfied with the complaints management process; hence, in addition to our complaints management process, we also have a complaints feedback system, through which customers who complain are surveyed for feedback on the handling process. The feedback received helps us identify areas for improvement in our service delivery.

WHISTLEBLOWING PROCEDURES

Whistleblowing is a process of raising concerns about a wrongdoing, an illegal act 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 in the Bank. Thus, in compliance with the statutory requirement from CBN in its circular on Guidelines for Whistleblowing for Banks and Other Financial Institutions in Nigeria, FirstBank's whistleblowing framework, which had been established in 2010, was restructured.

The Bank's whistleblowing policy spans both internal whistle blowers (staff, contract employees, management or directors) and external whistle blowers (customers, service providers, applicants, auditors, consultants, regulators and other stakeholders). The stakeholders include employees, customers, contractors, service providers and regulators. The process creates a work environment where concerns of misconduct, irregularities or malpractices can be raised without fear of harassment and/or victimisation. Concerns are taken seriously and investigated and the outcome communicated to all concerned parties.

Whistle blowers may report misconduct, irregularities or malpractices through phone lines 02024659299. The email address is Adeyemi.O.Ogunmoyela@firstbanknigeria.com or Internalaudit.Head@firstbanknigeria.com or Whistleblowing@firstbanknigeria.com. In addition, whistle blowers can also log onto www.firstbanknigeria.com and click on the whistleblowing portal to report misconduct. Other avenues open to whistle blowers are through a letter to the Group Managing Director/Chief Executive or directly to the Chief Internal Auditor. We guarantee the confidentiality of any information received and the identity of the whistle blower.

INTERNAL WHISTLEBLOWING PROCEDURE

An internal whistle blower may blow the whistle by any of the following media, either by declaration or anonymously:

- letter to the Group Managing Director (GMD) and/or the Chief Internal Auditor (CIA);
- call or SMS text to 08024659299;
- communicator chat;
- mail to whistleblowing@firstbanknigeria.com; and
- log on to www.firstbanknigeria.com and click on the whistleblowing portal to report the misconduct.

Where a member of staff who is neither the Chief Internal Auditor nor the Group Managing Director/Chief Executive Officer receives a whistleblowing report, he/she shall forward same to the CIA and copy the GMD/CEO.

Employees who wish to make a report shall do so through a memo stating the following information clearly:

1. the background of the issue (giving relevant dates); and
2. the reason the employee is concerned about the issue.

It is also a punishable offence for any employee who receives a whistleblowing report not to escalate it appropriately.

During the 2013 financial year, five cases were recorded. Three cases were slated for disciplinary measures; the fourth case, involving a bank account, was regularised; and the fifth case, which involved an unsuccessful attempt by an outsider to lure a member of staff into committing fraud, was reported to the police for prosecution, consequent upon the outsider being identified. In accordance with the Bank's commitment to preventing fraud, information gathered through whistleblowing and the identity of the informant is treated with utmost confidentiality.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

The Directors present their annual report on the affairs of First Bank of Nigeria Limited ('the Bank') and its subsidiaries ('the Group'), together with the financial statements and auditors' report for the financial year ended 31 December 2013.

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 NSE by way of introduction in March 1971.

The Bank was effective 16 September 2010, re-registered as a private limited liability company, following the adoption of the holding company structure in 2012 and the migration of the erstwhile shareholders to FBN Holdings Plc, the successor listed entity.

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 nine subsidiaries, namely: FBN Bank (UK) Limited, FBN Mortgages Limited, First Pension Custodian Nigeria Limited, Banque Internationale de Crédit (BIC), International Commercial Bank Ghana, International Commercial Bank Gambia, International Commercial Bank Guinea and International Commercial Bank Sierra Leone.

The Bank prepares consolidated financial statements.

OPERATING RESULTS

Gross earnings of the Group increased by 9% while interest income increased by 12%. The Group's profit before tax, however, increased marginally by 0.37%.

The directors recommend the approval of a dividend of ₦39.15 billion (December 2012: ₦32.6 billion). Highlights of the Group's operating results for the period under review are as follows:

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Gross earnings	**372,551**	341,963
Profit before tax	**87,461**	87,138
Taxation	**(21,009)**	(15,006)
Profit after tax from continuing operations	**66,452**	72,132
Profit after tax from discontinued operations	**-**	-
Non-controlling interest	**107**	57
Appropriations		
Transfer to statutory reserves	**51.98**	**42.97**
Transfer to/(from) statutory credit reserves	**7.98**	**16.10**
Transfer to retained earnings reserve	**93.58**	**97.43**

DIRECTORS' ROTATION

In accordance with the Company's Articles of Association, Khadijah Alao Straub, Obafemi Otudeko, Ibrahim Waziri, Tunde Hassan-Odukale, Dauda Lawal and Gbenga Shobo would retire by rotation at the end of the fiscal year and, being eligible, offer themselves for re-election.

RESIGNATION/RETIREMENT

During the year under review, Remi Odunlami, the erstwhile Chief Risk Officer, and Kehinde Lawanson, Executive Director, Corporate Banking, resigned and retired from the Board, with effect from 31 May 2013.

APPOINTMENT OF DIRECTORS

Tokunbo Abiru was appointed Executive Director, Corporate Banking, with effect from 1 August 2013, in replacement of Kehinde Lawanson, while Abiodun Odubola acted as the Chief Risk Officer until 16 January 2014 when his appointment was confirmed.

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 28 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.

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 disabled people. All employees, whether or not disabled, are given equal opportunities to develop. As at 31 December 2013, the number of disabled people in the Bank's employment was 21.

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 subsidies to all levels of employees for medical expenses, transportation, housing, etc.

Fire prevention and fire-fighting equipment are installed in strategic locations within the company's premises.

The company complies with the Employee Compensation Act 2011 which covers injuries and death for the benefit of its employees. It also operates a contributory pension plan in line with the Pension Reform Act, 2004.

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 First Academy. 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 2013, the Bank had 33% females in top management positions. The table below shows the gender distribution of top management staff by grade:

Top management complement by gender as at 31 December 2013

	Female	Male	Grand total
Group Managing Director/ Chief Executive	-	1	1
Executive Director	-	5	5
General Manager	3	6	9
Deputy General Manager	10	8	18
Assistant General Manager	8	22	30
Total	21	42	63
% distribution	33	67	100

DONATIONS AND CHARITABLE GIFTS

The Bank made contributions to charitable and non-political organisations amounting to ₦1,248.78 million (Dec 2012: ₦1,044.78 million) during the period.

Serial number	Full description	Amount ₦
1	LEAP Africa social innovators programme/awards	500,000
2	Young achievers youth empowerment seminar	500,000
3	Sickle cell fundraising and award dinner	500,000
4	FATE foundation annual celebration and awards	500,000
5	Segun Aina Foundation	500,000
6	Corona School VI - 33rd inter-house sport competition	500,000
7	Future First career counselling	800,000
8	Ego Bekee Cancer Foundation	1,000,000
9	Nigeria Conservation Annual Dinner and Dance	1,000,000
10	Nigerian International Badminton Championship	1,000,000
11	Woman on Wellness - the anniversary programme	1,000,000
12	Writers workshop for health initiatives	1,129,500
13	Fundraiser for Breast Cancer	1,500,000
14	Bogobiri Arts Festival	1,500,000
15	Junior Achievement Nigeria	2,925,000
16	LEAP Africa - Youth Development Programme	3,000,000
17	Lagos Heritage Festival	5,000,000
18	Young & Emerging Leaders 2013 - Future Awards Symposium	5,000,000
19	National Economic Summit Group - Breakfast Dialogue	5,000,000
20	Nigeria Leadership Initiative	7,900,000
21	1st National Credit Reporting Conference	10,000,000
22	Private Sector Stakeholders Forum	10,000,000
23	The Pearl Awards Project - 2012-2014 Pearl Awards Nite	10,000,000
24	Businessday - Annual Banking Conference & Awards	13,000,000

Serial number	Full description	Amount ₦
25	Ministry of Communication Technology - IT innovation programme	14,000,000
26	World Economic Summit	16,780,000
27	Calabar Festival	19,280,000
28	Nigeria Economic Summit	20,000,000
29	Jesuit Memorial College - Construction of administrative building	24,600,000
30	Nigeria Leadership Initiative - Future Leaders Programme	28,350,000
31	University of Calabar - Ultra-Modern Cafeteria	29,139,823
32	Youth Development Series Excel Day 2013	38,000,000
33	Crime Fighters	56,250,000
34	Lagos State Security Trust Fund	75,000,000
35	Financial Reporting Council - IFRS Academy	100,000,000
36	Nigerian Centenary Celebrations	100,000,000
37	Rivers State Ultra-Modern School Constructions	563,989,904
38	Others	79,639,734
39	**Total**	1,248,783,961

AUDITORS

One of the joint auditors, PKF Professional Services, has completed its maximum service period of 10 years in line with extant regulations and will retire at the conclusion of the audit for the financial year ended 31 December 2013. The other auditor, PricewaterhouseCoopers, has indicated its willingness to act and continue in office as auditor. PricewaterhouseCoopers has also been approved by the Board of Directors as sole auditor with effect from the 2014 accounting year.

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 the remuneration of the auditors.

BY ORDER OF THE BOARD

Olayiwola Yahaya
Company Secretary
Lagos, Nigeria
20 March 2014

RISK FACTORS

The FirstBank Group recognises a strong risk management practice as being central to the success of its business strategy.

CHIEF RISK OFFICER'S REPORT

Abiodun Odubola
Chief Risk Officer

The FirstBank Group recognises a strong risk management practice as being central to the success of its business strategy. The framework spans identification, assessment, monitoring and control of risk and is an important differentiator in the competitive environment in which the Group operates.

In this respect, the Banking Group identifies risk as the outcome of any event, if not appropriately assessed, monitored and managed that may prevent the actualisation of its business objectives or impair its reputation. The aim of the risk management disclosure therefore is 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 is an attestation of the commitment of the Board of Directors to adhere to sound corporate governance and regulatory requirements on disclosures.

ENTERPRISE RISK MANAGEMENT FRAMEWORK REVIEW

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

REGULATORY CHANGES

From the regulatory perspective, supervision of the banking industry was further reinforced to promote stability and resilience of the financial system. In its quest to comply fully with the Basel Core Principles on supervision and to create an enabling environment for the implementation of the New Capital Accord, the CBN has adopted a risk-based supervision approach (RBS), a proactive and sophisticated supervisory process based on risk profiling of a bank which enables the supervisor to prioritise efforts and focus on significant risks by channeling available resources to banks that have high risk profile. In this respect the Group has been subject to normal periodic review by the regulators and appropriate steps have been taken to address issues arising from such examinations.

Other reforms initiated by the CBN include tightening of monetary policy through an increase in the cash reserve ratio (CRR) on public sector deposits from 12% to 50%, and a revised guide to bank fees/charges, which became effective in the second quarter of 2013, to align tariffs within the industry to reflect current developments in the market. The introduction of these reforms has escalated the Bank's cost of funds, significantly reduced fees chargeable on loans and driven banks to explore more innovative ways of generating revenue.

Also, a draft framework for supervision of Systemically Important Banks (SIBs) in Nigeria was unveiled to monitor the operations of the country's eight SIBs due to their size, interconnectedness, substitutability and complexity and insulate them from the distress syndrome in compliance with Basel III requirements. The framework when effective would necessitate the SIBs to maintain a minimum capital adequacy ratio (CAR) of 15% with a ceiling that tier 2 capital should not constitute more than 25% of the qualifying capital. In addition to the required CAR, SIBs would also be required to set aside an additional capital surcharge of 1%, to ensure that a higher share of their balance sheet is funded by instruments that reinforce the resilience of the institution as a going concern. To meet up with additional capital requirements as stipulated in the framework, SIBs may have several options: raise equity thereby dilute holdings, retain earnings (pay less dividends) or reduce risk-weighted assets through shrinking of trading activities and reduced lending.

ADOPTION OF NIGERIA SUSTAINABILITY PRINCIPLES

Also, in the year in focus, the CBN approved the adoption of the Nigeria Sustainability Principles by Financial Institutions in Nigeria in line with global best practice. The objective of the policy is to ensure that all transactions that banks fund include adequate provision for actions and costs necessary to prevent, control and mitigate negative impacts on the environment and communities, and to improve environmental quality. The three major sectors in focus include oil and gas, power and agriculture and the Group has therefore initiated a project to give effect to these principles.

BOOSTING FUNDING TO SMES

With regards to SME funding, a ₦220 billion Micro Small and Medium Enterprises (MSMEs) fund was launched to address the challenge of access to capital for operators in this segment, which will be accessible by Microfinance Banks (MFBs) at a maximum interest rate of 9% p.a. The Bank, in its bid to boost lending to small and medium enterprises in Nigeria and stimulate economic growth, has also signed a $100 million facility agreement with China Development Bank (CDB).

OUTLOOK FOR 2014

Loan growth continued to be a major driver of business across the banking industry and aggregate credit to private sector grew by 9% over prior year. The Monetary Policy Committee outlook for 2014 indicates some probable headwinds that may lead to further tightening in monetary conditions. It is expected that 2014 will be the year for quantitative easing in the US and interest rate rises in Europe, both of which will lead to some pressure on the naira exchange rate and stock prices due to the impact of this foreseen event on capital flows. Increase in spending as a prelude to the 2015 general election is likely to take place domestically, thus bringing more pressure to bear on the fiscal state of the economy.

In summary, the operating environment has been very challenging, notwithstanding the Banking Group has pursued its strategic imperative to defend and extend its leadership position in key target markets, while ensuring conformity to evolving reform and international best practice. The subsequent section of this report provides further insight on the methodology adopted for managing various risks 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. Exposure to credit risk predominantly arises through the Group's lending and trading operations. It is actively originated and managed in order to earn a return commensurate with the risks incurred.

In the financial year under review, the Banking Group pursued its loan growth objective and expanded into new frontiers through the deployment of appropriate resources and tools to the assessment of credit requests to ensure that only acceptable risks as defined in the Board approved risk appetite framework were taken.

To further improve the credit appraisal and decision process, FirstBank deployed the Moody's Risk Analyst Solution, a tool which supports the development, implementation and use of different internal rating models to analyse borrower risk in specific portfolios. Also, the Finnone application, which is the Bank's core consumer/retail loan application, was upgraded with value adding benefits such as enhanced credit origination and management capabilities improved TAT on credit processing among others. The Group also expanded its frontiers through the acquisition of the West African operations of International Commercial Bank (ICB) in Ghana, Gambia, Guinea and Sierra Leone to gain dominance and presence.

A review of the performance indicated a 12.5% growth in the loan portfolio of FirstBank and 15.4% in the Banking Group. Loan growth resulted from increased lending to various sectors spanning manufacturing, power and energy, oil and gas (upstream, downstream and services). The aggregate loan growth was within the 10-15% target set for 2013. Asset quality ratio for the period was 3.3% and within acceptable threshold of the Group.

The Group ensured that appropriate impairment charge was taken on small-medium-sized classified assets predominantly in logistics, oil and gas (upstream, downstream and services), real estate, agriculture and transportation sectors. Furthermore, remedial processes, including restructure of delinquent assets, realisation of collateral, will be employed to achieve reasonable write-backs of provision in subsequent periods.

The Banking Group will continue to provide credit and financial intermediation to key viable sectors of the economy to bridge infrastructure gaps. The expected loans and advances growth is to be driven by power, oil and gas, retail, manufacturing, telecommunications and general commerce in the coming year, while we will continue to promote sound portfolio management practices by ensuring a well-diversified portfolio to dilute any build-up of concentration that may expose the Group to unmitigated risks. We will also focus on standardising credit risk methodologies and processes across the Group, especially the expansion of operations to the rest of Africa, which will further integrate the management of credit risk.

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.

The adoption of stricter regulations by the CBN which bit harder on the financial system, especially the banking sub-sector and with relatively stable macroeconomic environment provided a positive background for restrained market risk in 2013.

Foreign exchange risk continued to remain low as the apex bank maintained a reduced open position limit and further introduced series of regulations to preventing round tripping of forex purchased at the CBN window and boosted support for the naira.

Though the benchmark interest rate was relatively stable during the year, the CBN was more aggressive in its monetary tightening by the introduction of a 50% (CRR) on public sector deposits. This ignited volatility in interbank lending rates in the third quarter and invariably impacted our trading and banking book (threat to earnings). However, money market rate returned stable to close the year due to relatively large naira surpluses in the system on the back of OMO redemptions and fiscal inflows. In the period under review, we moderately improved on fixed-income security trading.

The Banking Group will continue to provide credit and financial intermediation to key viable sectors of the economy to bridge infrastructure gaps.

The Group maintained a strong liquidity position in spite of the distortion in the systemic liquidity due to our efforts in leveraging the value of collaboration across business lines, improving the productivity of our business operations and sustainable growth in client engagement. FirstBank 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. FirstBank 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 being the line management made up of all staff of the 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 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 within 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 continues to work at ensuring 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 Bank in Nigeria achieved another milestone in 2013 by being the first banking institution in Nigeria to achieve the new world's prestigious certification for Business Continuity Management known as 'ISO22301 (Societal Security: Business Continuity Management System)' from the British Standards Institute (BSI). The attainment of this feat is a demonstration of the Bank's commitment to delivering sustained, consistent and exceptional services to our customers and meeting the expectations of all stakeholders even in the event of any disruptions.

INFORMATION SECURITY RISK

The Group, in its drive to sustain its leadership position in implementing strategic governance initiatives and safeguard information assets of its customers and staff, has put in place a strong Information Security Framework backed with documented processes, inbuilt controls, to align with the best of international standards in information security and practices.

Following the successful maintenance of its ISO 27001 standard certificates for three years, the Bank has successfully completed and passed the recertification audit by the British Standards Institute, the body responsible for the audit and award of the ISO 27001 Certificate. One of the key focus areas for the Group in 2013 was the implementation of the payment card Industry Data Security Standard (PCI DSS) a gold standard in the payment card industry supported by all the popular card brands. The Group, through its implementation of 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.

The Group will continue to train its staff and make its customers aware of security concerns and trends to safeguard them from electronic scams which have recently become very rampant. The Bank will continue to partner with leading security organisations worldwide to promote good information security practices and governance in the banking sector as well as the financial industry in Nigeria to ensure a more secure operating environment.

FirstBank continues to work at ensuring 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.

LEGAL AND COMPLIANCE RISK

Regulators are increasingly demanding for proactive management of regulatory risks, which has continued to place more pressure on financial institutions not only to put in place structures to identify, assess and understand the money laundering and terrorist financing risks they face and adopt measures that are commensurate with the risks identified, but also to ensure that their compliance programmes are adequate and robust enough to ensure compliance with all applicable laws and regulations so as to mitigate all forms of regulatory risks.

In the spate of these increasing and tightening regulatory obligations on financial institutions, the 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 educate 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.

In order to have a robust sustainability framework and to be able to fully comply with the Nigerian Sustainability Banking Principles, particularly reporting environmental and social performance in operations and in business activities, Management engaged the services of Accenture Consulting to develop a sustainability strategy for the Bank.

By this policy, the Banking Group will ensure that all transactions funded include adequate provision for actions and costs necessary to prevent, control and mitigate negative impacts on the environment and communities, and to improve environmental quality. New projects to be financed by the Bank will from the onset be structured to meet the requirements of this policy. The clients will be required to adopt and implement an Environmental and Social Action Plan (ESAP), satisfactory to the Bank that is technically and financially feasible and cost-effective to achieve compliance within an acceptable timeframe.

CONCLUSION

The Group will proactively assess and manage the risks associated with 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 initiative are considered fair and acceptable within defined thresholds. 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.

Abiodun Odubola
Chief Risk Officer

RISK MANAGEMENT FRAMEWORK

The Banking Group addresses the challenge of risks comprehensively through an enterprise risk management framework (ERM) by applying leading practices that are supported by a robust governance structure consisting of board level and executive management committees.

The framework consists of a comprehensive set of policies, standards, procedures and processes designed to identify, measure, monitor, mitigate and report significant risk exposures in a consistent and effective manner across the Group.

OUR RISK PHILOSOPHY AND CULTURE

OUR RISK PHILOSOPHY

- Considers sound risk management as the foundation of a long-lasting financial institution.
- Adopts a holistic and integrated approach to risk management.
- Risk officers shall be empowered to perform their duties professionally and independently, without undue interference.
- Risk management shall be governed by well-defined policies that are clearly communicated across the Board.
- Risk management shall be handled as a shared responsibility.
- The risk management governance structure shall be clearly defined.
- There shall be a clear segregation of duties between market-facing business units and risk management functions.
- Risk-related issues shall be taken into consideration in all business decisions and a conservative balance between risk and revenue considerations shall be maintained.
- Risks are reported openly and fully to the appropriate levels once they are identified.
- Risk officers shall work as allies and thought partners to other stakeholders within and outside the Banking Group.
- The entities within the Banking Group shall be guided by the principles enshrined in this risk management policy.

OUR RISK CULTURE

- The Board and senior management shall consciously promote a responsible approach to risk and ensure that the sustainability and reputation of the Banking Group are not jeopardised while expanding its market share.
- The responsibility for risk management in the Banking Group is fully vested in the Board of Directors, which in turn shall delegates such to senior management.
- The Banking Group shall pay adequate attention to both quantifiable and unquantifiable risks.
- The Banking Group's Management shall promote awareness of risk and risk management across the Board.
- The Banking Group shall avoid products, markets and businesses where it cannot objectively assess and manage the associated risk.

OUR RISK APPETITE

The Banking Group's risk appetite shall always be set at a level that minimises erosion of earnings or capital due to avoidable losses in the banking books or from frauds and operational inefficiencies.

Our appetite for risk shall be governed by the following:

- Optimisation of capital deployed to every business line.
- High-quality risk assets measured by the following three Key Performance Indicators (KPIs):
  - ratio of non-performing loans to total loans;
  - ratio of loan loss expenses to interest revenue; and
  - ratio of loan loss provision to gross non-performing loans.

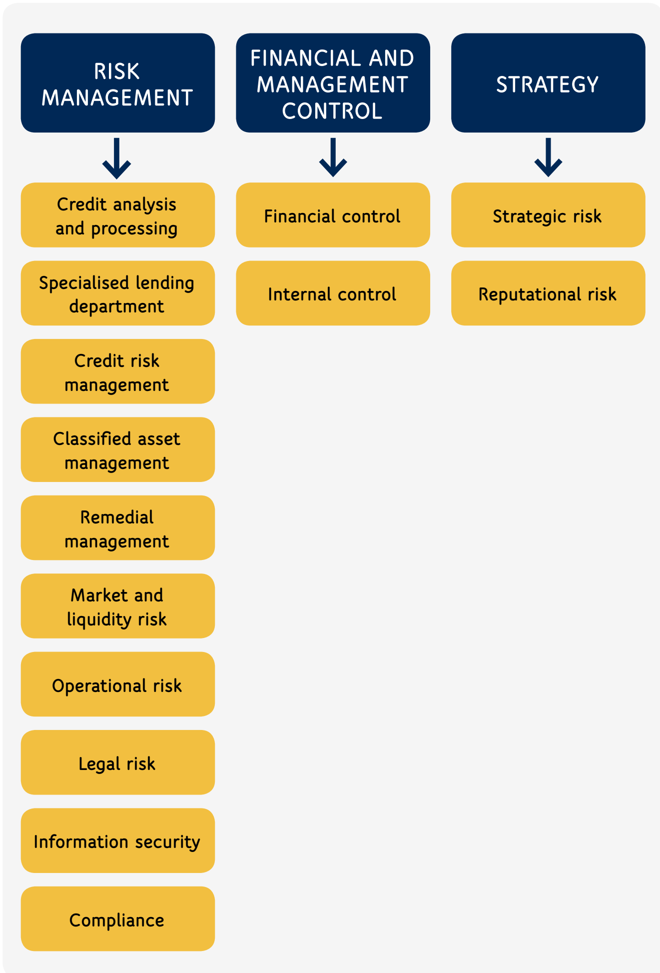
  Pre-defined portfolio limits that drive portfolio diversification and minimised concentration risk.

  The broad objective is to consistently strive to minimise overall cost of risk through effective risk mitigation practices and also ensure there are adequate provisions for all non-performing assets.
- Losses due to frauds and operational lapses should be a maximum of a specified percentage of gross earnings and in any case be lower than the industry average.
- Financial and prudential ratios should be at a level more conservative than regulatory requirements and better than the average of benchmark institutions.
- Aim to minimise following independent indicators of excessive appetite for risk:
  - exception reporting by auditors, regulators and external rating agencies;
  - adverse publicity in local and international press;
  - incidents of frequent litigations;
  - regulatory/other infractions, breaches; and
  - above industry average staff and customer attrition rate.

The Banking Group shall not compromise its reputation through unethical, illegal and unprofessional conduct. The Banking Group shall also maintain zero appetite for association with disreputable elements.

RISK OVERSIGHT

The risk management units provide central oversight of risk management across the entities in the Banking Group to ensure that the full spectrum of risks facing the Banking Group are properly identified, measured, monitored and controlled to minimise adverse outcomes. The risk management units are complemented by other strategic resource functions in the management of other important risks, as illustrated below:



The respective risk management unit coordinates the monitoring and reporting of all risks across the Banking Group.

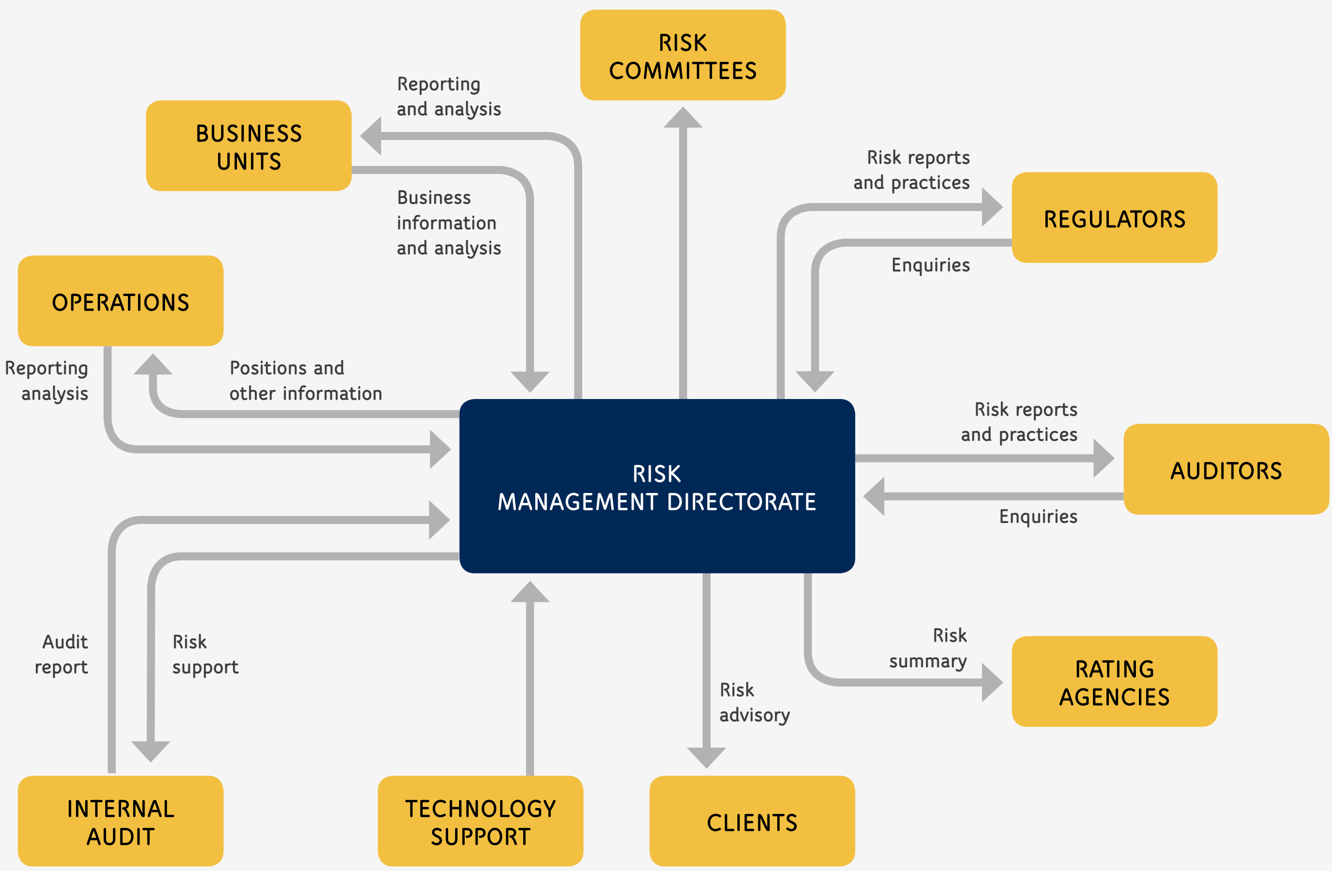
Without prejudice to the above, the internal control function shall be responsible for second-level verification of the banking operations and testing of control measures across the Banking Group. Furthermore, Internal Audit shall have the responsibility of auditing the risk management and control function to ensure that all units charged with risk management perform their roles effectively on a continuous basis. Internal Audit shall also test the adequacy of internal control measures and make appropriate recommendations where weaknesses are identified.

RELATIONSHIP OF RISK MANAGEMENT WITH OTHER UNITS

The relationships between the Risk Management Directorate and other sections of the Banking Group are highlighted below:

- Risk Management shall set policies and define limits for other units in the Banking Group;
- Risk Management shall perform risk monitoring and reporting and provide a framework for management of risk;
- other units shall provide relevant data to Risk Management for risk monitoring and reporting and identify potential risks in their line of business and Risk Management shall provide a framework for managing such risks;
- Risk Management shall collaborate with market-facing units in designing new products;
- Risk Management and internal audit shall coordinate activities to provide a holistic view of risks across the Banking Group;
- Risk Management shall make recommendations with respect to capital allocation, pricing and reward/sanctions based on risk reports; and
- Risk Management shall collaborate with IT, adopting tested and reliable software to automate the risk management process improvement initiatives.

Risk Management Directorate – relationships with other sections of the Banking Group



RISK MANAGEMENT DISCLOSURES

RISK FACTORS

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 is impaired.
MARKET RISK	Risk that the value of on and off balance sheet positions of a financial institution will be adversely affected by movements in market rates.
LIQUIDITY RISK	Risk of loss to the Group arising from either its inability to meet its obligations or to fund increases in assets as they fall due.
OPERATIONAL RISK	Risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
LEGAL RISK	Risk of real or threatened litigation against the Group. It can represent significant costs, disrupt operations and reduce the earnings and capital of the Group.
COMPLIANCE RISK	Risk to earnings, capital or reputation occurring from violations of, or non-conformance with, laws, regulations, prescribed practices or ethical standards.
STRATEGIC RISK	Risk of loss arising from ineffective business strategies.

CREDIT RISK

OVERVIEW

Credit risk management verifies and manages the credit process from origination to collection. In designing credit policies, due consideration is given to the Bank's commitment to:

- create, monitor and manage credit risk in a manner that complies with all applicable laws and regulations;
- identify credit risk in each investment, loan or other activity of the Banking Group;
- use appropriate, accurate and timely tools to measure and manage credit risk;
- adopt a risk-based approach for determining appropriate pricing for lending products and service offerings;
- set acceptable risk parameters;
- maintain acceptable levels of credit risk for existing individual credit exposures;
- maintain acceptable levels of overall credit risk for the Banking Group's portfolio; and
- coordinate credit risk management and other risks inherent in the Banking Group's business activities.

PHILOSOPHY

The following principles guide credit risk management across the Banking Group:

- deliberately manage its risk asset portfolio to ensure that the risk of excessive concentration to any industry, sector or individual customer is minimised;
- ensure that exposures to any industry or customer are determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines;
- extend credit to only suitable and well-identified customers;
- never extend credit where the source of repayment is unknown or speculative nor where the purpose/destination of funds is undisclosed;
- risk considerations 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 Bank'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);
- Recovery Business Unit (RBU) (with a bias for proactive work-out of accounts showing early signs of weakness); and
- Classified Assets Management (CAM).

Credit Analysis & Processing (CAP) is responsible for the appraisal of non-specialised credit requests and processing to obtain requisite approvals in line with the Bank's policy. The department has been reconstituted to handle requests from the SBUs – Commercial Banking, 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 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.

Specialised Lending Department (SLD) is responsible for the appraisal of credit requests and processing through to final decision of specialised types of credit, due to the peculiarity of such transactions in view of their size and complexity. Below is an outline of the portfolio being handled by SLD.

- Project finance
  - power
  - oil and gas (upstream and downstream)
  - utilities (water projects, etc.)
  - transportation (mass transit, aviation)
  - commercial real estate projects, i.e., projects conceived for commercial gain
  - infrastructure, including public assets concessions (roads, airports, etc.).
- Agricultural credit product programmes.
- Financial institutions credit requests.
- Public sector.

CREDIT RISK

Credit Risk Management (CRM) is responsible for the planning, monitoring and reporting of the credit portfolio. The monitoring of loans on obligor and portfolio basis as well as the reporting of these to Management and the Board remains the core responsibility of CRM. The monitoring unit is delineated along the SBUs to provide independent support and guidance to the relationship teams in the management of facilities, by ensuring early 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 Group.

Recovery Business Unit (RBU): 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 work-out and remedial management. Effort will be geared to independently follow up on customers with delinquent assets before the level of delinquency becomes irreversible and thereby reduce the level of potential loss in the portfolio.

Classified Assets Management (CAM) will remain responsible for the recovery of classified retail loans that are 90 days past due (DPD), wholesale accounts classified lost with DPD of over 540 days and accounts written off from on balance sheets into CAM SOL (Service Outlet). CAM will continue to liaise with debt recovery agents, receivers/managers and solicitors to ensure effective recovery of bad loans.

INTERNAL RATINGS SCALE

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Banking Group reflects the following components:

- the character and capacity to pay of the client or counterparty on its contractual obligations;
- current exposures to the counterparty and its likely future development; and
- credit history of the counterparty and likely recovery ratio in case of default obligations – value of collateral and other ways out.

The Banking Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are reviewed and upgraded when necessary. The Banking Group regularly validates the performance of the rating and their predictive power with regard to default events.

OBLIGOR RISK RATING (ORR) SYSTEM

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

Description	Rating bucket			Range of scores	Probability of default	Grade
Extremely low risk	AAA	1	1.00 - 1.99	90-100%	1%	Investment
Very low risk	AA	2	2.00 - 2.99	80-89%	1%	
Low risk	A	3	3.00 - 3.99	70-79%	1.5%	
Low risk	BBB	4	4.00 - 4.99	60-69%	2%	
Acceptable - moderately high risk	BB	5	5.00 - 5.99	50-59%	4%	Non-investment
High risk	B	6	6.00 - 6.99	40-49%	6%	
Very high risk	CCC	7	7.00 - 7.99	30-39%	9%	
Extremely high risk	CC	8	8.00 - 8.99	10-29%	13%	
High likelihood of default	C	9	9.00 - 9.99	0-9%	15%	
Default risk	D	10				Default
Sub-standard	D				25%	
Doubtful	D				50%	
Lost	D				100%	

CREDIT RISK

COLLATERAL RISK RATING (CRR)/FACILITY RISK RATING (FRR)

- The Banking Group shall not lend to non-investment grade obligors without any form of collateral, except as specified under a product programme. Collaterals are rated from best to worst in order of liquidity, controllability and realisable value. The more liquid a collateral is, the lower the estimated portion of the exposure that may not be covered in the event of default. Therefore, for highly illiquid collaterals, a higher loss given default is assumed.
- Under the internal rating systems, all facilities should have an FRR, which is different from the ORR to the extent of the perceived value of the collateral provided.

RISK LIMIT CONTROL AND MITIGATION POLICIES

The industry and portfolio limits are set by the Board of Directors (BOD) on the recommendation of the Chief Risk Officer (CRO). Credit Risk Management (CRM) monitors compliance with approved limits.

PORTFOLIO LIMITS

The Banking Group engages in a detailed portfolio plan annually. In drawing up the plan, the Bank reviews the macro-economic factors, identifies the growth sectors of the economy and conducts a risk rating of the sectors to determine its acceptable target market industries and exception. The Bank's target loan portfolio is then distributed across acceptable target market industries, SBUs 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 UK, which operates within country limits defined by its Board of Directors. The Banking Group has a fully developed country risk rating system that is employed in defining limits for countries.

SINGLE OBLIGOR LIMITS

Limits are imposed on loans to individual borrowers. The Banking Group, as a matter of policy, does not lend above the regulatory lending limit for the countries it operates in. 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 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.

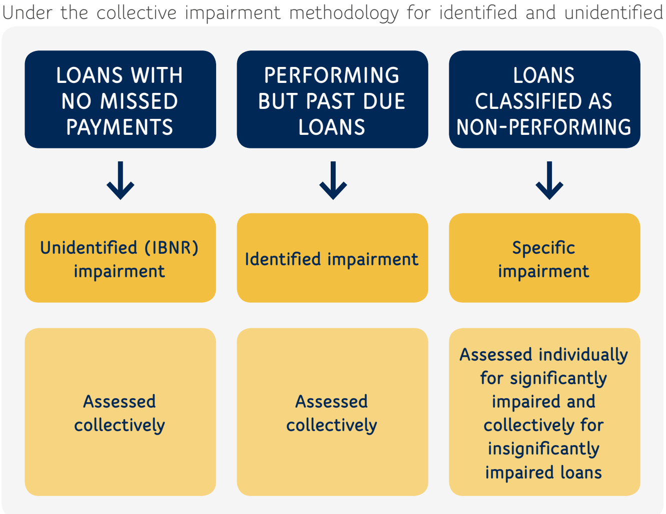
CLASSIFICATION AND PROVISIONING POLICY

Classification and loan loss provisions are made in recognition of the requirements of IFRS 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.
3. **Specific/individual impairment:** individual impairment on a portfolio of non-performing loans where default has already been established.

Under the collective impairment methodology for identified and unidentified impairment, provision is calculated using a set of risk inputs determined 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 (IBNR) factor.



CREDIT RISK

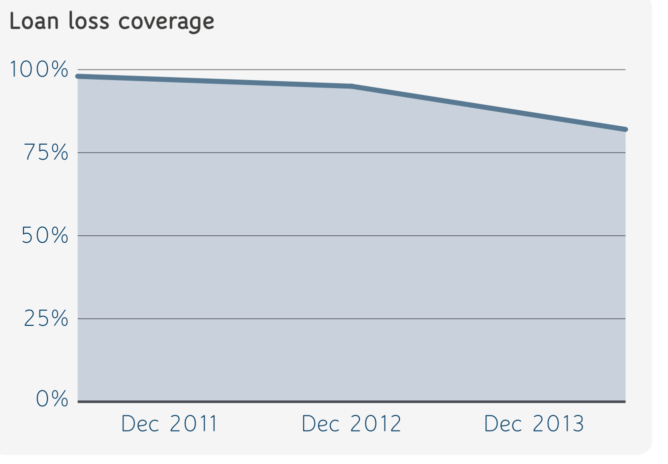
WRITE-OFF AND RECOVERIES

After a full evaluation of a non-performing exposure, in the event that either one or all of the following conditions apply, such exposure 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.

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.

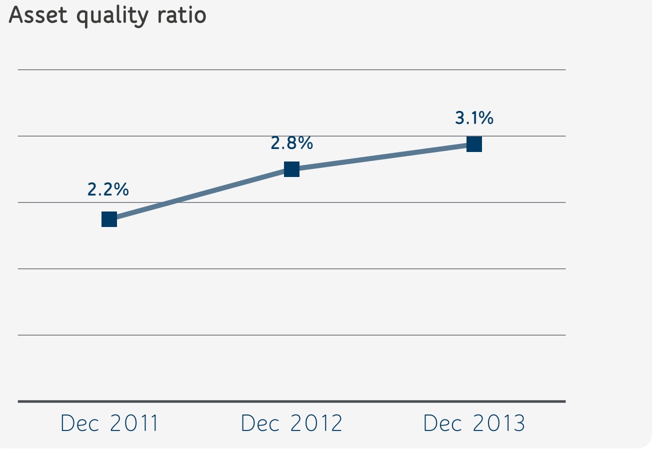
Whenever amounts are recovered on previously written-off credit exposures, such amount recovered is recognised as income on a cash basis only.



PORTFOLIO RATIOS

ASSET QUALITY RATIOS

Total non-performing loans as at 31 December 2013, stood at ₦53.7 billion with gross IFRS provisions of ₦41.4 billion, resulting in loan loss coverage of 84%. Asset quality ratio for the period was 3.1% (see chart below) and is attributable to the recognition and classification of weak and delinquent assets in the portfolio.



3.1%

Asset quality ratio for the period

PERFORMING BUT PAST DUE LOANS

Performing but past due loans are performing loans and advances where individual accounts can be identified as having experienced a loss event, however, default is yet to be ascertained. The gross amount of loans and advances by customer class that are performing but past due as at 31 December 2013 is as follows:

AT 31 DECEMBER 2013	Retail	Corporate	SME	Financial institutions	Total
Past due up to 30 days	22,894	47,413	125	42	**70,474**
Past due 30-60 days	4,848	62,774	100	40	**67,761**
Past due 60-89 days	882	7,393	26	-	**8,301**
	28,472	116,846	192	82	**146,536**

CREDIT RISK

OUTLOOK

The outlook for the operating environment remains cautious. We expect the banking environment to be shaped by the pressures of increased regulation and heightened competition. With regards to economic growth, it is expected that production volumes will increase in the manufacturing and agriculture sectors as a result of likely improvement in electricity generation, thereby resulting in a possible year-on-year growth. The expected improvement in the supply of electricity is premised on the full privatisation of the power sector, which would have the attendant impact of reducing cost of production and increasing capacity. Small and medium enterprises are also expected to begin to experience a new lease of life, as cost of production attributable to power consumption begins to drop and access to finance improves.

The oil sector, which remains the mainstay of the Nigerian economy, requires reforms in the face of emerging threats to demand in the near future. The divestment by major international oil companies, coupled with dearth of new major investments in the industry, were key concerns in 2013. Non-passage of the Petroleum Industry Bill, increased spate of crude oil theft and insecurity, constitute major challenges that the industry still has to contend with in 2014.

Key drivers for revenue growth in the coming year include increased transaction volumes and support for businesses with strong cash flows. We will remain focused on the quality and profitability of new businesses and will continue to be more discerning about risk assets in our portfolio. We expect growth to be driven by power, oil and gas, retail, manufacturing, telecommunications and general commerce in the coming year. We will continue to promote sound portfolio management practices by ensuring a well-diversified portfolio to dilute any build-up of concentration that may expose the Group to unmitigated risks. Early remedial action will be emphasised to reduce delinquent exposures as we strive to achieve an optimal mix of assets in our portfolio.

MARKET RISK

OVERVIEW

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

Market risk 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 CBN, 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 NSE.

PHILOSOPHY

The Banking Group's market risk management process applies disciplined risk-taking within a framework of well-defined risk appetites that enable 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, the Banking Group's 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 being 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 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 market risk management framework encompasses a robust committee structure and a comprehensive set of corporate policies, which are approved by the BOD or its committees. The framework is governed through a hierarchy of committees and individual responsibilities.

The BOD provides oversight for the market risk management function through its Board Audit & Risk Assessment Committee (BARAC).

The BOD is responsible for:

- approval of market risk management framework, policies, strategies, guidelines and philosophy;
- provision of oversight for the implementation of market risk management policies; and
- approval of market risk-related limits for the Bank and subsidiaries.

Management oversight is provided by the Assets & Liabilities Management Committee (ALCO) in FirstBank 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 shall make 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;

MARKET RISK

- 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.

The responsibilities of the MRPC as an advisory technical body responsible for market risk management include the following:

- recommending policies and guidelines for market risk measurement, management and reporting;
- ensuring that market risk management processes (including people, systems, operations, limits and controls) are in line with market risk framework;
- reviewing and recommending for approval or amendments, the Market Risk Limits Package (MRLP), Liquidity Risks 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 calculate market risk;
- recommending changes in the market risk framework for ALCO's approval;
- recommending policies for identifying, measuring, monitoring, controlling and reporting market risk for ALCO's approval;
- providing the 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 tests 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 Banking Group Head of 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 the Market and Liquidity Risk Management department who reports to the CRO.

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 Banking 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 (ERM) 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 and to a confidence level of 99% and a 10-day holding period. The confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced three times per year in every 250 days.

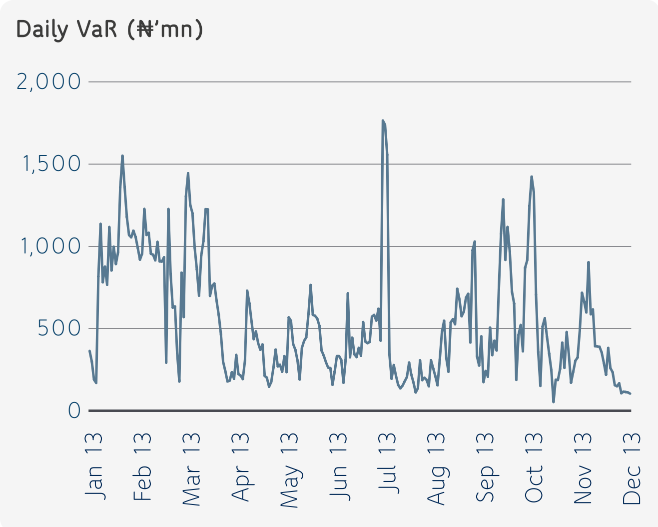
The Banking Group continues to use VaR to estimate the potential losses that could occur on its positions as a result of movements in market factors.

The Banking 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 in the year-to-date; while the naira depreciated by about 2% in the interbank market.

DAILY VaR (@ 99%, 10-DAY) TRADING

	Average (₦'mn)	High (₦'mn)	Low (₦'mn)	Actual (₦'mn)
Bonds	48.98	167.37	1.87	51.83
Treasury	235.54	1,135.90	3.38	241.81
Foreign exchange	204.14	1,266.93	2.49	26.51



MARKET RISK

STRESS TESTING

Based on the reality of unpredictable market environments and the frequency of regulations that have had a 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.

$510 billion

Estimated size of Nigeria's economy in 2014

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 Banking Group's holdings in rate-sensitive assets and liabilities, the Group is exposed to interest rate risk.

Non-trading interest rate risk results mainly from differences in the mismatches or re-pricing dates of assets and liabilities, both on and off balance sheet as the 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 year 2013 turned out to be a pleasant surprise for global markets due to smooth navigation through many potential shocks and high instability that culminated to a downbeat outlook for the global economy in the year. The coherent growth recorded for the major global economies in the twilight of the year spurs a positive backdrop for the year ahead; we expect year 2014 to be a better year for global growth.

The Nigerian economy will likely continue to record modest growth in 2014 despite the expectation of relative political dysfunction being a pre-general election year. The re-basing of the Nigerian Gross Domestic Product (GDP) is expected to push the economy's size to be the largest in Africa with an estimated size of about $510 billion, from its current level of $286 billion, while the implementation of the Nigerian Financial Inclusion Strategy (NFIS) will engender necessary fillip to the banking sector and further strengthen the financial market.

There will be a repricing of risk globally in 2014 as abundant liquidity, due to quantitative easing (QE), starts to get rolled back by the US Federal Reserve. The tapering decisions will pull funds from the emerging market, including Nigeria, and continue to remain imminent on prices in the fixed-income market, but strong local demand for government bonds is expected to support prices. It is our expectation that short-term interest rates will gyrate around contemporary levels to maintain reasonable USD inflows into the fixed-income market. We believe most of the foreign inflows into the debts securities will be channelled towards the short-end of the curve (treasury bills).

The CBN kept the monetary policy rate unchanged throughout the year 2012, but manipulated other monetary policies to manage systemic liquidity. The benchmark rate will remain controlled, in a bid to sustain positive external performance and put inflation on check, but we expect a more accommodative monetary stance in 2013 in order to support the economic growth.

For the second consecutive year, the Monetary Policy Committee (MPC) of the CBN kept the monetary policy rate unchanged all through the year 2013, but altered some policy tools to accomplish effective liquidity management. The funding benchmark rate was kept on hold to consolidate the success so far achieved in attaining price and exchange rates stability. With huge redemption of open market operation (OMO) bills issued in the first half of 2013 and the inflation target of 6-9% in 2014 (amid expected increases in government spending), we expected further monetary tightening. Hence, the possibility of the MPC further increasing the CRR on government deposits and/or that of the private sector in 2014 cannot be ruled out, in a bid to curtail inflation.

While we believe the 6-9% inflation target will be achieved in the first half year 2014, the growing potential for fiscal slippage amid weakening oil revenue and expenditure overruns ahead of the 2015 general election, and some state elections in 2014. There is also pressure on local currency that will likely spark inflationary tendencies towards the upper band of the CBN's projections later in the year.

The frantic efforts of the CBN, continuous monetary tightening and huge portfolio inflows (due to high interest rate environment, which endears incentives to hold NGN assets domestically) have helped to boost the naira's resilience against the US dollar compared to other emerging market currencies, though largely at the expense of dwindling external reserves. We anticipate more pressure in the Nigerian FX market due to strong demand amid the US Federal Government cutting back on its monthly assets purchases (from US$85 billion to US$75 billion) in 2014. However, we are also more optimistic that the CBN will step in to address any short-term pronounced weakness of the naira through the remaining tenure of the present CBN governor ending June 2014. The CBN will likely keep the interbank exchange rate around US$159-US$161 in 2014.

MARKET RISK

The equity market recorded remarkable advancement in 2013 to further boost the bullish trend witnessed in 2012 as the improved corporate earnings among highly capitalised companies in the preceding year were sustained despite the challenging interest rate environment (50% increase in CRR on public sector fund) in the third quarter of the year. We are positive that the equity market will remain attractive in 2014; though the gain in prices will be capped as institutional investors will likely cut down on their investments due to the usual uncertainties associated with the nation's general elections while the impact of a cut in US stimulus also weighs.

We expect oil prices to remain elevated in 2014. Though there is expectation of supply glut (due to plausible rise in supply from US, Iran and Libya) but we believe the rising global growth will equally boost demand and absorb the impact of supply.

We anticipate a sustained stability in the financial system in 2014 as the apex bank continues to pursue its reforms in the banking sector. The successful completion of sales of the nationalised banks in 2014 could enhance competitiveness in the banking industry. However, possible alterations to recent policies of the Central Bank by the new governor that will take over in June remain unclear and could be make the regulatory environment challenging in 2014.

FirstBank will continue to monitor the financial market activities to guide our strategic decisions, stay atop of competition and seek ways to exceed expectations. It is obvious that regulatory changes around the globe are presenting new strategic and potentially systemic risks while economic and financial market conditions will continue to pose both short- and long-term risks. The Bank will proactively track macroeconomic fundamentals, adapt to the rapidly changing business environment and maintain profitability.

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 Banking 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

The Banking 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;
- 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;
- 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 quality of credit portfolio or a large size of off balance sheet exposure; and
- comprehensive contingency funding plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations.

GOVERNANCE

The BARAC and the full Board are responsible for the following:

- approval of liquidity risk management framework, policies, strategies, guidelines and philosophy;
- providing Board oversight for the implementation of liquidity risk management policies; and
- approval of liquidity risk-related limits for the Bank and subsidiaries.

The ALCO, made up of executive directors and other relevant divisional heads, is responsible for the following:

- review of policies relating to liquidity risk management;
- recommendation of liquidity risk policies to the Board;
- review of liquidity risk strategy and recommendation of the same for Board approval;
- provision of management oversight on the implementation of policies relating to liquidity risk;
- monitoring of liquidity risk inherent in the maturities mismatch of assets and liabilities;
- development of policies, procedures, tools and systems for identifying, measuring, controlling and reporting liquidity risks;
- ensuring compliance with statutory and regulatory requirements relating to liquidity risks;
- review of and recommendations on liquidity risk-related limits for approvals; and
- approving stress scenarios and contingency funding plan assumptions.

Implementation of the Banking Group market and liquidity risk management policies, procedures and systems is delegated to the Head of the Market and Liquidity Risk Management department who reports to the Chief Risk Officer (CRO).

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 that assesses all the Bank's cash inflows against its outflows to identify the potential for net shortfalls or net funding requirements.

The liquidity and funding management process also includes the preparation of multi-currency balance sheets, assessing cash flows by major currencies and projecting cash flows under stress scenarios.

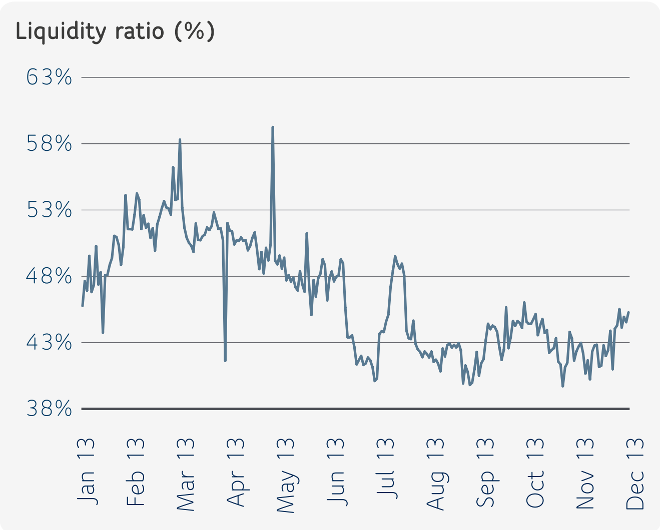
The Bank's use of concentration ratios prevents it from relying on a limited number of depositors or funding sources.

LIQUIDITY RISK

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.

	Dec 2013 ₦ million	Dec 2012 ₦ million
Liquidity ratio	**45.28%**	45.76%



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 cost 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 83% 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.

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.

	Dec 2013 ₦ million	₦ million
Loans and advances to customers	**1,797,935**	1,562,695
Customer deposits	**2,942,782**	2,405,035
Loans and advances to deposit	**61.10%**	64.98%

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 low-risk 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 CBN, 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.

OUTLOOK

The Group is positioned to consolidate on its strong liquidity position in 2014, ensuring that financial obligations are met as and when due at minimal cost, by maintaining a well-diversified funding base sourced from economical and stable sources.

Increased market penetration and value chain banking will be key strategies for providing a stable, low-cost deposit base for the Group, especially as the banking industry waxes stronger and offers fortified brands to customers on the back of recent business combinations.

Deposit cost may trend higher than 2013 levels as competition intensifies. Maintaining deposit stability will be key to stable liquidity positions across the commercial banking 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 fiscal and monetary policy directions of the Government in 2014. We expect sustained attention to fiscal discipline throughout the tiers of government, and continuous support for the local currency underpinned by the CBN's regular liquidity mop-up to keep a lid on demand for FX and inflationary pressures.

LIQUIDITY RISK

CAPITAL MANAGEMENT

The Banking 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.

The Banking Group's capital is divided into two tiers:

- tier 1 capital: comprises core equity tier 1 capital comprising 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 CBN 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 reflects only credit and counterparty risk.

FirstBank achieved a capital adequacy ratio of 16.76% at the end of the year, compared to 18.66% recorded for the period ended December 2012. This is attributable to the growth in risk-weighted assets 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 ALCO.

CAPITAL ADEQUACY (BANK ONLY)

	Dec 2013	Dec 2012
Capital adequacy ratio (CAR)	**16.76%**	18.66%
CAPITAL COMPOSITION:	**₦'mn**	**₦'mn**
TIER 1:		
Paid-up capital	**16,316**	16,316
Reserves	**287,168**	301,891
TIER 2:		
Long-term debt stock	**47,249**	2,560
Reserves	**(16,202)**	3,392
Total regulatory capital	**334,531**	324,159
Qualifying risk-weighted assets	**1,996,220**	1,736,867

CAPITAL ADEQUACY (GROUP)

	Dec 2013	Dec 2012
Capital adequacy ratio (CAR)	**17.73%**	19.08%
CAPITAL COMPOSITION:	**₦'mn**	**₦'mn**
TIER 1:		
Paid-up capital	**16,316**	16,316
Reserves	**335,695**	340,456
TIER 2:		
Long-term debt stock	**47,249**	2,560
Reserves	**17,957**	29,957
Total qualifying capital	**417,217**	389,289
Qualifying risk-weighted assets	**2,352,722**	2,040,361

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 measurement of capital. Though there has been no regulatory requirement for banks in Nigeria to comply, FirstBank 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 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 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 (Nigeria Deposit Insurance Corporation) 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.

OPERATIONAL RISK

OVERVIEW

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. This definition includes legal risk, but excludes reputational risk. Therefore, in line with the Basel II risk management framework and best practices, operational risk in FirstBank is composed of the following risk types: operations risk, legal risk, regulatory compliance risk, financial crime risk, people risk, property, technology, vendor, financial, and social and environmental risk.

The 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.

Components of operational risk:

OBJECTIVES

The Group is committed to the management of operational risks. The Group's operational risk management(ORM) framework aims to:

- reduce losses arising from operational risk – a key role of operational risk management in the Group is to reduce losses from operational failure and in particular avoid potentially large or catastrophic risk losses;
- improve performance measurement – the Group's improved understanding of its operational risk profile shall enable 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 Bank expects that increased understanding of risk activities within various business units, the Board and senior management will lead to improvements in the control of operations and the emergence of a more proactive operational risk management culture;
- provide early warning signals of deterioration in the Bank's internal control system; and
- raise awareness of operational risk in the Bank from top to bottom through the implementation of an enterprise-wide operational risk approach.

PHILOSOPHY AND PRINCIPLES

The following philosophy and principles govern the management of operational risk in the Banking 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;
- operational risk in the Bank is coordinated through a centralised and independent operational risk management function;
- ownership, management and accountability for operational risk is decentralised with businesses and functional units;
- there are consistent standards for defining, evaluating, measuring, monitoring and reporting operational risk;
- the Bank's operational risk management practices are in line with Basel II;
- the Bank's operational risk management practices are subject to regular independent review by internal and external auditors;
- operational risk management is governed by well-defined policies and procedures which are 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 reported openly and fully to the appropriate levels once they are identified; and
- adequate processes and systems for identifying, measuring, monitoring, reporting and controlling operational risks are being implemented by the Banking Group.

OPERATIONAL RISK

METHODOLOGIES

In order to meet its operational risk management objectives, each business function within the Banking Group is required to identify, assess, measure and control its operational risk in line with the policy set by the Board.

Operational risk management process

Risk and control self-assessment (RCSA)

RCSA is a key component of the Group's operational risk framework and involves, on a periodic basis, each business unit and support unit within the group proactively carrying out a self-check of their compliance, with key controls put in place by Management, with a view to identify areas of weakness and implementing remedial actions. The purpose of RCSA is to assess if specific controls are operating as intended. Exceptions, whether due to control lapses or human error, can highlight inherent procedural weaknesses that need to be addressed. Early detection of control weaknesses can help prevent systemic and recurring risks.

RCSA is used to check:

- compliance with relevant Bank policy and procedure manuals;
- compliance with regulatory requirements; and
- whether the key controls are effective in managing the risks.

Internal loss data

The tracking of internal loss event data is a key component of the Group's operational risk framework. Internal loss events and data are analysed with a view to focusing attention on where they are needed and to forestall re-occurrence through sharing of lessons learnt.

Key risk indicators (KRIs)

KRIs are measures that track the risk profile of the Group. Each business unit within the Banking Group develops and monitors KRIs for its significant risks that:

- target key operational risk exposures for the business unit;
- enable management of the underlying causes of risk exposures;
- use thresholds aligned to FirstBank's risk appetite and enable risk-based decision-making;
- are monitored with a frequency that matches the nature of the risks;
- complement the self-assessment and loss-event collection processes; and
- are reported as part of monthly management reporting.

OPERATIONAL RISK

KEY OPERATIONAL RISKS

Major operational risks faced by the Group are financial crimes (internal fraud, external fraud and money laundering). Each incident is analysed, control failures 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 Bank has adopted and developed a competency-based recruitment framework in which attitude, skills and knowledge are tested through background checks, psychometric test, and personality checks before engaging any employee. Also, the Group has invested in enhanced physical security measures and collaborating with security agencies to improve protection of Bank's assets. Other key counter-measures put in place include:

- enhanced staff training;
- enhanced Know Your Customer (KYC) drive and background checks on employees;
- issuance of appropriate and deterrent circulars;
- job rotation and segregation;
- dissemination of email and SMS alerts to the Bank's customers for each debit on their accounts;
- imposition of stiff disciplinary measures including prosecution of fraudulent staff;
- installation of panic alarm system, CCTV, deadman doors etc.; and
- implementation of 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 banking licence, all of which directly impact shareholder value. Accordingly, the Banking Group's operational risk strategy aims to minimise the impact of operational risk on its shareholders' value. In more specific terms, the Bank's strategy is to:

- reduce the likelihood of occurrence of unexpected events and related cost 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.

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 these as far as possible;
- has put in place structures and processes for reporting control failures to designated individuals and escalating material issues to Business Risk and Compliance Committee (BRCC), Management Committee (MANCO) and the Board Audit & Risk Assessment Committee (BARAC);
- 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 management of risk factors and utilisation of insurance or other risk transfer strategies; and
- ensures that staff responsibility with respect to operational risk management is communicated through ongoing risk awareness workshops and management action.

GOVERNANCE

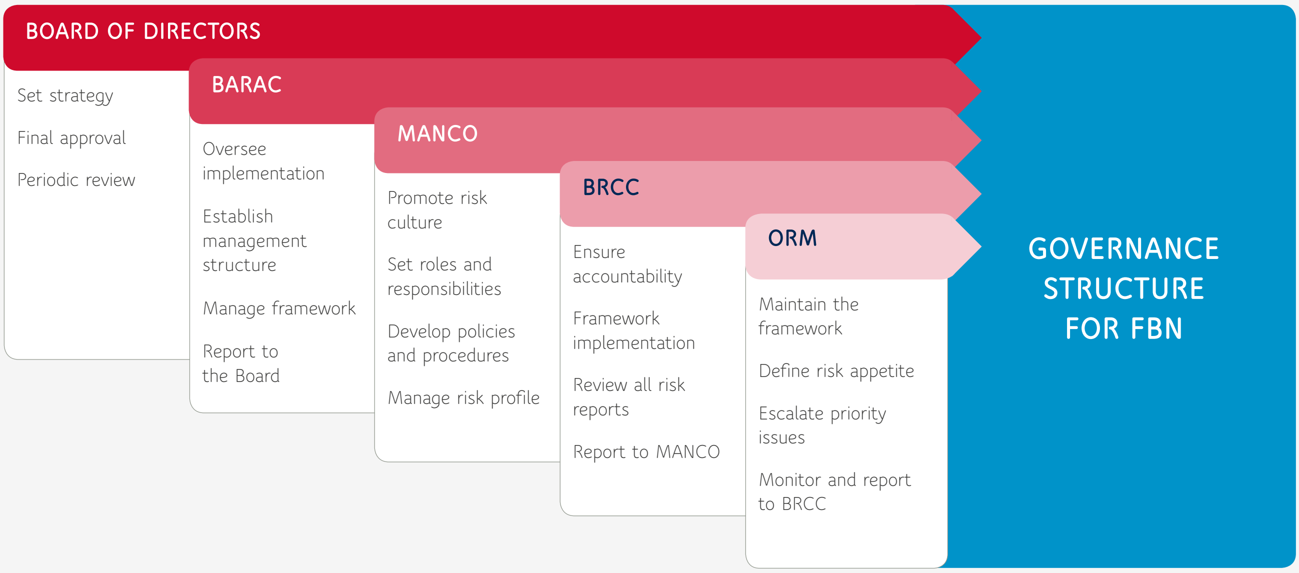
The overall responsibility for operational risk management in the Banking Group resides with the Board. The responsibility of the day-to-day management has been delegated as described in this section. On a regular basis, the Board receives reports on the Group's operational risk profile.

To ensure consistency and prudent management of operational risks, the responsibility for managing operational risk has been split as follows:

- the overall governance is owned by the Board and Board Committees (BARAC and MANCO);
- the approval of operational risk Group policies and standards for risk identification, measurement, assessment, monitoring and reporting is the responsibility of the Board and Board Committees (MANCO and BARAC);
- the operational risk management framework is owned by Group Operational Risk Management; and
- the implementation of the operational risk framework within the SBUs, strategic resource functions (SRFs), business development offices (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.

OPERATIONAL RISK

Operational risk governance structure



THE BOARD AND BOARD COMMITTEES

The Board of Directors, BARAC and the MANCO shall have overall oversight function for operational risk management. It shall be 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 Group's corporate strategy;
- gives final approval for the Group'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 BARAC:

- ensures that the operational risk management framework is comprehensive and in line with the Bank's strategy;
- approves the operational risk management framework and oversees its implementation; and
- establishes a management structure capable of implementing the framework with clear lines of responsibility, accountability and reporting; and reports significant operational risk issues to the Board of Directors.

Management Committee (MANCO)

The MANCO:

- ensures that the framework is implemented consistently across the Bank;
- ensures policies and procedures are developed for managing operational risk in the Bank's products, activities, systems and processes;
- ensures that all levels of staff understand their responsibilities with respect to operational risk management;
- reviews the Bank's risk profile and assesses potential impact on the activities of the Bank or business unit;
- ensures the Bank's risk profile is within established risk parameters;
- ensures that staff are adequately trained and have access to the necessary resources;
- obtains and reviews periodic reports on operational loss events, risk profiling and control failures bank-wide and monitors corrective measures being implemented;
- ensures that the outputs from the operational risk management process are factored into the day-to-day management decisions of the Bank; and
- ensures that the Bank's operational policies and procedures promote the desired risk culture.

OPERATIONAL RISK

Business Risk and Compliance Committee (BRCC)

The BRCC, as a sub-committee of MANCO, ensures the effective and efficient management of the operational and business risks within the Bank and report through MANCO to the BARAC, which serves as a link between the Board of Directors and senior management with respect to business risk management and audit function.

The BRCC:

- carries out the first level review and challenging of developed operational risk and business risk frameworks, policies, procedures, processes and toolkits;
- ensures senior management become aware of, and more directly accountable for, risks in their jurisdiction;
- manages significant operational risks where they originate within the business function;
- ensures compliance with Group business/function operational and business risk policies and procedures;
- ensures that operational risks identified within the business are assessed in terms of implications for wider business risk and to ensure that the identified business risks are reviewed and reported accordingly through the operational risk reporting process;
- ensures implementation of the approved operational risk framework, policies procedures, processes and tool-sets;
- continually promotes risk awareness throughout the Bank so that complacency does not set in;
- identifies, reports and manages the top 20 operational risks in the now and six months' timeframe;
- assists the MANCO to manage ongoing corporate governance issues;
- reports through MANCO to the BARAC on key business risk and compliance issues and decisions taken by the committee;
- reviews the reports from head 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 Board of Directors;
- 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 MANCO's responses thereto; and
- performs other activities related to this charter as requested by MANCO and the Board.

OPERATIONAL RISK MANAGEMENT FUNCTION

The Group Operational Risk Management (ORM) function is independent of the BDOs, branches, departments/business units and control and support units and reports to the Chief Risk Officer (CRO), a member of the MANCO.

The core responsibility of the Group ORM function is the development and implementation of operational risk management across the Group.

This entails:

- drafting operational risk management policies, standards, processes and procedures;
- playing the role of a thought partner with businesses and support functions in management of their operational risk;
- 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 aggregate risk profile, control effectiveness and actions to risk committees and the Board;
- analysing BDOs, branches, departments/business units and control and support units' operational risk to derive emerging themes for the Bank;
- defining yearly operational risk 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.

OPERATIONAL RISK

MILESTONES

ISO 22301 (SOCIETAL SECURITY: BUSINESS CONTINUITY MANAGEMENT SYSTEM) CERTIFICATION SUCCESS STORY

In further demonstration of its leadership position in the Nigerian banking industry, First Bank of Nigeria Ltd achieved another milestone by being the first banking institution in Nigeria to achieve the new certification for Business Continuity Management known as ISO 22301 (Societal Security: Business Continuity Management System) from the British Standards Institute (BSI).

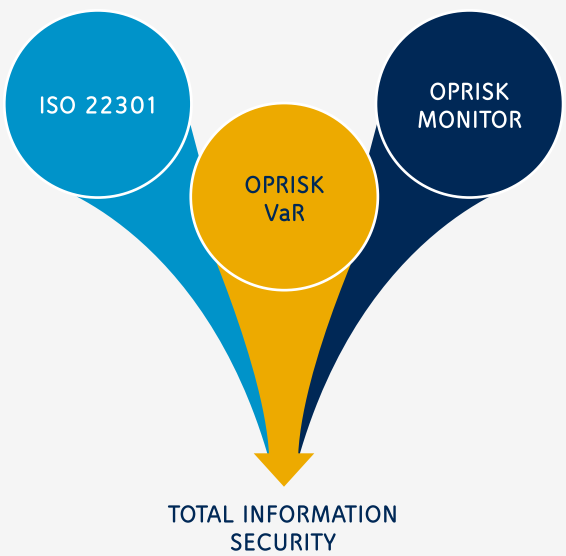
The Bank's attainment of this feat is a demonstration of the Board and Management commitment to the Business Continuity Management System (BCMS), delivering sustained, consistent and exceptional services to our customers and meeting the expectations of all stakeholders even in the event of any disruptions.

It further underscores the fact that FirstBank upholds global best practices and continual improvement with respect to its BCMS and thereby giving stakeholders another reason to have unwavering confidence in their relationship with the Bank.

In December 2011, FirstBank made history when it became the first organisation in Nigeria to be awarded the BS25999 global Certification on Business Continuity Management (BCM). This resulted in its determination to continuously maintain the best international standards possible. As part of its preparation for the new certification, the Bank sponsored 30 members of staff from the BCM core team to attend the ISO 22301 Lead Auditor international training and having passed the examination have been certified ISO 22301 Lead Auditors, while 25 staff members are Associate Members of the Business Continuity Institute (BCI).

In the same vein, the Bank continues with the deepening of adoption of the highly rated Enterprise Risk Management Intelligence Solution. The Operational Risk Management module of the Solution has two basic components namely 'OpRisk Monitor' and 'OpRisk VaR'. 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 OpRisk Monitor.

Milestones



OUTLOOK

FirstBank continues on its 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 stakeholder value and the long-term survival of the institution. To this end, a number of initiatives and projects are currently ongoing that, when completed, will enhance the risk management culture and practices within the organisation and by extension, significantly reduce the Bank's operational risk exposures and incidences.

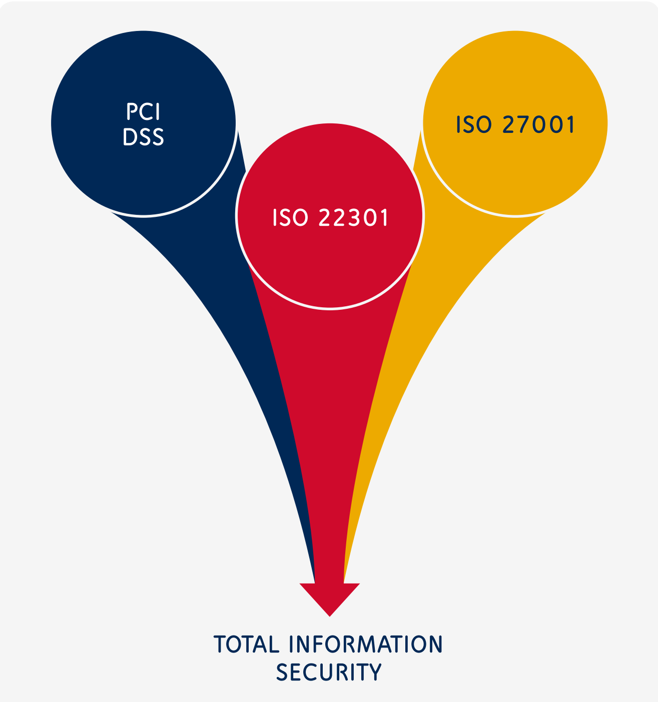
Some of these key initiatives and projects are as follows:

- implementation and roll-out of the world-class risk intelligence solution to the Bank's local and international subsidiaries;
- collaborating with internal audit to help embed the culture of control and risk self-assessment (CRSA) in all activities and across all levels in the Bank;
- extend and embed business continuity management culture to the Bank's branches and subsidiaries;
- review and update existing operational risk management toolsets and processes and introduction of new ones; and
- capacity building/aggressive bank-wide operational risk awareness campaign to increase employees' risk-awareness level and competence in managing risks.

INFORMATION SECURITY RISK

OVERVIEW

The Group, in furtherance of its commitment to the protection of its customers and staff data, recertified to the ISO 27001 standard, thereby setting a record as the first organisation in Nigeria to recertify to the prestigious ISO 27001 certification initially awarded by the BSI in the year 2010. A recertification exercise is conducted every three years and is more thorough than the regular bi-annual surveillance audits that took place previously.



The Group also successfully concluded the extensive implementation of the Payment Card Industry Data Security Standard (PCI DSS), mandated by the CBN as part of its effort to ensure greater assurance for the security of its payment card data, systems and environment, vulnerability assessment and penetration testing is continuously undertaken to identify risks and recommend remediation to address such risks.

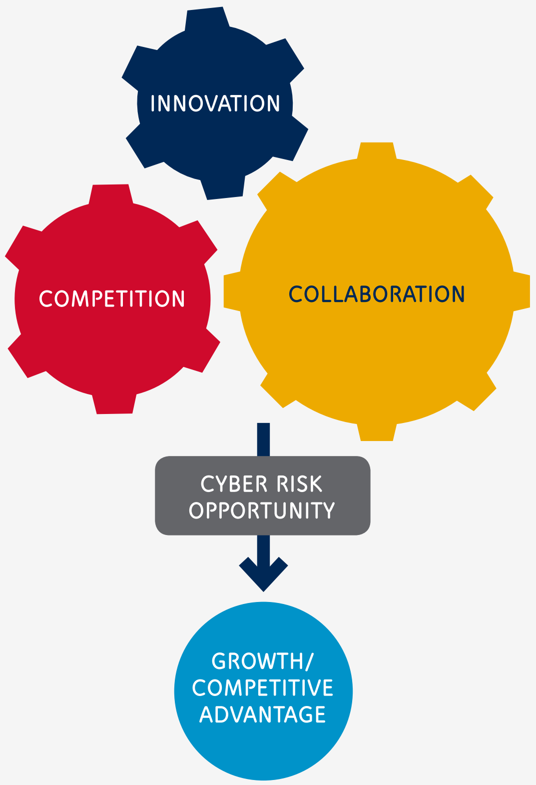
Cyberspace brings enormous benefits, improved innovation, collaboration, productivity, competitiveness and customer engagement. The benefits continually drive organisations and their people to adopt new ways to interact and do business in cyberspace. They must be able to do so quickly and securely, while managing the 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 Group is structured to forestall attacks on the Group's reputation and all manner of technology attacks. Information security has been extended to create risk resilience and consciousness about incidents and is built on a foundation of preparedness.

While individual threats pose risk, there is more danger when combined with organised crime and adopted techniques developed by online activists or use of cyber weapons. As the future is uncertain, organisations must prepare for the unpredictable and be resilient to withstand unforeseen, high-impact incidents. A forward-looking stance increases organisational agility and resilience.

INFORMATION SECURITY RISK

FirstBank Information Security Framework



FirstBank, through a comprehensive risk governance methodology and its implementation of the top three international standards, ensures the security of its customers, staff, information, and assets. This is achieved through collaborative effort and innovation, which has promoted healthy competition among its staff, giving the Bank competitive advantage in cyberspace, which is recognised as the future of retail banking.

The Group has adopted international best practices and standards, which include its business continuity programme, as well as being a member organisation of the Information Security Forum (ISF); an international organisation founded in 1989; 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.

The Group has benefited from its membership of the ISF by harnessing and sharing in-depth knowledge and practical experience drawn from Fortune 500 companies and developed through an extensive research programme created by the ISF.

PHILOSOPHY AND APPROACH

Security is a business problem and the Group's Management takes ownership and directs requirements for Information Security Management as captured in the Information Security Management System (ISMS) organisational structure. Information security requirements will continue to be aligned with organisational goals and the ISMS is intended to be an enabling mechanism for information sharing, electronic operations, e-commerce and reduction of information-related risks to acceptable levels.

The Group focuses on preventive proactive risk management rather than reactive. Risk and vulnerabilities are identified through a systematic process of risk evaluation and management practice, while documented policies and procedures are used to drive the daily operation of the Investment Banking Group to effectively manage the confidentiality, integrity and availability of information assets.

CULTURE

The Group is committed to ensuring the confidentiality, integrity and availability of its customers' information through:

- maintenance of a comprehensive list of FirstBank information assets detailing ownership; and
- identification of the value of information assets through appropriate risk assessments, as well as risk awareness-focused training.

APPETITE

The Group'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.

FirstBank Information Security Triad

In FirstBank information security is assured through extensive risk awareness, assets valuation and information assets handling principles and guidelines which assures the Bank of the security of its assets and those of its customers.

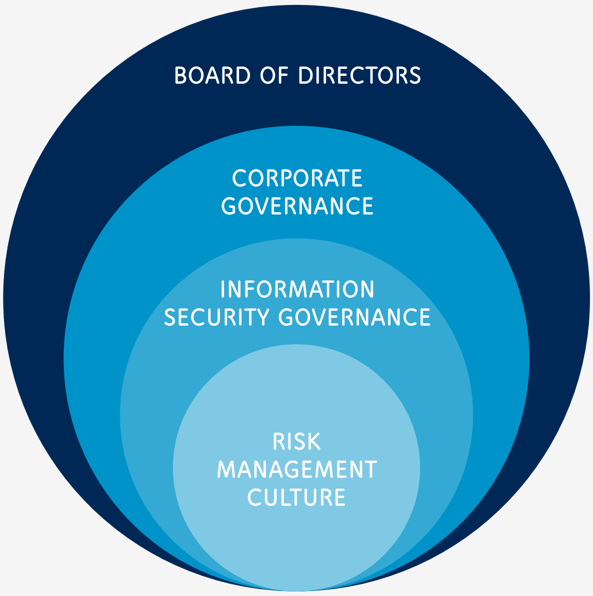
INFORMATION SECURITY RISK

GOVERNANCE STRUCTURE

THE BOARD

The Board and Management have the overall responsibility to ensure that all information assets within the Group are protected and adequately secure. These responsibilities include preserving the confidentiality, integrity and availability of all the physical and electronic information assets in the Group to ensure all customer information receives adequate protection. In addition, it ensures that the Group complies with all legal, regulatory, contractual and commercial requirements of information security.

Governance structure



FirstBank Information Security Governance Structure is driven by the Bank's strong risk governance culture with information security implementations and management being overseen at Board level ensuring comprehensive oversight function and management support.

Consideration will also be given to high-level risks identified in the previous year as well as other likely threats identified for 2014 in major security reports. It should be noted that threats are considered in the context of the Group's environment (industry, geography, preparedness, etc.) to determine the level of risk each pose to the organisation.

INFORMATION SECURITY RISK

GOVERNANCE (ORGANISATIONAL STRUCTURE)

Function	Role
Board of Directors	Final authority and responsibility for safeguarding FirstBank's information assets rests with the Board of Directors.
Board Audit & Risk Assessment Committee	The Board Audit & Risk Assessment Committee (BARAC) reviews and approves information security policies and budgets to ensure they are in line with the Bank's strategic vision before passing 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	The Internal Audit function and information security office support the monitoring process without losing independence.
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.

OVERSIGHT

The BARAC performs an oversight function. It ensures that detailed policies, procedures and standards are created, updated regularly and effectively communicated to stakeholders.

The risks posed to its information assets require the effective management of data confidentiality, integrity and availability. This is achieved by applying defined control objectives and best-practice information security policies and techniques. Risk management routinely measures the functionality of data information systems against policy requirements, in order to ensure their compliance.

Information security risk is managed through two principal committees, the BRCC and BARAC.

BUSINESS RISK AND COMPLIANCE COMMITTEE (BRCC)

The BRCC is responsible for approving the information security policies and budget prior to final approval by the Board.

Key responsibilities of the BRCC on information security risk include:

- ensuring that the information security policies are up to date to support the business;
- ensuring that a business continuity plan is in place;
- adequate budgetary provision to support the IT infrastructures made annually; and
- ensuring information security procedures are up to date with modern security development.

BOARD AUDIT & RISK ASSESSMENT COMMITTEE (BARAC)

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 onto the Board for final approval. Key responsibilities of the BARAC for information security are detailed below.

- Ensure that top management as well as key stakeholders within the information security organogram possess the requisite expertise and knowledge required to secure the Bank's information assets.
- Ensure that the Bank implements a sound methodology for managing information security consistent with the ISO 27001 standard.
- Ensure that detailed policies, standards and procedures are created, updated regularly and effectively communicated within the Bank.

INFORMATION SECURITY RISK

BARAC oversight function

RELATIONSHIPS WITH OTHER UNITS

The information security office maintains key relationships with other units in the Group 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;
- information security awareness programme for the Bank, this includes awareness concepts computer-based training and facilitator-led training for all staff;
- organisation-wide asset identification, valuation and risk assessment based on the requirement of ISO 27001;
- liaising with Information Security Champions, information asset owners and subsidiary coordinators;
- incident documentation and learning points dissemination; and
- monitoring information security incidents enterprise-wide.

STRATEGY AND POLICY

FirstBank has adopted an integrated approach to information security risk management in line with the ISO 27001 standard. Its fundamental objective is to ensure the confidentiality, integrity and availability of its information assets.

Information assets are viewed as a very critical asset of the Group and shall therefore be adequately protected. The protection of the Group's information assets is critical to the Group's business continuity and its ability to meet business objectives. Accordingly, the Information Security Management Department (ISMD) has been assigned the responsibility of ensuring that the Group's information assets are adequately protected at all times; this is achieved through well-documented policies and constant training and retraining of staff on policy requirement and good information security practices.

This responsibility is to be shared by both the Management and the employees of the Group, irrespective of designation or function. Information security management in FirstBank is a continuous process. As part of its responsibility, the ISMD monitors risk indicators, such as information security-related incidents supplemented by trend analysis that highlights high-risk or emerging issues, so that prompt action can be taken.

CERTIFICATION DRIVES

FirstBank, in line with its plans in 2011, commenced the implementation of the PCI DSS and successfully fulfilled the PCI DSS requirement for card processing organisations. The Bank was awarded its PCI DSS certificate by its Qualified Security Assessors (QSAs), Control Case, USA, in August 2013.

The implementation cut across all infrastructure and processes where payment card data is stored, transmitted or managed, to ensure that all card information, inclusive of customer card information, is adequately protected across the Bank.

OUTLOOK

Information security aligns itself with the strategic endeavours of an organisation by ensuring that protective measures are put in place that guarantee that the organisation is not deterred from reaching its key goals.

For 2014, as the Bank attempts to consolidate on its extended presence in new African territories, and to create new lines of businesses and revenue streams particularly in the electronic and online sector, great focus will need to be paid to its increased presence in the African region and the Global financial services sector. We believe this will cause issues, such as cyber security and issues of confidentiality to be on the front burner of management discussions.

Given the amounts of digital information collected and generated by the organisation about its customers, staff and third-party organisations. As the Group extends its reach seeking new opportunities, customers and partners, a vast amount of data will be generated, which must be stored for meaningful analysis. This vastly magnifies security and privacy risks by velocity and volume. To protect the strength of the FirstBank brand, the processes and technologies implemented for the management of data generated must protect the Bank's information such that it is safe from corruption, theft, espionage, or privacy violation.

As for cyber security, this is already an area receiving utmost attention from the Bank following the announcement of the cashless policy by the CBN. However, given the increased presence of the Bank in cyberspace, criminals will continue to attempt to breach the security of the Bank's networks and infrastructure, and customers and staff are primary targets as well. It is therefore pertinent to widen our focus on cyber security as cybercriminals increase their attacks and its sophistication.

Consideration will also be given to high-level risks identified in the previous year as well as other likely threats identified for 2014 in major security reports. It should be noted that threats are considered in the context of the Group's environment (industry, geography, preparedness, etc.) to determine the level risk each poses to the organisation.

As reported by Information Security Forum (ISF), "this is the year of resilience and organisations must be prepared – and be prepared to move at the speed of a tweet".

As the future is uncertain, the Group must prepare for the unpredictable so as to have the resilience to withstand unforeseen, high-impact events. A forward-looking stance increases our organisational agility and resilience.

The Group has strengthened its incident management and response processes and is working with its service providers to instil effective security behaviours into FirstBank's culture and its third-party service providers. This involves having third-party service providers included in its incident management process and privacy policy implementation.

COMPLIANCE RISK MANAGEMENT FRAMEWORK

OVERVIEW

First Bank of Nigeria Limited recognises that it is accountable to all its stakeholders under applicable legal and regulatory requirements and is committed to high standards of integrity and fair dealing in the conduct of its business. It is committed to fully comply with both the spirit and the letter of applicable requirements and to always act with due skill, care and diligence.

Thus, the Bank instituted a Compliance Risk Management Framework that comprises the strategy, governance structure, processes and tools that the Management and staff of the Bank shall adopt in managing compliance risk, with the following vision and mission:

- vision: to protect business growth and sustainability through compliance with regulation; and
- mission: to proactively and constructively assist the Bank to run an efficient and profitable business, in line with compliance requirements.

RISK MANAGEMENT PHILOSOPHY

In order to promote a culture of compliance across the Bank, the following philosophy governs compliance and compliance risk management in FirstBank:

- compliance starts at the top, hence the Board and Management shall set the tone by creating an environment where compliance-related issues are taken into consideration in all business decisions; and
- compliance concerns everyone within the Bank, and thus shall be part of the culture of the Bank and not just the responsibility of specialist compliance staff.

OBJECTIVES

- Assist and support line management to ensure that business is conducted in accordance with applicable statutory, regulatory and supervisory requirements.
- Promote adherence with the Bank's code of ethics and business conduct.
- Facilitate the management of compliance risks and prevent disciplinary action by regulators.
- Minimise the possibility of civil and criminal action against the Bank.

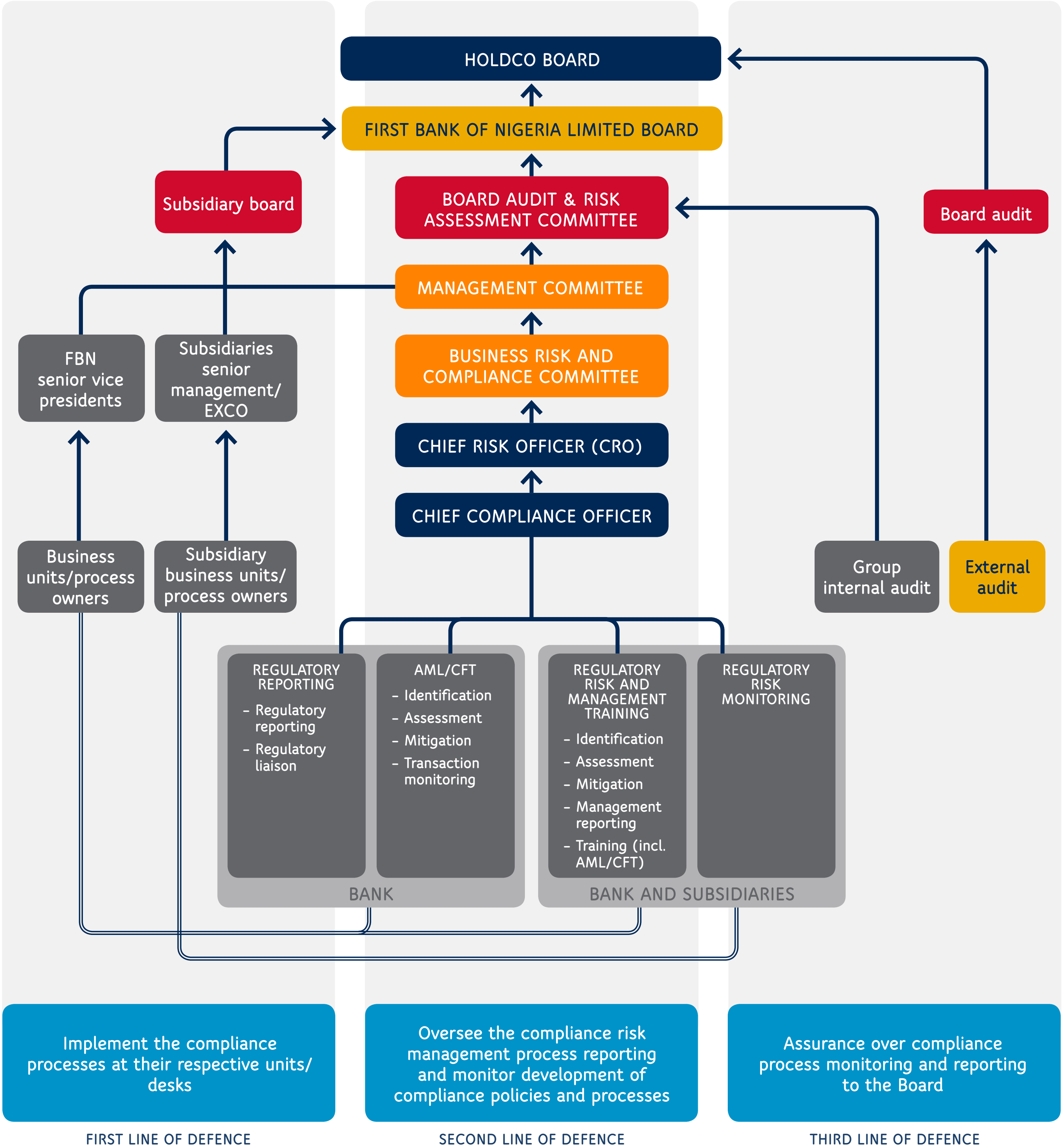
RISK MANAGEMENT STRATEGY

The following strategies were adopted in achieving the earlier objectives:

- empowerment: the Bank compliance function possesses the requisite knowledge and skills set, and financial resources, as well as authority and independence for optimal performance;
- training and awareness: the Bank created, cultivated and sustained a healthy compliance culture through continuous training and education of staff and Management;
- regulatory Intelligence: the Bank is constantly updated with regulatory requirements through environmental scanning and maintaining a cordial relationship with the relevant regulators. A compendium of the relevant regulatory compliance rules is maintained to ensure that the Bank is aware of compliance obligations at all times;
- compliance risk appetite: the Bank's appetite for compliance risk is zero tolerance for payment of fines and other penalties associated with regulatory infractions and non-compliance with laws, standards and rules. This is measured and monitored using the following three performance indicators:
  - number of sanctions received, amount of fines and penalties paid with respect to non-compliance with laws and regulatory standards;
  - number of cautions and summons received from regulatory authorities; and
  - number of infractions identified in the Bank by the Internal Audit desk.

COMPLIANCE RISK MANAGEMENT FRAMEWORK

Risk governance structure



COMPLIANCE RISK MANAGEMENT FRAMEWORK

COMPLIANCE ROLES AND RESPONSIBILITIES

BOARD OF DIRECTORS

The Board has the overall responsibility for managing compliance in the Bank. However, the Board could delegate it to any appropriate board committee.

BOARD AUDIT & RISK ASSESSMENT COMMITTEE (BARAC)

The BARAC provides supporting oversight on the management of compliance within the Bank.

Business units, management and all staff are the first line of defence.

They are committed to complying with all relevant and applicable regulatory requirements within the business department, inclusive of any outsourced business.

MANAGEMENT COMMITTEE (MANCO)

The Management Committee is responsible for reviewing the compliance risk management framework to ensure its continuous relevance and appropriateness, as well as endorse changes for Board approval.

BUSINESS RISK AND COMPLIANCE COMMITTEE (BRCC)

The Business Risk and Compliance Committee has the responsibility of ensuring the implementation of the approved compliance risk policies, procedures, processes and tool-sets.

CHIEF RISK OFFICER (CRO)

The Chief Risk Officer oversees the implementation of the compliance policy through the Chief Compliance Officer.

CHIEF COMPLIANCE OFFICER (CCO)

The Chief Compliance Officer is responsible for setting an entity-wide policy and compliance standard, and coordinating the overall compliance system in the Bank.

INTERNAL CONTROL AND ENHANCEMENT GROUP

Internal control assists the Compliance function in the conduct of independent monitoring.

INTERNAL AUDIT

Internal Audit is responsible for developing and implementing audit programmes to evaluate the level of compliance by the Compliance Department with policies and procedures.

BOARD AUDIT COMMITTEE

The Board Audit Committee oversees the external audit function.

EXTERNAL AUDIT

External audit is responsible for reviewing the risk processes as part of their statutory audit duties.

SCOPE OF THE COMPLIANCE FUNCTION

The management of regulatory risk comprises ensuring compliance with all the statutory, regulatory and supervisory requirements/rules imposed on the business by external parties.

Responsibility for managing compliance with internal rules created by FirstBank is the responsibility of the Internal Control function. These are monitored as part of their normal duty of ensuring that an effective system of internal controls is maintained by FirstBank. However, certain internal rules are of such importance that the Management may require the Compliance function to be involved in ensuring that they are adhered.

The Compliance function operates independently from Internal Audit. The Compliance function leverages on the Internal Control and Internal Audit infrastructure by developing compliance checklists that are to be completed by Internal Control and Internal Audit as part of their routine procedures. Reports of their findings on issues that have regulatory implications are forwarded to the Compliance function for use in its monitoring exercises.

Compliance risk management process

RISK IDENTIFICATION	RISK ASSESSMENT	RISK MITIGATION	RISK MONITORING	REPORTING
Scanning of the external regulatory environment	Interviewing stakeholders to obtain an understanding of the business activities being conducted	Policies (on ethical issues inclusive) or procedures specifically designed to facilitate compliance	Develop annual monitoring plan	To Board Audit & Risk Assessment committee
Identification and analysis of new laws and regulations	Perform regulatory risk assessment: assessing impacts and likelihoods	People and/or other resources such as information technology	Document results and commitment to findings to relevant stakeholders	To Business Risk and Compliance Committee
		Training and education	Remedial actions	To Management Committee
		Sound relationship with regulatory agencies	Action tracking	To regulatory agencies
			Incidence management	
			Investigations	

COMPLIANCE RISK MANAGEMENT FRAMEWORK

OUTLOOK

The regulatory environment in 2013 brought about enormous challenges for banks and other financial institutions. In order to regulate the importation of cash by Deposit Money Banks (DMBs) and prevent money laundering, the CBN, in the third quarter of the year made some drastic changes in the foreign exchange market. The Wholesale Dutch Auction System (WDAS) was suspended and in its place the Retail Dutch Auction System (RDAS) was re-introduced with its consequent implications on foreign direct investments.

In reaction to the enormous volume of dishonoured cheques in the financial sector, the CBN directed all financial institutions to ensure that existing and prospective customers (at the time of account opening) pledge not to issue cheques against unfunded accounts. By way of enforcement, financial institutions are required to monitor cheque transactions in their customers' accounts in order to identify those customers that have issued cheques against unfunded accounts on three or more instances and render a monthly report to the CBN.

The CBN revoked the operating licences of 20 Bureaux de Change (BDCs) for allegedly failing to render returns on the use of foreign exchange purchased from Deposit Money Banks and the inability to provide documentary evidence that purchases were used for eligible transactions in accordance with the relevant regulatory requirements. FBN BDC, a subsidiary of the Bank, was on the list of affected BDCs as a result of a misunderstanding of an already accommodated process of returns renditioned by CBN. Management has taken steps to get CBN to rescind the decision.

Regulators are increasingly demanding for proactive management of regulatory risks, which has continued to place more pressure on financial institutions, not only to put in place structures to identify, assess and understand the money laundering and terrorist financing risks they face and adopt measures that are commensurate with the risks identified, but also to ensure that their Compliance programmes are adequate and robust enough to ensure compliance with all applicable laws and regulations, so as to mitigate all forms of regulatory risks.

In the spate of these increasing and tightening regulatory obligations on financial institutions, the 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 educate its employees, including the Board, on regulatory changes and their attendant implications on the business and our customers.

FINANCIAL STATEMENTS

Our financial statements for the year ending 31 December 2013 are prepared according to International Financial Reporting Standards (IFRS).

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Income statement

p179
Bank statement of changes in equity

p180
Statement of cash flows

DIRECTORS AND ADVISORS

DIRECTORS	DATE OF APPOINTMENT
Prince Ajibola Afonja (Chairman)	
Bisi Onasanya (Group Managing Director/CEO)	
Remi Odulami	Resigned 31 May 2013
Ibiai Ani	
Kehinde Lawanson	Retired 31 May 2013
Ambrose Feese	
Tunde Hassan-Odukale	
Lawal Ibrahim	
Obafemi Otudeko	
UK Eke	
Ibukun Awosika	
Mahey Rasheed	
Ebenezer Jolaoso	
Khadijah Alao Straub	
Ibrahim Waziri	
Dauda Lawal	
Gbenga Shobo	
Adebayo Adelabu	Resigned 30 June 2014
Bello Maccido	
Abiodun Odubola	16 January 2014
Adetokunbo Abiru	1 August 2013

COMPANY SECRETARY:
Olayiwola Yahaya

REGISTERED OFFICE:
Samuel Asabia House
35 Marina
Lagos

AUDITORS:
PricewaterhouseCoopers
(Chartered Accountants)
252E Muri Okunola Street
Victoria Island
Lagos

PKF Professional Services
(Chartered Accountants)
PKF House
205A Ikorodu Road
Obanikoro
Lagos

DIRECTORS' RESPONSIBILITY

The Companies and Allied Matters Act and the Banks and Other Financial Institutions Act, require the directors to prepare financial statements for each financial year that give a true and fair view of the state of financial affairs of the Bank at the end of the year and of its profit or loss. The responsibilities include ensuring that the Bank:

i. keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank and comply with the requirements of the Companies and Allied Matters Act and the Banks and Other Financial Institutions Act;

ii. establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and

iii. prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgements and estimates, that are consistently applied.

The directors accept responsibility for annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with:

- International Financial Reporting Standards (IFRS);
- Financial Reporting Council of Nigeria (FRC) Act;
- Prudential Guidelines for Licensed Banks;
- relevant circulars issued by the Central Bank of Nigeria;
- the requirements of the Banks and Other Financial Institutions Act; and
- the requirements of the Companies and Allied Matters Act.

The directors are of the opinion that the IFRS financial statements give a true and fair view of the state of the financial affairs of the Bank and Group and of the profit for the period. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least 12 months from the date of this statement.

Adebayo Adelabu
Executive Director/CFO

Bisi Onasanya
Group Managing Director/CEO

STATEMENT OF FINANCIAL POSITION

		Group			Bank	
	Note	31 Dec 2013 ₦ million	Restated 31 Dec 2012 ₦ million	Restated 1 Jan 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
ASSETS						
Cash and balances with central banks	17	**593,973**	298,024	199,228	**541,221**	288,125
Loans and advances to banks	19	**415,210**	394,173	463,328	**367,571**	329,120
Loans and advances to customers	20	**1,797,935**	1,562,695	1,252,153	**1,473,840**	1,316,407
Financial assets at fair value through profit or loss	21	**4,743**	2,565	5,964	**2,225**	1,942
Investment securities						
- Available-for-sale investments	22	**451,423**	353,499	359,665	**359,052**	300,351
- Held-to-maturity (HTM) investments	22	**283,266**	330,860	337,336	**278,875**	330,860
Asset pledged as collateral	23	**53,650**	50,109	72,129	**52,405**	50,109
Other assets	31	**40,496**	33,984	63,061	**36,068**	32,459
Inventory		**-**	-	25,609	**-**	-
Investment properties		**-**	-	4,055	**-**	-
Investments in associates accounted for using the equity method	27	**6,225**	5,609	7,489	**2,224**	2,224
Investment in subsidiaries	24	**-**	-	-	**56,307**	40,348
Property, plant and equipment	28	**78,490**	74,474	65,889	**71,893**	70,724
Intangible assets	29	**8,594**	3,417	1,008	**1,242**	1,302
Deferred tax	30	**4,586**	7,954	6,954	**3,654**	6,703
		3,738,591	3,117,363	2,863,868	**3,246,577**	2,770,674
Asset held for sale	26	**10,784**	12,978	-	**-**	-
Total assets		**3,749,375**	3,130,341	2,863,868	**3,246,577**	2,770,675
LIABILITIES						
Deposits from banks	32	**77,481**	87,551	183,500	**10,155**	18,463
Deposits from customers	33	**2,942,782**	2,405,035	1,951,011	**2,570,719**	2,171,807
Financial liabilities held for trading	21	**1,701**	1,796	2,857	**1,697**	1,278
Current income tax liability	16	**31,633**	22,536	24,328	**29,836**	19,768
Other liabilities	36	**182,793**	118,289	159,325	**156,987**	87,039
Liability on investment contracts		**-**	-	49,440	**-**	-
Liability on insurance contracts		**-**	-	824	**-**	-
Borrowings	34	**126,302**	75,541	106,204	**125,363**	81,987
Retirement benefit obligations	35	**1,776**	18,648	15,081	**1,111**	18,156
Deferred tax	30	**10**	9	1,069	**-**	-
		3,364,478	2,729,405	2,493,639	**2,895,868**	2,398,498
Liabilities held for sale	26	**1,747**	2,836	-	**-**	-
Total liabilities		**3,366,225**	2,732,241	2,493,639	**2,895,868**	2,398,498

		Group			Bank	
	Note	31 Dec 2013 ₦ million	Restated 31 Dec 2012 ₦ million	Restated 1 Jan 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
EQUITY						
Share capital	37	**16,316**	16,316	16,316	**16,316**	16,316
Share premium	38	**189,241**	189,241	254,524	**189,241**	189,241
Retained earnings	38	**93,585**	97,437	43,161	**67,167**	77,342
Other reserves						
- Statutory reserve	38	**51,988**	42,972	32,144	**51,328**	42,422
- SSI reserve	38	**6,076**	6,076	6,076	**6,076**	6,076
- Available for sale (AFS) fair value reserve	38	**14,229**	26,936	8,600	**13,063**	24,678
- Contingency reserve	38	**-**	-	13	**-**	-
- Statutory credit reserve	38	**7,987**	16,101	9,766	**7,518**	16,101
- Treasury share reserve	38	**-**	-	(1,941)	**-**	-
- Foreign currency translation reserve	38	**2,102**	1,668	606	**-**	-
		381,524	396,747	369,265	**350,709**	372,176
Non-controlling interest		**1,626**	1,353	964	**-**	-
Total equity		**383,150**	398,100	370,229	**350,709**	372,176
Total equity and liabilities		**3,749,375**	3,130,341	2,863,868	**3,246,577**	2,770,675

The financial statements on pages 170 to 313 were approved by the Board of Directors on 20 March 2014 and signed on its behalf by:

Prince Ajibola Afonja
Chairman

Bisi Onasanya
Group Managing Director/CEO

Adebayo Adelabu
Executive Director/Group CFO

INCOME STATEMENT

	Note	Group		Bank	
		31 Dec 2013 ₦ million	Restated 31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
CONTINUING OPERATIONS					
Interest income	7	310,224	276,909	284,438	257,325
Interest expense	8	(86,409)	(58,586)	(77,729)	(51,779)
Net interest income		223,815	218,323	206,709	205,546
Impairment charge for credit losses	9	(20,521)	(12,912)	(19,838)	(9,847)
Net interest income after impairment charge for credit losses		203,294	205,411	186,871	195,699
Fee and commission income	10	53,247	56,005	45,847	48,702
Fee and commission expense	10	(5,448)	(1,131)	(5,479)	(1,131)
Net gains/(losses) on foreign exchange income	11	6,625	2,456	4,750	924
Net gains/(losses) on investment securities	12	1,383	(408)	2,931	(957)
Net gains/(losses) from financial assets classified as held for trading	13	(1,386)	1,752	(1,386)	168
Gain from disposal of subsidiary		-	-	-	3,490
Dividend income		905	719	2,079	3,766
Other operating income	14	683	3,522	359	1,535
Personnel expenses	15b	(61,790)	(65,883)	(54,621)	(60,447)
Amortisation of intangible assets	29	(1,517)	(645)	(662)	(556)
Depreciation of property, plant and equipment	28	(9,823)	(9,895)	(9,164)	(9,169)
Operating expenses	15	(99,588)	(105,773)	(94,672)	(98,736)
Operating profit		86,585	86,130	76,853	83,288
Share of profit of associates	27	875	1,008	-	-
Profit before tax		87,460	87,138	76,853	83,288
Income tax expense	16	(21,009)	(15,006)	(17,488)	(12,145)
Profit for the year from continuing operations		66,451	72,132	59,365	71,143
DISCONTINUED OPERATIONS					
Profit for the year from discontinued operations	26	-	3,838	-	-
Profit for the year		66,451	75,970	59,365	71,143
Profit attributable to:					
- Owners of the parent		66,344	75,913	59,365	71,143
- Non-controlling interests		107	57	-	-
		66,451	75,970	59,365	71,143
Earnings per share for profit attributable to owners of the parent					
Basic/diluted earnings per share:	47				
- From continuing operations		2.04	2.21	1.82	2.18
- From discontinued operations		-	0.12	-	-
		2.04	2.33	1.82	2.18

STATEMENT OF COMPREHENSIVE INCOME

	Note	Group		Bank	
		31 Dec 2013 ₦ million	Restated 31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Profit for the year		66,451	75,970	59,365	71,143
Other comprehensive income: **Items that may be subsequently reclassified to profit or loss**					
Net gains/(loss) on available-for-sale financial assets					
- Unrealised net gains arising during the period, before tax		(15,217)	16,890	(14,104)	13,588
- Net reclassification adjustments for realised net gains/(losses), before tax		2,487	1,930	2,487	1,930
Share of other comprehensive income of associates		(259)	-	-	-
Exchange difference on translation of foreign operations		434	1,827	-	-
Items that will not be reclassified to profit or loss					
Actuarial gains/(losses) on defined benefit pension scheme	35	1,644	(485)	1,719	(485)
Return on plan assets not included in net interest cost on pension scheme	35	216	-	216	-
Income tax relating to components of other comprehensive income		917	146	635	146
Other comprehensive income for the year, net of tax		(9,778)	20,308	(9,047)	15,179
Total comprehensive income for the year		56,673	96,278	50,318	86,322
Total comprehensive income attributable to:					
- Owners of the parent		56,566	96,221	50,318	86,322
- Non-controlling interests		107	57	-	-
		56,673	96,278	50,318	86,322
Total comprehensive income attributable to owners of the parent arises from:					
Continuing operations		56,566	92,383	50,318	86,322
Discontinued operations	26	-	3,838	-	-
		56,566	96,221	50,318	86,322

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent												
	Share capital ₦ million	Share premium ₦ million	Retained earnings ₦ million	Statutory reserve ₦ million	SSI reserve ₦ million	AFS fair value reserve ₦ million	Contingency reserve ₦ million	Statutory credit reserve ₦ million	Treasury share reserve ₦ million	FCTR ₦ million	Total ₦ million	Non-controlling interest ₦ million	Total equity ₦ million
Balance at 1 January 2012 (as previously reported)	16,316	254,524	41,586	32,144	6,076	8,524	13	9,766	(1,941)	606	367,614	964	368,578
Effect of changes in accounting policies (Note 48)	-	-	1,575	-	-	76	-	-	-	-	1,651	-	1,651
Balance at 1 January 2012 (restated)	16,316	254,524	43,161	32,144	6,076	8,600	13	9,766	(1,941)	606	369,265	964	370,229
Profit for the year	-	-	75,913	-	-	-	-	-	-	-	75,913	57	75,970
Other comprehensive income													
Foreign currency translation differences, net of tax	-	-	-	-	-	-	-	-	-	1,062	1,062	-	1,062
Fair value movements on equity financial assets	-	-	-	-	-	18,820	-	-	-	-	18,820	-	18,820
Actuarial gains/(losses) on defined benefit pension scheme	-	-	(340)	-	-	-	-	-	-	-	(340)	-	(340)
Total comprehensive income	-	-	75,573	-	-	18,820	-	-	-	1,062	95,455	57	95,512
Transactions with owners													
Dividends	-	-	(26,105)	-	-	-	-	-	-	-	(26,105)	-	(26,105)
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	-	1,286	1,286
Transfer between reserves	-	-	(17,246)	10,884	-	-	27	6,335	-	-	-	-	-
Transfer resulting from business restructuring (Note 26)		(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	97,437	42,972	6,076	26,936	-	16,101	-	1,668	396,747	1,353	398,100

	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
Profit for the year	-	-	66,344	-	-	-	-	-	-	-	66,344	107	66,452
Other comprehensive income													
Foreign currency translation differences, net of tax	-	-	-	-	-	-	-	-	-	434	434	-	434
Tax effects on revaluation of financial assets	-	-	635	-	-	282	-	-	-	-	917	-	917
Fair value movements on equity financial assets	-	-	-	-	-	(12,730)	-	-	-	-	(12,730)	-	(12,730)
Return on plan assets	-	-	216	-	-	-	-	-	-	-	216	-	216
Actuarial gains/(losses) on defined benefit pension scheme	-	-	1,644	-	-	-	-	-	-	-	1,644	-	1,644
Share of OCI of associates, net of tax	-	-	-	-	-	(259)	-	-	-	-	(259)	-	(259)
Total comprehensive income	-	-	68,839	-	-	(12,707)	-	-	-	434	56,566	107	56,674
Transactions with owners													
Remeasurement of goodwill	-	-	-	-	-	-	-	-	-	-	-	181	181
Dividends	-	-	(71,791)		-	-	-	-	-		(71,791)	(16)	(71,807)
Transfer between reserves	-	-	(901)	9,015	-	-	-	(8,114)	-	-	-	-	-
Total transactions with owners	-	-	(72,691)	9,015	-	-	-	(8,114)	-	-	(71,791)	165	(71,626)
At 31 December 2013	16,316	189,241	93,585	51,988	6,076	14,229	-	7,987	-	2,102	381,524	1,626	383,150

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 2012	16,316	254,524	49,649	31,752	6,076	9,160	9,766	377,243
Profit for the year	-	-	71,143	-	-	-	-	71,143
Other comprehensive income								
Fair value movements on equity financial assets	-	-	-	-	-	15,518	-	15,518
Actuarial gains/(losses) on defined benefit pension scheme	-	-	(340)	-	-	-	-	(340)
Total comprehensive income	-	-	70,803	-	-	15,518	-	86,322
Transactions with owners								
Dividends	-	-	(26,105)	-	-	-	-	(26,105)
Transfer between reserves	-	-	(17,005)	10,670	-	-	6,335	0
Transfer resulting from business restructuring (Note 26)	-	(65,283)	-	-	-	-	-	(65,283)
Total transactions with owners	-	(65,283)	(43,110)	10,670	-	-	6,335	(91,388)
At 31 December 2012	16,316	189,241	77,342	42,422	6,076	24,678	16,101	372,176
Profit for the year	**-**	**-**	**59,365**	**-**	**-**	**-**	**-**	**59,365**
Other comprehensive income								
Fair value movements on equity financial assets	**-**	**-**	**-**	**-**	**-**	**(11,617)**	**-**	**(11,617)**
Actuarial gains/(losses) on defined benefit pension scheme	**-**	**-**	**1,719**	**-**	**-**	**-**	**-**	**1,719**
Return on plan assets	**-**	**-**	**216**	**-**	**-**	**-**	**-**	**216**
Share of OCI of associates, net of tax	**-**	**-**	**635**	**-**	**-**	**-**	**-**	**635**
Total comprehensive income	**-**	**-**	**61,935**	**-**	**-**	**(11,617)**	**-**	**50,318**
Transactions with owners								
Dividends	**-**	**-**	**(71,790)**	**-**	**-**	**-**	**-**	**(71,790)**
Transfer between reserves	**-**	**-**	**(322)**	**8,906**	**-**	**-**	**(8,583)**	**-**
Total transactions with owners	**-**	**-**	**(72,110)**	**8,906**	**-**	**-**	**(8,583)**	**(71,790)**
At 31 December 2013	**16,316**	**189,241**	**67,167**	**51,328**	**6,076**	**13,063**	**7,518**	**350,709**

STATEMENT OF CASH FLOWS

	Note	Group		Bank	
		31 Dec 2013 ₦ million	Restated 31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
OPERATING ACTIVITIES					
Cash flow (used in)/generated from operations	39	(107,079)	(162,047)	(6,371)	(55,502)
Income taxes paid		(6,059)	(21,447)	(3,734)	(17,637)
Interest received		316,263	308,673	293,197	269,479
Interest paid		(83,705)	(65,750)	(73,323)	(51,073)
Net cash flow generated from operating activities		119,420	59,429	209,769	145,267
INVESTING ACTIVITIES					
Purchase of investment securities		(294,552)	(51,777)	(279,439)	(24,774)
Proceeds from the sale of investment securities		304,489	19,620	294,343	17,012
Net cash flow from disposal of subsidiaries		-	(30,619)	-	-
Net cash flow from business restructuring		-	(24,885)	-	-
Cash and cash equivalent acquired from subsidiary	25	9,172	11,463	-	-
Additional investment in subsidiaries		-	-	(15,959)	(17,307)
Dividends received		905	718	2,079	539
Purchase of property, plant and equipment		(12,827)	(18,645)	(12,699)	(16,881)
Purchase of intangible assets		(1,160)	(1,494)	(603)	(1,124)
Proceeds on disposal of property, plant and equipment		396	2,862	886	2,808
Net cash used in investing activities		6,423	(92,757)	(11,392)	(39,727)
FINANCING ACTIVITIES					
Proceeds from sale of treasury shares		-	-	-	-
Dividend paid		(32,632)	(26,105)	(32,632)	(26,105)
Proceeds from new borrowings		99,723	57,832	96,892	57,832
Repayment of borrowings		(51,647)	(85,805)	(55,410)	(79,356)
Net cash (used in)/generated from financing activities		15,444	(54,078)	8,850	(47,629)
Increase in cash and cash equivalents		141,288	(87,408)	207,227	57,912
Cash and cash equivalents at start of year	18	621,422	709,288	500,389	442,601
Effect of exchange rate fluctuations on cash held		(289)	(458)	(326)	(124)
Cash and cash equivalents at end of year	18	762,421	621,422	707,290	500,389

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

AT 31 DECEMBER 2013

1 GENERAL INFORMATION

These financial statements are the consolidated financial statements of First Bank of 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, Lagos, Nigeria.

The principal activities of the Bank are mainly retail banking and corporate banking. Retail banking provides banking activities relating to individuals, such as savings account, 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 credit facilities and project finance.

The consolidated financial statements for the year ended 31 December 2013 were approved for issue by the Board of Directors on 20 March 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

The Group's consolidated financial statements for the year 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. Additional information required by national regulations is included where appropriate.

The financial statements comprise the income statement, statement of comprehensive income, statement of financial position, the statement of changes in equity, statement of cash flows and the related notes for the Group and the 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 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

2.2.1 New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have a material impact on the Group:

(i) **Amendment to IAS 1, 'Financial statement presentation'** regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment affected presentation only and had no impact on the Group's financial position or performance. The Group has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

(ii) **IAS 19, 'Employee benefits'** was revised in June 2011. The changes on the Group's accounting policies has been as follows: to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. See Note 35 for the impact on the financial statements.

(iii) **IFRS 7 'Financial instruments: Disclosures – offsetting financial assets and financial liabilities – amendments to IFRS 7'**.

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group financial statements.

(iv) **IFRS 10 'Consolidated financial statements'** supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities and establishes the principles for when the Group controls another entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the exercise of power. As a result, the Group consolidates certain entities that were not previously consolidated. The Group has applied IFRS 10 retrospectively and restated its comparatives in accordance with the transitional provisions included in the standard. These provisions require the Group to re-assess its control conclusions as at 1 January 2013 and restate its comparative information, applying the revised assessment in 2012 to the extent that the relevant investments were held in that year. Details of the impact of these restatements are provided in Note 48 to the financial statements.

(v) **IFRS 11 'Joint arrangements' and IAS 28 'investment in associates and joint ventures'**

IFRS 11 replaces IAS 31 Interests in joint ventures and SIC-13 Jointly controlled entities – non-monetary contributions by venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. The application of this new standard had no material impact on the Group.

(vi) **IFRS 12 'Disclosure of interests in other entities'**

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates, structured entities and other off balance sheet vehicles.

The application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (See Note 24 for details).

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

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 January 2013.

(i) **IFRS 9 'Financial instruments'**

This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The IASB tentatively decided at its February 2014 meeting to select an effective date of 1 January 2018 as the effective date for mandatory application of IFRS 9.

The Group is yet to assess the full effect of IFRS 9.

(ii) **Amendment to IAS 32 'Financial instruments: Presentation', on asset and liability offsetting**

These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

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

2.3 CONSOLIDATION

The financial statements of the consolidated subsidiaries used to prepare the consolidated financial statements were prepared as of the parent company's reporting date.

a. **Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.

Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Where necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

b. **Changes in ownership interests in subsidiaries without change of control**

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

c. **Disposal of subsidiaries**

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

d. **Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates' in the income statement.

2.4 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Management Committee that makes strategic decisions.

2.5 COMMON CONTROL TRANSACTIONS

A business combination involving entities or businesses under common control is excluded from the scope of IFRS 3: 'Business combinations'. The exemption is applicable where the combining entities or businesses are controlled by the same party both before and after the combination. Where such transactions occur, the 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's policy is that the assets and liabilities of the business transferred are measured at their existing book value in the consolidated financial statements of the parent, as measured under IFRS.

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

2.6 FOREIGN CURRENCY TRANSLATION

a. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The consolidated financial statements are presented in naira which is the Group's presentation currency.

b. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

c. Group companies

The results and financial position of all the Group entities that have functional currency different from the Group's presentation currency, are translated into the Group's presentation currency as follows:

- assets and liabilities of each foreign operation are translated at the rates of exchange ruling at the reporting date;
- income and expenses of each foreign operation are translated at the average exchange rate for the period, unless this average is not a reasonable approximation of the rate prevailing on transaction date, in which case income and expenses are translated at the exchange rate ruling at transaction date; and
- all resulting exchange differences are recognised in other comprehensive income.

d. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.7 INCOME TAXATION

a. Current income tax

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

b. Deferred income tax

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

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

2.8 INVENTORIES

The Mortgage subsidiary of the Group purchases and constructs properties for resale.

Thus the Group recognises property as inventory under the following circumstances:

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

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

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

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

2.9 FINANCIAL ASSETS AND LIABILITIES

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

2.9.1 Financial assets

The Group allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Directors determine the classification of its financial instruments at initial recognition.

a. **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading.

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

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in the income statement and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively.

The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

b. **Loans and receivables**

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

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

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

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

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

In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the profit or loss as 'Impairment charge for credit losses'.

c. **Held-to-maturity financial assets**

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

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

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

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

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

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

d. **Available-for-sale financial assets**

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement.

However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in other comprehensive income. Dividends on available-for-sale equity instruments are recognised in the income statement in 'Other operating income' when the Group's right to receive payment is established.

e. **Recognition**

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

2.9.2 Financial liabilities

The Group's holding in financial liabilities is in financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

a. **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss are financial liabilities held for trading.

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

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

b. **Other liabilities measured at amortised cost**

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

2.9.3 Derivative financial instruments

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

2.9.4 Embedded derivatives

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

2.9.5 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (for example, NSE) and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

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

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

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

The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 3.7.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk.

Based on the established fair value model governance policies, and related controls and procedures applied, management believes that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

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

2.9.6 Derecognition of financial instruments

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

2.10 RECLASSIFICATION OF FINANCIAL ASSETS

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

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

2.11 OFFSETTING FINANCIAL INSTRUMENTS

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

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

2.12 REVENUE RECOGNITION

a. **Interest income and expense**

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

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating effective interest, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

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

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

b. **Fees and commission income**

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction from a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts.

The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

2.13 IMPAIRMENT OF FINANCIAL ASSETS

a. **Assets carried at amortised cost**

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

b. **Assets classified as available for sale**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

2.14 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

2.15 COLLATERAL

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

The Group may also use other credit instruments, such as stock borrowing contracts and derivative contracts, in order to reduce their credit risk.

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

2.16 DISCONTINUED OPERATIONS

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

2.17 LEASES

Leases are divided into finance leases and operating leases.

a. **The Group is the lessee**

(i) *Operating lease*

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

(ii) *Finance lease*

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

Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the 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 which allocates rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

2.18 PROPERTY, PLANT AND EQUIPMENT

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

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

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

Asset class	Depreciation rate
Motor vehicles	25%
Office equipment	20%
Furniture and fittings	20%
Computer hardware and equipment	33⅓%
Plant and machinery	20%
Freehold buildings	2%
Leasehold buildings	2% for leases of 50 years and above and over expected useful life for under 50 years

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

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

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

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

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

2.19 INTANGIBLE ASSETS

a. **Goodwill**

Goodwill arises on the acquisition of subsidiary and associates, and represents the excess of the cost of acquisition, over the fair value of the Group's share of the assets acquired, and the liabilities and contingent liabilities assumed on the date of the acquisition. For the purpose of calculating goodwill, fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. This discounting is either performed using market rates or by using risk-free rates and risk-adjusted expected future cash flows. Goodwill is initially recognised as an asset at cost and subsequently measured at cost less accumulated impairment losses, if any. Goodwill, which is recognised as an asset, is reviewed at least annually for impairment. Any impairment loss is immediately recognised in profit or loss.

For the purpose of impairment testing, goodwill is allocated to each cash-generating unit that is expected to derive benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

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

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

b. **Computer software**

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product.

It can be demonstrated how the software product will generate probable future economic benefits; adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and the expenditure attributable to the software product during its development can be reliably measured.

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

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

2.20 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.

2.21 EMPLOYEE BENEFITS

The Group has both defined benefit and defined contribution plans.

a. **Defined contribution plan**

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

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

b. **Defined benefit plan**

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

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the date of the statement of financial position less the fair value of plan assets.

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

Actuarial gains and losses arising from change in demographic assumptions and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognised immediately in income.

2.22 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.

2.23 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.

2.24 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.

2.25 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 attendants provision as per the table below based on objective criteria.

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

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

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

Where the Prudential Guidelines provision is greater, the difference is appropriated from retained earnings and included in a non-distributable reserve 'Statutory credit reserve'. Where the IAS 39 impairment is greater, no appropriation is made and the amount of the IAS 39 impairment is recognised in income statement.

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

3 FINANCIAL RISK MANAGEMENT

3.1 INTRODUCTION AND OVERVIEW

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

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

Risk management is carried out by the 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, use of derivative financial instruments and non-derivative financial instruments. In addition, internal control is responsible for the independent review of risk management and the control environment, while internal audit has the responsibility of auditing the risk management function to ensure that all units charged with risk management perform their roles effectively on a continuous basis. Internal audit also tests the adequacy of the internal controls and make appropriate recommendations where weaknesses are identified with the view of strengthening the Group's risk management framework.

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

The key elements of the risk management philosophy are the following:

- the 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;
- 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; and
- 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 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.

a. **Obligor risk rating (ORR system)**

The obligor risk rating grids have a minimum of 10 risk buckets to provide a pre-set, objective basis for making credit decisions, with one additional bucket specifically included to categorise obligor in default. Accounts showing objective evidence of impairment are specifically noted in the default rating bucket of the obligor risk rating grid with impairment allowance calculated for losses that have been incurred. Each risk bucket may be denoted alphabetically and by range of scores as follows:

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

b. **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 FRR approximates a 'loss norm' for each facility, and is the product of two components:

  - the Default Probability of the obligor, i.e., the ORR
  - the Loss Given Default i.e., a measure of the expected economic loss if the obligor defaults, and includes write-offs, recoveries, interest income, and legal costs.
- The CRR grid indicates the acceptable collateral types rated 1–8 from best to worst in order of liquidity.

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

3.2.2 Risk limit control and mitigation policies

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

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

a. **Portfolio limits**

The process of setting the limits is as follows:

- the Group engages in a detailed portfolio plan annually. In drawing up the plan, the Group reviews the macro-economic factors, identifies the growth sectors of the economy and conducts a risk rating of the sectors to determine its acceptable target market industries and exception. The target loan portfolio is then distributed across acceptable target market industries, Strategic Business Units and approved product programmes;
- aggregate large exposure limit of not more than 400% of Bank's shareholders' funds;
- 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 in any single industry rated 'B' or worse.

b. **Geographical limits**

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

c. **Single obligor limits**

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

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

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

Standard credit approval grid for wholesale and retail lending

	APPROVAL LEVELS	Investment grade (₦'000)	Non-investment grade (₦'000)
1	Board of Directors	58,000,000	58,000,000
2	Board Credit Committee	58,000,000	58,000,000
3	Management Credit Committee	30,000,000	15,000,000
4	Group Managing Director + Chief Risk Officer + Business Senior Credit Officer 1/SCO2	10,000,000	3,000,000
5	Risk Senior Credit Officer 1 + Business Senior Credit Officer 1/SCO2	8,000,000	2,500,000
6	Business Senior Credit Officer 1 + Risk Senior Credit Officer 2	5,000,000	1,000,000
7	Risk Senior Credit Officer 3 + Business Senior Credit Officer 2	500,000	250,000
8	Risk Senior Credit Officer 4 + Business Development Manager/Group Head	100,000	100,000

The Group also controls and mitigates risk through collateral.

3.2.3 Collateral held as security for loans and advances to customers

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security on loans and advances, which is a 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, while revolving individual credit facilities on the other hand are generally unsecured. In addition, to minimise the credit loss, the Group would seek additional collateral from the counterparty even before impairment indicators are identified for the relevant individual loans and advances.

Lending decisions are usually based on an obligor's ability to repay from normal business operations rather than on proceeds from the sale of any security provided. Collateral values are assessed by a professional at the time of loan origination and are thereafter monitored in accordance with the provisions of the credit policy. The types of collateral acceptable and the frequency with which they are required at origination is dependent on the size and structure of the borrower. For exposures to corporate and large institutions, the Group will often require the collateral to include a first charge over land and buildings owned and occupied by the business, a mortgage debenture over the company's undertaking on one or more of its assets and keyman insurance. The decision as to whether or not collateral is required is based upon the nature of the transaction, the credit worthiness of the customer and obligor risk rating. Other than for project finance, object finance and income producing real estate where charges over the subject assets are a basic requirement, the provision of collateral will not determine the outcome of a credit application. The fundamental business proposition must evidence the ability of the business to generate funds from normal business sources to repay the debt.

The extent to which collateral values are actively managed will depend on the credit quality and other circumstances of the obligor. Although lending decisions are predominantly based on expected cash flows, any collateral provided may impact other terms of a loan or facility granted. This will have a financial impact on the amount of net interest income recognised and on internal loss-given-default estimates that contribute to the determination of asset quality. The Group credit risk disclosures for unimpaired lending report assets gross of collateral and therefore disclose the maximum loss exposure. The Group believes this approach is appropriate as collateral values at origination and during a period of good performance may not be representative of the value of collateral if the obligor enters a distressed state. For impaired lending, the value of collateral is re-evaluated and its legal soundness re-assessed if there is observable evidence of distress of the borrower, this evaluation is used to determine potential loss allowances and management's strategy to try to either repair the business or recover the debt. Unimpaired lending, including any associated collateral, is managed on a customer-by-customer basis rather than a portfolio basis. No aggregated collateral information for the unimpaired secured lending portfolio is provided to key management personnel.

The Group takes physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable to settle indebtedness. Any surplus funds realised from such disposal are returned to the borrower or are otherwise dealt with in accordance with appropriate regulations. The assets in such cases are not carried on the Group's balance sheet.

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

Repossessed collateral

During 2013, the Group obtained assets by taking possession of collateral held as security as follows:

Group

Nature of assets	Fair value of asset ₦ million	Carrying amount ₦ million
Legal mortgage/debenture on business premises, factory assets or real estates	3,378	1,157
Others	14	-

Bank

Nature of assets	Fair value of asset ₦ million	Carrying amount ₦ million
Legal mortgage/debenture on business premises, factory assets or real estates	3,378	1,157
Others	14	-

A record of all repossessed collateral is maintained centrally to ensure an orderly disposal and appropriate monitoring of the sales proceeds realised. The repossessed assets are sold as soon as practicable, with proceeds realised from the sale used to reduce the outstanding indebtedness of the customers.

3.2.4 Exposure management

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

3.2.5 Delinquency management/loan workout

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

3.2.6 Credit recovery

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

A record of all repossessed collateral is maintained centrally to ensure an orderly disposal and appropriate monitoring of the sales proceeds realised. The repossessed assets are sold as soon as practicable, with proceeds realised from the sale used to reduce the outstanding indebtedness of the customers.

3.2.7 Management of concentration risk

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

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

3.2.8 Impairment and provisioning policies

Impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment.

3.2.9 Measurement basis of financial assets and liabilities

Group

	Fair value through profit and loss held for trading ₦ million	Fair value through other comprehensive income available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
31 DECEMBER 2013				
Financial assets				
Cash and balances with central banks	-	-	593,973	593,973
Loans and advances to banks	-	-	415,210	415,210
Loans and advances to customers				
- Overdrafts	-	-	340,054	340,054
- Term loans	-	-	1,388,912	1,388,912
- Staff loans	-	-	6,071	6,071
- Project finance	-	-	60,803	60,803
- Advances under finance lease	-	-	2,095	2,095
Investment securities:				
- Available-for-sale investments	-	451,423	-	451,423
- Held-to-maturity investments	-	-	283,266	283,266
Asset pledged as collateral	-	20,381	33,269	53,650

Group

	Fair value through profit and loss held for trading ₦ million	Fair value through other comprehensive income available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
Financial assets held for trading	4,743	-	-	4,743
Other assets	-	-	28,546	28,546
Asset held for sale	10,784	-	-	10,784
Total financial assets	**15,527**	**471,804**	**3,152,199**	**3,639,530**
Financial liabilities				
Customer deposits	-	-	2,942,782	2,942,782
Deposits from banks	-	-	77,481	77,481
Financial liabilities held for trading	1,701	-	-	1,701
Borrowings	-	-	126,302	126,302
Other liabilities	-	-	181,985	181,985
Total financial liabilities	**1,701**	**-**	**3,328,550**	**3,330,251**
31 DECEMBER 2012				
Financial assets				
Cash and balances with central banks	-	-	298,024	298,024
Loans and advances to banks	-	-	394,173	394,173
Loans and advances to customers				
- Overdrafts	-	-	266,242	266,242
- Term loans	-	-	1,228,396	1,228,396
- Staff loans	-	-	5,349	5,349
- Project finance	-	-	59,014	59,014
- Advances under finance lease	-	-	3,694	3,694
Investment securities:				
- Available-for-sale investments	-	353,499	-	353,499
- Held-to-maturity investments	-	-	330,860	330,860
Asset pledged as collateral	-	19,046	31,063	50,109
Financial assets held for trading	2,565	-	-	2,565
Other assets	-	-	25,516	25,516
Total financial assets	2,565	372,545	2,642,331	3,017,441
Financial liabilities				
Customer deposits	-	-	2,405,035	2,405,035
Deposits from banks	-	-	87,551	87,551
Financial liabilities held for trading	1,796	-	-	1,796
Borrowings	-	-	75,541	75,541
Other liabilities	-	-	118,289	118,289
Total financial liabilities	1,796	-	2,686,416	2,688,212

Bank

	Fair value through profit and loss held for trading ₦ million	Fair value through other comprehensive income available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
31 DECEMBER 2013				
Financial assets				
Cash and balances with central banks	-	-	541,221	541,221
Loans and advances to banks	-	-	367,571	367,571
Loans and advances to customers				
- Overdrafts	-	-	327,210	327,210
- Term loans	-	-	1,078,200	1,078,200
- Staff loans	-	-	5,532	5,532
- Project finance	-	-	60,803	60,803
- Advances under finance lease	-	-	2,095	2,095
Financial assets held for trading	2,225	-	-	2,225
Investment securities:				
- Available-for-sale investments	-	359,052	-	359,052
- Held-to-maturity investments	-	-	278,875	278,875
Asset pledged as collateral	-	19,137	33,268	52,405
Other assets	-	-	25,096	25,096
Total financial assets	2,225	378,189	2,719,872	3,100,287
Financial liabilities				
Customer deposits	-	-	2,570,719	2,570,719
Deposits from banks	-	-	10,155	10,155
Financial liabilities held for trading	1,697	-	-	1,697
Borrowings	-	-	125,363	125,363
Other liabilities	-	-	156,819	156,819
Total financial liabilities	1,697	-	2,863,056	2,864,753
31 DECEMBER 2012				
Financial assets				
Cash and balances with central banks	-	-	240,887	240,887
Loans and advances to banks	-	-	329,120	329,120
Loans and advances to customers				
- Overdrafts	-	-	259,065	259,065
- Term loans	-	-	989,809	989,809
- Staff loans	-	-	5,144	5,144
- Project finance	-	-	58,695	58,695
- Advances under finance lease	-	-	3,694	3,694
Investment securities:				
- Available-for-sale investments	-	300,351	-	300,351
- Held-to-maturity investments	-	-	330,860	330,860
Asset pledged as collateral	-	19,046	31,063	50,109

Bank

	Fair value through profit and loss held for trading ₦ million	Fair value through other comprehensive income available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
Financial assets held for trading	1,278	-	-	1,278
Other assets	-	-	25,108	25,108
Total financial assets	1,278	319,397	2,273,446	2,594,120
Financial liabilities				
Customer deposits	-	-	2,405,035	2,405,035
Deposits from banks	-	-	87,551	87,551
Financial liabilities held for trading	1,796	-	-	1,796
Borrowings	-	-	75,541	75,541
Other liabilities	-	-	156,819	156,819
Total financial liabilities	1,796	-	2,724,946	2,726,742

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

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

Group

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Balances with central banks	522,292	244,941
Loans and advances to banks	415,210	394,173
Loans and advances to customers		
- Overdrafts	340,054	266,242
- Term loans	1,388,912	1,228,396
- Staff loans	6,071	5,349
- Project finance	60,803	59,014
- Advances under finance lease	2,095	3,694
Financial assets held for trading	4,743	2,565
Investment securities - debt		
- Available-for-sale investments	416,013	303,886
- Held-to-maturity investments	283,266	330,860
Asset pledged as collateral	53,650	50,109
Assets classified as held for sale	6,235	7,341
Other assets excluding prepayments	28,546	25,516
	3,527,890	2,922,085
Credit risk exposures relating to off balance sheet assets are as follows:		
Loan commitments	408,008	239,445
Letter of credit and other credit-related obligations	693,615	534,361
	1,101,624	773,806
Total maximum exposure	4,629,513	3,695,892

Bank

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Balances with central banks	**502,249**	240,887
Loans and advances to banks	**367,571**	329,120
Loans and advances to customers		
- Overdrafts	**327,210**	259,065
- Term loans	**1,078,200**	989,809
- Staff loans	**5,532**	5,144
- Project finance	**60,803**	58,695
- Advances under finance lease	**2,095**	3,694
Financial assets held for trading	**2,225**	1,942
Investment securities		
- Available-for-sale investments	**325,839**	252,911
- Held-to-maturity investments	**278,875**	330,860
Asset pledged as collateral	**52,405**	50,109
Other assets excluding prepayments	**25,096**	25,108
	3,028,101	2,547,344
Loan commitments	**352,008**	212,331
Letter of credit and other credit-related obligations	**672,545**	516,922
	1,024,553	729,253
Total maximum exposure	**3,700,646**	3,064,266

3.2.11 Concentration of risks of financial assets with credit risk exposure

a. **Geographical sectors**

The following table breaks down the Group's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as of 31 December 2013 and 31 December 2012. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties. Investment securities and financial assets held for trading analysed below excludes investments in equity instruments.

Group

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Balances with central bank	502,252	-	-	6,569	13,471	-	522,292
Loans and advances to banks	113,615	-	440	37,220	135,824	128,111	415,210
Loans and advances to customers							
- Overdrafts	258,027	43,577	25,609	12,402	439	-	340,054
- Term loans	835,666	179,725	92,626	105,245	124,964	50,686	1,388,912
- Staff loans	5,526	-	-	513	32	-	6,071
- Project finance	20,865	30,742	9,196	-	-	-	60,803
- Advances under finance lease	1,587	482	26	-	-	-	2,095
Financial assets held for trading	2,213	-	-	-	2,530	-	4,743
Investment securities							
- Available-for-sale investments	342,228	2,690	3,008	14,504	50,467	3,116	416,013
- Held-to-maturity investments	273,063	9,276	927	-	-	-	283,266
Asset pledged as collateral	52,405	-	-	1,245	-	-	53,650
Assets classified as held for sale	6,235	-	-	-	-	-	6,235
Other assets	11,719	11,791	1,404	2,587	328	718	28,546
31 December 2013	**2,425,402**	**278,283**	**133,235**	**180,284**	**328,055**	**182,631**	**3,527,890**
Credit risk exposure relating to off balance sheet items are as follows:							
Loan commitments	286,761	30,345	34,902	49,353	6,647	-	408,008
Letters of credit and other credit-related obligations	440,762	88,555	92,032	1,078	71,188		693,615
31 December 2013	**727,524**	**118,900**	**126,934**	**50,431**	**77,835**	**-**	**1,101,624**
Balances with central bank	235,046	-	-	9,857	38	-	244,941
Loans and advances to banks	62,997	-	-	11,059	320,117	-	394,173
Loans and advances to customers							
- Overdrafts	199,560	40,972	18,220	7,489	-	-	266,242
- Term loans	630,646	282,460	78,410	11,232	225,649	-	1,228,396
- Staff loans	5,332	-	-	17	-	-	5,349
- Project finance	45,460	3,794	9,761	-	-	-	59,014
- Advances under finance lease	1,993	1,199	502	-	-	-	3,694
Financial assets held for trading	1,888	-	-	-	677	-	2,565
Investment securities							
- Available-for-sale investments	233,736	17,554	1,632	574	50,390	-	303,886
- Held-to-maturity investments	318,826	10,874	1,160	-	-	-	330,860
Asset pledged as collateral	50,109	-	-	-	-	-	50,109

Group

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Assets classified as held for sale	5,139	1,101	1,101	-	-	-	7,341
Other assets	15,256	7,030	1,506	1,490	233	-	25,516
31 December 2012	1,805,987	364,984	112,292	41,719	597,103	-	2,922,085
Credit risk exposure relating to off balance sheet items are as follows:							
Loan commitments	212,334	-	-	-	27,111	-	239,445
Letters of credit and other credit-related obligations	426,527	29,984	30,305	-	47,545	-	534,361
31 December 2012	638,861	29,984	30,305	-	74,656	-	773,806

Bank

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Balances with central bank	502,249	-	-	-	-	-	502,249
Loans and advances to banks	12,149	-	440	16,164	216,672	122,146	367,571
Loans and advances to customers							
- Overdrafts	258,025	43,577	25,609	-	-	-	327,210
- Term loans	805,849	179,725	92,626	-	-	-	1,078,200
- Staff loans	5,532	-	-	-	-	-	5,532
- Project finance	20,865	30,742	9,196	-	-	-	60,803
- Advances under finance lease	1,587	482	26	-	-	-	2,095
Financial assets held for trading	2,213	-	-	-	12	-	2,225
Investment securities							
- Available-for-sale investments	320,141	2,690	3,008	-	-	-	325,839
- Held-to-maturity investments	268,672	9,276	927				278,875
Asset pledged as collateral	52,405	-	-	-	-	-	52,405
Other assets	14,280	9,008	1,090	-	-	718	25,096
31 December 2013	2,263,968	275,500	132,921	16,164	216,684	122,864	3,028,101
Credit risk exposure relating to off balance sheet items are as follows:							
Loan commitments	286,761	30,345	34,902	-	-	-	352,008
Letters of credit and other credit-related obligations	491,958	88,555	92,032	-	-	-	672,545
31 December 2013	778,719	118,899	126,934	-	-	-	1,024,553

Bank

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	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							
- Overdrafts	199,873	40,972	18,220	-	-	-	259,065
- Term loans	628,939	282,461	78,409	-	-	-	989,809
- Staff loans	5,144	-	-	-	-	-	5,144
- Project finance	45,140	3,794	9,761	-	-	-	58,695
- Advances under finance lease	1,993	1,199	502	-	-	-	3,694
Financial assets held for trading	1,887	-	-	-	55	-	1,942
Investment securities							
- Available-for-sale investments	233,725	17,554	1,632	-	-	-	252,911
- Held-to-maturity investments	318,826	10,874	1,160				330,860
Asset pledged as collateral	50,109	-	-	-	-	-	50,109
Other assets	16,571	7,030	1,506	-	-	-	25,108
31 December 2012	1,785,953	363,884	111,191	563	285,754	-	2,547,344

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

Loan commitment	212,331	-	-	-	-	-	212,331
Letters of credit and other credit-related obligations	456,633	29,984	30,305	-	-	-	516,922
31 December 2012	668,964	29,984	30,305	-	-	-	729,253

b. **Industry sectors**

The following table breaks down the Group's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Group's counterparties. Investment securities and financial assets held for trading analysed below excludes investments in equity instruments.

Group

	Balances with central bank ₦ million	Loans and advances to banks ₦ million	Financial assets held for trading ₦ million	Investment securities - available for sale ₦ million	Investment securities - held to maturity ₦ million	Asset pledged as collateral ₦ million	Other assets ₦ million
Agriculture	-	-	0	-	-	-	-
Oil and gas	-	-	1,626	-	-	-	-
Consumer credit	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	1,923	-	-
Real estate	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Finance and insurance	522,292	415,210	2,530	33,610	5,170	-	-
Transportation	-	-	4	-	-	-	-
Communication	-	-	-	-	-	-	-
General commerce	-	-	-	-	-	-	28,546
Utilities	-	-	-	-	-	-	-
Retail services	-	-	-	-	-	-	-
Public sector	-	-	584	382,403	276,173	53,650	-
Total at 31 December 2013	522,292	415,210	4,743	416,013	283,266	53,650	28,546

Group — Loans to customers

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Agriculture	550	64,456	0	-	-	65,006
Oil and gas	173,008	445,678	-	2,697	47	621,430
Consumer credit	4,649	134,933	3,682	-	23	143,287
Manufacturing	63,144	207,958	-	-	113	271,215
Real estate	9,752	104,140	2,237	45,755	-	161,884
Construction	10,875	24,758	-	12,351	-	47,984
Finance and insurance	1,689	9,817	117	-	-	11,623
Transportation	5,171	2,972	-	-	142	8,285
Communication	4,936	90,623	-	-	-	95,559
General commerce	31,868	61,114	3	-	-	92,985
Utilities	5,738	27,537	-	-	18	33,293
Retail services	22,842	78,400	32	-	1,720	102,995
Public sector	5,833	136,525	-	-	31	142,389
Total at 31 December 2013	340,054	1,388,912	6,071	60,803	2,095	1,797,935

Group

	Balances with central bank ₦ million	Loans and advances to banks ₦ million	Financial assets held for trading ₦ million	Investment securities - available for sale ₦ million	Investment securities - held to maturity ₦ million	Asset pledged as collateral ₦ million	Other assets ₦ million
Agriculture	-	1,048	-	-	-	-	1,851
Oil and gas	-	-	1,205	-	-	-	-
Consumer credit	-	-	-	-	2,000	-	-
Manufacturing	-	-	-	-	-	-	-
Real estate	-	-	-	-	-	-	-
Construction	-	-	-	-	500	-	-
Finance and insurance	244,941	393,125	678	3,565	5,000	-	23,665
Transportation	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-
General commerce	-	-	2	-	-	-	-
Utilities	-	-	-	-	-	-	-
Retail services	-	-	-	-	-	-	-
Public sector	-	-	680	300,321	323,360	50,109	-
Total at 31 December 2012	244,941	394,173	2,565	303,886	330,860	50,109	25,516

The industrial sector for the credit exposure in the assets held for sale balance is general commerce.

Group

Loans to customers

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Agriculture	9,830	263,129	205	319	0	273,483
Oil and gas	121,777	354,589	-	15,495	157	492,019
Consumer credit	374	141,262	-	-	1	141,637
Manufacturing	55,142	102,730	-	-	304	158,175
Real estate	1,727	54,818	1,746	25,398	-	83,689
Construction	5,079	15,897	-	13,434	101	34,512
Finance and insurance	2,078	15,964	-	-	48	18,091
Transportation	3,700	886	-	-	338	4,924
Communication	6,021	72,949	-	-	-	78,970
General commerce	26,123	36,426	-	-	54	62,603
Utilities	4,327	939	-	-	42	5,308
Retail services	24,072	55,410	3,398	4,368	2,594	89,842
Public sector	5,992	113,396	-	-	53	119,441
Total at 31 December 2012	266,242	1,228,396	5,349	59,014	3,694	1,562,695

Bank	Balances with central bank ₦ million	Loans and advances to banks ₦ million	Financial assets held for trading ₦ million	Investment securities - available for sale ₦ million	Investment securities - held to maturity ₦ million	Asset pledged as collateral ₦ million	Other assets ₦ million
Agriculture	-	-	-	-	-	-	-
Oil and gas	-	-	1,626	-	-	-	-
Consumer credit	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	1,923	-	-
Real estate	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Finance and insurance	502,249	367,571	12	4,866	5,170	-	-
Transportation	-	-	4	-	-	-	-
Communication	-	-	-	-	-	-	-
General commerce	-	-	-	-	-	-	25,096
Utilities	-	-	-	-	-	-	-
Retail services	-	-	-	-	-	-	-
Public sector	-	-	584	320,973	271,782	52,405	-
Total at 31 December 2013	502,249	367,571	2,225	325,839	278,875	52,405	25,096

Bank	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Agriculture	437	25,175	-	-	-	25,612
Oil and gas	171,668	383,384	-	2,697	47	557,797
Consumer credit	3,742	131,620	3,295	-	23	138,681
Manufacturing	58,482	114,584	-	-	113	173,179
Real estate	9,685	38,356	2,237	45,755	-	96,033
Construction	10,774	24,535	-	12,351	-	47,660
Finance and insurance	1,646	12,938	-	-	-	14,584
Transportation	2,690	600	-	-	142	3,432
Communication	4,804	90,434	-	-	-	95,238
General commerce	30,850	21,390	-	-	-	52,239
Utilities	5,669	27,537	-	-	18	33,224
Retail services	22,252	77,587	-	-	1,720	101,559
Public sector	4,511	130,060	-	-	31	134,602
Total at 31 December 2013	327,210	1,078,200	5,532	60,803	2,095	1,473,840

Bank

	Balances with central bank ₦ million	Loans and advances to banks ₦ million	Financial assets held for trading ₦ million	Investment securities – available for sale ₦ million	Investment securities – held to maturity ₦ million	Asset pledged as collateral ₦ million	Other assets ₦ million
Agriculture	-	-	-	-	-	-	-
Oil and gas	-	-	1,885	-	-	-	-
Consumer credit	-	-	-	-	2,000	-	-
Manufacturing	-	-	-	-	-	-	-
Real estate	-	-	-	-	-	-	-
Construction	-	-	-	-	500	-	-
Finance and insurance	240,887	329,120	55	3,555	5,000	-	25,108
Transportation	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-
General commerce	-	-	2	-	-	-	-
Utilities	-	-	-	-	-	-	-
Retail services	-	-	-	-	-	-	-
Public sector	-	-	-	249,356	323,360	50,109	-
Total at 31 December 2012	240,887	329,120	1,942	252,911	330,860	50,109	25,108

Bank

Loans to customers

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Agriculture	2,654	24,543	-	-	-	27,196
Oil and gas	121,777	354,589	-	15,495	157	492,019
Consumer credit	374	141,262	-	-	1	141,637
Manufacturing	55,142	102,730	-	-	304	158,175
Real estate	1,727	54,818	1,746	25,398	-	83,689
Construction	5,079	15,897	-	13,434	101	34,512
Finance and insurance	2,078	15,964	-	-	48	18,091
Transportation	3,700	886	-	-	338	4,924
Communication	6,021	72,949	-	-	-	78,970
General commerce	26,123	36,426	-	-	54	62,603
Utilities	4,327	939	-	-	42	5,308
Retail services	24,072	55,410	3,398	4,368	2,594	89,842
Public sector	5,992	113,396	-	-	53	119,441
Total at 31 December 2012	259,065	989,809	5,144	58,695	3,694	1,316,408

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

Group

	Loan commitments 31 Dec 2013 ₦ million	Letter of credit and other related obligations 31 Dec 2013 ₦ million	Loan commitments 31 Dec 2012 ₦ million	Letter of credit and other related obligations 31 Dec 2012 ₦ million
Agriculture	2,443	3,662	-	-
Oil and gas	169,100	115,457	157,755	170,311
Consumer credit	15,427	484	-	-
Manufacturing	79,175	11,976	29,862	137,629
Real estate	10,005	27,944	-	25,654
Construction	18,357	205,450	1,853	147,070
Finance and insurance	1,911	99,042	22,564	2,575
Transportation	1,240	1,786	138	1,151
Communication	54,962	7,062	249	6,729
General commerce	27,464	147,327	25,730	7,571
Utilities	2,364	457	33	13,726
Retail services	22,640	66,890	1,261	15,155
Public sector	2,920	6,078	-	6,789
Total	408,008	693,615	239,445	534,361

Bank

	Loan commitments 31 Dec 2013 ₦ million	Letter of credit and other related obligations 31 Dec 2013 ₦ million	Loan commitments 31 Dec 2012 ₦ million	Letter of credit and other related obligations 31 Dec 2012 ₦ million
Agriculture	432	3,662	-	-
Oil and gas	165,777	115,457	103,530	91,112
Consumer credit	2,144	484	-	-
Manufacturing	75,798	11,976	56,973	199,390
Real estate	8,948	27,944	-	25,654
Construction	17,261	128,859	1,853	147,070
Finance and insurance	1,483	99,042	22,564	2,575
Transportation	150	1,786	138	1,151
Communication	53,189	7,062	249	6,729
General commerce	7,157	202,848	25,730	7,571
Utilities	1,370	457	33	13,726
Retail services	18,126	66,890	1,261	15,155
Public sector	172	6,078	-	6,789
Total	352,008	672,545	212,331	516,922

3.2.12 Loans and advances to customers

Credit quality of loans and advances to customers is summarised as follows:

Group	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
DECEMBER 2013						
Neither past due nor impaired	321,174	1,248,568	6,124	59,425	1,616	1,636,907
Past due but not impaired	14,771	135,055	122	2,109	490	152,547
Individually impaired	14,889	16,545	38	-	696	32,169
Collectively impaired	3,744	17,724	3	-	60	21,531
Gross	354,578	1,417,892	6,287	61,534	2,862	1,843,154
Less: allowance for impairment (Note 20)	(14,524)	(28,981)	(216)	(731)	(768)	(45,220)
Net	340,054	1,388,912	6,071	60,803	2,095	1,797,935
Individually impaired (see Note 20)	10,465	9,393	31	-	696	20,586
Portfolio allowance (see Note 20)	4,060	19,587	185	731	71	24,634
Total	14,524	28,981	216	731	768	45,220
DECEMBER 2012						
Neither past due nor impaired	254,444	1,067,199	5,949	55,967	2,520	1,386,079
Past due but not impaired	10,745	159,301	-	3,779	673	174,498
Individually impaired	8,184	13,067	-	-	560	21,811
Collectively impaired	3,153	16,452	-	-	28	19,633
Gross	276,526	1,256,019	5,949	59,746	3,781	1,602,021
Less: allowance for impairment (Note 20)	(10,284)	(27,623)	(600)	(732)	(87)	(39,326)
Net	266,242	1,228,396	5,349	59,014	3,694	1,562,695
Individually impaired (see Note 20)	6,882	10,251	-	-	-	17,133
Portfolio allowance (see Note 20)	3,402	17,372	600	732	87	22,193
Total	10,284	27,623	600	732	87	39,326

Bank	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
DECEMBER 2013						
Neither past due nor impaired	312,639	943,411	5,702	59,425	1,616	1,322,793
Past due but not impaired	11,930	131,063	-	2,109	490	145,591
Individually impaired	13,433	12,388	-	-	696	26,518
Collectively impaired	2,854	17,473	-	-	60	20,387
Gross	340,855	1,104,336	5,702	61,534	2,862	1,515,289
Less: allowance for impairment (Note 20)	(13,645)	(26,135)	(170)	(731)	(768)	(41,449)
Net	327,210	1,078,200	5,532	60,803	2,095	1,473,841
Individually impaired (see Note 20)	10,022	7,297	-	-	696	18,016
Portfolio allowance (see Note 20)	3,623	18,838	170	731	71	23,433
Total	13,645	26,135	170	731	768	41,449
DECEMBER 2012						
Neither past due nor impaired	247,170	831,282	5,744	55,649	2,520	1,142,365
Past due but not impaired	10,745	158,526	-	3,779	673	173,723
Individually impaired	8,184	12,893	-	-	560	21,637
Collectively impaired	3,153	12,480	-	-	28	15,660
Gross	269,252	1,015,181	5,744	59,427	3,781	1,353,386
Less: allowance for impairment (Note 20)	(10,187)	(25,372)	(600)	(732)	(87)	(36,978)
Net	259,065	989,809	5,144	58,695	3,694	1,316,408
Individually impaired (see Note 20)	6,585	8,222	-	-	-	14,807
Portfolio allowance (see Note 20)	3,602	17,150	600	732	87	22,171
Total	10,187	25,372	600	732	87	36,978

Group

DECEMBER 2013

a. **Loans and advances to customers – neither past due nor impaired**

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group (see section 3.2.1 for an explanation of the internal rating system).

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Grades:						
AAA	939	8,271	133	0	-	9,343
AA	6,189	10,816	-	-	-	17,005
A	6,224	50,110	-	2,580	-	58,914
BBB	20,318	91,007	2,311	1,051	56	114,743
BB	205,461	509,398	7	21,566	623	737,055
B	82,042	578,967	3,580	34,227	938	699,755
CCC	-	-	92	-	-	92
Total	321,174	1,248,568	6,124	59,425	1,616	1,636,907

b. **Loans and advances past due but not impaired**

Past due up to 30 days	12,397	62,668	110	1,467	484	77,126
Past due by 30-60 days	2,220	64,035	3	642	5	66,905
Past due 60-90 days	154	8,353	8	-	-	8,515
Gross amount	14,771	135,055	122	2,109	490	152,547

c. **Collectively impaired loans**

	3,744	17,724	3	-	60	21,531

d. **Loans and advances individually impaired**

Gross amount	14,889	16,545	38	-	696	32,169
Specific impairment	10,465	9,393	31	-	696	20,586
Net amount	4,424	7,152	7	-	-	11,583

Group

DECEMBER 2012

a. **Loans and advances to customers – neither past due nor impaired**

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Grades:						
AAA	-	-	-	-	-	-
AA	4,829	41,874	-	-	-	46,703
A	4,466	10,001	1,584	-	86	16,138
BBB	64,048	67,134	-	26,306	557	158,045
BB	162,336	452,230	4,162	29,257	1,877	649,862
B	18,764	485,196	203	405	-	504,568
CCC	-	10,587	-	-	-	10,587
CC	-	-	-	-	-	-
C	-	177	-	-	-	177
Total	254,444	1,067,199	5,949	55,967	2,520	1,386,079

b. **Loans and advances past due but not impaired**

Past due up to 30 days	8,564	86,349	-	3,137	668	98,718
Past due by 30-60 days	2,163	64,928	-	642	5	67,738
Past due 60-90 days	18	8,024	-	-	-	8,042
Gross amount	10,745	159,301	-	3,779	673	174,498

c. **Collectively impaired loans**

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

	3,153	16,452	-	-	28	19,633

d. **Loans and advances individually impaired**

Gross amount	8,184	13,067	-	-	560	21,811
Specific impairment	6,882	10,251	-	-	-	17,133
Net amount	1,302	2,816	-	-	560	4,678

Bank

DECEMBER 2013

a. **Loans and advances to customers – neither past due nor impaired**

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group (see section 3.2.1 for an explanation of the internal rating system).

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Grades:						
AA	5,406	-	-	-	-	5,406
A	5,659	49,945	-	2,580	-	58,184
BBB	18,573	80,313	2,311	1,051	56	102,304
BB	203,910	503,833	-	21,566	623	729,932
B	79,090	309,321	3,391	34,227	938	426,967
Total	312,639	943,411	5,702	59,425	1,616	1,322,793

b. **Loans and advances past due but not impaired**

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Past due up to 30 days	9,749	59,602	-	1,467	484	71,303
Past due by 30-60 days	2,163	63,708	-	642	5	66,518
Past due 60-90 days	18	7,753	-	-	-	7,771
Gross amount	11,930	131,063	-	2,109	490	145,591

c. **Collectively impaired loans**

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
	2,854	17,473	-	-	60	20,387

d. **Loans and advances individually impaired**

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Gross amount	13,433	12,388	-	-	696	26,518
Specific impairment	10,022	7,297	-	-	696	18,016
Net amount	3,411	5,091	-	-	-	8,502

Bank

DECEMBER 2012

a. **Loans and advances to customers – neither past due nor impaired**

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group (see section 3.2.1 for an explanation of the internal rating system).

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Grades:						
AAA	-	-	-	-	-	-
AA	4,829	41,874	-	-	-	46,703
A	4,466	10,001	1,582	-	86	16,135
BBB	64,048	67,134	-	26,305	557	158,044
BB	166,562	216,313	4,162	29,257	1,877	418,171
B	7,264	485,197	-	87	-	492,548
CCC	-	10,587	-	-	-	10,587
CC	-	-	-	-	-	-
C	-	177	-	-	-	177
Total	247,170	831,282	5,744	55,649	2,520	1,142,365

b. **Loans and advances past due but not impaired**

Past due up to 30 days	9,670	83,712	-	2,422	445	96,249
Past due by 30-60 days	271	10,958	-	1,356	227	12,813
Past due 60-90 days	804	63,856	-	-	1	64,661
Gross amount	10,745	158,526	-	3,779	673	173,723

c. **Collectively impaired loans**

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

	-	-	-	-	-	-

d. **Loans and advances individually impaired**

Gross amount	8,184	12,893	-	-	560	21,637
Specific impairment	6,585	8,222	-	-	-	14,807
Net amount	1,599	4,671	-	-	560	6,830

e. **Sensitivity analysis on impairment**

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

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

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

Approach to sensitivity analysis

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

Scenario 1

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

Scenario 2

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

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

	Impairment charge in profit or loss		
	Current year ₦ million	Scenario 1 ₦ million	Scenario 2 ₦ million
31 DECEMBER 2013			
- Overdrafts	11,806	12,350	12,350
- Term loans	7,521	10,792	10,792
- Staff loans	(430)	(396)	(396)
- Project finance	(1)	145	145
- Advances under finance lease	681	691	691
Total	19,577	23,582	23,582
31 DECEMBER 2012			
- Overdrafts	5,368	6,163	6,372
- Term loans	5,016	10,956	11,909
- Staff loans	(1,164)	(952)	(952)
- Project finance	626	813	893
- Advances under finance lease	1	16	18
Total	9,847	16,996	18,240

3.2.13 Loans and advances to banks

a. **Credit quality of loans to banks is summarised as follows:**

All loans to banks are neither past due nor impaired.

The credit quality has been assessed by reference to Moody's rating, Agusto & Agusto's rating (credit rating agency) and the Bank's internal rating system at 31 December 2013 and 31 December 2012.

	Group	Bank
	Loans to banks ₦ million	Loans to banks ₦ million
31 DECEMBER 2013		
A+ to A-	220,663	170,615
B+ to B-	164,519	196,956
Unrated	30,029	-
	415,210	367,571
31 DECEMBER 2012		
A+ to A-	81,091	156,057
B+ to B-	313,082	173,063
	394,173	329,120

3.2.14 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 2013 and 31 December 2012.

Group					
	Treasury bills as reported in the AFS portfolio ₦ million	Bonds as reported in the AFS portfolio ₦ million	Treasury bills as reported in the HTM portfolio ₦ million	Bonds as reported in the HTM portfolio ₦ million	Other assets ₦ million
31 DECEMBER 2013					
A+ to A-	276,233	136,956	10,498	306,037	-
B+ to B-		20,607	-	-	
Unrated		2,597	-	-	28,546
	276,233	160,161	10,498	306,037	28,546
31 DECEMBER 2012					
A+ to A-	138,788	184,144	-	361,923	-
B+ to B-	-	-	-	-	-
Unrated	-	-	-	189,206	25,516
	138,788	184,144	-	551,129	25,516

Bank

	Treasury bills as reported in the AFS portfolio ₦ million	Bonds as reported in the AFS portfolio ₦ million	Treasury bills as reported in the HTM portfolio ₦ million	Bonds as reported in the HTM portfolio ₦ million	Other assets ₦ million
31 DECEMBER 2013					
A+ to A-	**217,235**	**127,741**	**6,107**	**306,037**	**-**
Unrated	**-**	**-**	**-**	**-**	**25,096**
	217,235	**127,741**	**6,107**	**306,037**	**25,096**
31 DECEMBER 2012					
A+ to A-	125,658	146,299	-	361,923	-
Unrated	-	-	-	189,206	25,108
	125,658	146,299	-	551,129	25,108

3.2.15 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 2013 ₦ million	31 Dec 2012 ₦ million
Total IFRS impairment losses	**42,650**	43,202
Prudential provisions	**50,168**	59,303
Balance in statutory credit reserve	**7,518**	16,101
Analysis of the IFRS impairment losses		
Loans: specific impairment (Note 20)	**18,015**	14,807
Loans: collective impairment (Note 20)	**23,433**	22,171
Other assets (Note 31)	**1,202**	6,224
Total IFRS impairment losses	**42,650**	43,202

3.3 LIQUIDITY RISK

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

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

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

3.3.1 Management of liquidity risk

The Group's liquidity management process includes:

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

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

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

Liquidity risk on derivatives is managed using the same source of funding as for the non-derivative liabilities.

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.

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

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

Table A – Liquidity analysis on a contractual basis

Group

	0-30 days ₦ million	31-90 days ₦ million	91-180 days ₦ million	181-365 days ₦ million	Over 1 year but less than 5 years ₦ million	Over 5 years ₦ million	Total ₦ million
31 DECEMBER 2013							
Financial liabilities							
Deposits from banks	28,205	47,412	1,864	-	-	-	77,481
Deposits from customers	2,489,503	271,246	47,330	60,609	78,684	823	2,948,195
Borrowings	17,568	32,494	1,854	8,013	40,498	54,931	155,357
Other liabilities	11,996	156,172	548	24	-	13,245	181,985
Loan commitments	58,505	85,962	62,610	67,961	56,415	76,555	408,008
Letters of credit and other credit-related obligations	643,247	4,347	5,940	23,934	16,147	-	693,615
Total financial liabilities	3,249,024	597,632	120,147	160,541	191,744	145,554	4,464,642
Assets held for managing liquidity risk	944,453	179,891	77,123	55,931	129,012	62,611	1,449,021
31 DECEMBER 2012							
Financial liabilities							
Deposits from banks	-	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	21,275	16,991	71,713	8,310	-	-	118,289
Loan commitments	73,506	61,840	51,960	52,140	-	-	239,445
Letters of credit and other credit-related obligations	316,811	23,200	48,952	141,678	3,719	-	534,361
Total financial liabilities	2,617,459	425,790	211,132	246,239	29,471	-	3,530,092
Assets held for managing liquidity risk	764,666	76,914	31,604	60,678	126,781	317,918	1,378,561

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 2013							
Financial liabilities							
Deposits from banks	10,155	-	-	-	-	-	10,155
Deposits from customers	2,346,507	175,119	38,561	11,812	3,118	-	2,575,117
Borrowings	17,568	31,555	1,854	8,013	40,498	54,931	154,419
Other liabilities	56,818	90,642	-	4,811	-	4,548	156,819
Loan commitments	10,567	79,315	61,195	67,961	56,415	76,555	352,008
Letters of credit and other credit-related obligations	622,177	4,347	5,940	23,934	16,147	-	672,545
Total financial liabilities	3,063,792	380,978	107,550	116,531	116,178	136,034	3,921,063
Assets held for managing liquidity risk	631,976	105,878	56,933	42,427	50,080	22,512	909,806
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
Loan commitments	88,733	39,204	56,001	22,195	6,198	-	212,331
Letters of credit and other credit-related obligations	323,493	8,862	43,891	140,676	-	-	516,922
Total financial liabilities	2,434,178	259,485	194,433	193,750	46,483	-	3,128,330
Assets held for managing liquidity risk	657,109	96,902	31,604	60,678	94,432	312,452	1,253,177

Table B – Liquidity analysis on a behavioural basis

Group

	0-30 days ₦ million	31-90 days ₦ million	91-180 days ₦ million	181-365 days ₦ million	Over 1 year but less than 5 years ₦ million	Over 5 years ₦ million	Total ₦ million
31 DECEMBER 2013							
Financial liabilities							
Deposits from banks	28,205	47,412	1,864	-	-	-	77,481
Deposits from customers	516,706	390,975	206,602	298,851	1,534,239	823	2,948,196
Borrowings	17,568	32,494	1,854	8,013	40,498	54,931	155,357
Other liabilities	11,996	156,172	548	24	-	13,245	181,985
Loan commitments	58,505	79,459	64,929	75,061	129,199	4	407,156
Letters of credit and other credit-related obligations	643,247	9,859	22,644	36,115	60,176	-	772,040
Total financial liabilities	574,475	627,052	210,868	306,888	1,574,737	68,999	3,363,019
Assets held for managing liquidity risk	944,453	179,891	77,123	55,931	129,012	62,611	1,449,021
31 DECEMBER 2012							
Financial liabilities							
Deposits from banks	-	90,134	-	-	-	-	90,134
Deposits from customers	357,990	353,715	201,068	333,603	1,223,374	-	2,469,750
Financial liabilities held for trading	-	579	616	40	561	-	1,796
Borrowings	-	45,442	2,210	3,478	25,187	-	76,316
Other liabilities	21,275	16,991	71,713	8,310	-	-	118,289
Loan commitments	46,391	61,840	51,960	52,140	-	-	212,331
Letters of credit and other credit-related obligations	299,372	23,200	48,952	141,678	3,719	-	516,922
Total financial liabilities	379,265	506,861	275,606	345,431	1,249,122	-	2,756,285
Assets held for managing liquidity risk	764,666	76,914	31,604	60,678	126,781	317,918	1,378,561

Assets held for managing liquidity risk

The Group holds a diversified portfolio of liquid assets – largely cash and government securities to support payment and funding obligations in normal and stressed market conditions across foreign and local currencies. The Group's liquid assets comprise:

- cash and balances with the central bank comprising reverse repos and overnight deposits;
- short-term and overnight placements in the interbank market;
- government bonds and treasury bills that are readily accepted in repurchase agreements with the central bank and other market participants;
- secondary sources of liquidity in the form of highly liquid instruments in the Group's trading portfolios; and
- the ability to access incremental short-term funding by interbank borrowing from the interbank market.

The Bank is largely deposit funded and thus, as is typical among Nigerian banks, has significant funding mismatches on a contractual basis, given that the deposits are largely demand and short tenured, while lending is longer term. On an actuarial basis, our demand deposits exhibit much longer duration, with 67.98% of our current account balances and 79.07% of savings account balances being deemed core.

To manage liquidity shocks in either foreign or local currency, largely as a result of episodic movements, the Bank typically holds significant short-term liquidity in currency placements or taps the repo markets to raise short-term funding as is required. To grow local currency liquidity the Group has also systematically worked towards reducing the duration of our securities portfolio in the last year, shifting the emphasis to holding more liquid shorter dated treasury bills over longer-term bonds, to allow more flexibility in managing liquidity. While on the foreign currency side, the Group has built up placement balances with our offshore correspondents.

3.3.2 Derivative liabilities

a. **Derivatives settled on a net basis**

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

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

Group

	Up to 1 month ₦ million	1-3 months ₦ million	3-6 months ₦ million	6-12 months ₦ million	1-5 years ₦ million	Over 5 years ₦ million	Total ₦ million
AT 31 DECEMBER 2013							
Derivative liabilities							
Accumulator-forward FX contract	-	-	-	-	(71)	-	(71)
	-	-	-	-	(71)	-	(71)
Derivative assets							
Cross-currency swap				12			12
Foreign exchange derivatives	1,546	602	370	-	-	-	2,518
	1,546	602	370	12	-	-	2,530
	1,546	602	370	12	(71)	-	2,459
AT 31 DECEMBER 2012							
Derivative liabilities							
Cross-currency swap	-	(61)	-	-	-	-	(61)
Accumulator-forward FX contract	-	-	-	-	(260)	-	(260)
	-	(61)	-	-	(260)	-	(321)

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 2013							
Derivative liabilities							
Accumulator-forward FX contract	-	-	-	-	(71)	-	(71)
	-	-	-	-	(71)	-	(71)
Derivative assets							
Cross-currency swap				12			12
	-	-	-	12	-	-	12
AT 31 DECEMBER 2012							
Derivative liabilities							
Cross-currency swap	-	(61)	-	-	-	-	(61)
Accumulator-forward FX contract	-	-	-	-	(260)	-	(260)
	-	(61)	-	-	(260)	-	(321)

b. **Derivatives settled on a gross basis**

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

Group

	Up to 1 month ₦ million	1-3 months ₦ million	3-6 months ₦ million	6-12 months ₦ million	1-5 years ₦ million	Total ₦ million
AT 31 DECEMBER 2013						
Derivatives held for trading						
Foreign exchange derivatives	6	2	-	-	-	8
Put options	-	-	-	-	1,626	1,626
	6	2	-	-	1,626	1,634
Liabilities held for trading						
Foreign exchange derivatives	-	-	-	-	-	-
Put options	-	-	-	-	(1,626)	(1,626)
	-	-	-	-	(1,626)	(1,626)
AT 31 DECEMBER 2012						
Derivatives held for trading						
Foreign exchange derivatives	4	105	(41)	13	-	81
Put options	-	-	-	-	329	329
	4	105	(41)	13	329	410

Bank

	Up to 1 month ₦ million	1-3 months ₦ million	3-6 months ₦ million	6-12 months ₦ million	1-5 years ₦ million	Total ₦ million
AT 31 DECEMBER 2013						
Derivatives held for trading						
Foreign exchange derivatives	2	2	-	-	-	4
Put options	-	-	-	-	1,626	1,626
	2	2	-	-	1,626	1,630
Liabilities held for trading						
Foreign exchange derivatives	-	-	-	-	-	-
Put options	-	-	-	-	(1,626)	(1,626)
	-	-	-	-	(1,626)	(1,626)
AT 31 DECEMBER 2012						
Derivatives held for trading						
Foreign exchange derivatives	4	-	(41)	13	-	(24)
Put options	-	-	-	-	329	329
	4	-	(41)	13	329	305

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 CBN, 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 NSE.

3.4.1 Management of market risk

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

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

3.4.2 Market risk measurement techniques

The major measurement techniques used to measure and control market risk are outlined below:

a. **Value at risk (VaR)**

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

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

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

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

The table below shows the trading VaR of the Bank. The major contributors to the trading VaR are treasury bills and foreign exchange due to volatility in those instruments impacting positions held by the Bank during the period. The yield on various maturities for treasury bills declined by about 300 basis points on average compared to the previous financial year; while the naira depreciated by about 2% in the interbank market.

The assets included in the VaR analaysis are the held for trading assets.

The treasury bill trading VaR is NGN100.72 million as at 31 December 2013 and reflects the potential loss given assumptions of a 10-day holding period, volatility computed using 500-day return data, and a 99% statistical confidence level.

The foreign exchange trading VaR of NGN3.37 million as at 31 December 2013 reflects the potential loss given assumptions of a one-day holding period, volatility computed using 500-day return data, and a 99% statistical confidence level.

VaR summary

Bank

	12 months to 31 December 2013		
	Average	High	Low
Foreign exchange risk	16	52	0
Interest rate risk	528	1,738	38
Total VaR	543	1,791	38

Bank

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

b. **Stress tests**

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

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress-testing methodology is applied to trading and non-trading books. Stress scenarios are regularly updated to reflect changes in risk profile and economic events.

The 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 2013 and 31 December 2012. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

Group

	Naira ₦ million	USD ₦ million	GBP ₦ million	Euro ₦ million	Others ₦ million	Total ₦ million
31 DECEMBER 2013						
Financial assets						
Cash and balances with central banks	560,399	8,904	3,646	16,049	4,975	593,973
Loans and advances to banks	15,590	325,094	46,284	23,887	4,355	415,210
Loans and advances						
- Overdrafts	272,675	63,248	85	95	3,951	340,054
- Term loans	633,468	604,024	53,972	88,205	9,243	1,388,912
- Staff loans	5,525	254	32	-	260	6,071
- Project finance	50,150	10,653	-	-	-	60,803
- Advances under finance lease	2,095	-	-	-	-	2,095
Investment securities						
- Available-for-sale investments	325,190	35,679	46,687	4	8,453	416,013
- Held-to-maturity investments	283,266	-	-	-	-	283,266
Asset pledged as collateral	52,405	-	-	-	1,245	53,650
Financial assets held for trading	2,225	1,598	-	784	136	4,743
Other assets	13,297	12,361	1,881	111	896	28,546
	2,216,285	1,061,815	152,587	129,135	33,514	3,593,336
Financial liabilities						
Customer deposits	1,963,923	688,267	223,116	9,007	58,469	2,942,782
Deposits from banks	1,487	44,263	15,688	15,665	378	77,481
Financial liabilities held for trading	1,697	-	-	-	4	1,701
Borrowings	28,698	95,442	140	2,012	10	126,302
Other liabilities	53,975	85,427	24,473	13,576	4,534	181,985
	2,049,780	913,399	263,417	40,260	63,395	3,330,251
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	37,261	265,384	71,602	9,325	10,601	394,173
Loans and advances						
- Overdrafts	216,520	48,906	12	800	3	266,242
- Term loans	958,493	269,903	-	-	-	1,228,396
- Staff loans	5,349	-	-	-	-	5,349
- Project finance	46,963	12,051	-	-	-	59,014
- Advances under finance lease	3,694	-	-	-	-	3,694

Group

	Naira ₦ million	USD ₦ million	GBP ₦ million	Euro ₦ million	Others ₦ million	Total ₦ million
Investment securities						
- Available-for-sale investments	252,923	-	50,389	-	574	303,886
- Held-to-maturity investments	330,860	-	-	-	-	330,860
Asset pledged as collateral	50,109	-	-	-	-	50,109
Financial assets held for trading	680	1,262	623	-	-	2,565
Other assets	5,677	17,714	198	37	1,890	25,516
	2,186,505	623,512	123,934	10,948	22,929	2,967,828
Financial liabilities						
Customer deposits	1,720,283	531,591	113,633	3,436	36,092	2,405,035
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	17,905	63,661	26,818	5,500	4,405	118,289
	1,775,388	649,956	210,069	12,298	40,501	2,688,212

Bank

	Naira ₦ million	USD ₦ million	GBP ₦ million	Euro ₦ million	Others ₦ million	Total ₦ million
31 DECEMBER 2013						-
Financial assets						
Cash and balances with central banks	538,350	1,753	477	638	3	541,221
Loans and advances to banks	9,623	315,410	28,513	11,756	2,269	367,571
Loans and advances						
- Overdrafts	273,021	54,184	-	5	-	327,210
- Term loans	637,944	422,758	-	17,495	3	1,078,200
- Staff loans	5,532	-	-	-	-	5,532
- Project finance	50,150	10,653	-	-	-	60,803
- Advances under finance lease	2,095	-	-	-	-	2,095
Investment securities						
- Available-for-sale investments	320,175	5,664	-	-	-	325,839
- Held-to-maturity investments	278,875	-	-	-	-	278,875
Asset pledged as collateral	52,405	-	-	-	-	52,405
Financial assets held for trading	2,225	-	-	-	-	2,225
Other assets	12,687	12,124	191	85	9	25,096
	2,183,083	822,546	29,181	29,979	2,284	3,067,073

Bank

	Naira ₦ million	USD ₦ million	GBP ₦ million	Euro ₦ million	Others ₦ million	Total ₦ million
Financial liabilities						
Customer deposits	1,952,814	605,971	8,120	3,814	-	2,570,719
Deposits from banks	1,487	124	-	8,544	-	10,155
Financial liabilities held for trading	1,697	-	-	-	-	1,697
Borrowings	28,699	94,506	140	2,012	6	125,363
Other liabilities	50,015	75,880	21,058	7,485	2,381	156,819
	2,034,712	776,481	29,318	21,855	2,387	2,864,753
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						
- Overdrafts	223,716	27,884	33	7,437	-	259,069
- Term loans	652,198	336,787	12	808	4	989,809
- Staff loans	5,144	-	-	-	-	5,144
- Project finance	58,695	-	-	-	-	58,695
- Advances under finance lease	3,694	-	-	-	-	3,694
Investment securities						
- Available-for-sale investments	252,911	-	-	-	-	252,911
- Held-to-maturity investments	330,860	-	-	-	-	330,860
Asset 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
	1,897,949	658,424	24,612	18,393	900	2,600,278
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
	1,690,492	649,956	7,411	12,298	417	2,360,574

The Group is exposed to the US dollar and euro currencies.

The following table details the Group's sensitivity to a 10% increase and decrease in naira against the US dollar and euro. Management believe that a 5% movement in either direction is reasonably possible at the balance sheet date. The sensitivity analyses below include outstanding US dollar and euro denominated financial assets and liabilities. A positive number indicates an increase in profit where naira strengthens by 10% against the US dollar and euro. For a 5% weakening of naira against the US dollar and euro, there would be an equal and opposite impact on profit.

	Group		Bank	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Naira strengthens by 5% against the US dollar profit/(loss)	7,421	(1,322)	2,303	423
Naira weakens by 5% against the US dollar profit/(loss)	(7,421)	1,322	(2,303)	(423)
Naira strengthens by 5% against the euro profit/(loss)	4,444	(67)	406	305
Naira weakens by 5% against the euro profit/(loss)	(4,444)	67	(406)	(305)

3.4.4 Interest rate risk

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

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

Group

31 DECEMBER 2013	Carrying amount ₦ million	Variable interest ₦ million	Fixed interest ₦ million	Non-interest bearing ₦ million
Financial assets				
Cash and balances with central banks	522,292	181,281	-	341,011
Loans and advances to banks	415,210	300,831	126,019	1,779
Loans and advances				
- Overdrafts	340,054	340,054	-	-
- Term loans	1,388,912	1,346,891	42,021	-
- Staff loans	6,071	-	6,071	-
- Project finance	60,803	60,803	-	-
- Advances under finance lease	2,095	2,095	-	-
Investment securities:				
- Available-for-sale investments	451,423	-	416,013	35,410
- Held-to-maturity investments	283,266	-	283,266	-
Assets pledged as collateral	53,650	-	53,650	-
Financial assets held for trading	4,743	-	3,102	1,641
Other assets	28,546	-	-	28,546
	3,557,064	2,231,954	930,142	408,388
Financial liabilities				
Customer deposits	2,942,782	2,282,463	627,520	32,799
Deposits from banks	77,481	68,052	8,745	684
Financial liabilities held for trading	1,701	-	-	1,701
Borrowings	126,302	1,603	124,699	-
Other liabilities	181,985	-	-	181,985
	3,330,251	2,352,118	760,964	217,169
Interest rate mismatch		(120,164)	169,178	191,219

Group

31 DECEMBER 2012	Carrying amount ₦ million	Variable interest ₦ million	Fixed interest ₦ million	Non-interest bearing ₦ million
Financial assets				
Cash and balances with central banks	244,941	244,941	-	-
Loans and advances to banks	394,173	-	53,967	338,452
Loans and advances				
- Overdrafts	266,242	266,242	-	-
- Term loans	1,228,396	1,228,396	-	-
- Staff loans	5,349	-	5,349	-
- Project finance	59,014	59,014	-	-
- Advances under finance lease	3,694	3,694	-	-
Investment securities				
- Available-for-sale investments	353,499	-	303,876	47,440
- Held-to-maturity investments	330,860	-	330,860	-
Assets pledged as collateral	50,109	-	50,109	-
Financial assets held for trading	2,565	-	680	1,885
Other assets	25,516	-	-	25,274
	2,964,358	1,802,287	744,840	413,051
Financial liabilities				
Customer deposits	2,405,035	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	118,289	-	-	118,289
	2,688,212	1,897,383	661,965	129,688
Interest rate mismatch		(95,096)	82,876	283,363

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

Bank

31 DECEMBER 2013	Carrying amount ₦ million	Variable interest ₦ million	Fixed interest ₦ million	Non-interest bearing ₦ million
Financial assets				
Cash and balances with Central Bank of Nigeria	502,249	177,508	-	324,741
Loans and advances to banks	367,571	252,998	112,794	1,779
Loans and advances				
- Overdrafts	327,210	327,210	-	-
- Term loans	1,078,200	1,036,179	42,021	-
- Staff loans	5,532	-	5,532	-
- Project finance	60,803	60,803	-	-
- Advances under finance lease	2,095	2,095	-	-

Bank

31 DECEMBER 2013	Carrying amount ₦ million	Variable interest ₦ million	Fixed interest ₦ million	Non-interest bearing ₦ million
Investment securities:				
- Available-for-sale investments	359,052	-	325,839	33,213
- Held-to-maturity investments	278,875	-	278,875	-
Assets pledged as collateral	52,405	-	52,405	-
Financial assets held for trading	2,225	-	584	1,641
Other assets	25,096	-	-	25,096
	3,061,314	1,856,793	818,051	386,470
Financial liabilities				
Customer deposits	2,570,719	2,112,914	457,805	-
Deposits from banks	10,155	956	8,533	666
Financial liabilities held for trading	1,697	-	-	1,697
Borrowings	125,363	1,603	123,760	-
Other liabilities	156,819	-	-	156,819
	2,864,753	2,115,473	590,098	159,182
Interest rate mismatch		(258,680)	227,953	227,288

31 DECEMBER 2012				
Cash and balances with Central Bank of Nigeria	240,887	240,887	-	-
Loans and advances to banks	329,120	-	41,425	287,695
Loans and advances				
- Overdrafts	259,065	259,065	-	-
- Term loans	989,809	989,809	-	-
- Staff loans	5,144	-	5,144	-
- Project finance	58,695	58,695	-	-
- Advances under finance lease	3,694	3,694	-	-
Investment securities				
- Available-for-sale investments	252,911	-	251,780	1,131
- Held-to-maturity investments	330,860	-	330,860	-
Assets pledged as collateral	50,109	-	50,109	-
Financial assets held for trading	1,942	-	680	1,262
Other assets	25,096	-	-	25,096
	2,547,333	1,552,151	679,998	315,184
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		(291,715)	261,210	217,263

Interest rate sensitivity gap analysis

The table below summarises the repricing profile of FirstBank non-trading book as at 31 December 2013. Carrying amounts of items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date. The interest rate exposure of the other subsidiaries is considered insignificant to the Group. Thus, the repricing profile of the Bank is deemed to be fairly representative of the Group.

	<=30 days ₦ billion	31-90 days ₦ billion	91-180 days ₦ billion	181-365 days ₦ billion	1-2 years ₦ billion	2 years and above ₦ billion	Rate sensitive ₦ billion
Treasury bills	56	110	58	4	-	-	224
Government bonds	-	13	7	166	-	242	428
Corporate bonds		-	-	-	-	5	5
Loans and advances to banks	312	35	4	1	1	14	367
Project finance	14	24	4	7	7	6	61
Term loans	18	93	19	109	140	732	1,112
Overdraft	19	39	58	211	-	-	327
Equipment on lease	0	0	2	-	-	-	2
Staff loans	-	0	6	-	-	-	6
Total assets	420	314	157	498	148	999	2,532
Deposits from customers	368	287	190	239	232	316	1,633
Deposits from banks	10	-	-	-	-	-	10
Medium-term loan	16	29	1	1	1	50	97
Total liabilities	394	316	192	239	233	366	1,740
	25	(2)	(34)	258	(85)	633	792

Current and savings deposits, which are included within customer deposits, are repayable on demand on a contractual basis. In practice however, these deposits form a stable base for the Bank's operations and liquidity needs because of the broad customer base – both numerically and by depositor type. From the Bank's experience, about 58% of these demand deposits are non-rate sensitive. These classes of deposits have been allocated into maturity buckets based on historical maturity patterns.

The sensitivity analysis below for FirstBank has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 7% increase or decrease is used when reporting interest rate risk for Nigerian Interbank Offered Rate (NIBOR) and 3% is used when reporting interest rate risk for USD LIBOR or Euro Interbank Offered Rate (EURIBOR). The interest rate exposure of the other subsidiaries is considered insignificant to the Group. Thus, the repricing profile of the Bank is deemed to be fairly representative of the Group.

Management believe that the following movements in either direction (per currency) are reasonably possible at the balance sheet date.

	Bank	
	31 Dec 2013	31 Dec 2012
NIBOR increases by 7% profit/(loss)	**9,769**	13,875
NIBOR decreases by 7% profit/(loss)	**(7,366)**	(17,926)
USD LIBOR increases by 3% profit/(loss)	**9,593**	7,040
USD LIBOR decreases by 3% profit/(loss)	**(11,466)**	(8,573)
EURIBOR increases by 3% profit/(loss)	**205**	68
EURIBOR decreases by 3% profit/(loss)	**473**	(68)

3.5 EQUITY RISK

The Group is exposed to equity price risk by holding investments quoted on the 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 (ASI) and movement in prices of specific securities held by the Group.

As at 31 December 2013, the market value of quoted securities held by the Group is ₦3.9 billion (2012: ₦1.1 billion). If the all share index of the NSE moves by 900 basis points from the 41,329.19 position at 31 December 2012, the effect on the fair value of these quoted securities and the other comprehensive income statement would have been ₦351 million.

The Group holds a number of investments in unquoted securities with a market value of ₦31 billion (2012: ₦46 billion) of which investments in Airtel Nigeria Ltd (44%), African Finance Corporation (AFC) (51%) and Interswitch Ltd (3%) are the significant holdings. These investments were valued at ₦4.7 billion (cost ₦2.9 billion); ₦24.9 billion (cost ₦12.7 billion) and ₦1.4 billion (cost ₦31 million) respectively as at 31 December 2013. AFC is a private sector-led investment bank and development finance institution, which has the Central Bank as a single major shareholder (42.5%) with other African financial institutions and investors holding the remaining shares. Airtel Nigeria is a private limited liability company whose principal activity is the provision of mobile telecommunications service using the Global System for Mobile Communications (GSM) platform. The AFC operates a US dollar denominated balance sheet and provides finance in this currency. As at 31 December 2012 the corporation had a balance sheet size of $1.6 billion. Interswitch is an integrated payment and transaction processing company that provides technology integration, advisory services, transaction processing and payment infrastructure to banks, government and corporate organisations. These investments are level 3 instruments, see sensitivity analysis in Note 3.6.

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

3.6 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments measured at fair value

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

Group

	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Total ₦ million
31 DECEMBER 2013				
Financial assets				
Financial assets held for trading				
Debt securities	584	-	-	584
Derivatives	-	4,159	-	4,159
Available-for-sale financial assets				
Investment securities - debt	343,074	72,939	-	416,013
Investment securities - unlisted equity	-	-	31,659	31,659
Investment securities - listed equity	3,751	-	-	3,751
Assets pledged as collateral	20,381	-	-	20,381
Assets held for sale	-	10,784	-	10,784
Financial liabilities held for trading				
Derivatives	-	1,701	-	1,701
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	208,544	95,342	-	303,886
Investment securities - unlisted equity	-	46,311	-	46,311
Investment securities - listed equity	3,305	-	-	3,305
Assets pledged as collateral	19,046	-	-	19,046
Financial liabilities held for trading				
Derivatives	518	1,278	-	1,796

Bank

	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Total ₦ million
31 DECEMBER 2013				
Financial assets				
Financial assets held for trading				
Listed debt securities	584	-	-	584
Derivatives	-	1,641	-	1,641

Bank

	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Total ₦ million
Available-for-sale financial assets				
Investment securities - debt	265,562	60,277	-	325,839
Investment securities - unlisted equity	-	-	31,659	31,659
Investment securities - listed equity	1,554	-	-	1,554
Assets pledged as collateral	19,137	-	-	19,137
Assets held for sale				
Financial liabilities held for trading				
Derivatives	-	1,697	-	1,697
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

(i) **Financial instruments in level 1**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily bonds and equity investments classified as trading securities or available for sale.

(ii) **Financial instruments in level 2**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

a. quoted market prices or dealer quotes for similar instruments;
b. the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
c. other techniques, such as discounted cash flow analysis and sales prices of comparable properties in close proximity, are used to determine fair value for the remaining financial instruments.

Note that all of the resulting fair value estimates are included in level 2 except for certain unquoted equities explained below.

(iii) **Financial instruments in level 3**

Inputs for the asset or liability in this fair value hierarchy are not based on observable market data (unobservable inputs). This level includes equity investments with significant unobservable components.

The following table presents changes in level 3 instruments:

	Group ₦ million
At 1 January 2012	31,122
Disposals	(9,540)
Total losses recognised through OCI	(5,027)
Transfer out of level 3 due to availability of market data	(16,555)
At 31 December 2012	-
Transfer into level 3 due to change in observability of market data	46,308
Total gains/(losses) for the period	
- Included in profit or loss	-
- Included in other comprehensive income	(14,650)
At 31 December 2013	**31,659**

	Bank ₦ million
At 1 January 2012	22,698
Disposals	(1,117)
Total losses recognised through OCI	(5,027)
Transfer out of level 3 due to availability of market data	(16,554)
At 31 December 2012	-
Transfer into level 3 due to change in observability of market data	46,309
Total gains/(losses) for the period	
- Included in profit or loss	-
- Included in other comprehensive income	(14,650)
At 31 December 2013	**31,659**

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

In 2012, the Group valued its unlisted equity based on the market approach which entailed using the comparable company valuation multiples. In 2013, the Group applied a discount factor for the lack of marketability in the valuation of these equities and this resulted in the reclassification of these securities from level 2 to level 3 hierarchy. The discount factor ranged from 10% to 25% using the rates recommended in the PwC valuation methodology survey 2012 edition.

Information about the fair value measurements using significant unobservable inputs (level 3)

Description	Valuation technique	Range of unobservable input (probability-weighted average)	Relationship of unobservable inputs to fair value
Airtel Nigeria	EV/EBITDA	25% illiquidity discount	the higher the illiquidity discount the lower the fair value
NIBSS Plc	EV/EBITDA	25% illiquidity discount	the higher the illiquidity discount the lower the fair value
Afrexim Bank Limited	P/E multiples	10% illiquidity discount	the higher the illiquidity discount the lower the fair value
Interswitch Limited	EV/EBITDA	25% illiquidity discount	the higher the illiquidity discount the lower the fair value
Africa Finance Corporation	P/E multiples	10% illiquidity discount	the higher the illiquidity discount the lower the fair value

EV/EBITDA or P/E valuation multiple - the Bank determines appropriate comparable public company/ies based on industry, size, developmental stage, revenue generation and strategy. The Bank then calculates a trading multiple for each comparable company identified. The multiple is calculated by either dividing the enterprise value of the comparable company by its earning before interest, tax, depreciation and amortisation (EBITDA), or dividing the quoted price of the comparable company by its net income (P/E). The trading multiple is then adjusted for discounts/premiums with regards to such consideration as illiquidity and other differences, advantages and disadvantages between the Bank's investee company and the comparable public companies based on company-specific facts and circumstances. A reasonable change in the illiquidity discount will not result in a material change to the fair value of the investment.

(iv) **Group's valuation process**

The Group's asset liability management (ALM) unit performs the valuation of financial assets required for financial reporting purposes. This team also engages external specialist valuers when the need arises, and reports directly to the Chief Risk Officer. Discussions on the valuation process and results are held between the ALM team and the Chief Risk Officer on a monthly basis in line with the Group's management reporting dates.

3.7 FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The table below shows the carrying value of financial assets not measured at fair value.

Group

	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Total ₦ million
31 DECEMBER 2013				
Financial assets				
Cash and balances with central banks	-	593,973	-	593,973
Loans and advances to banks	-	415,210	-	415,210
Loans and advances to customers:				
- Overdrafts	-	340,054	-	340,054
- Staff loans	-	-	6,071	6,071
- Project finance	-	-	60,803	60,803
- Advances under finance lease	-	-	2,095	2,095
Held-to-maturity investments	159,790	123,476	-	283,266
Asset pledged as collateral	33,269	-	-	33,269
Other assets	-	28,546	-	28,546
Deposit from customers	-	2,942,782	-	2,942,782
Deposit from bank	-	77,481	-	77,481
Borrowing	-	126,302	-	126,302
Other liabilities	-	181,985	-	181,985

a. Fair value hierarchy

Bank

	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Total ₦ million
Financial assets				
Cash and balances with central banks	-	541,221	-	541,221
Loans and advances to banks	-	367,571	-	367,571
Loans and advances to customers:				
- Overdrafts	-	327,210	-	327,210
- Staff loans	-	-	5,532	5,532
- Project finance	-	-	60,803	60,803
- Advances under finance lease	-	-	2,095	2,095
Held-to-maturity investments	155,399	123,476	-	278,875
Asset pledged as collateral	33,268	-	-	33,268
Other assets	-	156,819	-	156,819
Deposit from customers	-	2,570,719	-	2,570,719
Deposit from bank	-	10,155	-	10,155
Borrowing	-	125,363	-	125,363
Other liabilities	-	156,819	-	156,819

b. The fair value of loans and advances to customers, investment securities and assets held for sale are as follows:

Group

	At 31 Dec 2013		At 31 Dec 2012	
	Carrying value ₦ million	Fair value ₦ million	Carrying value ₦ million	Fair value ₦ million
Financial assets				
Loans and advances to customers				
Fixed-rate loans	48,308	47,489	19,093	21,385
Variable-rate loans	1,749,627	1,749,615	1,543,912	1,543,912
Investment securities (held to maturity)	283,266	251,533	330,860	338,377
Asset pledged as collateral	33,269	24,040	31,063	26,275

The fair value of loans and advances to customers as well as investment securities are as follows:

Bank

	At 31 Dec 2013		At 31 Dec 2012	
	Carrying value ₦ million	Fair value ₦ million	Carrying value ₦ million	Fair value ₦ million
Financial assets				
Loans and advances to customers				
Fixed-rate loans	47,553	47,070	18,890	21,182
Variable-rate loans	1,426,287	1,425,893	1,297,518	1,297,518
Investment securities (held to maturity)	278,875	247,550	330,860	338,377
Asset pledged as collateral	33,268	24,040	31,063	26,275

c. The carrying value of the following financial assets and liabilities for both the Bank and Group approximate their fair values:

- cash and balances with central banks;
- loans and advances to banks;
- assets held for sale;
- other assets (excluding prepayments);
- deposits from banks;
- deposits from customers;
- other liabilities (excluding provisions and accruals); and
- borrowings.

The fair value of fixed-rate loans and advances to customers has been determined using discounted cash flows and is within level 2 of the fair value hierarchy.

Investment securities have been fair valued using market prices and are within level 1 of the fair value hierarchy.

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 1 capital including ordinary shares, statutory reserve, statutory credit reserve, share premium and general reserve, non-controlling interests arising on consolidation from interests in permanent shareholders' equity. The book value of goodwill, intangible assets, unpublished losses and under provisions are deducted in arriving at tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances, non-controlling interest and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

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

The Bank achieved a capital adequacy ratio of 16.76% at the end of the year, compared to 18.66% recorded for the period ended December 2012. 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 an increase of tier 2 capital as the Bank issued Eurobond during the year. The Bank, as a policy, works to maintain adequate capital cover for its trading activities, with a minimum internal target of 16%. Current position is closely monitored and reported fortnightly to the Assets & Liabilities Management Committee.

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

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
TIER 1 CAPITAL				
Share capital	**16,316**	16,316	**16,316**	16,316
Share premium	**189,241**	189,241	**189,241**	189,241
Statutory reserve	**51,988**	42,972	**51,328**	42,422
Statutory credit reserve	**7,987**	16,101	**7,518**	16,101
SMEEIS reserves	**6,076**	6,076	**6,076**	6,076
Retained earnings	**93,585**	97,437	**67,167**	77,342
Less: intangible assets/deferred tax	**(13,181)**	(11,371)	**(4,897)**	(8,005)
Less: investment in unconsolidated subsidiaries	**-**	-	**(29,265)**	(21,286)
Total qualifying for tier 1 capital	**352,011**	356,772	**303,484**	318,207

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
TIER 2 CAPITAL				
Fair value reserve	14,229	26,936	13,063	24,678
Forex revaluation reserve	2,102	1,668	-	-
Minority interest	1,626	1,353	-	-
Other borrowings	47,249	2,560	47,249	2,560
Less: investment in unconsolidated subsidiaries	-	-	(29,265)	(21,286)
Total qualifying for tier 2 capital	65,206	32,517	31,047	5,952
Total regulatory capital	417,217	389,289	334,531	324,159
Risk-weighted assets				
On balance sheet	2,059,077	1,825,116	1,702,093	1,537,106
Off balance sheet	293,644	215,245	294,126	199,761
Total risk-weighted assets	2,352,722	2,040,361	1,996,220	1,736,867
Risk-weighted capital adequacy ratio (CAR)	17.73%	19.08%	16.76%	18.66%
Tier I CAR	14.96%	17.49%	15.20%	18.32%

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 is 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 3.6 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 obligations**

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 35, 'Retirement benefit obligation,' for a description of the defined benefit pension plans. An actuarial valuation is performed by actuarial valuation experts on an annual basis to determine the retirement benefit obligations of the Group.

e. **Impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

An impairment charge of ₦552 million arose in Banque Internationale de Crédit in the retail segment during the course of year 2013, resulting in the carrying amount of the CGU being written down to its recoverable amount.

If the terminal growth rate had been higher by 0.5%, the Group would have recognised impairment lower by ₦84 million, while if it had been lower by 0.5% a further charge of ₦80 million would have been recognised in the Group books. See Note 25 for key assumptions on impairment testing for goodwill.

If the weighted average cost of capital rate had been lower by 0.5% the Group would have recognised impairment lower by ₦157 million, while if it had been higher by 0.5% a further charge of ₦149.5 million would have been recognised in the Group's books.

6 SEGMENT INFORMATION

Following the management adoption of IFRS 8, operating segments are reported in accordance with the internal reports provided to the Group's Management Committee (the chief operating decision maker), which is responsible for allocating resources to the operating segments and assesses its performance.

The Group is divided into the following business units:

Retail Banking

Retail Banking cuts across private individuals, businesses and public sector clients, at the lower end of the market. It also covers small and medium enterprises (SMEs), local government agencies and affluent customers.

Corporate Banking

Corporate Banking serves the middle segment of the business banking value chain, and clients comprise predominantly unrated and non-investment grade companies with a generally higher-risk profile compared to institutional clients.

Institutional Banking

The Institutional Banking segment is the top end of the business banking value chain and consists of the largest organisations across our target industries i.e., oil and gas, conglomerates and services, manufacturing, telecommunications, transport, financial institutions/multilaterals, construction and infrastructure.

Public Sector

Public Sector banking serves the three tiers of government especially the state governments. It also caters for government's parastatals, ministries, departments and agencies (MDAs) by serving their banking needs and provide structured facilities to aid in the economic development of the country.

Treasury Services

The corporate treasury serves the needs of the Group in the following areas among others:

- cash management;
- liquidity planning and control;
- management of interest, currency and commodity risks;
- procurement of finance and financial investments;
- contacts with banks and rating agencies; and
- corporate finance.

Others

This segment includes the corporate office excluding treasury services.

The Group's management reporting is based on a measure of operating profit. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event.

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

Segment result of operations

Total revenue in the segment represents: interest income, fee and commission income, net gains/losses on foreign exchange income, net gains/losses on investment securities, net gains/losses from financial assets classified as held for trading, dividend income and other operating income.

The segment information provided to the Group Management Committee for the reportable segments for the period ended 31 December 2013 is as follows:

	Institutional Banking ₦ million	Corporate Banking ₦ million	Retail Banking ₦ million	Public Sector ₦ million	Treasury Services ₦ million	Others ₦ million	Total ₦ million
AT 31 DECEMBER 2013							
Total segment revenue	79,988	74,637	98,468	34,843	83,371	375	371,681
Inter-segment revenue	(23,801)	(12,815)	82,985	29,609	(75,955)	(23)	-
Revenue from external customers	56,187	61,821	181,454	64,452	7,416	352	371,681
Profit/(loss) before tax	44,825	34,952	133,369	37,647	22,434	(185,768)	87,461
Income tax expense	-	-	-	-	-	(21,009)	(21,009)
Profit for the period	44,825	34,952	133,369	37,647	22,434	(206,778)	66,452
Impairment charge on credit losses	(5,458)	(11,017)	(7,107)	1,036	-	2,633	(19,912)
Impairment charge on doubtful receivables	-	-	-	-	-	(609)	(609)
Impairment charge on goodwill	-	-	-	-	-	(552)	(552)
Share of profit/(loss) from associates	-	-	-	-	-	875	875
Depreciation	-	-	-	-	-	9,823	9,823

	Institutional Banking ₦ million	Corporate Banking ₦ million	Retail Banking ₦ million	Public Sector ₦ million	Treasury Services ₦ million	Others ₦ million	Total ₦ million
AT 31 DECEMBER 2013							
Total assets	616,291	670,530	328,797	182,314	171,629	1,779,817	3,749,375
Other measures of assets:							
Loans and advances to customers	616,291	670,530	328,797	182,317	-	-	1,797,935
Investment in associates	-	-	-	-	-	6,225	6,225
Expenditure on non-current assets	-	-	-	-	-	78,490	78,490
Investment securities		-	-	-	734,689	-	734,689
Total liabilities	321,558	589,275	1,333,723	705,693	143,360	272,618	3,366,225
AT 31 DECEMBER 2012							
Total segment revenue	75,098	65,934	96,664	27,263	71,705	1,249	337,913
Inter-segment revenue	(25,227)	(11,007)	71,165	31,583	(56,809)	(9,704)	-
Revenue from external customers	49,871	54,927	167,829	58,845	14,896	(8,455)	337,913
Profit/(loss) before tax	44,150	35,554	147,077	43,079	20,842	(203,564)	87,138
Income tax expense	-	-	-	-	-	(15,006)	(15,006)
Profit for the period	44,150	35,554	147,077	43,079	20,842	(218,570)	72,132
Impairment charge on credit losses	384	(6,376)	(7,209)	(618)	-	907	(12,912)
Impairment charge on doubtful receivables	-	-	-	-	-	(570)	(570)
Share of profit/(loss) from associates	-	-	-	-	-	1,008	1,008
Depreciation	-	-	-	-	-	9,895	9,895
AT 31 DECEMBER 2012							
Total assets	540,729	610,833	252,005	159,129	153,014	1,414,632	3,130,341
Other measures of assets:							
Loans and advances to customers	540,729	610,833	252,005	159,129	-	-	1,562,695
Investment in associates	-	-	-	-	-	5,609	5,609
Expenditure on non-current assets	-	-	-	-	-	74,474	74,474
Investment securities	-	-	-	-	684,359	-	684,359
Total liabilities	310,743	567,477	1,069,146	591,422	91,778	101,675	2,732,241

Geographical information

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
REVENUES		
Nigeria	344,806	314,713
Outside Nigeria	26,876	23,201
Total	371,681	337,913
NON-CURRENT ASSETS		
Nigeria	73,724	69,727
Outside Nigeria	4,766	4,747
Total	78,490	74,474

7 INTEREST INCOME

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Investment securities	76,071	74,968	71,571	73,126
Loans and advances to banks	15,085	2,807	9,202	2,148
Loans and advances to customer	219,068	199,134	203,665	182,051
	310,224	276,909	284,438	257,325

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 ₦1.3 billion (2012: ₦5.3 billion) and Bank ₦1.3 billion (2012: ₦5.3 billion).

8 INTEREST EXPENSE

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Customer deposits	79,678	50,039	73,592	43,877
Deposit from banks	2,631	6,449	2,094	6,445
Borrowings	4,100	2,098	2,043	1,457
	86,409	58,586	77,729	51,779

9 IMPAIRMENT CHARGE FOR CREDIT LOSSES

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Loans and advances to customers (Note 20)				
Increase/(decrease) in collective impairment	**1,265**	3,199	**1,262**	2,093
Increase in specific impairment	**21,622**	13,530	**20,912**	11,571
	22,887	16,729	**22,174**	13,664
Recoveries on loans previously written off	**(2,630)**	(3,817)	**(2,597)**	(3,817)
Other assets (note 31)				
Increase in impairment	**264**	-	**261**	-
	20,521	12,912	**19,838**	9,847

The Group impairment charge in the financial year ended December 2013 rose to ₦20.3 billion from ₦12.9 billion in December 2012. This is due to the recognition of impairment in some small-medium-sized exposures to fast track remedial action in line with the Bank's delinquency management/loan workout process. The major accounts are in the logistics, architectural engineering and oil downstream industries with reasonable write back of provisions expected in 2014.

10 FEE AND COMMISSION INCOME

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Credit-related fees	**2,782**	2,641	**1,919**	1,588
Commission on turnover	**17,618**	21,014	**17,614**	20,937
Letters of credit commissions and fees	**5,472**	5,985	**4,527**	4,736
Electronic banking fees	**7,648**	4,339	**7,648**	4,339
Money transfer commission	**3,634**	1,731	**1,837**	1,731
Commission on bonds and guarantees	**617**	1,215	**620**	1,215
Funds transfer and intermediation fees	**3,388**	3,867	**3,193**	3,696
Other fees and commissions	**12,087**	15,213	**8,488**	10,460
	53,247	56,005	**45,847**	48,702
10.1 FEE AND COMMISSION EXPENSE	**5,448**	1,131	**5,479**	1,131

Fee and commission expense relates to charges raised by other banks on holders of FirstBank ATM cards, who make use of the other banks' machines while transacting business, and SMS alert-related expense.

11 NET GAINS/(LOSSES) ON FOREIGN EXCHANGE INCOME

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Fair value gain/loss on foreign exchange	**(2,417)**	(3,389)	**(2,620)**	(3,670)
Foreign exchange trading income	**9,042**	5,845	**7,370**	4,594
	6,625	2,456	**4,750**	924

This income relates to margins earned from FX trading and exchange difference on translation of foreign currency balances.

12 NET GAINS/(LOSSES) ON INVESTMENT SECURITIES

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Equity securities	(489)	761	(554)	309
Debt securities	1,872	(1,169)	3,485	(1,266)
	1,383	(408)	2,931	(957)

13 NET GAINS/(LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Derivatives	595	1,717	595	133
Trading income on debt securities	(20)	-	(20)	-
Fair value gain/(loss) on debt securities	(1,961)	35	(1,961)	35
	(1,386)	1,752	(1,386)	168

14 OTHER OPERATING INCOME

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Other income	683	3,522	359	1,535
	683	3,522	359	1,535

Other income is largely made up of income made by the Group from rental income and income from sale of properties.

15 OPERATING EXPENSES

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Auditors' remuneration	321	315	300	270
Directors' emoluments	6,085	4,210	5,262	2,910
(Profit)/loss on sale of property, plant and equipment	(284)	(1,760)	(302)	(1,760)
Regulatory cost	24,922	16,550	24,627	16,550
Maintenance, rent and insurance	25,923	25,369	24,920	24,951
Advert and corporate promotions	7,705	8,577	7,474	8,577
Legal and professional fees	2,011	3,704	1,526	2,482
Donations and subscriptions	1,747	1,904	1,558	1,644
Stationery and printing	2,016	2,407	1,869	2,261
Consultancy fees	1,534	1,998	1,418	1,729
Other operating expenses	27,608	42,499	26,020	39,122
	99,588	105,773	94,672	98,736

15.1 PERSONNEL EXPENSES

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Wages and salaries	**53,913**	43,977	**46,951**	38,871
Pension costs:				
- Defined contribution plans	**2,550**	2,404	**2,429**	2,404
- Defined benefit plans (Note 35)	**3,689**	18,492	**3,603**	18,162
- Other employee benefits	**1,638**	1,010	**1,638**	1,010
	61,790	65,883	**54,621**	60,447

16 TAXATION

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Corporate tax	**15,200**	14,988	**11,748**	11,742
National fiscal levy/contingent tax	**13**	-	**-**	-
Education tax	**1,301**	493	**1,258**	433
Technology tax	**769**	833	**769**	808
Capital gains tax	**27**	524	**27**	525
Under provision in prior years	**11**	(5)	**-**	-
Current income tax - current period	**17,321**	16,833	**13,802**	13,508
Origination and reversal of temporary deferred tax differences	**3,688**	(1,827)	**3,686**	(1,363)
Income tax expense	**21,009**	15,006	**17,488**	12,145

Group				
	2013 ₦ million	%	2012 ₦ million	%
Profit before income tax	**87,460**	**-**	87,138	-
Tax calculated using the domestic corporation tax rate of 30% (2012: 30%, 2011: 30%)	**26,238**	**30%**	26,142	30%
Non-deductible expenses	**4,515**	**5%**	7,156	8%
Effect of education tax levy	**1,301**	**1%**	493	1%
Effect of information technology	**769**	**1%**	833	1%
Effect of capital gains tax	**27**	**-**	524	1%
Effect of minimum tax	**-**	**-**	-	-
Effect of excess dividend tax	**5,349**	**6%**	9,577	11%
Tax exempt income	**(17,712)**	**(20%)**	(27,890)	(32%)
Effect of disposal of items of PPE	**1**	**-**	(544)	(1%)
Effect of disposal of subsidiary	**-**	**-**	(1,047)	(1%)
Effect of change in PBT due to IFRS adjustments	**15**	**-**	-	-
Tax incentives	**(231)**	**-**	(238)	-

Group

	2013 ₦ million	%	2012 ₦ million	%
Tax loss effect	(4)	-	1	-
(Over)/under provided in prior years	13	-	-	-
Effect of prior period adjustment on deferred tax	727	1%	-	-
Total income tax expense in income statement	21,009	-	15,006	-
Income tax expense	**21,009**	**24%**	15,006	17%

Bank

	2013 ₦ million	%	2012 ₦ million	%
Profit before income tax	76,853	-	83,289	-
Tax calculated using the domestic corporation tax rate of 30% (2012: 30%, 2011: 30%)	23,056	30%	24,987	30%
Non-deductible expenses	3,783	5%	5,358	6%
Effect of education tax levy	1,258	2%	433	1%
Effect of information technology	769	1%	808	1%
Effect of capital gains tax	27	-	524	1%
Effect of minimum tax	-	-	-	-
Effect of excess dividend tax	5,346	7%	9,577	11%
Tax exempt income	(17,383)	(23%)	(27,215)	(33%)
Effect of disposal of items of PPE	-	-	(544)	(1%)
Effect of disposal of subsidiary	-	-	(1,047)	(1%)
Effect of change in PBT due to IFRS adjustments	-	-	(498)	(1%)
Tax incentives	(94)	-	(238)	-
Tax loss effect	-	-	-	-
(Over)/under provided in prior years	-	-	-	-
Effect of prior period adjustment on deferred tax	727	1%	-	-
Total income tax expense in income statement	17,488	23%	12,145	15%
Income tax expense	**17,488**	**23%**	12,145	15%

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

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
At start of the period	**22,536**	23,844	**19,768**	21,354
Effect of adjustment on acquired entities	**(729)**	-	**-**	-
Tax paid	**(7,207)**	(21,448)	**(3,734)**	(17,637)
Withholding tax credit utilised	**(4)**	-	**-**	-
Prior period (over)/under provision	**(2)**	2,543	**-**	2,544
AFS securities revaluation tax charge/(credit)	**(282)**	763	**-**	-
Income tax charge	**17,321**	16,833	**13,802**	13,507
At 31 December	**31,633**	22,536	**29,836**	19,768
Current	**31,633**	22,536	**29,836**	19,768

17 CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Cash	**71,681**	53,083	**38,973**	47,238
Balances with central banks excluding mandatory reserve deposits	**181,281**	53,432	**177,507**	53,432
	252,962	106,515	**216,480**	100,670
Mandatory reserve deposits with central banks	**341,011**	191,509	**324,741**	187,455
	593,973	298,024	**541,221**	288,125

Included in balances with central banks is a call placement of ₦137.04 billion for Group and Bank (31 December 2012: nil).

Restricted deposits with central banks are not available for use in the Group's day-to-day operations. The Bank had restricted balances of ₦325 billion with Central Bank of Nigeria (CBN) as at 31 December 2013 (December 2012: ₦187 billion). This balance is CBN cash reserve requirement. The cash reserve ratio represents a mandatory 12% of non-government deposits and 50% of government deposit (December 2012: 12%) which should be held with the Central Bank of Nigeria as a regulatory requirement. FBN UK, ICB Ghana, ICB Gambia and ICB Guinea had restricted balances of ₦13.5 billion, ₦1 billion, ₦177 million and ₦1.5 billion respectively with their respective central banks.

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.

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Cash (Note 17)	71,681	53,083	38,973	47,238
Balances with central banks other than mandatory reserve deposits (Note 17)	181,281	53,432	177,507	53,432
Loans and advances to banks excluding long-term placements (Note 19)	311,581	393,467	346,969	315,856
Treasury bills included in financial assets held for trading (Note 21)	438	193	438	193
Treasury bills and eligible bills excluding pledged treasury bills (Notes 22.1 and 22.2)	197,440	121,247	143,402	83,670
	762,421	621,422	707,289	500,389

19 LOANS AND ADVANCES TO BANKS

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Current balances with banks within Nigeria	4,768	15,979	1,620	1,433
Current balances with banks outside Nigeria	287,414	322,703	337,348	272,998
Placements with banks and discount houses	19,399	54,785	8,002	41,425
	311,581	393,467	346,970	315,856
Long-term placement	103,629	706	20,601	13,264
Carrying amount	415,210	394,173	367,571	329,120

Included in loans to banks is a non-current placement of ₦103.6 billion for Group and ₦20.60 billion for Bank (31 December 2012: ₦706 million for Group and ₦13.2 billion for Bank) which does not qualify as cash and cash equivalent. All other loans to banks are due within three months.

20 LOANS AND ADVANCES TO CUSTOMERS

Group					
	Gross amount ₦ million	Specific impairment ₦ million	Collective impairment ₦ million	Total impairment ₦ million	Carrying amount ₦ million
31 DECEMBER 2013					
Overdrafts	354,578	10,465	4,060	14,524	340,054
Term loans	1,417,892	9,393	19,587	28,981	1,388,912
Staff loans	6,287	31	185	216	6,071
Project finance	61,534	-	731	731	60,803
	1,840,291	19,889	24,563	44,452	1,795,840
Advances under finance lease	2,862	696	71	768	2,095
	1,843,153	20,585	24,634	45,219	1,797,935

Group

	Gross amount ₦ million	Specific impairment ₦ million	Collective impairment ₦ million	Total impairment ₦ million	Carrying amount ₦ million
31 DECEMBER 2012					
Overdrafts	276,526	6,882	3,402	10,284	266,242
Term loans	1,256,019	10,251	17,372	27,623	1,228,396
Staff loans	5,949	-	600	600	5,349
Project finance	59,746	-	732	732	59,014
	1,598,240	17,133	22,106	39,239	1,559,001
Advances under finance lease	3,781	-	87	87	3,694
	1,602,021	17,133	22,193	39,326	1,562,695

Bank

	Gross amount ₦ million	Specific impairment ₦ million	Collective impairment ₦ million	Total impairment ₦ million	Carrying amount ₦ million
31 DECEMBER 2013					
Overdrafts	**340,855**	**10,022**	**3,623**	**13,645**	**327,210**
Term loans	**1,104,336**	**7,297**	**18,838**	**26,135**	**1,078,200**
Staff loans	**5,702**	**-**	**170**	**170**	**5,532**
Project finance	**61,534**	**-**	**731**	**731**	**60,803**
	1,512,427	**17,319**	**23,362**	**40,681**	**1,471,745**
Advances under finance lease	**2,862**	**696**	**71**	**768**	**2,095**
	1,515,289	**18,015**	**23,433**	**41,449**	**1,473,840**
31 DECEMBER 2012					
Overdrafts	269,252	6,585	3,602	10,187	259,065
Term loans	1,015,181	8,222	17,150	25,372	989,809
Staff loans	5,744	-	600	600	5,144
Project finance	59,427	-	732	732	58,695
	1,349,605	14,807	22,084	36,891	1,312,713
Advances under finance lease	3,781	-	87	87	3,694
	1,353,386	14,807	22,171	36,978	1,316,407

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Current	**931,142**	592,842	**719,305**	585,422
Non-current	**866,793**	969,852	**754,535**	730,985
	1,797,935	1,562,694	**1,473,840**	1,316,407

20.1 CBN/BANK OF INDUSTRY FACILITIES

Included in loans and advances to customers are term loans granted to customers in line with CBN ₦200 billion intervention funds for refinancing and restructuring of banks' loans to the manufacturing sector. The on-lending facilities are for a maximum of 15 years' tenor at 6% interest per annum.

CBN/Commercial Agricultural Credit Scheme (CACS)

This relates to the balance on term loan facilities granted to customers under CBN Commercial Agricultural Credit Scheme. The facilities under the scheme are for a period of seven years at 9% interest per annum. These balances are included in the loans and advances.

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
CBN/Bank of Industry	7,429	6,296
CBN/Commercial Agricultural Credit Scheme	20,319	27,131

Reconciliation of impairment allowance on loans and advances to customers:

Group

	Overdrafts ₦ million	Term loans ₦ million	Finance leases ₦ million	Other ₦ million	Total ₦ million
At 1 January 2013	10,484	27,422	87	1,332	39,325
Additional provision					
Specific impairment	11,628	9,267	696	31	21,622
Collective impairment	648	1,048	(15)	(416)	1,266
	12,276	10,315	681	(385)	22,887
Loans written off	(8,693)	(10,447)	-	-	(19,140)
Acquisition through business combination (specific impairment)	648	322	-	-	970
Acquisition through business combination (collective impairment)	9	1,167	-	-	1,176
At 31 December 2013	14,725	28,780	768	947	45,220
Specific impairment	10,465	9,393	696	31	20,586
Collective impairment	4,060	19,587	71	916	24,634
	14,525	28,981	767	947	45,220
At 1 January 2012	4,819	24,799	86	706	30,410
Additional provision					
Specific impairment	5,624	7,667	-	239	13,530
Collective impairment	454	2,118	1	626	3,199
	6,078	9,785	1	865	16,729
Discontinued operations	-	(2,981)	-	-	(2,981)
Loans written off	(413)	(4,181)	-	(239)	(4,833)
At 31 December 2012	10,484	27,422	87	1,332	39,326
Specific impairment	6,882	10,251	-	-	17,133
Collective impairment	3,602	17,171	87	1,332	22,192
	10,484	27,422	87	1,332	39,326

Bank

	Overdrafts ₦ million	Term loans ₦ million	Finance leases ₦ million	Other ₦ million	Total ₦ million
At 1 January 2013	**10,187**	**25,372**	**87**	**1,332**	**36,978**
Additional provision					
Specific impairment	**11,785**	**8,429**	**698**	**-**	**20,912**
Collective impairment	**21**	**1,688**	**(15)**	**(431)**	**1,262**
	11,806	**10,117**	**683**	**(431)**	**22,174**
Loans written off	**(8,350)**	**(9,354)**	**-**	**-**	**(17,704)**
At 31 December 2013	**13,643**	**26,135**	**770**	**901**	**41,449**
Specific impairment	**10,020**	**7,297**	**698**	**-**	**18,016**
Collective impairment	**3,623**	**18,838**	**71**	**901**	**23,433**
	13,643	**26,135**	**770**	**901**	**41,449**
At 1 January 2012	4,819	22,271	86	706	27,882
Additional provision					
Specific impairment	5,197	6,374	-	-	11,571
Collective impairment	454	1,012	1	626	2,093
	5,651	7,386	1	626	13,664
Loans written off	(283)	(4,285)	-	-	(4,568)
At 31 December 2012	10,187	25,372	87	1,332	36,978
Specific impairment	6,585	8,222	-	-	14,807
Collective impairment	3,602	17,150	87	1,332	22,171
	10,187	25,372	87	1,332	36,978

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

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Gross investment in finance lease, receivable				
No later than 1 year	**547**	729	**547**	729
Later than 1 year and no later than 5 years	**2,678**	3,282	**2,678**	3,282
Later than 5 years	**24**	84	**24**	84
	3,249	4,095	**3,249**	4,095
Unearned future finance income on finance leases	**(387)**	(314)	**(387)**	(314)
Impairment allowance on leases	**(768)**	(87)	**(768)**	(87)
Net investment in finance lease, receivable	**2,095**	3,694	**2,095**	3,694
Net investment in finance lease, receivable is analysed as follows:				
No later than 1 year	**147**	416	**147**	416
Later than 1 year and no later than 5 years	**1,925**	3,194	**1,925**	3,194
Later than 5 years	**23**	84	**23**	84
	2,094	3,694	**2,094**	3,694

20.2 NATURE OF SECURITY IN RESPECT OF LOANS AND ADVANCES

Group				
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Legal mortgage/debenture on business premises, factory assets or real estates	**627,755**	572,017	**544,204**	518,577
Guarantee/receivables of investment grade banks and state government	**178,923**	20,160	**373,890**	416,937
Domiciliation of receivables	**112,102**	348,330	**402,821**	266,583
Clean/negative pledge	**47,791**	118,422	**138,238**	91,730
Marketable securities/shares	**374,221**	26,241	**23,955**	26,241
Otherwise secured	**484,590**	466,194	**15,540**	22,960
Cash/government securities	**17,772**	11,331	**16,640**	10,356
	1,843,153	1,562,695	**1,515,289**	1,353,385

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 AT FAIR VALUE THROUGH PROFIT OR LOSS (FINANCIAL ASSETS AT FVTPL)

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Treasury bills with maturity of less than 90 days	**438**	193	**438**	193
Treasury bills with maturity over 90 days	**146**	487	**146**	487
Total debt securities	**584**	680	**584**	680
Derivative assets	**4,159**	1,885	**1,641**	1,262
Total assets held for trading	**4,743**	2,565	**2,225**	1,942

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 instrument is very nascent and has been limited to hedging of risk exposures resulting from adverse movement in market risk factors. The Group's derivative transactions are principally in:

- Forward FX contracts entered into to hedge against foreign exchange risks arising from cross-currency exposures; and
- exchange rate risk in euro borrowing disbursed in USD is being managed by the use of Forward FX contracts that allows a notional accrual of euros that will close the open position over the life of the borrowing.

Customers' risk hedge needs

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

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

	Group 31 December 2013			Bank 31 December 2013		
	Notional contract amount ₦ million	Fair values Asset ₦ million	Fair values Liability ₦ million	Notional contract amount ₦ million	Fair values Asset ₦ million	Fair values Liability ₦ million
Foreign exchange derivatives						
Forward FX contract	189,302	2,522	(71)	1,425	4	(71)
Currency swap	19,617	12	(4)	19,617	12	-
Put options	34,361	1,626	(1,626)	34,361	1,626	(1,626)
	243,280	4,160	(1,701)	55,403	1,642	(1,697)
Current	195,510	2,534	(4)	7,633	16	-
Non-current	47,771	1,626	(1,697)	47,771	1,626	(1,697)
	243,281	4,160	(1,701)	55,404	1,642	(1,697)

	Group 31 December 2012			Bank 31 December 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)
	70,831	1,885	(1,796)	70,262	1,262	(1,278)

22 INVESTMENT SECURITIES

22.1 SECURITIES AVAILABLE FOR SALE

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Debt securities – at fair value				
Treasury bills with maturity of less than 90 days	197,440	121,247	143,402	83,670
Treasury bills with maturity of more then 90 days	58,616	10	54,696	24,457
Bonds	159,957	182,629	127,741	144,784
Equity securities – at fair value				
Listed	3,751	3,305	1,554	1,131
Equity securities – at fair value				
Unlisted	31,659	46,308	31,659	46,309
	451,423	353,499	359,052	300,351
Assets pledged as collateral				
Debt securities - at fair value				
Treasury bills	20,178	17,531	19,137	17,531
Bonds	204	1,515	-	1,515
	20,381	19,046	19,137	19,046
Total securities classified as available for sale	471,804	372,545	378,189	319,397

22.2 SECURITIES HELD TO MATURITY

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Debt securities – at amortised cost				
Treasury bills	10,498	-	6,107	-
Bonds	272,769	330,860	272,769	330,860
	283,266	330,860	278,875	330,860
Assets pledged as collateral				
Debt securities – at amortised cost				
Treasury bills	-	-	-	-
Bonds	33,269	31,063	33,269	31,063
	33,269	31,063	33,269	31,063
Total securities classified as held to maturity	316,535	361,923	312,144	361,923
Total investment securities	788,339	734,468	690,333	681,320

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 collateral are as follows:

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Available-for-sale debt securities (Note 22.1)	20,381	19,046	19,137	19,046
Held-to-maturity debt securities (Note 22.2)	33,269	31,063	33,268	31,063
	53,650	50,109	52,405	50,109
The related liability for assets held as collateral include:				
Bank of Industry	12,110	9,982	12,110	9,982
The assets pledged as collateral include assets pledged to third parties under secured borrowing with the related liability disclosed above.				
Also included in pledged assets are assets pledged as collateral or security deposits to clearing house and payment agencies of ₦41.6 billion (Bank 2013: ₦40.3 billion) and ₦40.1 billion for Bank and Group in December 2012 for which there is no related liability.				
Current	20,178	19,046	19,137	19,046
Non-current	33,472	31,063	33,268	31,063
	53,650	50,109	52,405	50,109

24 INVESTMENT IN SUBSIDIARIES

24.1 PRINCIPAL SUBSIDIARY UNDERTAKINGS

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
FBN Bank (UK) Limited (Note 24.1 (i))	30,695	30,695
First Pension Custodian Limited (Note 24.1 (ii))	2,000	2,000
FBN Mortgages Limited (Note 24.1 (iii))	2,100	2,100
FBN Bureau de Change Limited (Note 24.1 (iv))	50	50
Banque Internationale de Crédit (Note 24.1 (v))	5,503	5,503
International Commercial Bank (ICB) Ghana (Note 24.1 (vi))	10,559	-
International Commercial Bank (ICB) Sierra Leone (Note 24.1 (vii))	1,685	-
International Commercial Bank (ICB) Guinea (Note 24.1 (viii))	2,243	-
International Commercial Bank (ICB) Gambia (Note 24.1 (ix))	1,472	-
	56,307	40,348

All shares in subsidiary undertakings are ordinary shares. For all periods shown, the Group owned the total issued shares in all its subsidiary undertakings except Banque Internationale de Crédit in which it owned 75%. There are no significant restrictions on any of the subsidiaries. All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company and the Group do not differ from the proportion of ordinary shares held. The total non-controlling interest for the period is ₦1.64 billion.

Subsidiary	Principal activity	Country of incorporation	Proportion of shares held directly by parent (%)	Proportion of shares held directly by the Group (%)	Statutory year end
FBN Bank (UK) Limited (Note 24.1 (i))	Banking	United Kingdom	100	100	31 December
First Pension Custodian Limited (Note 24.1 (ii))	Pension fund assets custodian	Nigeria	100	100	31 December
FBN Mortgages Limited (Note 24.1 (iii))	Mortgage banking	Nigeria	100	100	31 December
FBN Bureau de Change Limited (Note 24.1 (iv))	Bureau de change	Nigeria	100	100	31 December
Banque Internationale de Crédit (DRC) (Note 24.1 (v))	Banking	Democratic Republic of Congo	75	75	31 December
ICB Ghana (Note 24.1 (vi))	Banking	Ghana	100	100	31 December
ICB Sierra Leone (Note 24.1 (vii))	Banking	Sierra Leone	100	100	31 December
ICB Guinea (Note 24.1 (viii))	Banking	Guinea	80	100	31 December
ICB Gambia (Note 24.1 (ix))	Banking	Gambia	100	100	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 Limited. The bank has a branch in Paris.

(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 September 2013, the CBN withdrew the licence of the FBN Bureau de Change Limited.

(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 of Nigeria Limited has a holding of 75% in the equity of BIC.

(vi) ICB Ghana

ICB Ghana is a company incorporated in Ghana on 19 March 1996, which commenced operations in November 1996. The bank operates with a Class 1 universal banking licence and is a tier 3 bank in the Ghana banking landscape with a network of 17 branches and two cash agencies. Its principal activities include business banking and consumer banking. The target customers of the consumer banking are individuals while SMEs and corporates are the focus of the business banking unit.

First Bank of Nigeria Limited has a holding of 100% in the equity of ICB Ghana. The Bank obtained the CBN's approval for the acquisition of ICB West Africa including ICB Ghana on 7 June 2013, while the Bank of Ghana (BoG) gave its provisional approval for the transaction on 19 September 2013.

(vii) ICB Sierra Leone

ICB Sierra Leone is a company incorporated in Sierra Leone on August 2004, and is one of the 10 foreign-owned commercial banks in Sierra Leone. Presently, the bank has a branch network of two branches located in one of the four regions of Sierra Leone. Its principal activities include public sector, retail banking, SMEs and corporate banking.

First Bank of Nigeria Limited has a holding of 100% in the equity of ICB Sierra Leone. The Bank obtained the CBN's approval for the acquisition of ICB West Africa including ICB Sierra Leone on 7 June 2013, while the Bank of Sierra Leone (BoSL) gave its approval for the acquisition on 25 June 2013.

(viii) ICB Guinea

ICB Guinea is a tier 3 bank in Guinea banking sector. The bank was incorporated on 17 September 1996 and commenced operations in 1997. ICB Guinea currently operates from five locations in Conakry, the capital city, and is well known in Guinea as one of the leading banks, with quality services, transparent transactions and compliance with legal and regulatory policies. Its principal activities include business and commercial banking. The business banking group focuses on corporate and institutional customers while consumer banking group provides services to retail customers.

First Bank of Nigeria Limited has a holding of 80% in the equity of ICB Guinea, with ICB Ghana holding the other 20% equity. The CBN's approval for the acquisition of ICB Guinea was gained alongside the other ICBs operations in West Africa on 7 June 2013, while the Central Bank of Republic of Guinea (BCRG) gave its final approval for the transaction on 26 August 2013.

(ix) ICB Gambia

ICB Gambia is a company incorporated in Gambia and commenced operations in July 2004. The bank is a tier 3 bank in the Gambian banking sector, and currently operates from four locations in one of the six regions in the Gambia. Key sectors targeted by the bank are public sector, corporate companies, SMEs and retail customers.

First Bank of Nigeria Limited has a holding of 100% in the equity of ICB Guinea. The approval for the acquisition was granted by the CBN on 7 June 2013 while the Central Bank of Gambia (CBG) gave its provisional approval on 24 April 2013.

(x) FBN Finance Company B.V.

This is a special purpose entity, which issued Eurobonds during the period. The results of the SPE have been consolidated by the Bank.

(xi) First Dependants Nigeria Limited

First Dependants was set up as a special purpose vehicle/fund established by a trust deed for the purpose of provisions for pensions and other benefits on retirement for and in respect of employees of FBN Limited. Being a fund established by a trust deed, the management entered into a fund management agreement with First Trustees Limited to invest the funds in eligible transactions and assets held in anticipation of needs.

(xii) First Nominees Nigeria Limited

First Nominees Nigeria Limited was set up as a special purpose vehicle by the Bank and funded by contributions from the Bank. A provident fund and profit-sharing scheme, which was replaced by the 'Pension and Gratuity Scheme'. The fund was been managed to provide for pensions and other benefits on retirement for and in respect of employees of First Bank of Nigeria Limited. The fund is being managed by FBN Insurance Brokers Limited.

(xiii) Sinking Fund

The fund is an in-house insurance scheme established as a fund against the risk on the Group's motor vehicles. This fund is being managed by FBN Insurance Brokers, which has the responsibility to manage, operate and administer the fund in settlement of claims.

31 December 2013	Parent ₦ million	FBN UK ₦ million	BIC ₦ million	ICB Ghana ₦ million	ICB Gambia ₦ million	ICB Sierra Leone ₦ million	ICB Guinea ₦ million	Mortgages ₦ million	BDC ₦ million	Pension ₦ million	Others ₦ million	Total ₦ million	Adjustments ₦ million	Banking Group ₦ million
SUMMARISED INCOME STATEMENT														
Operating income	255,810	15,325	7,985	632	19	52	134	356	178	3,286	1,335	285,112	(5,287)	279,824
Operating expenses	(159,120)	(5,785)	(5,990)	(263)	(32)	(27)	(85)	(1,602)	(150)	(1,260)	(700)	(175,012)	2,294	(172,718)
Provision expense	(19,838)	(1,955)	(558)	(102)	30	(5)	(1)	-	(1)	-	-	(22,430)	1,909	(20,521)
Operating profit	76,852	7,585	1,437	267	17	20	49	(1,246)	27	2,026	635	87,669	(1,084)	86,585
Associate	-	-	-	-	-	-	-	-	-	-	-	-	875	875
Profit before tax	76,852	7,585	1,437	267	17	20	49	(1,246)	27	2,026	635		(209)	87,460
Tax	(17,487)	(1,770)	(1,010)	(96)	2	(8)	(16)	-	(31)	(523)	(58)	(20,998)	(11)	(21,010)
(Loss)/Profit for the year	59,365	5,815	427	171	19	12	33	(1,246)	(4)	1,503	577	66,671	(220)	66,450
Other comprehensive income	(9,047)	(653)	-	-	-	-	-	(2)	-	3	103	(9,596)	(183)	(9,779)
Total comprehensive income	50,319	5,161	427	171	19	12	33	(1,248)	(4)	1,506	679	57,075	(403)	56,671
Total comprehensive income allocated to non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid to non-controlling interest	-	-	107	-	-	-	-	-	-	-	-	107	-	107

31 December 2013	Parent ₦ million	FBN UK ₦ million	BIC ₦ million	ICB Ghana ₦ million	ICB Gambia ₦ million	ICB Sierra Leone ₦ million	ICB Guinea ₦ million	Mortgages ₦ million	BDC ₦ million	Pension ₦ million	Others ₦ million	Total ₦ million	Adjustments ₦ million	Banking Group ₦ million
SUMMARISED FINANCIAL POSITION														
Assets														
Cash and balances with central bank	541,221	37,409	8,571	1,800	846	512	3,605	2	3	-	2	593,972	-	593,972
Due from other banks	367,571	126,547	9,354	4,797	20	-	2,437	2,442	247	103	1,713	515,231	(100,021)	415,210
Loans and advances	1,473,841	291,064	23,787	8,605	771	1,150	1,882	2,188	6	25	1	1,803,319	(5,387)	1,797,932
Financial assets held for trading (HFT)	2,225	2,518	-	-	-	-	-	-	-	-	-	4,743	-	4,743
Investment securities	637,928	76,701	4,206	4,393	730	1,930	1,489	57	-	4,391	50,565	782,390	(47,701)	734,689
Assets pledged as collateral	52,405	-	-	1,245	-	-	-	-	-	-	-	53,650	-	53,650
Investment in subsidiaries	56,307	-	-	-	-	-	-	-	-	-	-	56,307	(56,307)	-
Investment in associates	2,224	-	-	-	-	-	-	-	-	-	-	2,224	4,003	6,227
Other assets	36,067	703	2,993	526	27	77	344	58	48	471	434	41,748	(1,252)	40,496
Deferred tax	3,654	13	696	87	8	11	-	-	-	117	-	4,586	-	4,586
Intangible assets	1,242	542	-	49	6	1	8	5	-	156	-	2,009	6,585	8,594
Property and equipment	71,893	431	4,021	240	16	12	46	22	15	1,049	24	77,768	723	78,491
Assets held for sale	-	-	-	-	-	-	-	10,784	-	-	-	10,784	-	10,784
	3,246,578	535,929	53,628	21,741	2,424	3,692	9,811	15,558	319	6,312	52,738	3,948,731	(199,355)	3,749,375
Financed by														

31 December 2013	Parent ₦ million	FBN UK ₦ million	BIC ₦ million	ICB Ghana ₦ million	ICB Gambia ₦ million	ICB Sierra Leone ₦ million	ICB Guinea ₦ million	Mortgages ₦ million	BDC ₦ million	Pension ₦ million	Others ₦ million	Total ₦ million	Adjustments ₦ million	Banking Group ₦ million
Customer deposits	2,570,720	295,740	43,180	11,837	1,302	2,215	7,717	11,109	-	-	-	2,943,820	(1,037)	2,942,783
Due to other banks	10,155	156,125	-	18	212	71	-	-	-	-	-	166,581	(89,100)	77,481
Financial liabilities held for trading	1,697	4	-	-	-	-	-	-	-	-	-	1,701	-	1,701
Borrowed funds	125,362	12,836	-	3,375	-	-	-	-	-	-	47,615	189,187	(62,885)	126,302
Tax payable	29,835	-	492	-	15	67	94	74	22	815	220	31,633	-	31,633
Other liabilities	156,988	18,945	3,814	338	35	26	524	2,561	102	481	651	184,464	(1,671)	182,793
Retirement benefit obligations	1,111	-	-	-	-	8	79	-	-	343	-	1,542	235	1,777
Deferred income tax liabilities	-	-	1,292	-	-	-	-	8	2	-	-	1,302	(1,292)	10
Liabilities held for sale	-	-	-	-	-	-	-	-	-	-	-	-	1,747	1,747
	2,895,869	483,649	48,778	15,568	1,563	2,387	8,413	13,752	125	1,639	48,487	3,520,230	(154,003)	3,366,227
Equity and reserves	350,709	52,279	4,849	6,174	861	1,305	1,398	1,806	194	4,673	4,252	428,501	(45,352)	383,149
SUMMARISED CASH FLOWS														
Operating activities														
Interest received	293,197	7,465	3,786	3,518	294	532	540	721	11	-	126	310,191	7,527	317,718
Interest paid	(73,323)	(20,801)	(366)	1,149)	(107)	(231)	(90)	(649)	-	-	-	(96,717)	13,011	(83,705)
Purchase of investment securities	(279,439)	-	-	-	(1,267)	(381)	37	-	-	(4,122)	(228)	(285,400)	(9,152)	(294,552)
Proceeds from the sale of investment securities	294,343	-	-	1,580	1,188	-	-	-	-	-	162	297,273	9,185	306,458
Income tax paid	(3,734)	(2,094)	(776)	(359)	(34)	(50)	(120)	(375)	(34)	(492)	-	(8,067)	1,652	(6,415)
Cash flow generated from operations	8,533	41,599	1,415	(3,518)	223	166	1,059	2,022	38	2,273	799	54,610		54,610

31 December 2013	Parent ₦ million	FBN UK ₦ million	BIC ₦ million	ICB Ghana ₦ million	ICB Gambia ₦ million	ICB Sierra Leone ₦ million	ICB Guinea ₦ million	Mortgages ₦ million	BDC ₦ million	Pension ₦ million	Others ₦ million	Total ₦ million	Adjustments ₦ million	Banking Group ₦ million
Net cash generated from operating activities	239,577	26,168	4,059	72	297	37	1,427	1,719	15	(2,341)	860	271,889		271,889
Net cash used in investing activities	(11,392)	(565)	(773)	(36)	(15)	(4)	(22)	8	(0)	(1,154)	(7)	(13,961)	23,109	9,148
Net cash used in financing activities	8,850	(2,182)	(91)	1,364	(48)	47	(160)	-	(3)	(340)	(44)	7,394	8,051	15,444
Increase in cash and cash equivalents	237,035	23,421	3,195	1,400	234	80	1,245	1,727	12	(3,835)	808	265,322		265,322
Cash and cash equivalents at start of year	500,389	61,565	20,409	3,590	455	433	4,490	720	238	4,208	1,843	598,338	23,306	621,644
Effect of exchange rate fluctuations on cash held	(326)	-	(18)	-	-	-	-	-	-	-	-	(344)	16	(328)
Cash and cash equivalents at end of year	737,097	84,986	23,585	4,990	689	512	5,735	2,447	250	373	2,651	863,316	23,322	886,638

The total balances above is before intercompany eliminations.

BREAKDOWN OF OTHERS IN NOTE 24.2

31 December 2013	FBN Finance ₦ million	Sinking Funds ₦ million	FBN Nominees ₦ million	First Dependants ₦ million	Total ₦ million
SUMMARISED INCOME STATEMENT					
Operating income	215	302	560	258	1,335
Operating expenses	(214)	(72)	(369)	(44)	(700)
Provision expense	-	-	-	-	-
Operating profit	1	230	191	214	635
Associate	-	-	-	-	-
Profit before tax	1	230	191	214	635
Tax	(1)	-	(58)	-	(58)
(Loss)/profit for the year	-	230	133	214	577
Other comprehensive income	(2)	-	79	25	103
Total comprehensive income	(2)	230	212	239	679
SUMMARISED FINANCIAL POSITION					
Assets					
Due from other banks	2	294	868	551	1,715
Loans and advances	-	-	1	-	1
Investment securities	47,615	837	544	1,569	50,565
Other assets	16	126	4	287	433
Property and equipment	-	-	24	-	24
	47,633	1,257	1,441	2,407	52,739
Financed by					
Borrowed funds	47,615	-	-	-	47,615
Tax payable	1	-	219	-	220
Other liabilities	15	90	112	434	651
	47,631	90	331	434	48,487
Equity and reserves	2	1,167	1,110	1,973	4,252
Total equity and liabilities	47,633	1,257	1,441	2,407	52,739

31 December 2013	FBN Finance ₦ million	Sinking Funds ₦ million	FBN Nominees ₦ million	First Dependants ₦ million	Total ₦ million
SUMMARISED CASH FLOWS					
Operating activities					
Interest received	-	85	12	29	126
Interest paid	-	-	-	-	-
Purchase of investment securities	-	(228)	-	-	(228)
Proceeds from the sale of investment securities	-	-	-	162	162
Income tax paid	-	-	-	-	-
Cash flow generated from operations	-	454	142	203	799
Net cash generated from operating activities	-	311	154	394	859
Net cash used in investing activities	-	-	(7)	-	(7)
Net cash used in financing activities	-	-	-	(44)	(44)
Increase in cash and cash equivalents	-	311	147	350	808
Cash and cash equivalents at start of year	-	918	724	201	1,843
Effect of exchange rate fluctuations on cash held	-	-	-	-	-
Cash and cash equivalents at end of year	-	1,229	871	551	2,651

25 ACQUISITION OF SUBSIDIARY

In November 2013, First Bank of Nigeria Limited paid for the acquisition of a 100% equity interest in the West Africa operations of International Commercial Bank (ICB), which includes ICB Ghana, ICB Sierra Leone, ICB Guinea and ICB Gambia from International Commercial Bank Financial Group Holdings AG (ICBFGH). The equity interest was acquired on 31 October 2013. As a result of this acquisition, the Commercial Banking segment of the Group will consolidate its position as one of the largest corporate and retail banking financial institutions in Sub-Saharan Africa (excluding South Africa). This acquisition will enhance the Group's total asset base by about 1%.

In October 2011, First Bank of Nigeria Limited paid for the acquisition of a 75% interest in Thorens Limited, which owns 99.9% interest in Banque Internationale de Crédit (BIC) in the Democratic Republic of Congo (DRC). The transaction was approved by the central banks in Nigeria and the DRC, subject to subsequent restructuring of the investment by the Bank to achieve direct ownership of BIC. As part of the restructuring, the Bank gained effective control of BIC on 31 March 2012 by controlling 75% of its shares and voting interest and thus accounted for the acquisition on that date. The consideration transferred by the Bank in October 2011 was ₦5.5 billion. The acquisition of BIC is expected to increase the Group's profile across Sub-Saharan Africa, create a greater earning diversification and increased shareholder value through higher returns on equity. The accounting for the acquisition of the subsidiary was completed in March 2013. This resulted in a change to goodwill by ₦0.5 billion.

The ICB entities contributed interest income of ₦855 million and fee commission of ₦102 million to the Group for the period 1 November 2013 to 31 December 2013 as well as profit of ₦374 million. If the acquisition had occurred on 1 January 2013, the Group interest income would show ₦320,944 million, Group fee and commission would be ₦54,912 million and Group profit before tax would have been ₦86,667 million.

BIC contributed interest income of ₦2,123 million and fee commission of ₦2,251 million 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 million and Group profit before tax would have been ₦86,400 million.

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

	ICB Ghana 31 October 2013 ₦ million	ICB Sierra Leone 31 October 2013 ₦ million	ICB Guinea 31 October 2013 ₦ million	ICB Gambia 31 October 2013 ₦ million	BIC 31 March 2013 ₦ million
Consideration					
Cash	10,559	1,685	2,243	1,435	5,503

	ICB Ghana provisional fair value ₦ million	ICB Sierra Leone provisional fair value ₦ million	ICB Guinea provisional fair value ₦ million	ICB Gambia provisional fair value ₦ million	BIC fair value ₦ million
Recognised amounts of identifiable assets acquired and liabilities assumed:					
Cash and balances with central banks	1,768	416	2,846	949	10,081
Treasury bills	10,632	1,647	1,501	767	44
Loans and advances to banks	404	-	3,073	-	6,841
Loans and advances to customers	9,316	1,111	1,655	659	16,046
Inventory	-	-	-	-	144
Deferred tax asset	76	14	-	-	1,045
Other assets	277	238	234	73	1,976
Property, plant and equipment	319	14	67	22	3,392
Deposits	(11,687)	(1,999)	(7,284)	(1,517)	(27,521)
Other liabilities	(4,695)	(217)	(706)	(84)	(6,182)
Total identifiable net assets	6,410	1,224	1,386	869	5,866
Non-controlling interest	-	-	-	-	1,466
Goodwill	4,149	461	856	566	1,104
Cash and cash equivalents acquired from the subsidiary is made up of the following:					
Cash and balances with central banks	1,768	416	2,846	949	10,081
Treasury bills	10,632	1,647	1,501	767	44
Loans and advances to banks	404	-	3,073	-	6,841
	12,804	2,063	7,420	1,716	16,966
Net cash on acquisition of subsidiary	2,245	377	5,178	281	11,463

The cash and balances with central banks did not include any mandatory or restricted balances.

As at 31 December 2013 the fair values of acquired assets, liabilities and goodwill for ICB Ghana, ICB Gambia, ICB Guinea and ICB Sierra Leone have been determined on a provisional basis as these businesses were acquired in close proximity to the year end, pending finalisation of the post-acquisition review of the fair value of the acquired net assets.

The initial acquisition accounting for the business combination is yet to be finalised. However, where applicable, the Group will adjust the provisional amounts recognised as permitted and required by IFRS 3. The measurement period, which cannot exceed one year, ends when an acquirer obtains the additional information that it was seeking about facts and circumstances that existed as of the date of acquisition or it concludes that such information is not obtainable. This period comes to an end in December 2014.

Costs directly attributable to each acquisition have been expensed within operating expenses.

The acquisition of these entities is expected to increase the Group's profile across West Africa, create a greater earning diversification and increased shareholder value through higher returns on equity.

The goodwill of ₦4.1 billion, ₦461 million, ₦856 million and ₦567 million on ICB Ghana, Sierra Leone, Guinea and Gambia respectively arises from a number of factors such as expected synergies through combining a highly skilled workforce and obtaining economies of scale and unrecognised assets such as customer listing, brand and workforce.

The net contractual amount for loans and advances to customers is ₦10.6 billion, ₦1.6 billion, ₦1.1 billion and ₦741 million for ICB Ghana, Guinea, Sierra Leone and Gambia respectively, which excludes a loan loss provision of ₦1.9 billion, ₦11.9 million, ₦42 million and ₦107 million for each of the respective entities.

The gross carrying value of other assets is ₦821 million. None of the trade receivables have been impaired and it is expected that the full contractual amount can be collected.

BIC

The goodwill of ₦1.1 billion from the acquisition of BIC arises from a number of factors such as expected synergies through combining a highly skilled workforce and obtaining economies of scale.

There 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 seven days and 28 days. The amount represents their fair value.

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

The net contractual amount for loans and advances to customers is ₦18.166 billion, which excludes a loan loss provision of ₦2.2 billion.

The gross carrying value of other assets is ₦1.9 billion; this includes an account receivable of ₦0.987 billion. The fair value of the trade receivables amounts to ₦0.968 billion. None of the trade receivables have been impaired and it is expected that the full contractual amount can be collected. The difference between the fair value and the gross amount is the result of discounting over the expected timing of the cash collection.

The fair values of acquired assets and liabilities, including goodwill, previously disclosed as provisional for BIC, has been finalised in the current year with no material changes to the fair value disclosed in the 2012 consolidated financial statements.

The fair value of property, plant and equipment at acquisition date has been determined by professional valuers and as a result, the value of property, plant and equipment increased from ₦2.7 billion (provisional figure at acquisition) to ₦3.4 billion. This resulted in an increase in the pre-acquisition reserves by ₦0.7 billion, which is allocated between the Group (₦0.5 billion) and non-controlling interest (₦0.18 billion). The change to the Group's portion of goodwill is therefore ₦0.5 billion.

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

26 DISCONTINUED OPERATIONS

There were no discontinued operations in the current year.

(i) Transfer of subsidiaries in the 2012 financial year as a result of 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, First Bank of 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 Insurance	

(ii) Disposal of First Registrars Limited in December 2012

On 28 December 2012, FirstBank disposed of 100% of the share capital of its subsidiary – First Registrars. The company contributed profit of ₦1.5 billion to the Group from 1 January 2012 to 28 December 2012 (₦986 million for prior year).

a. Discontinued operations contributed profit of ₦3.5 billion to the Group in 2012.

The results of the discontinued operations up to point of disposal is included within 'Discontinued operations' in the prior year and 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; and
- 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:

	Group
	12 months to December 2012 ₦ million
Interest income	9,987
Interest expense	(3,742)
Net interest income	6,245
Impairment charge/write back on credit losses	(253)
Net interest income after impairment charge for credit losses	5,992
Insurance premium revenue	1,524
Insurance premium revenue ceded to reinsurers	(110)
Net insurance premium revenue	1,414
Net fee and commission income	4,706
Net gains/(losses) on investment securities	-
Net gains/(losses) from financial assets classified as held for trading	-
Dividend	-
Other operating income	2,072
Net insurance benefits and claims	(456)
Operating expenses	(8,257)
Operating profit	5,471
Profit before tax	5,471
Income tax expense	(1,921)
Profit/(loss) from discontinued operations	3,550
Pre-tax gain from disposal of operations	288
Tax	-
After tax gain from disposal of operations	288
Total profit on discontinued operations	3,838
Profit attributable to:	
Owners of the parent	3,849
Non-controlling interests	(11)

b. Asset, liabilities and reserves of the discontinued operations at the point of transfer/disposal are shown below:

	Entities transferred to FBNH 30 Nov 2012 ₦ million	First Registrars Limited 28 Dec 2012 ₦ 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	122,874	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
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	2,442	3,212

c. Asset classified as held for sale

The assets and liabilities held for sale relate to the property development portfolio of First Mortgages Limited (part of the Retail Banking segment) which is being presented as held for sale following the commitment to its sale by the Group's management in compliance with the CBN's 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 CBN cut-off date of June 2013. Subsequently, the CBN again extended the cut-off date to 30 June 2014 to afford all affected primary mortgage banks sufficient time to exercise any of the options for capital raising and business combination.

The carrying amount of the assets and liabilities of the disposed group classified as held for sale are as listed below.

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Assets classified as held for sale		
Inventory	4,549	5,637
Accounts receivable	6,235	7,341
	10,784	12,978
Liabilities classified as held for sale		
Accounts payable - deposit for property	1,747	2,836
Net asset	9,037	10,142

d. Cash flows attributable to discontinued operations.

Transferred subsidiaries

	2013 ₦ million	2012 ₦ million
Net cash flow from operating activities	-	(9,998)
Net cash flow from investing activities	-	(28)
Net cash flow from financing activities	-	3,149
Net cash outflow/inflow	-	(6,877)

27 INVESTMENT IN ASSOCIATES (EQUITY METHOD)

First Bank of Nigeria Limited has 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 has share capital consisting only of ordinary share capital, which are held directly by the Group; the country of incorporation or registration is also their principal place of business. KDH is not publicly traded and there is no published price information.

As part of the business restructuring which occurred in the 2012 financial year, the Bank transferred its 42% shareholding interest in Seawolf and its 34.17% in FBN Heritage Funds to FBN Holdings Plc. The transfers were made at book value. During the same period, FBN Registrar's interest in Kakawa Discount House was also transferred to FBN Capital Limited at book value.

	Group		Bank	
	2013 ₦ million	2012 ₦ million	2013 ₦ million	2012 ₦ million
Balance at beginning of period	5,609	7,489	2,224	14,099
Transferred to FBN Holdings Plc	-	(1,652)	-	(11,875)
Transferred to FBN Capital	-	(660)	-	-
Dividend received	-	(576)	-	-
Share of profit/(loss)	875	1,008	-	-
Share of other comprehensive income	(259)	-	-	-
At end of period	6,225	5,609	2,224	2,224

Summarised balance sheet for KDH is as follows

	2013 ₦ million	2012 ₦ million
Cash and balances with CBN	-	245
Loans and advances to banks	1,039	2,362
Loans and advances to customers	25,661	16,224
Financial assets held for trading	6,330	1,628
Investment securities	48,696	71,629
Investment in subsidiaries	-	-
Pledged assets	19,900	15,023
Other assets	73	43
Property and equipment	1,051	1,008
Intangible assets	30	19
Deferred tax assets	2,533	2,445
Assets held for sale	-	8,718
Total assets	105,313	119,344
Due to banks	38,123	47,283
Due to customers	52,541	49,694
Derivative financial instruments	265	-
Current income tax liability	87	480
Other liabilities	792	461
Deferred tax liabilities	101	88
Liabilities held for sale	-	8,042
Total liabilities	91,909	106,048

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME		
Discount and similar income	12,418	13,375
Discount and similar expense	(9,629)	(11,379)
Net discount income	2,789	1,996
Impairment (charge) for/reversal of credit losses (net)	-	-
Net interest income after net impairment charge	2,789	1,996
Net gains from financial assets held for trading	933	979
Net gains from investment securities at fair value	(241)	30
Other operating income	607	750
Operating income	4,088	3,755
Operating expenses	(1,746)	(1,338)
Income tax	(176)	8
Profit for the year from continuing operations	2,165	2,425
Profit for the year from discontinued operations	23	95
Profit for the year	2,188	2,520
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Net gains on available-for-sale financial assets:		
Unrealised net gains arising during the period, before tax	(648)	3,993
Other comprehensive income for the year net of tax		
Total comprehensive income for the year	1,540	6,513

The information above reflects the amounts presented in the financial statements of the associates and not First Bank of Nigeria Limited's share of those amounts.

Reconciliation of summarised financial information presented to the carrying amount of its interest in associates

	2013 ₦ million	2012 ₦ million
Opening net assets on 1 January	**14,712**	8,199
Profit or loss for the period	**2,188**	2,520
Other comprehensive income	**(648)**	3,993
Closing net assets	**16,252**	14,712
Interest in associates (40%)		
Carrying value	**6,225**	5,609

KDH did not have any commitment or contingent liabilities as at 31 December 2013 (2012: nil).

28 PROPERTY, PLANT AND EQUIPMENT

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 2012	29,161	10,905	9,028	28,050	12,698	4,853	9,868	104,563
Additions	2,273	2,658	2,704	6,188	1,761	1,301	-	16,885
Disposals	(292)	-	(1,746)	(1,385)	(353)	(176)	-	(3,952)
At 31 December 2012	31,142	13,563	9,986	32,853	14,106	5,978	9,868	117,496
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	715	-	9,169
Disposals	(96)	-	(1,356)	(942)	(353)	(157)	-	(2,904)
At 31 December 2012	3,631	-	6,397	21,071	11,872	3,801	-	46,772
Net book amount at 31 December 2012	27,511	13,563	3,589	11,782	2,234	2,177	9,868	70,724
COST								
At 1 January 2013	**31,142**	**13,563**	**9,986**	**32,853**	**14,106**	**5,975**	**9,868**	**117,492**
Additions	**1,767**	**2,491**	**2,278**	**2,524**	**944**	**1,986**	**708**	**12,699**
Reclassifications	**-**	**1,468**	**4**	**1,779**	**123**	**119**	**(3,493)**	**-**
Other adjustments	**-**	**-**	**-**	**-**	**-**	**-**	**(1,776)**	**(1,776)**
Write-offs	**(60)**	**-**	**(3,423)**	**(8,219)**	**(7,302)**	**(1,894)**	**-**	**(20,898)**
Disposals	**(357)**	**-**	**(1,670)**	**(479)**	**(2,135)**	**(99)**	**-**	**(4,740)**
At 31 December 2013	**32,492**	**17,522**	**7,175**	**28,458**	**5,736**	**6,087**	**5,307**	**102,777**
ACCUMULATED DEPRECIATION								
At 1 January 2013	**3,631**	**-**	**6,397**	**21,071**	**11,872**	**3,801**	**-**	**46,772**
Charge for the year	**636**	**-**	**1,596**	**4,645**	**1,424**	**862**	**-**	**9,164**
Write-offs	**(60)**	**-**	**(3,423)**	**(8,219)**	**(7,302)**	**(1,894)**	**-**	**(20,897)**
Disposals	**(61)**	**-**	**(1,333)**	**(500)**	**(2,139)**	**(123)**	**-**	**(4,156)**
At 31 December 2013	**4,146**	**-**	**3,238**	**16,997**	**3,855**	**2,647**	**-**	**30,883**
Net book amount at 31 December 2013	**28,346**	**17,522**	**3,937**	**11,461**	**1,881**	**3,441**	**5,307**	**71,893**

Group

	Improvement and buildings ₦ million	Land ₦ million	Motor vehicles ₦ million	Office equipment ₦ million	Computer equipment ₦ million	Furniture, fittings and equipment ₦ million	Plant and machinery ₦ million	Work in progress ₦ million	Total ₦ million
COST									
At 1 January 2012	29,614	11,336	9,989	28,401	13,606	5,380	-	9,876	108,201
Acquisition of new subsidiary	1,546	-	297	576	983	616	-	420	4,438
Additions	2,421	2,658	3,185	6,297	2,027	1,461	-	595	18,644
Reclassifications	-	-	-	-	(14)	-	-	-	(14)
Disposals	(292)	-	(1,916)	(1,387)	(355)	(181)	-	(8)	(4,139)
Write-offs	(101)	-	-	-	(85)	(49)	-	-	(235)
Discontinued operations	-	(368)	(171)	(126)	(238)	(38)	-	-	(941)
Transfer to FBNH	(199)	-	(708)	(164)	(430)	(301)	-	-	(1,801)
Exchange difference	(1)	-	-	-	-	-	-	-	(1)
At 31 December 2012	32,988	13,626	10,676	33,598	15,495	6,888	-	10,883	124,153
ACCUMULATED DEPRECIATION									
At 1 January 2012	3,311	-	6,734	17,487	11,221	3,594	-	-	42,347
Acquisition of new subsidiary	79	-	242	445	641	343	-	-	1,750
Charge for the year	674	-	1,760	4,862	2,017	855	-	-	10,168
Disposals	(96)	-	(1,509)	(943)	(354)	(162)	-	-	(3,065)
Write-offs	(101)	-	-	-	(85)	(49)	-	-	(235)
Discontinued operations	-	-	(67)	(93)	(200)	(24)	-	-	(384)
Transfer to FBNH	(14)	-	(288)	(99)	(283)	(221)	-	-	(904)
Exchange differences	-	-	-	-	-	-	-	-	-
At 31 December 2012	3,853	-	6,872	21,659	12,957	4,336	-	-	49,679
Net book amount at 31 December 2012	29,135	13,626	3,804	11,938	2,538	2,552	-	10,883	74,474

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 2013	32,988	13,626	10,675	33,595	15,466	6,878	-	10,883	124,111
Additions	3,901	2,491	2,500	2,664	1,169	2,019	-	814	15,559
Acquisition of new subsidiary	226	134	109	134	228	57	36	24	949
Reclassifications	569	1,410	4	1,815	123	(344)	(36)	(3,541)	-
Other adjustments	-	-	-	-	-	-	-	(1,776)	(1,776)
Disposals	(357)	(63)	(1,747)	(489)	(2,136)	(106)	-	-	(4,897)
Write-offs	(87)	-	(3,423)	(8,226)	(7,302)	(1,894)	-	-	(20,933)
Exchange difference	26	-	44	151	52	2	-	-	275
At 31 December 2013	37,266	17,598	8,164	29,644	7,600	6,612	-	6,404	113,288
ACCUMULATED DEPRECIATION									
At 1 January 2013	3,853	-	6,873	21,657	12,933	4,335	-	-	49,651
Exchange differences	-	-	(21)	(41)	(55)	(33)	-	-	(149)
Charge for the year	776	(2)	1,735	4,734	1,676	903	1	-	9,822
Acquisition of new subsidiary	192	4	83	98	176	43	26	-	622
Reclassifications	258	1,410	4	1,815	123	(81)	(36)	(3,493)	-
Disposals	(61)	-	(1,383)	(484)	(2,139)	(129)	(27)	-	(4,223)
Write-offs	(85)	-	(3,423)	(8,222)	(7,302)	(1,894)	-	-	(20,925)
At 31 December 2013	4,933	1,412	3,869	19,558	5,412	3,143	(37)	(3,493)	34,798
Net book amount at 31 December 2013	32,333	16,186	4,295	10,086	2,188	3,469	37	9,897	78,490

Exchange difference on PPE

Exchange difference on PPE occurs as a result of translation of balances relating to the foreign entities of the Group as at reporting date. The subsidiaries whose translation gave rise to the difference are FBN Bank (UK) and FBN Bank (Congo), with major impact coming from translation of FBN Bank (Congo). The closing exchange rate to the dollar for 2012 was 900 Congolese Francs, while this shifted to 922.5 Congolese Francs by the end of 2013.

29 INTANGIBLE ASSETS

	Group			Bank	
	Goodwill ₦ million	Computer software ₦ million	Total ₦ million	Computer software ₦ million	Total ₦ million
COST					
At 1 January 2012	-	3,636	3,636	2,780	2,780
Additions	-	1,494	1,494	1,124	1,124
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	3,904	3,904
Additions	-	1,042	1,042	603	603
Write-off	-	(2,218)	(2,218)	(2,218)	(2,218)
Other changes	(542)	-	(542)	-	-
Acquisition of subsidiary	6,033	151	6,184	-	-
Exchange difference	-	19	19	-	-
	7,137	3,716	10,853	2,289	2,289
AMORTISATION AND IMPAIRMENT					
At 1 January 2012	-	2,628	2,628	2,046	2,046
Amortisation charge	-	645	645	556	556
Write-off	-	(237)	(237)	-	-
Disposals	-	(99)	(99)	-	-
Exchange difference	-	14	14	-	-
At 31 December 2012	-	2,951	2,951	2,602	2,602
Amortisation charge	**-**	**857**	**857**	**662**	**662**
Impairment charge	**552**	**-**	**552**	**-**	**-**
Write-off	**-**	**(2,218)**	**(2,218)**	**(2,218)**	**(2,218)**
Acquisition of subsidiary	**-**	**108**	**108**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**	**-**
Exchange difference	**-**	**9**	**9**	**-**	**-**
	552	**1,707**	**2,259**	**1,046**	**1,046**
NET BOOK VALUE					
At 31 December 2013	**6,585**	**2,009**	**8,594**	**1,242**	**1,242**
At 31 December 2012	1,646	1,771	3,417	1,302	1,302

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

The software is not internally generated.

The gross goodwill balance of ₦7.8 billion includes ₦1.6 billion attributable to the acquisition of BIC (Banque Internationale de Crédit in the Democratic Republic of Congo) in 2012 and ₦6.2 billion attributable to the acquisition of the ICB West Africa entities in 2013.

See Note 25 on provisional goodwill arising on acquisition of ICB entities.

Impairment tests for goodwill

BIC

Goodwill is monitored on the operating segment level. BIC, the entity to which the good will relates, is recognised as a cash-generating unit (CGU) and segmented as part of the retail business outside Nigeria.

The value of goodwill on this acquisition has been reduced to the recoverable amount by an impairment loss, which is recognised in operating expenses in the income statement.

The recoverable amount of the CGU has been based on value in use and the weighted average cost of capital (WACC). These calculations use pre-tax cash flow projection covering five years. The future cash flows were extrapolated using the estimated growth rate, which does not exceed the growth rates of the country and industry.

The key assumptions used in the value-in-use calculation for 2013 are as follows:

- terminal growth rate: 6.8%;
- discount rate: 27.2%;
- deposit growth rate: 6.48%; and
- recoverable amount of the CGU: ₦5.581 billion.

Management determined deposits to be the key value driver in BIC. Deposits are expected to grow in line with GDP growth rate and inflation.

The long-term growth rates used are consistent with the forecast in the IMF world economic outlook database. The discount rate used is pre-tax.

The impairment arose in BIC due to the effect of a war situation which has led to an adverse effect on the economy of the Democratic Republic of Congo. The war has recently been brought under control and this is expected to reflect positively on the economy with time.

Impairment testing on cash-generating units containing goodwill

The recoverable amount of each CGU to which the goodwill is allocated has been based on value in use and the WACC. These calculations use pre-tax cash flow projection covering five years. The future cash flows were extrapolated using the estimated growth rate, which does not exceed the growth rates of the country and industry. The discount rate used is pre-tax.

The key assumptions used in the value-in-use calculation for 2013 are as follows:

	Ghana	Guinea	Gambia	Sierra Leone
Terminal growth rate: %	9	5	4	7
Discount rate: %	29	31	52	52
Deposit growth rate: %	1	10	20	25
Recoverable amount of the CGU: (₦ million)	11,498	2,281	1,931	4,987
Goodwill (₦ million)	4,149	856	566	461
Net asset (₦ million)	6,410	1,386	869	1,224
Total carrying amount (₦ million)	10,559	2,242	1,435	1,685
Excess of recoverable amount over carrying amount	939	39	496	3,302

Management determined deposits to be the key value driver in each of the entities.

30 DEFERRED TAX

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2009: 30%, 2008: 30%).

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Deferred income tax assets and liabilities are attributable to the following items:				
DEFERRED TAX ASSETS				
Property and equipment	(411)	9,253	(361)	9,254
Allowance for loan losses	3,066	3,159	2,128	1,762
Tax losses carried forward	-	-	-	-
Other assets	(580)	527	(445)	526
Other liabilities	(630)	(10,286)	(703)	(10,286)
Defined benefit obligation	3,142	5,301	3,036	5,447
	4,586	7,954	3,655	6,703
DEFERRED TAX LIABILITIES				
Other liabilities	10	9	-	-
	10	9	-	-
Deferred tax assets				
- Deferred tax asset to be recovered after more than 12 months	5,798	7,427	4,803	6,177
- Deferred tax asset to be recovered within 12 months	(582)	527	(445)	526
	5,217	7,954	4,358	6,703
Deferred tax liabilities				
- Deferred tax liability to be recovered within 12 months	10	9	-	-
	10	9	-	-

Group

	1 Jan 2013 ₦ million	Adjustment on acquired entities ₦ million	Recognised in profit and loss ₦ million	Recognised in other comprehensive income ₦ million	31 Dec 2013 ₦ million
Movements in deferred tax assets during the year:					
Property and equipment	9,253	(115)	(9,628)	-	(490)
Allowance for loan losses	3,159	(258)	406	282	3,590
Other assets	527	(5)	(1,119)	-	(597)
Other liabilities	(10,286)	-	9,657	-	(630)
Defined benefit obligation	5,301	206	(3,004)	635	3,139
	7,955	(598)	(3,688)	917	4,586

Group

	1 Jan 2012 ₦ million	Recognised in profit and loss ₦ million	Recognised in other comprehensive income ₦ million	31 Dec 2012 ₦ million
Movements in deferred tax assets during the year:				
Property and equipment	9,178	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

Group

	Opening balance ₦ million	Recognised in profit and loss ₦ million	Recognised in other comprehensive income ₦ million	31 Dec 2013 ₦ million
Movements in deferred tax liabilities during the year:				
2013				
Other liabilities	9	-	1	10
2012				
Other liabilities	1,067	(260)	(798)	9

	1 Jan 2013 ₦ million	Recognised in profit and loss ₦ million	Recognised in other comprehensive income ₦ million	31 Dec 2013 ₦ million
Movements in temporary differences during the year:				
Property and equipment	9,254	(9,615)	-	(361)
Allowance for loan losses	1,762	366	-	2,128
Tax losses carried forward	-	-	-	-
Other assets	527	(972)	-	(445)
Other liabilities	(10,287)	9,584	-	(704)
Defined benefit obligation	5,447	(3,046)	635	3,036
	6,703	(3,683)	635	3,654

	1 Jan 2012 ₦ million	Recognised in profit and loss ₦ million	Recognised in other comprehensive income ₦ 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

Temporary difference relating to the Group's investment in subsidiaries is ₦6.1 billion (2012: ₦5.4 billion). As the Group exercises control over the subsidiaries, it has the power to control the timing of the reversals of the temporary difference arising from its investments in them. The Group has determined that the subsidiaries will not be disposed of. Hence, the deferred tax arising from the temporary differences above will not be recognised.

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. The deferred tax assets of ₦5.2 billion for Group (₦4.4 billion for Bank 2013) has been offset against the deferred tax liability of ₦630 million (₦703 million for Bank 2013) and presented net in the 'Statement of financial position' because the deferred tax offsetting requirements have been met.

31 OTHER ASSETS

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Financial assets:				
Inventory	**2,464**	2,539	**2,128**	2,383
Accounts receivable	**12,500**	15,033	**12,048**	18,791
Other receivables	**14,800**	14,182	**12,122**	10,158
	29,764	31,754	**26,298**	31,332
Less specific allowances for impairment	**(1,218)**	(6,238)	**(1,202)**	(6,224)
	28,546	25,516	**25,096**	25,108
Non-financial assets:				
Prepayments	**11,949**	8,468	**10,972**	7,351
Net other assets balance	**40,496**	33,984	**36,068**	32,459

Reconciliation of impairment account

	Group		Bank	
	2013 ₦ million	2012 ₦ million	2013 ₦ million	2012 ₦ million
At start of period	**6,238**	7,035	**6,224**	6,224
Write-off	**(5,284)**	-	**(5,283)**	-
Increase in impairment	**264**	-	**261**	-
Discontinued operations	**-**	(797)	**-**	-
At end of period	**1,218**	6,238	**1,202**	6,224

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

32 DEPOSITS FROM BANKS

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Due to banks within Nigeria	**2,496**	66,344	**1,739**	6,074
Due to banks outside Nigeria	**74,985**	21,207	**8,416**	12,389
	77,481	87,551	**10,155**	18,463

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

33 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Current	**927,225**	804,493	**833,917**	755,738
Savings	**664,899**	548,391	**654,479**	544,807
Term	**726,021**	501,277	**457,805**	320,898
Domiciliary	**616,368**	541,210	**616,353**	540,700
Electronic purse	**8,269**	9,664	**8,165**	9,664
	2,942,782	2,405,035	**2,570,719**	2,171,807
Current	**2,863,177**	2,405,031	**2,567,602**	2,171,803
Non-current	**79,605**	4	**3,117**	4
	2,942,782	2,405,035	**2,570,719**	2,171,807

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

34 BORROWINGS

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Long-term borrowing comprise:				
FBN Eurobond (i)	**47,249**	-	**47,249**	-
Due to European Investment Bank (ii)	**1,603**	2,560	**1,603**	2,560
On-lending facilities from financial institutions (iii)	**31,389**	25,846	**31,389**	25,846
Borrowing from correspondence banks (iv)	**46,061**	47,135	**45,122**	53,581
	126,302	75,541	**125,363**	81,987
Current	**55,739**	54,004	**54,801**	54,004
Non-current	**70,563**	21,537	**70,562**	27,983
	126,302	75,541	**125,363**	81,987
At start of the period	**75,541**	104,473	**81,987**	104,287
Proceeds of new borrowings	**99,723**	57,832	**98,785**	57,832
Repayments of borrowings	**(48,962)**	(86,764)	**(55,409)**	(80,132)
At end of period	**126,302**	75,541	**125,363**	81,987

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2012: nil).

(i) Facility represents dollar notes issued by FBN Finance Company BV, Netherlands on 7 August 2013 for a period of seven years. The notes bear interest at 8.25% per annum up to the bank call date of 7 August 2018. From the call date up to the maturity date, the notes bear interest at a fixed rate of 6.875% per annum plus the prevailing mid swap rate for United States dollar swap transactions with a maturity of two years. The loan is redeemable, subject to having obtained the prior approval of the CBN, on the bank call date of 7 August 2018 and not in part at the option of the issuer, at the liquidation preference amount plus any additional amounts and outstanding payments due.

(ii) Facility represents a medium-term loan (callable notes) secured from European Investment Bank. The loan is divided into tranche A of €35 million for a tenure of five years and tranche B of €15 million for a tenure of eight years, which qualifies it as tier 2 capital. Interest is payable half-yearly at 2% and 3% above LIBOR rate for tranche A and tranche B respectively. The outstanding balance at 31 December 2013 relates to tranche B.

(iii) Included in on-lending facilities from financial institutions are disbursements from banks which are guaranteed by FBN for specific customers. These facilities include the BOI funds and CACS intervention funds. See further notes below.

a. CBN/BOI facilities

The CBN, in a bid to unlock the credit market, approved the investment of ₦200 billion debenture stock to be issued by the BOI, which would be applied to the re-financing/restructuring of the Bank's loans to the manufacturing sector. During the year, the BOI disbursed an additional ₦2.4 billion (2012: ₦1.8 billion) to First Bank of Nigeria Limited. The fund disbursed is for a period of 15 years effective from the disbursement date at an interest rate of 7% per annum.

b. CBN/CACS intervention funds

The CBN in collaboration with the Federal Government of Nigeria (FGN), represented by the Federal Ministry of Agriculture and Water Resources (FMA and WR), established the Commercial Agricultural Credit Scheme (CACS). During the year, First Bank of Nigeria Limited received ₦3.77 billion (2012: ₦5.9 billion) for on-lending to customers as specified by the guidelines. Loans granted under the scheme are for a seven-year period at an interest rate of 9% per annum.

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

35 RETIREMENT BENEFIT OBLIGATIONS

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Defined benefits plan				
Gratuity scheme (i)	**343**	14,158	**-**	13,792
Defined benefits - pension (ii)	**1,111**	4,358	**1,111**	4,364
Gratuity scheme (iii)	**322**	132	**-**	-
	1,776	18,648	**1,111**	18,156

Plan liabilities are based upon independent actuarial valuation performed by HR Nigeria Limited using the projected unit credit basis. This valuation was carried out as at 31 December 2013 and 31 December 2012.

Change in accounting policy due to application of IAS 19 (as revised in 2011) Employee benefits

In the current period, the Group has applied IAS 19 (as revised June 2011) Employee benefits and the related consequential amendments.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligation and plan assets. The amendments require the recognition of changes in defined benefits obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statements of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and the return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

The Group already fully recognises actuarial gains and losses in other comprehensive income and all past service costs are fully recognised in the period in which they arise. Therefore the change to the accounting policy in relation to the revised standard mainly impacts on the treatment of the return on plan assets. The return on plan assets, which was previously included in the income statement, is now reported in the statement of other comprehensive income. Schemes (1) and (3) have no plan assets. The effect of the change in accounting policy on the statement of cash flows and on earnings per share was immaterial. The impact of change in accounting policy is therefore shown below:

Impact of change on accounting policy

	Group	Bank
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Adjustments to consolidated income statement		
Net income before accounting change	87,138	83,288
Increase in		
Finance expense	142	142
Change to net income	142	142
Net income after accounting change	87,280	83,430
Adjustments to consolidated comprehensive income		
Comprehensive income before accounting change	96,278	86,322
Decrease in other comprehensive income for re-measurements of post-employments benefit liabilities	(142)	(142)
Increase in net income	142	142
Change to comprehensive income	-	-
Comprehensive income after accounting change	96,278	

Gratuity scheme (1)

FirstBank and FPCNL each have a non-contributory defined gratuity scheme whereby on separation, staff who have spent a minimum number of five years are paid a sum based on their qualifying emoluments and the number of periods spent in service of the entity. FirstBank's scheme was terminated in 2013 and individual members' benefits were calculated on a discontinuance basis. Amounts recognised in the statement of financial position are shown below.

Movement in the present value of the defined benefit obligation (gratuity scheme 1) in the current year is as follows:

	Group	Bank
	₦ million	₦ million
Defined benefit obligations at 1 January 2012	7,685	7,669
Service cost	1,345	1,033
Interest cost	1,055	1,037
Remeasurement		
- (Gain)/loss from change in financial assumptions	(71)	(71)
- Change in demographic assumptions	3,027	3,007
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

	Group	Bank
	₦ million	₦ million
Service cost	1,678	1,617
Interest cost	1,736	1,711
Remeasurement		
- (Gain)/loss from change in financial assumptions	(1,073)	(1,073)
- Change in demographic assumptions	(2,178)	(2,175)
Benefits paid (in the year)	(9,328)	(9,223)
Curtailment (gains)/losses	2,855	2,855
Plan amendments	1,123	1,123
Reclassification of curtailed liability*	(8,628)	(8,628)
Defined benefit obligations at 31 December 2013	343	-

* This represents the outstanding liability payable to staff in 2014.

Amounts recognised in the income statement (gratuity scheme 1) are as follows:

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Current service cost	(1,678)	(1,345)	(1,617)	(1,033)
Interest expense on obligation	(1,736)	(1,055)	(1,711)	(1,037)
Curtailment gains/(losses)	(2,855)	(9,031)	(2,855)	(9,031)
Actuarial (losses)/gains	3,248	-	3,248	-
Plan amendments	(1,123)	(5,582)	(1,123)	(5,582)
Total employee benefits expense	(4,144)	(17,013)	(4,058)	(16,683)
Amount recognised in other comprehensive income are as follows:				
Actuarial losses/(gains)	3	(2,956)	-	(2,936)

Defined benefit – pension 2

The Bank has an old defined benefit scheme, discontinued in March 2001. The funds are placed with fund managers and the Bank is under obligation to fund the deficit, and has elected to do this over the next five years, commencing January 2010 with an annual contribution of ₦1.2 billion.

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

	Group/Bank		
	Present value of the obligation ₦ million	Fair value of plan assets ₦ million	Total ₦ million
Defined benefit pension obligations at 1 January 2012	14,293	(7,288)	7,005
Interest expense/(income)	1,479	(660)	819
Remeasurement:			
- Return on plan assets not included in net interest cost on pension scheme	-	(1,915)	(1,915)
- Change in demographic assumptions	(536)	-	(536)
Contributions:			
- Employer	-	(1,010)	(1,010)
Payments:			
- Benefit payment	(1,640)	1,640	-
Defined benefit pension obligations at 31 December 2012	13,596	(9,233)	4,363
Interest expense/(income)	1,439	(984)	455
Remeasurement:			
- Return on plan assets not included in net interest cost on pension scheme	-	(216)	(216)
- Change in demographic assumptions	(1,719)	-	(1,719)
Contributions:			
- Employer	-	(1,772)	(1,772)
Payments:			
- Benefit payment	(1,515)	1,515	-
Defined benefit pension obligations at 31 December 2013	11,801	(10,690)	1,111

The actual return on plan assets was ₦1.2 billion (2012: ₦2.7 billion).

	Group/Bank					
	2013			2012		
	Quoted ₦ million	Unquoted ₦ million	Total ₦ million	Quoted ₦ million	Unquoted ₦ million	Total ₦ million
Composition of plan assets						
Equity instruments	-	-	3,316	-	-	3,625
Banking	3,220	-	-	3,545	-	-
Oil service	44	-	-	45	-	-
Real estate	52	-	-	35	-	-
Debt instruments	-	-	7,374	-	-	5,607
Government	-	5,436	-	-	3,103	-
Corporate bond	-	155	-	-	155	-
Money market investments	-	1,564	-	-	2,093	-
Money on call	-	209	-	-	302	-
Others	-	10	-	-	(46)	-
Total	3,316	7,374	10,690	3,625	5,607	9,232

The fair value of plan assets is calculated with reference to quoted prices and is within level 1 of the fair value hierarchy.

Arising from the defined benefit pension plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

- **asset volatility:** the plan liabilities are calculated using a discount rate set with reference to Federal Government bond yields. If the plan assets underperform this yield, this will create a deficit. As the plans mature, the Group intends to reduce the level of investment risk by investing more in assets that better match the liabilities. In equity market, focus will be to seek to reduce the volatility on the fund and align asset allocation with the long-term objectives of the fund while taking advantage of selling off Government bonds to enter duration at attractive yields.
- **changes in bond yields:** a decrease in Federal bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.
- **life expectancy:** the majority of the plans' obligations are to provide benefits for the members, so increases in life expectancy will result in an increase in the plan's liabilities. This risk is significantly curtailed by the weighted average liability duration of the plan, which is currently seven years and retirement age of 60.

Under the funded plan, the Legacy scheme, the Group ensures that the investment positions are managed within the asset liability management (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this ALM framework, the objective is to match assets to the pension obligation by investing in long-term fixed-interest securities with maturities that match the benefit payments as they fall due. The Group actively monitors how the duration and the expected yield of the investment are matching the expected cash outflows arising from the pension obligation.

The weighted average duration of the defined benefit obligation is seven years.

The principal actuarial assumptions were as follows:

	Group/Bank	
	31 Dec 2013	31 Dec 2012
Discount rate on pension plan	11%	11%
Inflation rate	9%	10%
Future pension increases	0%	0%

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

	Assumption	Defined benefit obligation ₦'mn	Impact on liability
Discount rate	11%	11,801	-
	10.5%	12,161	3.0%
	11.5%	11,463	(2.9%)
Inflation rate	9%	11,801	-
	8.5%	11,801	-
	9.5%	11,801	-
Pension increase rate	-	11,801	-
	-	11,801	-
	-	11,801	-
Life expectancy	Base	11,801	-
	Improved by 1 year	11,904	0.9%
	Decreased by 1 year	11,697	(0.9%)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Gratuity scheme 3

This relates to the schemes operated by the subsidiaries of the Bank as follows:

Banque Internationale de Crédit (BIC) Congo has a scheme whereby on separation, staff who have spent a minimum of three years are paid a sum based on their qualifying emoluments and the number of periods spent in service of the Bank.

In 2013, FirstBank acquired ICB Guinea and ICB Sierra Leone, each of which has a graduated gratuity scheme for its staff on separation where staff receive a lump sum based on their qualifying basic salaries on the number of years spent.

The aggregate balance on this scheme is immaterial.

36 OTHER LIABILITIES

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
FINANCIAL LIABILITIES:				
Customer deposits for letters of credit	58,029	47,401	43,403	25,028
Accounts payable	84,698	11,116	83,444	11,563
Creditors	6,669	17,050	4,407	16,518
Bank cheques	12,823	14,004	12,630	14,004
Collection on behalf of third parties	5,710	7,131	5,089	5,704
Other payables	14,056	21,587	7,846	14,222
	181,985	118,289	156,819	87,039
NON-FINANCIAL LIABILITIES:				
Accruals	808	-	168	-
Other liabilities balance	182,793	118,289	156,987	87,039

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

37 SHARE CAPITAL

AUTHORISED	31 Dec 2013	31 Dec 2012
50 billion ordinary shares of 50k each (2009: 30 billion)	25,000	25,000

Issued and fully paid

MOVEMENTS DURING THE PERIOD:	Number of shares in million	Ordinary shares ₦ million
At 31 December 2012	32,632	16,316
At 31 December 2013	32,632	16,316

38 SHARE PREMIUM AND RESERVES

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

Share premium: premiums from the issue of shares are reported in share premium. A share capital reserve reduction scheme was approved by shareholders and regulators in 2012. This led to a reduction in share premium by ₦65 billion.

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

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

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

SSI reserve: this reserve is maintained to comply with the 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 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 Nigerian Prudential Guidelines (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.

39 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Profit before tax from continuing operations	**87,460**	87,140	**76,853**	83,289
Profit before tax from discontinued operations	**-**	5,471	**-**	-
Profit before tax	**87,460**	92,611	**76,853**	83,289
Adjustments for:				
– Depreciation and amortisation	**10,849**	10,813	**9,826**	9,721
– Goodwill from impairment	**552**	-	**-**	-
– (Profit)/loss from disposal of property and equipment	**(284)**	(1,760)	**(302)**	(1,760)
– Foreign exchange losses/(gains) on operating activities	**(104)**	(2,456)	**282**	(924)
– Profit/(loss) from disposal of subsidiaries	**-**	(288)	**-**	(3,490)
– Profit/(loss) from disposal of investment securities	**(1,383)**	774	**(2,931)**	1,826
– Net gains/(losses) from financial assets classified as held for trading	**1,386**	(1,752)	**1,386**	(168)
– Impairment on loans and advances	**5,895**	16,729	**4,471**	13,664
– Change in provision in other assets	**(5,020)**	-	**(5,022)**	-
– Change in provision for impairment of investments	**-**	(981)	**-**	(560)
– Change in retirement benefit obligations	**(15,228)**	3,971	**(15,325)**	3,480

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
– Share of loss/(profit) from associates	(875)	(432)	-	-
– Dividend income	(905)	(702)	(2,079)	(3,766)
– Net interest income	(223,815)	(224,830)	(211,081)	(205,548)
Increase/(decrease) in operating assets:				
– Cash and balances with the central bank (restricted cash)	(149,502)	(87,612)	(112,015)	(83,589)
– Inventories	1,088	1,826	-	-
– Loans and advances to banks	(102,923)	(706)	(7,337)	(13,264)
– Loans and advances to customers	(229,630)	(310,698)	(163,607)	(212,132)
– Financial assets held for trading	(3,806)	1,086	(1,327)	142
– Other assets	747	22,226	3,196	14,775
– Pledged assets	(3,541)	22,020	(2,296)	22,020
Increase/(decrease) in operating liabilities:				
– Deposits from banks	(10,368)	(89,873)	(8,606)	(32,694)
– Deposits from customers	513,644	430,146	398,118	385,688
– Financial liabilities	(95)	(1,061)	419	135
– Other liabilities	18,779	(41,098)	31,007	(32,347)
Cash (used in)/generated from operations	(107,079)	(162,047)	(6,371)	(55,502)

40 COMMITMENTS AND CONTINGENCIES

40.1 CAPITAL COMMITMENTS

At the balance sheet date, the Bank had capital commitments amounting to ₦573 million (31 December 2012: ₦1.3 billion) in respect of authorised and contracted capital projects. The expenditure will be funded from the Group's internal resources.

	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Authorised and contracted		
Group	34,451	1,300
Bank	573	1,300

40.2 OPERATING LEASE RENTALS

At 31 December 2013 the Group was committed to making the following future payments in respect of operating leases for land and buildings. Subsisting lease agreements are expected to expire in June 2031 and February 2017 respectively.

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Within one year	250	229	-	-
Between two and five years	918	564	-	-
More than five years	2,173	-	-	-
	3,341	793	-	-

40.3 LEGAL PROCEEDINGS

The Group is a party to a number of legal actions arising out of its normal business operations. The directors believe that, based on currently available information and advice of counsel, none of the outcomes that result from such proceedings will have a material adverse effect on the financial position of the Group, either individually or in the aggregate. Consequently, no provision has been made in these financial statements.

40.4 OTHER CONTINGENT COMMITMENTS

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

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Performance bonds and guarantees	459,723	322,545	475,377	320,655
Letters of credit	233,892	211,816	197,168	196,267

40.5 LOAN COMMITMENTS

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Undrawn irrevocable loan commitments	408,008	239,445	352,008	212,331

41 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 immediate parent company of First Bank of 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 outstanding balances at the year-end, and related expense and income for the year are as follows:

41.1 LOANS AND ADVANCES TO RELATED PARTIES

The Bank granted various credit facilities to other companies that have common directors with the Bank and those that are members of the Group. Details of these are described below:

Bank

	Parent ₦ million	Entities controlled by parent and associates of the parent ₦ million	Directors and other key management personnel (and close family members) ₦ million	Associates ₦ million	Subsidiaries ₦ million
31 DECEMBER 2013					
Loans and advances to customers					
Loans outstanding at 1 January	-	22,963	62,218	-	-
Loans issued during the year	-	9,070	17,055	-	-
Loan repayments during the year	-	-	(18,311)	-	-
Loans outstanding at 31 December	-	32,033	60,962	-	-
31 DECEMBER 2012					
Loans and advances to customers					
Loans outstanding at 1 January	-	16,556	74,381	-	22,417
Loans issued during the year	-	6,407	11,688	-	-
Loan repayments during the year	-	-	(23,851)	-	(22,417)
Loans outstanding at 31 December	-	22,963	62,218	-	-

The loans to directors and other key management personnel are repayable from various cycles ranging from monthly to annually over the tenor and have average interest rates ranging from 0% to 24%.

41.2 DEPOSITS FROM RELATED PARTIES

Bank

	Parent ₦ million	Entities controlled by parent and associates of the parent ₦ million	Directors and other key management personnel (and close family members) ₦ million	Associates ₦ million	Subsidiaries ₦ million
31 DECEMBER 2013					
Due to customers					
Deposits at 1 January	-	3,142	377	122	3,251
Deposits received during the year	38,379	1,007,058	6,122	59,968	247,997
Deposits repaid during the year	36,908	999,929	5,787	59,304	249,772
Deposits at 31 December	1,472	10,271	712	786	1,476
31 DECEMBER 2012					
Due to customers					
Deposits at 1 January	-	3,306	330	516	186
Deposits received during the year	-	872,780	4,142	65,952	228,285
Deposits repaid during the year	-	872,944	4,095	66,346	225,220
Deposits at 31 December	-	3,142	377	122	3,251

41.3 OTHER TRANSACTIONS WITH RELATED PARTIES

	Entities controlled by parent and associates of the parent ₦ million	Directors and other key management personnel (and close family members) ₦ million	Associates ₦ million	Subsidiaries ₦ million
31 DECEMBER 2013				
Interest income	-	-	-	-
Interest expense	(224)	(23)	(5)	(246)
Fee and commission income	35	-	-	34
Other operating income	-	-	-	-
Operating expenses	-	-	-	-
Intercompany receivable	-	-	-	-
31 DECEMBER 2012				
Interest income		-	-	-
Interest expense	(29)	(6)	(1)	(1)
Fee and commission income	18	1	-	32
Other operating income	-	-	-	-
Operating expenses	-	-	-	-
Intercompany receivable	-	-	-	-

41.4 KEY MANAGEMENT COMPENSATION

Key management includes executive directors and members of the Management Committee. The compensation paid or payable to key management for employee services is shown below:

	Group		Bank	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Salaries and other short-term employee benefits	730	399	730	399
Post-employment benefits	567	796	567	796
Other long-term benefits	3,000	3,016	3,000	3,016
	4,297	4,211	4,297	4,211

Direct credit assets to directors

Name	Relationship to reporting institution	Related party	Amount (₦)	Outstanding credit non-performing (₦)	TOTAL (₦)	Status	Collateral type
Tokunbo Abiru	Executive Director	Tokunbo Abiru	101,669,755	-	101,669,755	Performing	Legal mortgage on property
Adebayo Adelabu	Executive Director	Adebayo Adelabu	98,622,873	-	98,622,873	Performing	Legal mortgage on property
Agusto & Co Limited	Executive Director	Francis Shobo	1,460,658	-	1,460,658	Performing	Charge on asset
AL-FIL Petroleum Company Ltd	Non-Executive Director	Khadijah Alao Straub	-	190,031,042	190,031,042	Non-performing	Legal mortgage/ debenture
Anchorage Leisure Ltd	Chairman FBN Holdings/ Non-Executive Director	Oba Otudeko/Obafemi Otudeko/Alh. Abdullahi Mahmoud	1,318,733,529	-	1,318,733,529	Performing	Debenture
Ibukun Awosika	Non-Executive Director	Ibukun Awosika	5,426,660	-	5,426,660	Performing	Otherwise secured
Bisi Onasanya	MD/CEO	Bisi Onasanya	14,233,932	-	14,233,932	Performing	Legal mortgage on property
Borini Prono & Co. Ltd	Non-Executive Director	Lawal Ibrahim	3,529,745,339	-	3,529,745,339	Performing	Domiciliation of receivables
Fan Milk Plc	Chairman FBN Holdings/ Non-Executive Director	Oba Otudeko/Obafemi Otudeko	1,141,433,415	-	1,141,433,415	Performing	Negative pledge
Ambrose Feese	Non-Executive Director	Ambrose Feese	2,905,197	-	2,905,197	Performing	Otherwise secured
Francis Shobo	Executive Director	Francis Shobo Mortgage	483,326	-	483,326	Performing	Otherwise secured
Honey Well Group	Chairman FBN Holdings/ Non-Executive Director	Oba Otudeko/Obafemi Otudeko/ Garba Duba	41,210,108,126	-	41,210,108,126	Performing	Corporate guarantee
Hudson Petroleum (CP)	Chairman FBN Holdings/ Non-Executive Director	Oba Otudeko/Obafemi Otudeko	699,981,370	-	699,981,370	Performing	Domiciliation of receivables
Khalil & Dibbo Transport Ltd.	Chairman FBN Holdings/ Non-Executive Director	Oba Otudeko/Obafemi Otudeko	241,689,402	-	241,689,402	Performing	Legal mortgage on property
Lawal Ibrahim	Chairman FBN Holdings/ Non-Executive Director	Lawal Ibrahim	6,530,161	-	6,530,161	Performing	Legal mortgage on property
Lister Flour Mills (Nigeria) Limited	Non-Executive Director	Khadijah Alao Straub	6,013,085,847	-	6,013,085,847	Performing	Legal mortgage
Bello Maccido	Non-Executive Director	Bello Maccido	1,906,090	-	1,906,090	Performing	Otherwise secured
Oba Otudeko	Non-Executive Director	Oba Otudeko	122,821	-	122,821	Performing	Otherwise secured
Pivot Engineering Ltd	Chairman FBN Holdings/ Non-Executive Director	Oba Otudeko/Obafemi Otudeko	5,190,896,158	-	5,190,896,158	Performing	Debenture

42 EMPLOYEES

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

	Group		Bank	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Executive directors	6	7	6	7
Management	65	74	57	66
Non-management	9,127	8,538	7,840	7,849
	9,198	8,619	7,903	7,922

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 contributions and certain benefits) were:

	Group		Bank	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
₦2,000,001-₦2,800,000	65	197	19	19
₦2,800,001-₦3,500,000	624	566	586	482
₦3,500,001-₦4,000,000	6	62	-	2
₦4,000,001-₦5,500,000	2,600	2,917	2,597	2,855
₦5,500,001-₦6,500,000	1,580	1,531	1,569	1,491
₦6,500,001-₦7,800,000	1,024	927	1,010	892
₦7,800,001-₦9,000,000	213	215	197	189
₦9,000,001 and above	1,981	2,039	1,886	1,954
	9,189	8,612	7,897	7,915

43 DIRECTORS' EMOLUMENTS

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

	Group	
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
Fees and sitting allowances	254	79
Executive compensation	471	319
Retirement benefit costs	1,509	796
Other director expenses	3,851	3,016
	6,085	4,210
Fees and other emoluments disclosed above include amounts paid to:		
Chairman	78	24
Highest paid director	277	100

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

	Group	
	31 Dec 2013	31 Dec 2012
Below ₦1,000,000	-	-
₦1,000,000–₦2,000,000	-	-
₦2,000,001–₦3,000,000	-	-
₦5,500,001 and above	18	18
	18	18

44 COMPLIANCE WITH BANKING REGULATION

a. A penalty of ₦2 million was paid by the Bank for the suspension of banking services by the Bank in Etsako West Local Government Area of Edo State.

b. A penalty of ₦2 million was paid by the Bank for purchase of landed property at Eko Atlantic City without prior consent from CBN.

c. A penalty of ₦4 million was paid by the Bank on non-notification for screening and approval of prospective employees before employment in line with approved persons regime.

d. A penalty of ₦4.03 million was paid by the Bank for non-compliance with CBN cashless policy.

e. A penalty of ₦36 million was paid by the Bank for closing/suspending operations in 19 branches without CBN approval.

45 EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

The Bank has no events after the financial position date.

46 DIVIDENDS PER SHARE

A dividend of ₦32,632 million at ₦1.00 per share (2011: ₦26,105) that relates to the period to 31 December 2012 was paid in June 2013.

In addition, an interim dividend of ₦1.20 kobo per share (2012: ₦1.00) was proposed by the board of directors on 6 December 2013. This interim dividend, amounting to ₦39,158 million (2012: ₦32,632), was paid on 9 January 2014.

47 EARNINGS PER SHARE

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

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

	Group		Bank	
	31 Dec 2013	Restated 31 Dec 2012	31 Dec 2013	31 Dec 2012
Profit from continuing operations attributable to owners of the parent (₦ million)	66,451	72,132	59,365	71,143
Weighted average number of ordinary shares in issue (in million)	32,632	32,632	32,632	32,632
Basic/diluted earnings per share (expressed in kobo per share)	2.04	2.21	1.82	2.18

48 CHANGES IN ACCOUNTING POLICIES – IFRS 10

As explained in Note 2.2, the Group has adopted IFRS 10 consolidated financial statements on 1 January 2013. The Group has restated information for the preceding comparative periods.

The following tables summarise the adjustments arising on the adoption of IFRS 10 to the Group's income statement, statement of comprehensive income and statement of cash flow for the year ended 31 December 2012; and statement of financial position as at 31 December 2013, 31 December 2012 and 1 January 2012.

(i) Impact of change in accounting policy on consolidated statement of financial position.

a.	As at 31 Dec 2013 ₦ million	Impact of IFRS 10 ₦ million	As at 31 Dec 2013 as presented ₦ million
ASSETS			
Cash and balances with central banks	593,973	-	593,973
Loans and advances to banks	413,497	1,713	415,210
Loans and advances to customers	1,797,934	1	1,797,935
Financial assets at fair value through profit or loss	4,743	-	4,743
Investment securities	-	-	-
- Available-for-sale investments	448,473	2,950	451,423
- Held-to-maturity investments	283,266	-	283,266
Asset pledged as collateral	53,650	-	53,650
Investment properties	-	-	-
Investments in associates accounted for using the equity method	6,225	-	6,225
Other assets	40,078	417	40,496
Intangible assets	8,594	-	8,594
Property, plant and equipment	78,466	24	78,490
Deferred tax	4,586	-	4,586
	3,733,487	5,105	3,738,591
Asset held for sale	10,784	-	10,784
Total assets	3,744,271	5,105	3,749,375
LIABILITIES			
Deposits from banks	77,481	-	77,481
Deposits from customers	2,942,782	-	2,942,782
Financial liabilities held for trading	1,701	-	1,701
Borrowings	126,302	-	126,302
Retirement benefit obligations	1,776	-	1,776
Current income tax liability	31,414	219	31,633
Deferred tax	10	-	10
Other liabilities	182,157	636	182,793
	3,363,622	856	3,364,477
Liabilities held for sale	1,747	-	1,747
Total liabilities	3,365,369	856	3,366,224

a.	As at 31 Dec 2013 ₦ million	Impact of IFRS 10 ₦ million	As at 31 Dec 2013 as presented ₦ million
EQUITY			
Share capital	16,316	-	16,316
Share premium	189,241	-	189,241
Retained earnings	90,559	3,026	93,585
Other reserves			
- Statutory reserve	51,988	-	51,988
- SSI reserve	6,076	-	6,076
- AFS fair value reserve	13,005	1,224	14,229
- Statutory credit reserve	7,987	-	7,987
- Foreign currency translation reserve	2,102	-	2,102
	377,273	4,250	381,523
Non-controlling interest	1,626	-	1,626
Total equity	378,899	4,250	383,149
Total equity and liabilities	3,744,269	5,105	3,749,375

b.	As at 31 Dec 2012 (previously stated) ₦ million	Impact of IFRS 10 ₦ million	As at 31 Dec 2012 (restated) ₦ million
ASSETS			
Cash and balances with central banks	298,024	-	298,024
Loans and advances to banks	393,125	1,048	394,173
Loans and advances to customers	1,563,005	(311)	1,562,695
Financial assets at fair value through profit or loss	2,565	-	2,565
Investment securities			
- Available-for-sale investments	351,374	2,125	353,499
- Held-to-maturity investments	330,860	-	330,860
Asset pledged as collateral	50,109	-	50,109
Investments in associates accounted for using the equity method	5,609	-	5,609
Other assets	33,733	250	33,984
Intangible assets	3,417	-	3,417
Property, plant and equipment	74,454	20	74,474
Deferred tax	7,955	-	7,954
	3,114,230	3,133	3,117,363
Asset held for sale	12,978	-	12,978
Total assets	3,127,208	3,133	3,130,341

b.	As at 31 Dec 2012 (previously stated) ₦ million	Impact of IFRS 10 ₦ million	As at 31 Dec 2012 (restated) ₦ million
LIABILITIES			
Deposits from banks	87,551	-	87,551
Deposits from customers	2,405,858	(823)	2,405,035
Financial liabilities held for trading	1,796	-	1,796
Borrowings	75,541	-	75,541
Retirement benefit obligations	18,648	-	18,648
Current income tax liability	22,374	162	22,536
Deferred tax	6	3	9
Other liabilities	118,066	223	118,289
	2,729,840	(435)	2,729,405
Liabilities held for sale	2,836	-	2,836
Total liabilities	2,732,676	(435)	2,732,240
EQUITY			
Share capital	16,316	-	16,316
Share premium	189,241	-	189,241
Retained earnings	94,991	2,446	97,437
Other reserves			
- Statutory reserve	42,972	-	42,972
- SSI reserve	6,076	-	6,076
- AFS fair value reserve	25,815	1,121	26,936
- Statutory credit reserve	16,101	-	16,101
- Foreign currency translation reserve	1,668	-	1,668
	393,180	3,567	396,747
Non-controlling interest	1,353	-	1,353
Total equity	394,533	3,567	398,100
Total equity and liabilities	3,127,208	3,133	3,130,340

c.	As at 1 Jan 2012 (previously stated) ₦ million	Impact of IFRS 10 ₦ million	As at 1 Jan 2012 (restated) ₦ million
ASSETS			
Cash and balances with central banks	199,228	-	199,228
Loans and advances to banks	462,856	472	463,328
Loans and advances to customers	1,252,462	(309)	1,252,153
Financial assets at fair value through profit or loss	5,964	-	5,964
Investment securities			
- Available-for-sale investments	356,933	2,732	359,665
- Held-to-maturity investments	337,336	-	337,336
Asset pledged as collateral	72,129	-	72,129
Inventory	25,609	-	25,609
Investment properties	4,055	-	4,055
Investments in associates accounted for using the equity method	7,489	-	7,489
Other assets	62,272	788	63,061
Intangible assets	1,008	-	1,008
Property, plant and equipment	65,874	15	65,889
Deferred tax	6,954	-	6,954
	2,860,169	3,699	2,863,868
Asset held for sale	-	-	-
Total assets	2,860,169	3,699	2,863,868
LIABILITIES			
Deposits from banks	183,500	-	183,500
Deposits from customers	1,951,321	(310)	1,951,011
Financial liabilities held for trading	2,857	-	2,857
Liability on investment contracts	49,440	-	49,440
Liability on insurance contracts	824	-	824
Borrowings	104,473	1,731	106,204
Retirement benefit obligations	15,081	-	15,081
Current income tax liability	24,254	74	24,328
Deferred tax	1,067	2	1,069
Other liabilities	158,773	552	159,325
	2,491,590	2,049	2,493,639
Liabilities held for sale	-	-	-
Total liabilities	2,491,590	2,049	2,493,639
EQUITY			
Share capital	16,316	-	16,316
Share premium	254,524	-	254,524
Retained earnings	41,587	1,574	43,161
Other reserves			
- Statutory reserve	32,144	-	32,144
- SSI reserve	6,076	-	6,076

c.	As at 1 Jan 2012 (previously stated) ₦ million	Impact of IFRS 10 ₦ million	As at 1 Jan 2012 (restated) ₦ million
- AFS fair value reserve	8,524	76	8,600
- Contingency reserve	13	-	13
- Statutory credit reserve	9,766	-	9,766
- Treasury share reserve	(1,941)	-	(1,941)
- Foreign currency translation reserve	606	-	606
	367,615	1,650	369,265
Non-controlling interest	964	-	964
Total equity	368,579	1,650	370,229
Total equity and liabilities	2,860,169	3,699	2,863,868

(ii) Impact of change in accounting policy on the consolidated income statement.

a.	As at 31 Dec 2013 ₦ million	Impact of IFRS 10 ₦ million	As at 31 Dec 2013 as presented ₦ million
CONTINUING OPERATIONS			
Interest income	309,901	324	310,224
Interest expense	(86,409)	-	(86,409)
Net interest income	223,492	324	223,815
Impairment charge for credit losses	(20,866)	345	(20,521)
Net interest income after impairment charge for credit losses	202,626	669	203,294
Fee and commission income	52,702	545	53,247
Fee and commission expense	(5,448)	-	(5,448)
Foreign exchange income	6,625	-	6,625
Net gains/(losses) on investment securities	1,318	65	1,383
Net gains/(losses) from financial assets classified as held for trading	(1,386)	-	(1,386)
Dividend income	811	94	905
Other operating income	591	92	683
Operating expenses	(99,103)	(486)	(99,588)
Operating profit	158,736	979	159,715
Share of profit/(loss) of associates	875	-	875
Profit before tax	159,611	979	160,590
Income tax expense	(20,952)	(58)	(21,009)
Profit for the year from continuing operations	138,659	922	139,581
Profit for the year	138,659	922	139,581
Earnings per share			
From continuing operations	4.25	0.03	4.28

b.	As at 31 Dec 2012 (previously stated) ₦ million	Impact of IFRS 10 ₦ million	As at 31 Dec 2012 (restated) ₦ million
CONTINUING OPERATIONS			
Interest income	276,795	114	276,909
Interest expense	(58,511)	(75)	(58,586)
Net interest income	218,284	39	218,323
Impairment charge for credit losses	(12,912)	-	(12,912)
Net interest income after impairment charge for credit losses	205,372	39	205,411
Fee and commission income	55,993	13	56,005
Fee and commission expense	(1,131)	-	(1,131)
Foreign exchange income	2,456	-	2,456
Net gains/(losses) on investment securities	(860)	452	(408)
Net gains/(losses) from financial assets classified as held for trading	1,752	-	1,752
Dividend income	518	201	719
Other operating income	3,398	124	3,522
Operating expenses	(182,329)	133	(182,196)
Operating profit	85,169	962	86,130
Share of profit/(loss) of associates	1,008	-	1,008
Profit before tax	86,177	962	87,138
Income tax expense	(14,918)	-	(15,006)
Profit for the year from continuing operations	71,259	962	72,132
Discontinued operations			
Profit for the year from discontinued operations	3,838	-	3,838
Profit for the year	75,097	962	75,970
Earnings per share			
From continuing operations	2.18	0.03	2.21
From discontinued operations	0.12	-	0.12

(iii) Impact of change in accounting policy on the consolidated statement of comprehensive income.

a.	As at 31 Dec 2013 ₦ million	Impact of IFRS 10 ₦ million	As at 31 Dec 2013 as presented ₦ million
PROFIT FOR THE YEAR	66,114	337	66,451
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Net gains on available-for-sale financial assets			
- Unrealised net gains arising during the period, before tax	(12,835)	(2,382)	(15,217)
- Net reclassification adjustments for realised net gains or losses, before tax	-	2,487	2,487
Share of other comprehensive income of associates	(259)	-	(259)
Exchange difference on translation of foreign operations	435	(1)	434
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) on defined benefit pension scheme	1,644	-	1,644
Return on plan assets	216	-	216
Income tax relating to components of other comprehensive income	2,404	(1,487)	917
Other comprehensive income for the year, net of tax	(8,396)	(1,383)	(9,778)
Total comprehensive income for the year	57,718	(1,046)	56,674

b.	As at 31 Dec 2012 (previously stated) ₦ million	Impact of IFRS 10 ₦ million	As at 31 Dec 2012 (restated) ₦ million
PROFIT FOR THE YEAR	75,097	874	75,970
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Net gains on available-for-sale financial assets			
- Unrealised net gains arising during the period, before tax	15,846	1,044	16,890
- Net reclassification adjustments for realised net gains or losses, before tax	1,930	-	1,930
Exchange difference on translation of foreign operations	1,827	-	1,827
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) on defined benefit pension scheme	(485)	-	(485)
Income tax relating to components of other comprehensive income	146	-	146
Other comprehensive income for the year, net of tax	19,264	1,044	20,308
Total comprehensive income for the year	94,360	1,918	96,278

(iv) Impact of change in accounting policy on the consolidated statement of cash flows.

a.	As at 31 Dec 2013 ₦ million	Impact of IFRS 10 ₦ million	As at 31 Dec 2013 as presented ₦ million
OPERATING ACTIVITIES			
Cash flow (used in)/generated from operations	(106,280)	(799)	(107,079)
Income taxes paid	(6,059)	-	(6,059)
Interest received	316,137	126	316,263
Interest paid	(83,705)	-	(83,705)
Net cash flow generated from operating activities	120,095	(673)	119,419
INVESTING ACTIVITIES			
Purchase of investment securities	(294,324)	(228)	(294,552)
Proceeds from the sale of investment securities	304,329	160	304,489
Cash and cash equivalent acquired from subsidiary	9,172	-	9,172
Dividends received	905	-	905
Purchase of property, plant and equipment	(12,827)	-	(12,827)
Purchase of intangible assets	(1,160)	-	(1,160)
Proceeds on disposal of property, plant and equipment	403	(7)	396
Net cash used in investing activities	6,499	(75)	6,423
FINANCING ACTIVITIES			
Dividend paid	(32,588)	(44)	(32,632)
Proceeds from new borrowings	99,723	-	99,723
Repayment of borrowings	(51,647)	-	(51,647)
Net cash (used in)/generated from financing activities	15,488	(44)	15,444
Increase in cash and cash equivalents	140,479	808	141,287
Cash and cash equivalents at start of year	619,579	1,843	621,422
Effect of exchange rate fluctuations on cash held	(289)	-	(289)
Cash and cash equivalents at end of year	759,769	2,651	762,420

b.	As at 31 Dec 2012 (previously stated) ₦ million	Impact of IFRS 10 ₦ million	As at 31 Dec 2012 (restated) ₦ million
OPERATING ACTIVITIES			
Cash flow (used in)/generated from operations	(160,555)	(1,492)	(162,047)
Income taxes paid	(21,447)	-	(21,447)
Interest received	308,413	260	308,673
Interest paid	(65,673)	(77)	(65,750)
Net cash flow generated from operating activities	60,738	(1,309)	59,429
INVESTING ACTIVITIES			
Purchase of investment securities	(51,473)	(304)	(51,777)
Proceeds from the sale of investment securities	17,612	2,008	19,620
Net cash flow from disposal of subsidiaries	(30,619)	-	(30,619)
Net cash flow from business restructuring	(24,885)	-	(24,885)
Cash and cash equivalent acquired from subsidiary	11,463	-	11,463
Dividends received	518	200	718
Purchase of property, plant and equipment	(18,635)	(10)	(18,645)
Purchase of intangible assets	(1,494)	-	(1,494)
Proceeds on disposal of property, plant and equipment	2,862	-	2,862
Net cash used in investing activities	(94,651)	1,894	(92,757)
FINANCING ACTIVITIES			
Dividend paid	(26,105)	-	(26,105)
Proceeds from new borrowings	57,832	-	57,832
Repayment of borrowings	(85,805)	-	(85,805)
Net cash (used in)/generated from financing activities	(54,078)	-	(54,078)
Increase in cash and cash equivalents	(87,991)	585	(87,406)
Cash and cash equivalents at start of year	708,503	785	709,288
Effect of exchange rate fluctuations on cash held	(458)	-	(458)
Cash and cash equivalents at end of year	620,054	1,370	621,422

(v) Impact of change in accounting policy on the statement of changes in equity.

	Share capital ₦ million	Share premium ₦ million	Retained earnings ₦ million	Other reserves ₦ million	Total ₦ million	Non-controlling interest ₦ million	Total equity ₦ million
Balance as at 1 January 2012 as previously reported	16,316	254,524	41,587	55,188	367,615	964	368,579
Effect of changes in accounting policies	-	-	1,575	76	1,651	-	1,651
Balance as at 1 January 2012 as restated	16,316	254,524	43,162	55,264	369,266	964	370,230
Profit for the year as previously reported	-	-	75,040	-	75,040	57	75,097
Effect of changes in accounting policies	-	-	873	-	873	-	873
Profit for the year as restated	-	-	75,914	-	75,914	57	75,971
Other comprehensive income for the year as previously reported	-	-	(340)	18,838	18,499	-	18,499
Effect of changes in accounting policies	-	-	-	1,044	1,044	-	1,044
Other comprehensive income for the year as restated	-	-	(340)	19,882	19,543	-	19,543
Dividends	-	-	(26,105)	-	(26,105)	-	(26,105)
Acquisition of subsidiary	-	-	-	-	-	1,286	1,286
Transfer from retained earnings	-	-	(27)	27	-	-	-
Transfer between reserves	-	-	(17,219)	17,219	-	-	-
Transfer resulting from business restructuring	-	(65,283)	22,054	1,361	(41,868)	(953)	(42,821)
Total contributions by and distributions to owners of the parent, recognised directly in equity	-	(65,283)	(21,297)	18,607	(67,973)	333	(67,640)
Balance as at 31 December 2012 as previously reported	16,316	189,241	94,991	92,633	393,181	1,354	394,535
Effect of changes in accounting policies	-	-	2,448	1,120	3,568	-	3,568
Balance as at 31 December 2012 as restated	16,316	189,241	97,439	93,753	396,749	1,354	398,102

STATEMENT OF VALUE ADDED – GROUP

	As at 31 Dec 2013 ₦ million	%	As at 31 Dec 2012 ₦ million	%
Gross income	372,557		358,397	
Interest expense	(91,857)		(62,253)	
	280,700		296,144	
Administrative overheads:				
Local	(94,348)		(108,783)	
Foreign	(5,238)		(5,911)	
Value added	181,113	100	181,450	100
DISTRIBUTION				
Employees				
Salaries and benefits	61,790	34	65,808	36
Government				
Taxation	21,009	12	16,839	9
The future				
Asset replacement (depreciation)				
- Local	9,277	5	9,434	5
- Foreign	546	-	461	-
Asset replacement (amortisation)				
- Local	1,381	1	518	-
- Foreign	136	-	127	-
Asset replacement (provision for losses)	20,521	11	13,165	7
- Expansion (transfers to reserves)	66,451	37	75,097	41
	181,112	100	181,450	100

STATEMENT OF VALUE ADDED - BANK

	As at 31 Dec 2013 ₦ million	%	As at 31 Dec 2012 ₦ million	%
Gross income	339,019		313,821	
Interest and fee expense	(83,208)		(51,778)	
	255,811		262,043	
Administrative overheads	(94,673)		(98,735)	
Value added	161,138	100	163,308	100
DISTRIBUTION				
Employees				
Salaries and benefits	54,621	34	60,447	37
Government				
Company income tax	17,488	11	12,145	7
The future				
Asset replacement (depreciation)	9,164	6	9,169	6
Asset replacement (amortisation)	662	-	556	-
Asset replacement (provision for losses)	19,839	12	9,847	6
Expansion (transfers to reserves)	59,365	37	71,144	44
	161,139	100	163,308	100

FIVE-YEAR FINANCIAL SUMMARY - BANK

STATEMENT OF FINANCIAL POSITION

	As reported under IFRS				As reported under NGAAP
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2010 ₦ million	31 Dec 2009 ₦ million
ASSETS:					
Cash and balances with central bank	**541,221**	288,125	199,091	74,894	67,576
Loans and advances to banks	**367,571**	329,120	222,347	383,880	255,903
Loans and advances to customers	**1,473,840**	1,316,407	1,144,461	1,046,925	1,033,321
Financial assets held for trading	**2,225**	1,942	2,552	11,485	-
Investment securities	**637,928**	631,211	670,624	245,494	285,469
Assets pledged as collateral	**52,405**	50,109	72,129	122,009	-
Investment in associates	**2,224**	2,224	14,099	14,099	2,224
Investment in subsidiaries	**56,307**	40,348	32,416	30,416	30,416
Other assets	**36,068**	32,459	43,734	33,344	51,245
Intangible assets	**1,242**	1,302	734	265	-
Property, plant and equipment	**71,893**	70,724	64,056	62,252	46,302
Deferred tax	**3,654**	6,703	5,195	12,146	-
	3,246,577	2,770,674	2,471,438	2,037,209	1,772,456
FINANCED BY:					
Share capital	**16,316**	16,316	16,316	16,316	14,504
Share premium	**189,241**	189,241	254,524	254,524	254,524
Reserves	**145,152**	166,619	106,404	144,769	48,460
Deposits from banks	**10,155**	18,463	51,306	55,221	65,087
Deposits from customers	**2,570,719**	2,171,807	1,784,490	1,328,218	1,244,030
Financial liabilities held for trading	**1,697**	1,278	1,143	1,639	-
Borrowings	**125,363**	81,987	104,287	126,096	35,473
Retirement benefit obligations	**1,111**	18,156	14,676	11,075	544
Current income tax	**29,836**	19,768	21,354	15,118	14,948
Other liabilities	**156,987**	87,039	116,938	84,233	84,742
Deferred income tax liabilities	**-**	-	-	-	10,144
	3,246,577	2,770,674	2,471,438	2,037,209	1,772,456

INCOME STATEMENT

	As reported under IFRS				As reported under NGAAP
	12 months ended 31 Dec 2013 ₦ million	12 months ended 31 Dec 2012 ₦ million	12 months ended 31 Dec 2011 ₦ million	12 months ended 31 Dec 2010 ₦ million	9 months ended 31 Dec 2009 ₦ million
Gross earnings	**339,019**	313,822	251,312	209,187	175,390
Net operating income	**255,810**	258,554	220,706	163,142	119,167
Gain from disposal of subsidiary	**-**	3,490	-	-	-
Operating expenses	**(159,119)**	(168,908)	(133,368)	(107,392)	(70,016)
Impairment charge for credit losses	**(19,838)**	(9,847)	(32,165)	(22,596)	(41,462)
(Loss) on sale of assets to AMCON	**-**	-	(15,501)	-	-
Exceptional item	**-**	-	-	383	-
Profit before taxation	**76,853**	83,289	39,672	33,537	7,689
Taxation	**(17,488)**	(12,145)	(16,620)	(1,414)	(6,414)
Profit after taxation	**59,365**	71,144	23,052	32,123	1,275
Earnings per share (basic)	**182**	218	71	98	4

In line with IFRS 1.22(d), the figures reported in the above statement of financial position for years 2010 to 2013 and income statement for years 2011 to 2013 have been prepared using relevant IFRS guidelines and standards. In contrast, the figures in the above statement of financial position for year 2009 and income statement for years 2009 and 2010 have been prepared using relevant Nigerian GAAP guidelines and standards.

Therefore, the numbers in the affected relevant areas listed below should not be compared when being used.

a. **Statement of financial position**
- Loans and advances to banks
- Loans and advances to customers
- Financial assets held for trading
- Assets pledged as collateral
- Other assets
- Deposit from banks
- Deposit from customers
- Financial liabilities held for trading
- Borrowings
- Retirement benefit obligations
- Other liabilities

b. **Income statement**
- Interest income
- Impairment charge for credit losses
- Net operating income

FIVE-YEAR FINANCIAL SUMMARY – GROUP

STATEMENT OF FINANCIAL POSITION

	As reported under IFRS				As reported under NGAAP
	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2010 ₦ million	31 Dec 2009 ₦ million
ASSETS:					
Cash and balances with central bank	**593,973**	298,024	199,228	75,517	70,332
Loans and advances to banks	**415,210**	394,173	463,328	575,467	514,193
Loans and advances to customers	**1,797,935**	1,562,695	1,252,153	1,160,293	1,072,640
Financial assets held for trading	**4,743**	2,565	5,964	16,636	-
Investment securities	**734,689**	684,359	697,001	254,708	292,843
Assets pledged as collateral	**53,650**	50,109	72,129	122,009	-
Inventory	**-**	-	25,609	23,081	-
Managed funds	**-**	-	-	-	84,630
Investment in associates	**6,225**	5,609	7,489	8,996	13,373
Investment in subsidiaries	**-**	-	-	-	-
Other assets	**40,496**	33,984	63,061	39,282	69,286
Investment property	**-**	-	4,055	2,440	8,466
Intangible assets	**8,594**	3,417	1,008	494	-
Property, plant and equipment	**78,490**	74,474	65,889	63,634	47,987
Deferred tax	**4,586**	7,954	6,954	12,274	-
Assets held for sale	**10,784**	12,978	-	-	-
	3,749,375	3,130,341	2,863,868	2,354,831	2,173,750
FINANCED BY:					
Share capital	**16,316**	16,316	16,316	16,316	14,504
Share premium	**189,241**	189,241	254,524	254,524	254,524
Reserves	**175,966**	191,190	98,425	129,607	41,973
Non-controlling interest	**1,626**	1,353	964	1,148	3,081
Deposits from banks	**77,481**	87,551	183,500	148,352	173,280
Deposits from customers	**2,942,782**	2,405,035	1,951,011	1,447,600	1,342,704
Financial liabilities held for trading	**1,701**	1,796	2,857	1,639	-
Liabilities on investment contracts	**-**	-	49,440	76,446	148,224
Liabilities on insurance contracts	**-**	-	824	-	-
Borrowings	**126,302**	75,541	106,204	126,350	35,729
Retirement benefit obligations	**1,776**	18,648	15,081	11,426	724
Current income tax	**31,633**	22,536	24,328	20,052	19,635
Other liabilities	**182,793**	118,289	159,325	120,470	128,760
Deferred income tax liabilities	**10**	9	1,069	901	10,612
Liabilities held for sale	**1,747**	2,836	-	-	-
	3,749,375	3,130,341	2,863,868	2,354,831	2,173,750

INCOME STATEMENT

	As reported under IFRS				As reported under NGAAP
	12 months ended 31 Dec 2013 ₦ million	12 months ended 31 Dec 2012 ₦ million	12 months ended 31 Dec 2011 ₦ million	12 months ended 31 Dec 2010 ₦ million	9 months ended 31 Dec 2009 ₦ million
Gross earnings	**372,557**	338,921	265,580	232,079	193,932
Net operating income	**279,824**	280,410	230,853	178,062	127,662
Operating expenses	**(172,718)**	(182,329)	(136,668)	(119,274)	(77,574)
Group's share of associate's results	**875**	1,008	(1,507)	(3,657)	114
Impairment charge for credit losses	**(20,521)**	(12,912)	(38,011)	(21,590)	(38,174)
(Loss) on sale of assets to AMCON	**-**	-	(15,501)	-	-
Exceptional item	**-**	-	-	226	-
Profit before taxation	**87,460**	86,177	39,166	33,767	12,028
Taxation	**(21,009)**	(14,918)	(18,864)	(4,590)	(8,406)
Profit from continuing operations	**66,452**	71,259	20,302	29,177	3,622
Profit from discontinuing operations	**-**	3,838	(1,666)	-	-
Profit for the year	**66,452**	75,097	18,636	29,177	3,622
Profit attributable to:					
Owners of the parent	**66,345**	75,040	19,520	27,244	2,612
Non-controlling interest	**107**	57	(884)	1,933	1,010
	66,452	75,097	18,636	29,177	3,622
Earnings per share in kobo (basic/diluted)	**204**	233	57	89	12

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- Other assets
- Deposit from banks
- Deposit from customers
- Financial liabilities held for trading
- Borrowings
- Retirement benefit obligations
- Other liabilities

b. **Income statement**
- Interest income
- Impairment charge for credit losses
- Net operating income

GLOSSARY OF RATIOS

Ratio		Basis of computation	
Average cost of deposits	=	Interest expense (on deposits) / Average deposit (i.e., opening + closing balance)/2	
Basic earnings per share	=	Profit attributable to ordinary shareholders (after deduction of debenture interest and tax) / Weighted average no. of shares in issue	
Cost of borrowed funds	=	Expense on borrowed funds / Average borrowed funds (opening + closing)/2	
Cost of funds	=	Interest expense / Average interest bearing liabilities (opening + closing)/2	
Cost of interbank takings	=	Interest expense on interbank takings / Average interbank takings (opening + closing)/2	
Cost of managed funds	=	Expense on managed funds / Liabilities on investment contracts	
Cost of risk	=	Loan loss expense / Average loans	
Cost-to-income ratio (1)	=	Total cost (interest expense, operating cost before loan loss expense) / Gross earnings	
Cost-to-income ratio (2)	=	Total overhead cost (operating cost before loan loss expense) / Total net revenue	
Debt to capital	=	Long-term debt / Long-term debt + equity	
Debt to EBITDA	=	Long-term debt / Operating income	
Gearing ratio	=	Long-term debt / Total shareholders' funds	
Interest earning assets	=	Due from other banks + treasury bills + trading securities (bonds) + loans and advances	
Leverage	=	Total assets / Total shareholders' funds	
Liquidity ratio	=	Liquid assets / Deposit liabilities (as prescribed by the CBN)	
Loan to deposit ratio	=	Total loans / Total deposit	
Marginal cost of fund	=	Increase in interest expense during the month / Increase in average deposits during the same month (annualised)	
Net interest margin (1)	=	Net interest income / Average interest-earning assets (i.e., opening + closing)	
Net interest margin (2)	=	Net interest income / Total interest income	
Net loans	=	Gross loans – loan loss provision	
Net revenue	=	Net interest income + net fee and commission income + other income	
Net revenue from funds	=	Interest income – (interest expense + loan expense)	
NPL coverage	=	Loan loss provision (including interest in suspense) / Gross NPLs	
NPL ratio	=	Non-performing loans / Gross loans	
Operating profit margin	=	Operating profit / Gross earnings	
Pre-provision operating profit	=	Operating profit + impairment charge on credit losses / Impairment charge on credit losses	
Provisioning level (non-performing loans coverage)	=	Total provision / Total NPL	
Return on average assets	=	PAT / Average total assets	x 100
Return on average equity	=	PAT / Average total equity	x 100

GLOSSARY OF RATIOS

Ratio		Basis of computation
Risk asset ratio	=	Total loans / Total assets
Risk-weighted assets*	=	Assets x weight of risks x 100
Tier 1 ratio	=	Total tier 1 capital / Risk-weighted assets
Tier 2 ratio	=	Total tier 2 capital / Risk-weighted assets
Total capital adequacy ratio	=	Total qualifying capital / Risk-weighted assets
Yield on interest-earning assets	=	Interest income / Average interest-earning assets

*Risk asset is computed using risk weights supplied by CBN/Basel.

ABBREVIATIONS

AC	Audit Committee
AFS	Available for sale
ALCO	Assets & Liabilities Management Committee
ALM	Asset liability management
AMCON	Asset Management Corporation of Nigeria
ASI	All share index
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
BFGPC	Board Finance & General Purpose Committee
BGC	Board Governance Committee
BIC	Banque Internationale de Crédit SARL
BOD	Board of Directors
BOFIA	Banks and Other Financial Institutions Act
BOI	Bank of Industry
BOM	Branch Operations Manager
BPC	Board Promotions and Disciplinary Committee
BRCC	Business Risk and Compliance Committee
CACS	Commercial Agricultural Credit Scheme
CAGR	Cumulative annual growth rate
CAM	Classified Assets Management
CAMA	Companies and Allied Matters Act
CAP	Credit Analysis & Processing
CAR	Capital adequacy ratio
CASA	Current and savings accounts
CBG	Corporate Banking Group
CBN	Central Bank of Nigeria
CEO	Chief Executive Officer
CFP	Contingency funding plan
CGU	Cash-generating units
COI	Conflict of interest
COSO	Committee of Sponsoring Organisations
COT	Commission on turnover
CPC	Centralised Processing Centre
CRM	Credit Risk Management
CRO	Chief Risk Officer
CRR	Collateral risk rating
CRSA	Control and risk self-assessment
CSR	Corporate social responsibility
DMBs	Deposit Money Banks
DRC	Democratic Republic of Congo
EaR	Earnings at risk
ED	Executive Director
EPS	Earnings per share
ERM	Enterprise Risk Management
ESGMS	Environmental, social and governance management system
EVP	Executive Vice President
EXCO	Executive Committee
FATCA	Foreign Account Tax Compliance Act
FBN BDC	FBN Bureau de Change Ltd
FBN MB	FBN Microfinance Bank Ltd
FBN UK	FBN Bank (UK) Ltd
FFL	First Funds Ltd
FGN	Federal Government of Nigeria
FMCG	Fast-moving consumer goods
FPCNL	First Pension Custodian Nigeria Limited
FRNL	First Registrars Nigeria Ltd
FRR	Facility risk rating
FSA	Financial Services Authority
FX	Foreign exchange
GDP	Gross Domestic Product
GITSC	Group IT Steering Committee
GMD	Group Managing Director
HCMD	Human Capital Management and Development
HNI	High net worth individuals
HR	Human Resources
HTM	Held to maturity
IBAM	Investment Banking and Asset Management
IBG	Institutional Banking Group
IBNR	Incurred but not reported
ICAFAS	Internal Control and Anti-Fraud Automated Solution
ICAN	Institute of Chartered Accountants of Nigeria
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
ISF	Information Security Forum
ISMD	Information Security Management Department
ISMS	Information Security Management System
ISO	International Organization for Standardization

ABBREVIATIONS

IT	Information technology
KPI	Key Performance Indicator
KRI	Key risk indicator
KYC	Know Your Customer
LAD	Loans and advances
LGD	Loss given default
LIBOR	London Interbank Offered Rate
LRP	Liquidity Risks Package
MANCO	Management Committee
MATs	Management Action Triggers
MCC	Management Committee Credit
MCG	Management Committee General
MDAs	Ministries, departments and agencies
MDG	Millennium Development Goals
MENA	Middle East and North Africa
MFBs	Microfinance Banks
MGC	Management General Committee
MPC	Monetary Policy Committee
MPR	Monetary policy rate
MRAC	Management Risk and Assessment Committee
MRLP	Market Risk Limits Package
MRPC	Market Risk Policy Committee
₦	Naira
NAICOM	National Insurance Commission
NDIC	Nigeria Deposit Insurance Corporation
NGN	Nigerian naira
NGO	Non-governmental organisation
NIBOR	Nigerian Interbank Offered Rate
NIR	Non-interest revenue
NPL	Non-performing loan
NSBP	Nigerian Sustainable Banking Principles
NSE	Nigerian Stock Exchange
OCI	Other comprehensive income
OECD	Organisation for Economic Cooperation and Development
OFR	Officer of the Federal Republic
OPEX	Operating expenditure
ORM	Operational risk management
ORR	Obligor risk rating
PAT	Profit after tax
PBT	Profit before tax
PCI DSS	Payment Card Industry Data Security Standard
PD	Probability of default
PFA	Pension fund administrator
PFMS	People First Management System
PMI	Primary Mortgage Institution
PMO	Project Management Office
POS	Point of sale
PPP	Public private partnership
QSP	Quick service points
RBS	Risk-based supervision
RCSA	Risk and control self-assessment
RDAS	Retail Dutch Auction System
RM	Relationship management
RMD	Risk Management Directorate
ROE	Return on equity
RSG	Rivers State Government
RTU	Risk Taking Unit
SBU	Strategic Business Unit
SEC	Securities and Exchange Commission
SIFI	Systematically important financial institutions
SLA	Service level agreement
SLD	Specialised Lending Department
SME	Small and medium enterprises
SRF	Strategic Resource Function
SSA	Sub-Saharan Africa
SSWG	Strategic Sustainability Working Group
TAT	Turn around time
TRAP	Triggers for Accrual Portfolios
UNGC	United Nations Global Compact
VaR	Value at risk
WACC	Weighted average cost of capital

CONTACT INFORMATION

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First Pension Custodian Nigeria Limited	124 Awolowo Road, Ikoyi, Lagos	+234 1 2713217-9
FBN Mortgages Limited	76 Awolowo Road, Ikoyi, Lagos	+234 1 4615860-2
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FBN Insurance Limited	34 Marina Old Nipost Building, Marina, Lagos	+234 1 4622182, +234 0 8080479319
FBN Microfinance Bank Limited	305 Herbert Macaulay Way, Yaba, Lagos	+234 1 8501505, +234 0 8159393199
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First Funds Limited	90 Awolowo Road, South-West, Ikoyi, Lagos	+234 1 2793910-9
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International Commercial Bank (Gambia) Ltd	48 GIEPA House, KSMD, P.O. Box 1600, Banjul, The Gambia	+220 7993501, +220 3366144, +220 9966144, +220 4397230
FIRSTBANK REPRESENTATIVE OFFICES		
South Africa Rep. Office	The Forum Building, 10th Floor No. 2 Maude Street, Sandton 2146, Johannesburg, South Africa	+27 11 7849922
Beijing Rep. Office	Unit 1431, Tower B COFCO Plaza No. 8 Jianguomennei Street, Dong Cheing District, Beijing, China	+86 10 65286820
UAE Rep. Office	Salam HQ Plot No. C6, Sector E, Abu Dhabi, UAE	+97 02 43319915, +97 5092777394

FirstBank
Since 1894

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